SWIPRA – Swiss Proxy Advisor Newsletter

Preview to the annual general meetings 2016 and corporate governance core topics: Board of directors, compensation, corporate social responsibility

Zurich, January 6, 2016 – Agenda items regarding elections to the board of directors and compensation will, in SWIPRA's opinion, remain top priorities at the annual general meetings (AGM) 2016. A company's management of corporate social responsibility is likely to gain importance in the analysis of its governance framework. Overall, companies face the challenge that investors assign different priorities to various aspects of these topics. Transparent disclosure and explanations regarding the composition of the board as well as the applied risk management and compensation processes allow shareholders to better understand the actual relationship with the corporate strategy and target achievements. Consequently, shareholders will be able to make a more targeted use of their voting rights.

Elections to the board of directors - composition and overall view

A majority of investors and issuers consider elections to the board of directors as the agenda item with the largest impact on value generation (c.f. SWIPRA Corporate Governance Survey 2015). Shareholders should, therefore, be able to access relevant information when assessing the annual (re-)election of the proposed board candidates. In SWIPRA's view, this includes a transparent communication of the candidates' skills and experiences relevant for the company as well as the expected contribution of each proposed member to the overall board. Going forward, a better understanding of how the board operates and how its strategy and risk management processes are structured is likely to gain importance. The latter also includes information on the potential risks related to corporate social responsibility.

Rigid exclusion criteria for board elections?

According to the SWIPRA Corporate Governance Survey 2015, investors have ambiguous views on possible exclusion criteria when electing board members. Exclusion criteria may concern the role of the CEO on the board, the tenure of a board candidate or a candidate's age. Because of the broad range of empirical evidence regarding the impact of these criteria on long-term shareholder value generation, SWIPRA is of the opinion that the evaluation of these criteria should not follow rigid thresholds. The analysis should rather incorporate the board as a whole and reflect the company's current situation:

- When assessing board candidates, SWIPRA is looking for information on specific *expert knowledge and experience* in the company's market environment as well as regarding the candidate's tasks within the board. Relevant information contains, among other, a description on how a candidate, overall, *complements the board in a purposeful way*.
- SWIPRA also applies the principle of an overall view of the board when evaluating the *independence* of single board candidates. Investors are reliant on information by the company on how it actually deals with potential conflicts of interest. This includes information on the processes in place that should ensure an independent functioning of the board committees.
- A general restriction on *maximum tenure* is, in SWIPRA's view, not justified. Though for investors it is important that the company provides relevant information on how the board assesses its composition over time and implements relevant adjustments as needed.

- Besides the legally required information on additional external mandates, a *voluntary disclosure of individual* board and committee attendances in the past periods provides a meaningful indication on the *availability of individual board members*. Investors will appreciate further information on how and to what extent busy board members will be and have been available to the company in critical times.
- SWIPRA's voting recommendations regarding board and committee elections also incorporate the company's presentation of the processes within the board, in particular the collaboration between the board committees. Hence, an illustration of the functioning of the committees as well as the responsibilities within the committees is important for such an assessment.

Compensation reports – ensuring traceability

Although the fraction of performance-dependent components in management compensation increased in recent years, the so-called "pay-for-performance" disclosure continues to be a challenging subject for companies, similar to the disclosure regarding the binding vote on total remuneration amounts.

The majority of Swiss issuers implemented a prospective voting scheme regarding binding shareholder approvals on compensation amounts. During the 2015 AGM season, shareholders voted prospectively on executive compensation amounts in around 65% and on board remuneration amounts in around 92% of the SPI® companies (c.f. SWIPRA analysis of AGM season 2015). However, besides the binding vote on the proposed maximum total compensation amounts, shareholders would also like to assess and to be granted an (advisory) ex-post say on how these amounts were disbursed. This means that payments out of the maximum amounts and the payment structure should be traceable and in line with the applied compensation system. In SWIPRA's opinion, companies should therefore provide their shareholders the possibility to vote on the compensation report in a non-binding way. This approach has also been included in the current version of the proposed revision of the Swiss corporate law.

SWIPRA's analysis of shareholder voting behavior during the AGM season 2015 revealed that shareholders voted much more critical in non-binding votes on the compensation report than in binding votes on maximum remuneration amounts. Therefore, SWIPRA concludes that compensation reports, and thus the accountability of the companies, are likely to continue to grow in importance.

Corporate social responsibility put to the test

Environmental, social and governance criteria (ESG) – issues related to responsible and sustainable economic activity – are gaining increasing attention with investors. SWIPRA preferably refers to corporate social responsibility (CSR), which clearly lies in the responsibility of the board of directors. As discussed in the SWIPRA policy considerations, the major focus lies in the long-term interests of all stakeholders of a company and, thus, on increasing the value generation for the whole society. CSR risks may influence the cost of capital and, therefore, indirectly the value of a company. The board of directors will consider these issues as part of the strategic objectives and risk management. CSR aspects should, therefore, also be reflected in the performance objectives of the long-term executive compensation and become part of the corporate culture. Accordingly, information on the strategic risk management process of the board of directors as well as on the company's strategic objectives regarding corporate social responsibility are of particular importance for SWIPRA's assessment of the functioning and composition of the board. This information complements the integrated picture of a company and its corporate governance structure, which may be relevant indirectly in the voting recommendations.

About SWIPRA

SWIPRA is an independent proxy advisor. Based on the principles of value-oriented management combined with the objective of long-term shareholder value generation, SWIPRA provides analyses and voting recommendations regarding a variety of Swiss issuers that are listed on the SIX Swiss Exchange. www.swipra.ch

Contact:

Barbara Heller, CEO
SWIPRA – Swiss Proxy Advisor
Raemistrasse 5, PO Box 519
CH-8024 Zürich
Switzerland
T: +41 44 515 89 68
E: barbara.heller@swipra.ch