SWIPRA
CORPORATE GOVERNANCE
SERVICES & DIALOGUE

Newsletter 6/2021

Swiss AGM Season 2021

Learnings from the Swiss AGM Season '21

Critical shareholders looking for more say

Zurich, June 24, 2021 - Shareholders becoming more activist on environmental and social issues, requesting a vote on non-financial matters, discussions about the right AGM format, proxy advisors' recommendations with less impact on the voting behavior of large shareholders, compensation decisions not to be based on financial indicators alone, and diversity expectations that are increasingly influencing board elections: The lessons learned from the 2021 AGM season will keep investors and companies busy for a while. And the COVID year further illustrated the importance of a good corporate governance framework, what it all really includes, and how governance can shape corporate reputation:

- **AGM attendance** rose again in 2021, by a 0.3% to 70.9% (median) of shares outstanding.
- AGMs in 2021 were again held without shareholder presence. Only two companies allowed for a direct (virtual) interaction during the AGM. Institutional investors criticize **(virtual) AGMs** that do not provide for the possibility of direct interaction between shareholders and the company's leadership team. The COVID experience also impacts the discussion about the right AGM format for the future.
- Of the 100 **AGM agenda items with the highest proportion of against votes** (out of over 1,700 agenda items), 65% related to board elections and 19% to remuneration reports, the latter with against votes of 32.2% on average.
- At the 2021 AGMs, 16 agenda items were withdrawn and 5 were rejected by shareholders.
- The **10 largest institutional shareholders** hold an average of 12.8% of the SPI100 market capitalization. They voted more critically in 2021 than in 2020, increasingly deviating from proxy advisor recommendations.
- **CEO compensation** decreased by 11.3% (median) in 2020, driven by lower cash bonuses (-27.6%). Against votes on compensation reports increased to an all-time high of 14.4% (median).

Next Events

Corporate Governance Excellence 2021
FuW Conference
8 July 2021

4. Swiss Corporate Governance Dialog
For Corporates and Investors
2 September 2021

SWIPRA Corporate Governance Survey
Presentation of key findings
8. December 2021

- A key driver of more against votes were **discretionary bonus adjustments** due to COVID. In case of such adjustments, minority shareholders opposed the compensation report with 35.1% (median), compared to 15.7% for companies without discretionary adjustments.
- **Board members** are increasingly **subject to a role-specific assessment**. If compensation is viewed critically, compensation committee members are rejected by 12.7% of shareholders (median), compared to 7.8% in non-critical cases. Chairs of nomination committees in all-male boards received an average of 40.6% AGAINST votes from minority shareholders, compared to only 14.0% for mixed-gender boards.
- **Gender diversity** continues to increase at board level, averaging 25.4% (SMI®: 29.6%, ex-SMI®: 24.3%). In a third of the SPI100 companies, the proportion of female directors is at least 30%. Individual investors started to vote against the director responsible for succession planning in case of lower representation.
- Shareholders worldwide have started to call for a shareholder vote on a company's sustainability efforts ("**Say on Sustainability**"). In Switzerland, such a vote a will be legally required for larger companies from 2024.
- The **influence of proxy advisors** decreased in the 2021 AGM season as institutional shareholders generally voted more critically than proxy advisors recommended. For around 33% of the AGM agenda items with the highest proportion of AGAINST votes, ISS and Glass Lewis recommended to vote in favor. A positive recommendation no longer implies a good AGM result.

Outlook: More ESG activism, continued focus on diversity, and back to the "old" AGM.

The new Swiss corporate law will further strengthen shareholder rights. Hurdles for shareholder proposals will be lowered and shareholders will be able to vote annually on a company's non-financial report. In this regard, Switzerland is taking a pioneering role in the critical debate on a company's environmental and social responsibility. It is not defined yet whether such a vote has to be of binding or consultative nature. A majority of Swiss and non-Swiss institutional shareholders generally prefer a non-binding vote as it is known from the compensation report.

The gender quota will increasingly be in the focus of shareholders and proxy advisors next year. The legally granted transition period (five years for the board, 10 years for management) towards a 30% minimum gender quota on the board (20% on management) is not really relevant since many investors will require faster action.

Compensation issues remain in the focus. Shareholders will demand better disclosure on pay-for-performance and ESG criteria in the compensation system, as various SWIPRA analyses and surveys have already made clear in the past.

If the Swiss COVID ordinance will not be extended, AGMs will again be held physically in 2022. Only following effectiveness of the new Swiss corporate law, probably by 2023, hybrid and virtual AGMs will be allowed. This will require an amendment to the articles of association (transition period of two years) and be subject to provisions regarding shareholders' AGM participation. Whichever format will be chosen going forward, shareholders will demand direct interaction with the companies at the occasion of an AGM.

Compensation decisions: focus on non-financial aspects

It had to be expected that the COVID crisis would also affect management compensation, but how and to what extent was not really unclear. Slightly more than half (50.6%) of the sample companies reduced their cash bonus to base compensation ratio (cash bonus ratio) of their CEO in 2020 and for approximately 41% it increased. At SMI companies, the median cash bonus in 2020 accounted for 80.2% of the fix salary, compared with 88.7% in the previous year; at non-SMI companies, it fell from 62.5% to 48.2%. In absolute terms, the cash bonus of SMI-CEOs serving for the full-year fell by a median of 15.2% to CHF 1.25 million, while for non-SMI companies the reduction was 16.4% to CHF 331,200.

The crisis revealed the robustness of the compensation systems and the willingness of the management and the board of directors to accept or enforce larger reductions in compensation. The crisis-related decline in performance was partially compensated by adjusting bonus payments upwards on a discretionary basis. Shareholders took a critical view on this: Compensation reports of companies with discretionary bonus increases were rejected by an average of 24.6%, compared to 15.3% for companies without adjustments. Considering minority shareholders only, the average rejection rate was as high as 35.1% (see Figure 1).

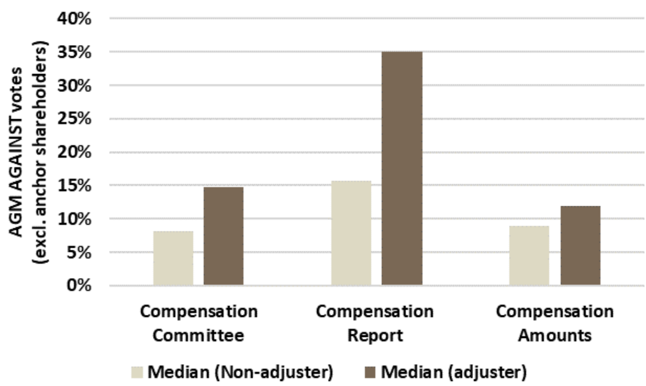

Figure 1: COVID-Adjustments
Fraction AGAINST votes (excl. Anchor shareholders) for different agenda items, based on whether discretionary bonus adjustments («adjusters») took place.

It also became apparent that it is particularly important in times of crisis to give balanced consideration to various stakeholders when determining variable compensation (see SWIPRA Newsletter Outlook AGM Season 2021). Minority shareholders of companies whose dividends were cut and bonuses increased at the same time rejected the compensation report by 38.9%, compared to 19.6% for companies where dividends and bonuses moved in the same direction. However, a broader stakeholder alignment of compensation systems can only be observed to a limited extent so far. Only 22.6% of the companies surveyed have explicit ESG objectives in their compensation systems.

While these high levels of AGAINST votes have no direct impact on the company, they often have a negative impact on the reputation of the board, especially for members of remuneration committees, and may in some cases become a critical trigger in a broader crisis situation. Further, institutional shareholders and proxy advisors generally request a response from the board at the next AGM if the rejection rate for the remuneration report was 20% or above.

Diversity on the board of directors: pressure from shareholders increases

In Switzerland, the discussion about diversity on the board of directors continues to revolve primarily around gender representation due to the already high level of internationalization on Swiss boards. The proportion of female directors at the SPI100 companies rose again reaching 25.4% in 2020, compared to 23.6% in the previous year. Around one-third of the companies have a female representation of more than 30%, whereas seven companies continue to have an all-male board.

There are still a few years to go before the statutory target of 30% minimum representation of each gender must be met (or an explanation provided if it is not). However, relying on this transition period may prove too short sighted. Many institutional investors already require at least 30% representation of both genders and will vote against individual re-elections if this is not achieved. For companies without any female directors, minority shareholders have already rejected the board chair by an average of 40.6%, compared to 14.0% for mixed boards (see Figure 2). Proxy advisors ISS and Glass Lewis have recommended against directors in many European countries unless the 30% threshold was met. For Switzerland, such negative voting recommendations are expected from the 2022 AGM season onwards.

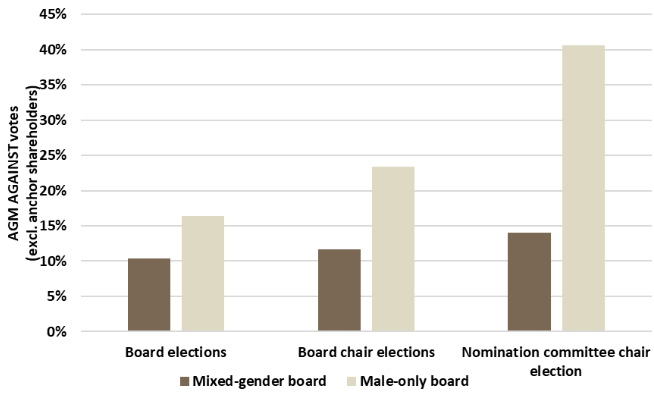

Figure 2: Diversity on the board of directors
Fraction AGAINST votes (excl. Anchor shareholders) for different board elections, based on board diversity.

Corporate Social Responsibility: Shareholder participation, but how?

The trend to hold individual board members directly accountable has further increased in the 2021 AGM season. Board members who chair a committee tend to be viewed more critically, especially when issues arise in their area of responsible, primarily concerning compensation and nomination committees (see above), and increasingly also the audit and occasionally the risk committee.

During the 2021 AGM season, the discussion around the responsibility for environmental and social issues has become more accentuated. For example, the "Say on Climate" initiative launched by an activist investor, which calls for a regular AGM vote on climate-related information, is increasingly supported by institutional investors. So far this year, over 50 proposals were submitted globally in this context, of which around 56% were accepted (in 2020, 90 proposals were submitted throughout the year and only 12% accepted). There are also companies that submitted their CSR strategies to shareholders for a consultative vote independently of this initiative, in Switzerland for example Nestlé.

In Switzerland, the statutory vote on non-financial reporting is expected to become mandatory for larger listed companies at their 2024 AGMs. The nature of the vote is yet unclear, though an advisory say would clearly be preferable as this will allow shareholders to express their views on non-financial matters, in particular environmental and social matters, without forcing short-term structural changes and triggering uncertainty. As this matter is clearly within the board's responsibility, additional shareholder criticism can also always be voiced in the annual board elections. This interplay of advisory and binding votes is a proven setting in Switzerland with respect to compensation topics.

Regardless of the voting mechanism, it is expected that the scope of the non-financial information will have to become more focused. There is an increasing variety of disclosure standards on ESG and CSR that generally differ in terms of the topics (e.g. environment, social issues, etc.) and / or target groups (e.g. shareholders, employees, etc.). The majority of the analyzed companies already publishing such a report, discloses in accordance with the GRI standard (95% of SMI and around 52% of non-SMI companies), followed by reporting on the UN Sustainable Development Goals (see Figure 3). This is a clear divergence from the preferences of institutional investors, who have a preference for TCFD (75%) or SASB (53%) disclosure ([Morrow Sodali Institutional Investor Survey 2021](#)). There still is a lot of ambiguity in the definitions of these standards and in their use by investors and companies. Focusing on just one standard will not be sufficient in most cases. Each company will have to determine on an individual basis the materiality of non-financial factors for its business and its stakeholders and disclose them accordingly.

Proxy advisors: Positive recommendations no guarantee for high AGM approval rates

The 2021 AGM analysis confirms the trend previously observed by SWIPRA of a declining direct influence of proxy advisors on AGM results. One third of the 100 AGM agenda items with the highest proportion of AGAINST votes was rejected by an average of 25.9% of shareholders, despite ISS and Glass Lewis issuing a positive voting recommendation. Excluding anchor shareholders, the fraction of AGAINST votes even rises to 41.1%.

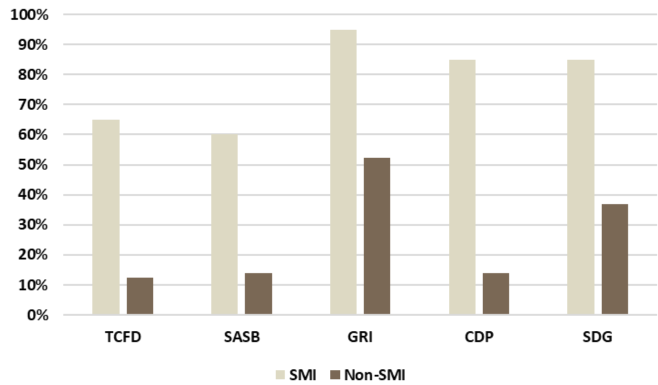

Figure 3: CSR Frameworks
Fraction of SMI and Non-SMI companies following a specific CSR framework.

Institutional investors increasingly rely on their own voting guidelines, which can in particular be observed in board elections: 2020 illustrated the importance of board member availability in times of crisis and the potential limitation of multiple mandates. As a result, some institutional investors reduced their acceptable upper limit on the number of external mandates. For companies and their boards, this divergence between investors and proxy advisors implies that disclosure must be further improved and the dialogue with investors intensified. It is not enough to rely on the guidelines of proxy advisors (see Figure 4).

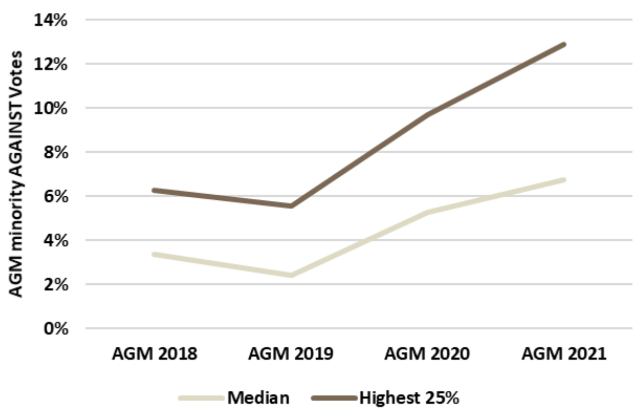

Figure 4: Compensation committee elections AGAINST votes in case of ISS FOR recommendation
Increasing fraction of AGAINST votes of non-anchor shareholders despite ISS FOR recommendation.

AGAINST recommendations by proxy advisors decreased in 2021, from 12.9% to 10.8% for ISS, from 7.6% to 6.2% for Glass Lewis, and from 15.9% to 14.6% for Ethos. The different impact of positive and negative voting recommendations is remarkable: in case of positive recommendations, a good AGM result is not guaranteed anymore due to more critical investors; in the case of negative recommendations, a worse result must be assumed, as shareholders tend not to dissent positively. The average percentage of votes against at the quarter of items with the highest level of AGAINST votes increased from 36.3% (2020) to 45.1% (2021) when ISS, Glass Lewis and Ethos recommended against.

SWIPRA's AGM analysis 2020/2021

SWIPRA, together with researchers from the Institute of Banking and Finance at the University of Zurich, analyzed the results of the AGMs of the 100 largest listed Swiss companies held between July 1, 2020 to June 18, 2021. ISS recommendations are not publicly available and are approximated by market observations. The overall analysis contains more data than described here. For further information, please contact SWIPRA.

SWIPRA Publications

SWIPRA Outlook AGM Season 2021

SWIPRA Corporate Governance Survey 2020

SWIPRA Newsletter Swiss Governance Developments

About SWIPRA Services

SWIPRA Services provides services related to corporate governance and corporate social responsibility for companies and their boards of directors. We advise our clients in a practice-oriented manner, taking into account relevant stakeholder opinions as well as principles of value-based management and empirically relevant criteria.

- Board Assessments & Coaching
- Governance, CSR & Engagements
- IPO readiness & Transactions

SWIPRA Services is working with a high-profile think tank to further develop corporate governance and CSR in Switzerland.

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