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A D V I S O R

Corporate Governance between Globalization, Shareholder Activism and Proxy Advisors

A Survey by SWIPRA

Zurich, October 31, 2016



SWIPRA Survey 2016

- Corporate Governance Survey 2016 covering
 - SPI® companies (SPI market cap: 81.3% - CHF 1,110 bn)
 - Swiss and international institutional investors
(assets under management: 21.2% of Top 400 - CHF 13,186 bn)
- In cooperation with researchers at the DBF (UZH)
- Special thanks to:

D.F. KING

**FINANZ und
WIRTSCHAFT**

SFAMA
Swiss Funds &
Asset Management
Association



Swiss Exchange

lemongrass communications

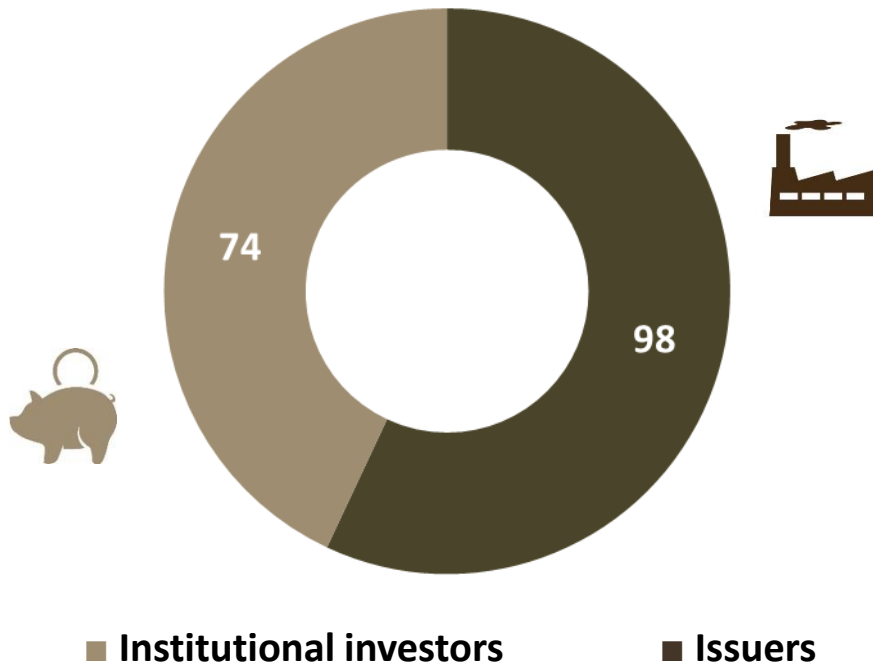


Plan for this presentation

- General information on the survey
- Key results
- Governance: who sets the course?
- Pay for performance: communication issues?
- Board elections: what matters?
- CSR: who is responsible?
- Summary and outlook



Participants



Issuers: 98

Asset and Fund Managers: 39

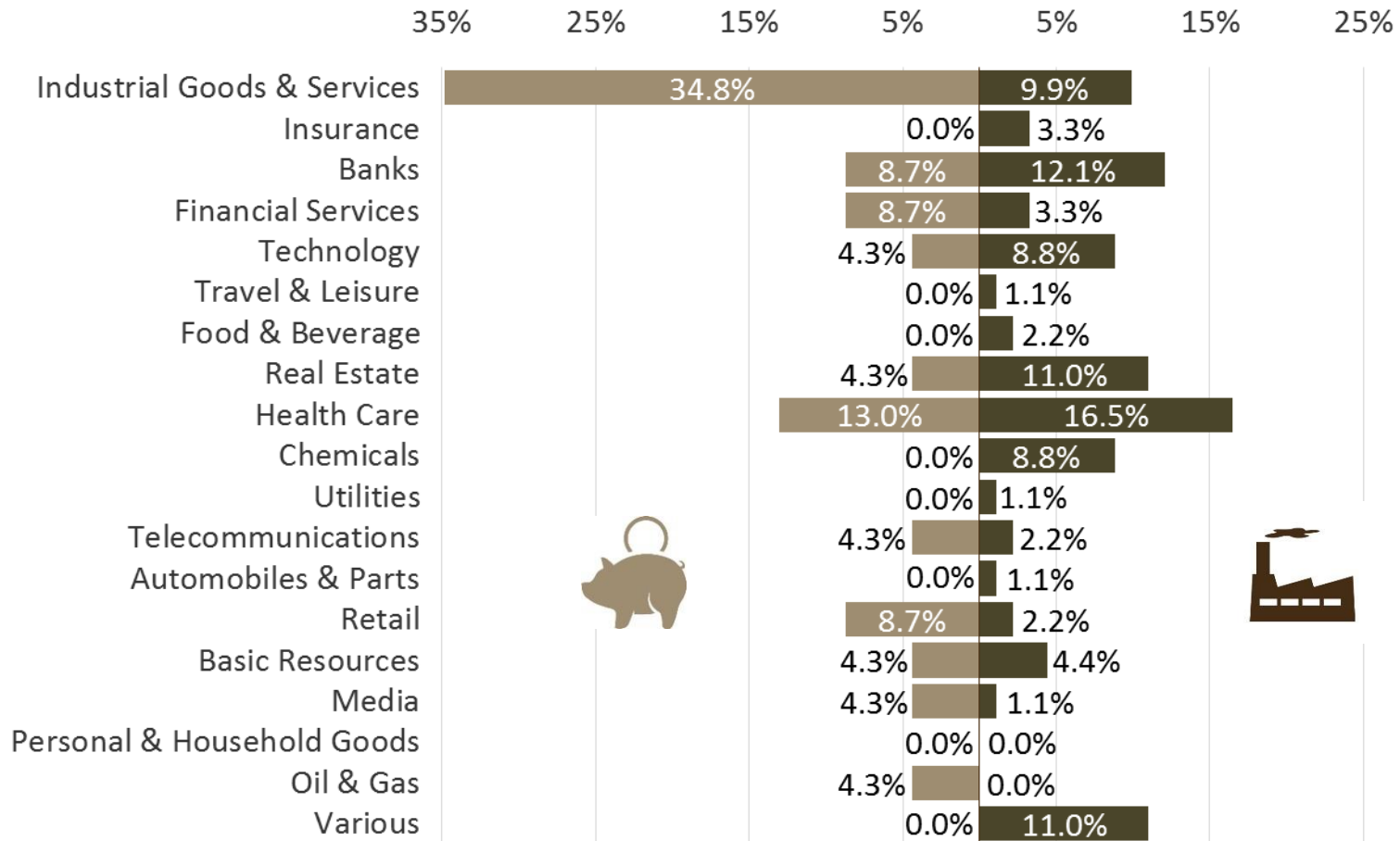
Pension Funds: 35

A total of 172 participants filled out the survey.



Participating industries

Sample: pension funds and issuers only





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Key results (I/II)



➤ **Governance: who sets the course?**

- The majority of Swiss investors does not view value generation as a primary reason for exercising voting rights.
- Contrary to international investors, most Swiss asset managers and pension funds do not participate in issuer engagements.

➤ **Variable compensation: communication issues?**

- Many investors do not see a reasonable relation between executive compensation and performance.
- Few issuers dedicate most time on disclosing pay for performance, while most investors are not satisfied with the information and view disclosure in other countries as more substantial.



Key results (II/II)



➤ **Board elections: what matters?**

- While there is general agreement on the required qualifications of board members, investors look for a more comprehensive disclosure with respect to their independence.
- According to investors, board rotation should rather be driven by performance evaluations than by age limits.

➤ **CSR: who is responsible?**

- Investors are convinced: the CSR strategy has to be formulated at board level - only half of the issuers agree.
- A third of the issuers rather view the management as responsible for CSR, a view that only few investors share.



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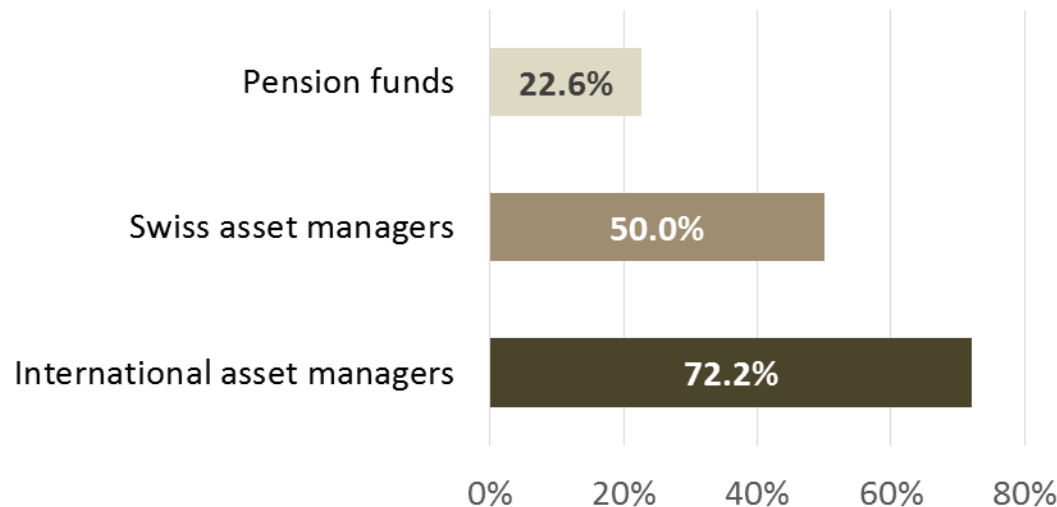


Governance: value of voting rights



Belief that value is generated by exercising voting rights

Sample: investors only



- Only 50.0% of Swiss asset managers and 22.6% of pension funds believe that exercising voting rights generates value.
- More than two thirds of the international investors view exercising voting rights as valuable.

	Pension funds	CH asset managers	Int. asset managers
Value generation	22.6%	50.0%	72.2%
Fulfill legal requirements	54.8%	-	-
Fulfill due care obligations	22.6%	41.7%	16.7%
Others	0%	8.3%	11.1%

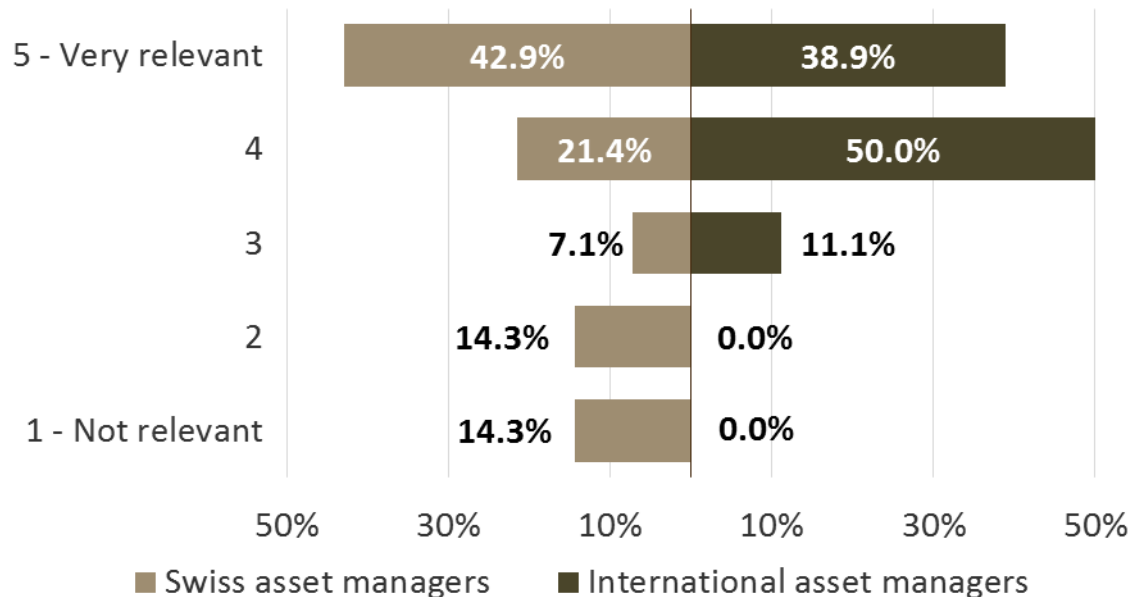
Question: In case your organization uses its voting rights for investments: What is the reason for you to exercise the voting rights of your share portfolio? (Please choose the main reason)



Governance: relevance of engagement

Relevance of direct contact as a communication channel between investors and issuers

Sample: investors only



- While the vast majority of international asset managers view direct contact with issuers as relevant, only two-thirds of Swiss asset managers agree.
- For only 58.1% of the issuers (see table), direct contact to investors is a relevant communication channel.

	Investors	Issuers
5 - Very relevant	28.1%	31.2%
4	28.1%	26.9%
3	12.5%	25.8%
2	6.3%	11.8%
1 - Not relevant	25.0%	4.3%

Question: Please indicate the relevance of the following information sources when forming an opinion in order to exercise your voting rights: Direct contact with the company



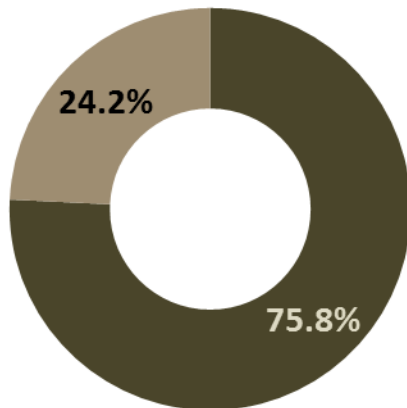
Governance: engagement participation



Participation of investors in engagement meetings with issuers

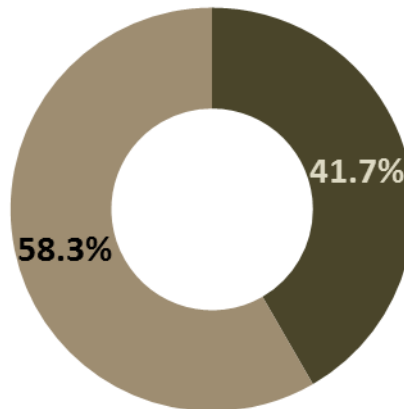
Sample: investors only

Pension Funds



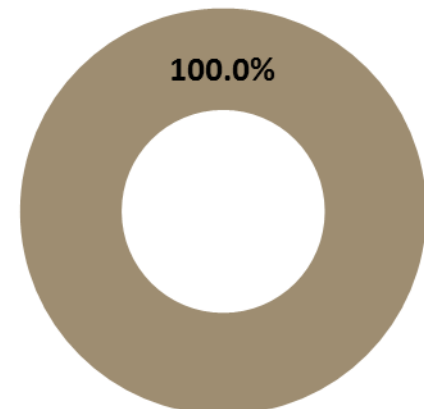
■ Do not participate ■ Participate

Swiss asset managers



■ Do not participate ■ Participate

International asset managers



■ Do not participate ■ Participate

- 75.8% of the pension funds and almost half of the Swiss asset managers are not in direct interaction with issuers.
- All international investors participate in engagement meetings.

Question: How have the engagement meetings with the companies, in which you invest, developed compared to the previous years (number of meetings)?



Implications: governance

- For the majority of Swiss investors, engagements with issuers are of low importance, although most companies view direct interactions as a relevant communication channel.
- SWIPRA infers that the relatively higher involvement of international investors with issuers continuously increases their influence on applied corporate governance in Switzerland.
- Many Swiss asset managers see little value in exercising voting rights.
- As a consequence, SWIPRA believes that a voting obligation for this investor group should be assessed critically.



Plan for this presentation

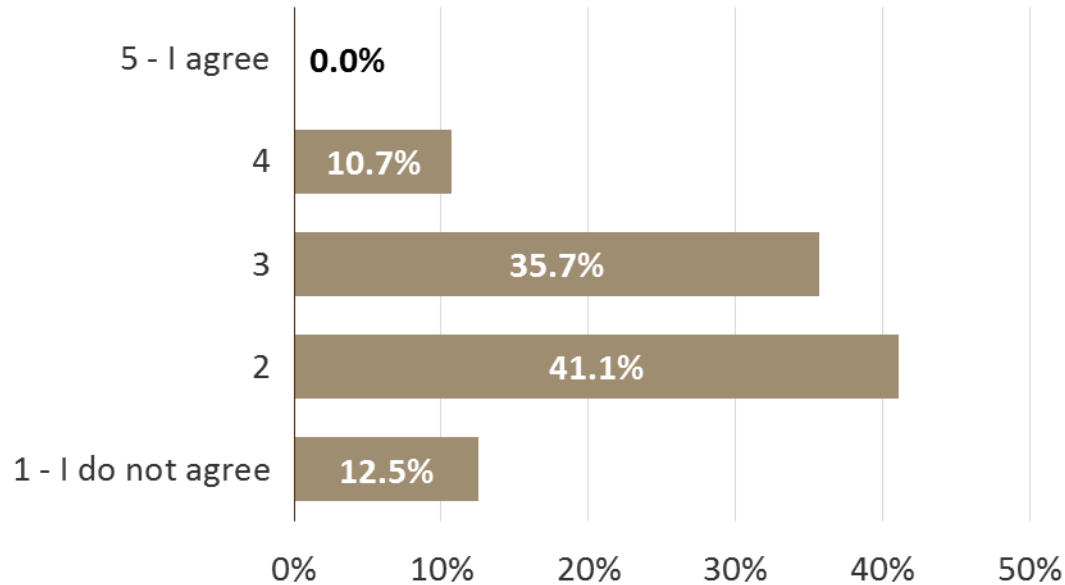
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Pay for performance: relation assessment



Reasonable relation between executive compensation and disclosed performance
Sample: investors only



- Pay and performance are currently not in a reasonable relation for more than half of the investors (53.6%).
- None of the international asset managers observes a reasonable pay-performance relation (see table).

	Pension funds	CH asset managers	Int. asset managers
5 – I agree	0.0%	0.0%	0.0%
4	13.3%	15.4%	0.0%
3	33.3%	38.5%	38.5%
2	40.0%	38.5%	46.2%
1 – I do not agree	13.3%	7.7%	15.4%

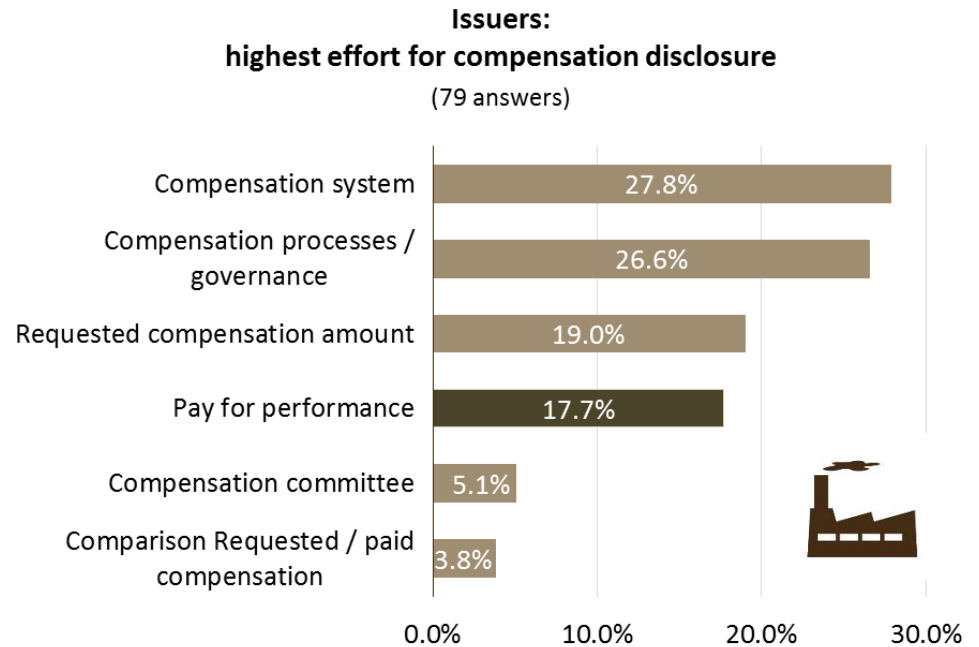
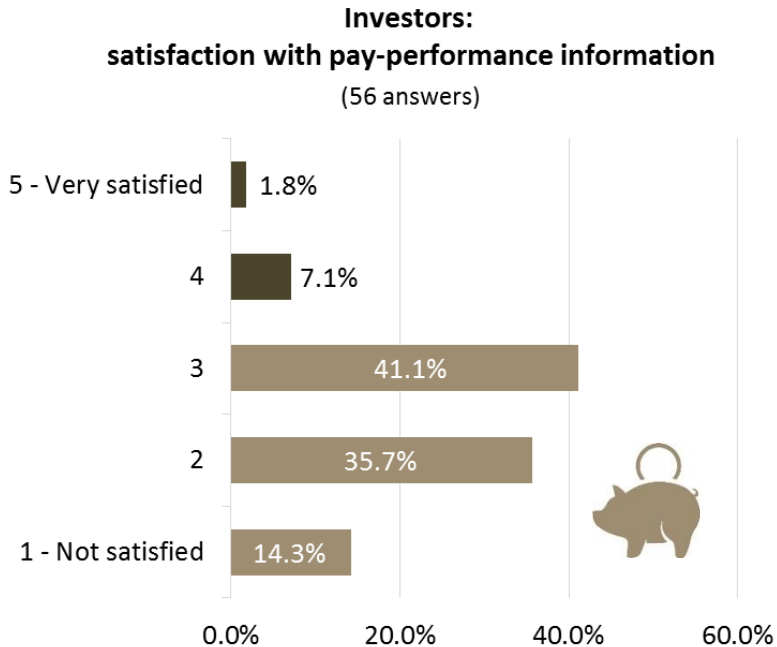
Question: The compensation of the executive management is in general in a reasonable relation to the disclosed performance of the companies.



Pay for performance: satisfaction and effort



Satisfaction with and effort for pay for performance disclosure



- Only 8.9% of the investors are satisfied with the issuers' pay for performance disclosure.
- 17.7% of the issuers spent most of the time on pay for performance when preparing compensation disclosure.

Question investors: How satisfied were you with respect to the issuers' disclosure regarding the comparison of achieved performance targets and the respective payout of variable compensation elements (pay for performance) during the AGM season 2016?

Question issuers: On which part of the compensation disclosure did you spend the most time during the AGM season 2016?



Pay for performance: international comparison

Comparison of actual disclosure and disclosure requirements between Switzerland and other countries
Sample: investors and issuers with the possibility to make international comparisons

Investors: satisfaction with disclosure

In **Switzerland** there was more substantial information

5.6%

In **other countries** there was more substantial information

66.7%

Information was equally substantial



27.8%

Issuers: perceived disclosure requirements

61.2%

There are currently more requirements in **Switzerland**

16.3%

There are currently more requirements in **other countries**

22.4%



There is hardly any difference in the requirements

- Most investors deem disclosure more substantial in other countries.
- Many issuers view Swiss requirements as stricter than in other countries.

Question investors: How do you assess the information with regard to the comparison of achieved performance targets and the payout of variable compensation elements (pay for performance) during the AGM season 2016 compared to the respective information in other countries (e.g. Anglo-American countries)?

Question Issuers: How would you assess the general compensation disclosure requirements in Switzerland compared to other countries (e.g. Anglo-American countries)?



Implications: pay for performance

- The majority of investors does not perceive a reasonable relation between compensation and performance.
- One reason could be communication shortcomings: While only few investors are satisfied with the information quality regarding pay for performance, many issuers dedicate most time to other compensation topics.
- SWIPRA suggests that issuers should pay attention not only to implementing a factual pay for performance relation but also to communicating this relation in a suitable way.
- This becomes even more important as international investors tend to scrutinize compensation matters in more detail and become less hesitant in rejecting (binding) proposals.



Plan for this presentation

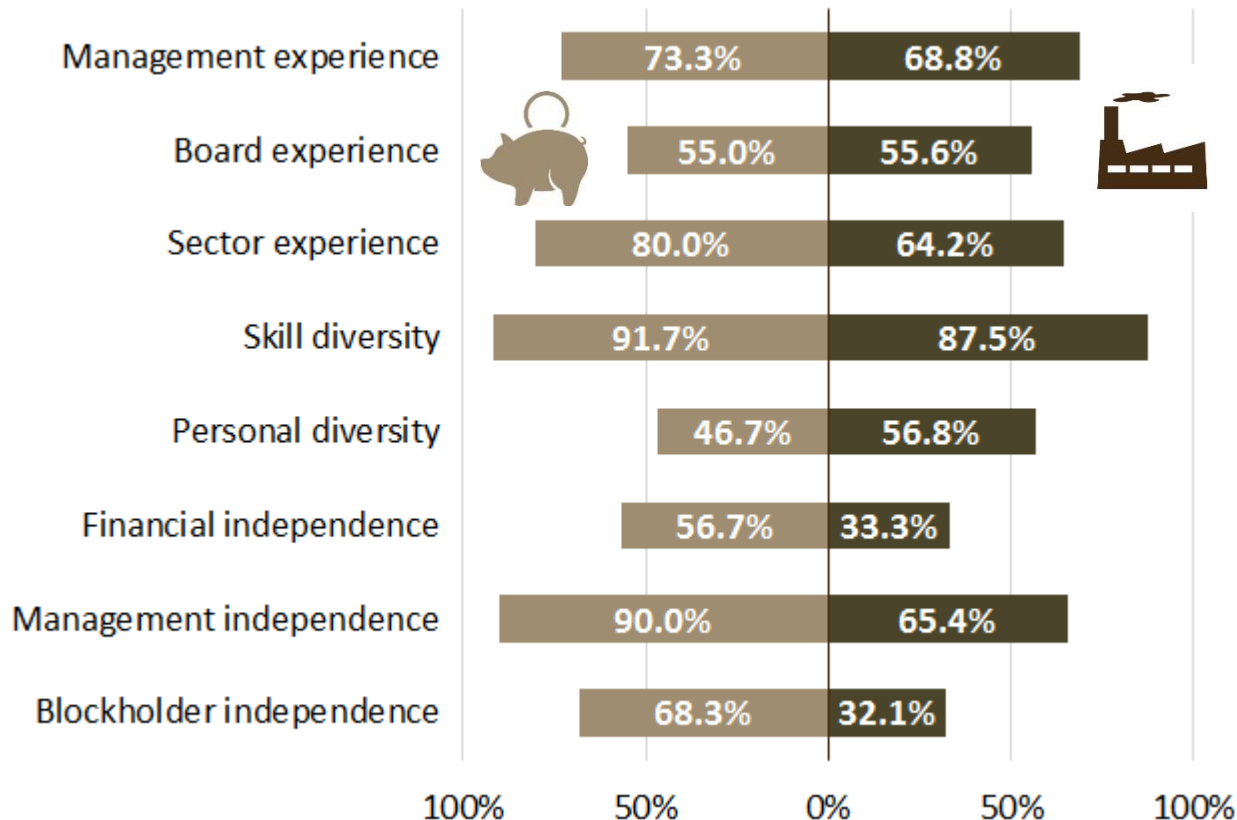
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Board of directors: relevance of evaluation criteria



Assessing board candidates – what is relevant? - Items considered very relevant and relevant



- There is a high degree of alignment between investors and issuers on the importance of board candidates' experience and diversity.
- Independence criteria are much more important for investors than for issuers.

Question investors: Please indicate the relevance of the following factors in evaluating a proposed candidate for the board of directors in a company listed in Switzerland.

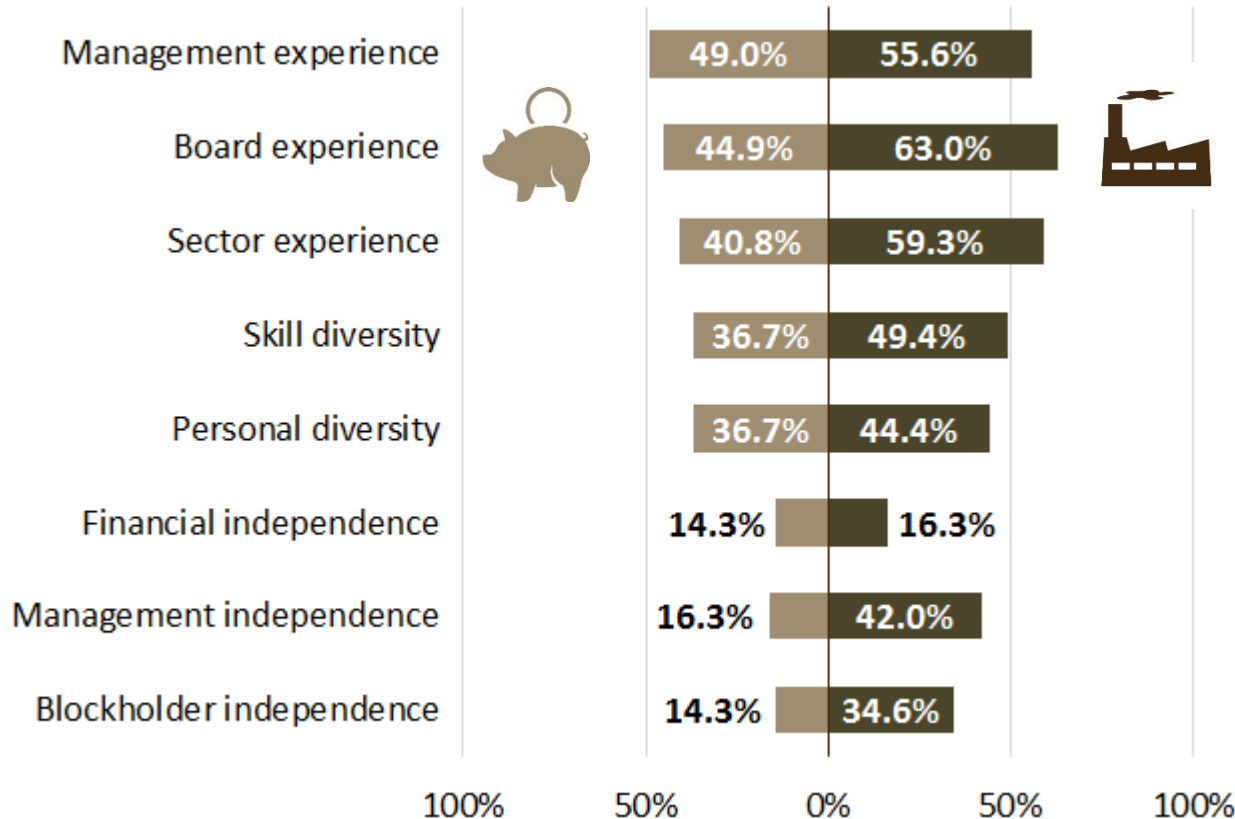
Question issuers: Please indicate the relevance of the following factors for selecting a candidate for the board of directors of your company.



Board of directors: disclosure evaluation criteria



Quality of disclosure on board candidates - Items considered very relevant and relevant



- Investors and issuers largely agree that the information on board candidate experience is sufficient.
- Investors are looking for a more detailed and transparent disclosure on board member independence and diversity.

Question investors: How satisfied were you with the information about the following factors regarding board elections provided by the companies during the AGM season 2016?

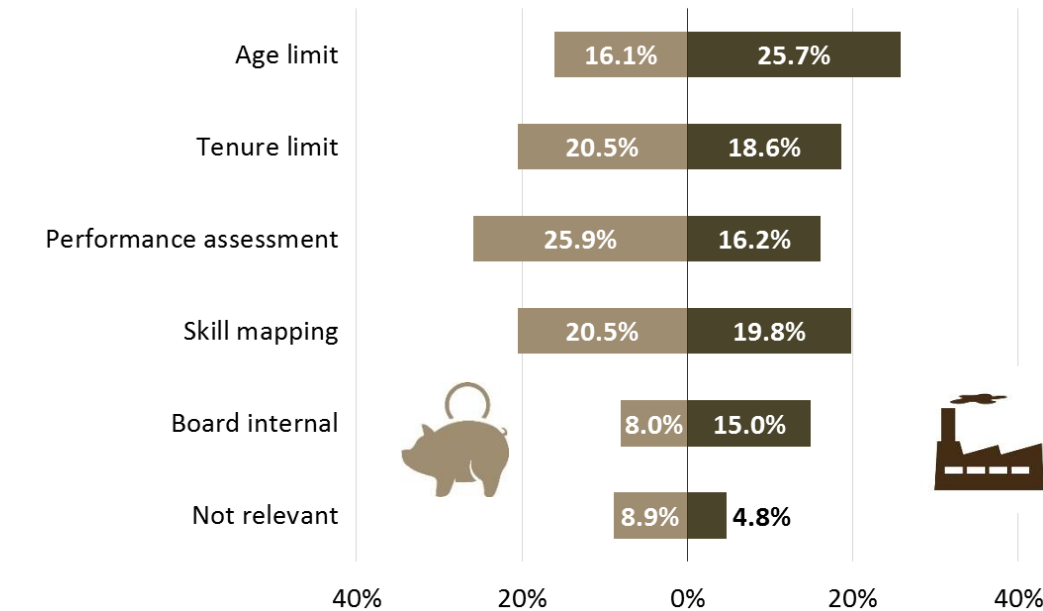
Question issuers: How extensive do you assess the information on the following factors provided by you for the annual general meeting 2016 regarding board elections?



Board of directors: rotation



Most important determinants of board rotation



- Investors believe that the most important factor driving board rotation should be an annual performance assessment.
- For issuers, the most important factor for determining board rotation is an age limit.

	Pension funds	CH asset managers	Int. asset managers
Age limit	23.6%	15.4%	3.2%
Tenure limit	21.8%	11.5%	25.8%
Performance	16.4%	34.6%	35.5%
Skill mapping	10.9%	26.9%	32.3%
Board internal	10.9%	11.5%	0.0%
Not relevant	16.4%	0.0%	3.2%

Question investors (multiple answers possible): How should the board rotation process be managed over time?

Question issuers (multiple answers possible): How is the rotation process of your board of directors managed over time?



Implications: board of directors

- Investors continue to believe that the election of candidates to the board of directors is the task with the highest impact on future shareholder value generation.
- Investors will, therefore, look for a more comprehensive disclosure on individual board candidates, in particular with respect of their independence.
- In SWIPRA's view, companies should also be more transparent with the overall board processes, making the work of this body more tangible for its investors.



Plan for this presentation

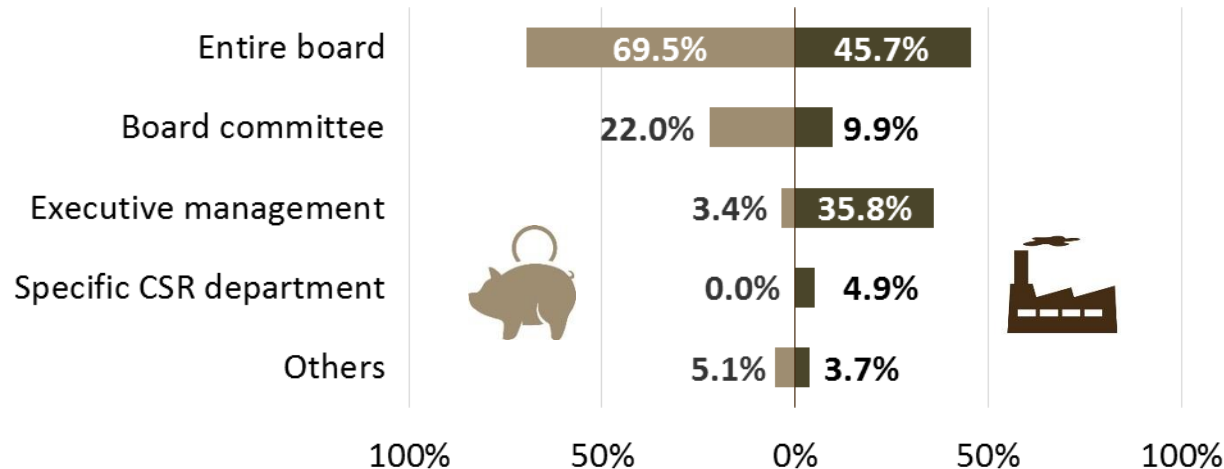
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CSR: strategy formulation



CSR responsibility within the company



- According to the investors' opinion, responsibility for CSR should be with the board of the company.
- There is a large fraction of issuers believing that executive management should be in charge of CSR.

	Pension funds	CH asset managers	Int. asset managers
Entire board	70.0%	61.5%	75.0%
Board committee	23.3%	23.1%	18.8%
Executive management	3.3%	7.7%	0.0%
CSR department	0.0%	0.0%	0.0%
Others	3.3%	7.7%	6.3%

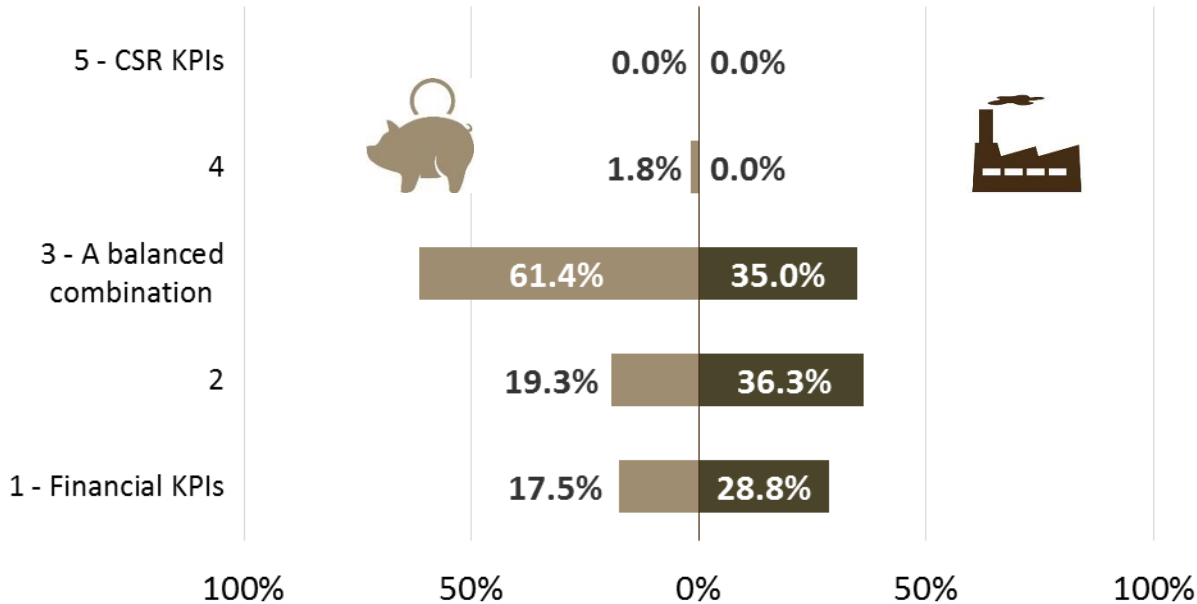
Question investors: In your opinion, who should be in charge of defining the corporate social responsibility strategy in a company?

Question issuers: Who is in charge of defining the corporate social responsibility strategy in your company?



CSR: performance measures

CSR and financial performance measures



- Particularly for issuers, financial KPIs are still considered more representative than CSR KPIs when assessing the long-term value generation of a company.
- Investors believe that a balanced combination of CSR and financial KPIs provide the most representative view on value generation.

	Pension funds	CH asset managers	Int. asset managers
5 – CSR KPIs	0.0%	0.0%	0.0%
4	3.4%	0.0%	0.0%
3 – Balanced	55.2%	69.2%	66.7%
2	17.2%	15.4%	26.7%
1 – Financial KPIs	24.1%	15.4%	6.7%

Question: How useful would you deem an approach according to which long-term investors (e.g., holding shares at least for two years) may receive an additional dividend from the company?



Implications: CSR

- Corporate social responsibility will likely receive increasing attention by investors.
- How a company positions its CSR strategy within the organization will arguably be highly crucial in times of crisis, but more importantly also in avoiding such crisis.
- In SWIPRA's view, CSR should be an integral part of a company's strategic risk management and is, therefore, within the responsibility of the board.



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Summary and outlook

- The passive strategy of many Swiss investors regarding engagements with issuers may increase the influence of international investors on Swiss governance issues.
- A more transparent and focused disclosure may improve investor assessment of the pay-performance relation.
- Issuers could strengthen the agreement with investors on the qualifications of board candidates by providing more information on their independence and on board processes.
- Investors are aware of the relevance of CSR for a company's risk management and view it as a board level matter.



Further scope of the survey

Some of the additional questions covered by the survey:

- Are minority shareholders adequately protected in Switzerland?
- Should long-term investors receive a „loyalty dividend“?
- Should dual class shares be included in benchmark indices?
- How has the complexity of variable compensation changed?
- Is performance more rewarded in Switzerland or abroad?
- What are the opinions on benchmarking compensation?
- How important is information on planned committee assignments?



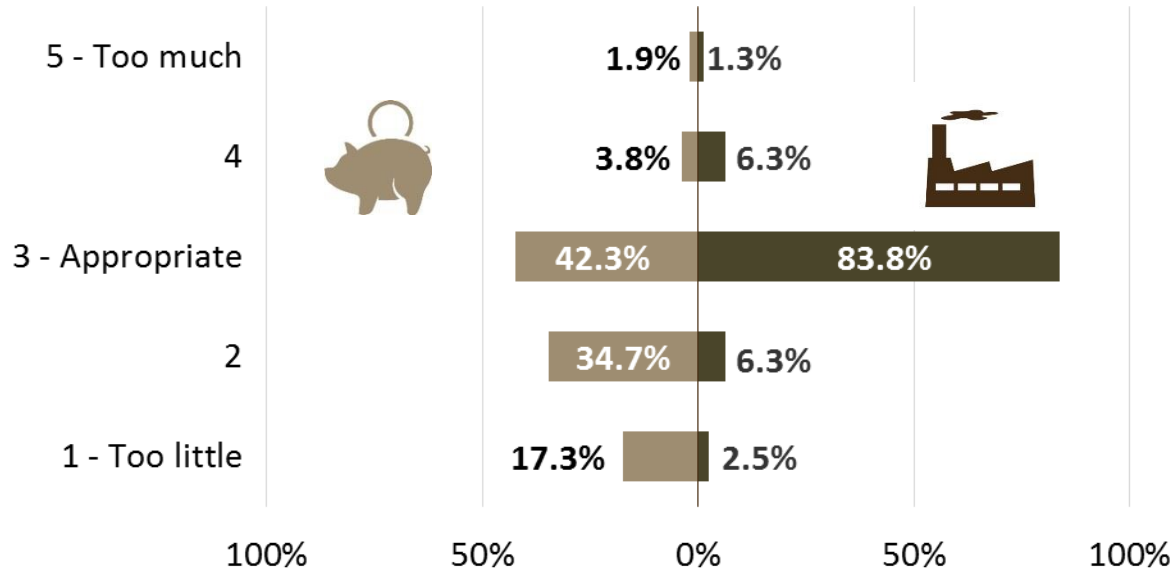
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Appendix - further results -



Shareholder rights: protection

Minority shareholder protection



- Half of the investors share the opinion that minority shareholder rights are not protected sufficiently.
- Within the investor community, this opinion is voiced most prominently by international investors.
- Issuers largely believe that minority shareholder are protected sufficiently.

	Pension funds	CH asset managers	Int. asset managers
5 – Too much	3.4%	0.0%	0.0%
4	6.9%	0.0%	0.0%
3 – Appropriate	48.3%	50.0%	18.2%
2	34.5%	16.7%	54.5%
1 – Too little	6.9%	33.3%	27.3%

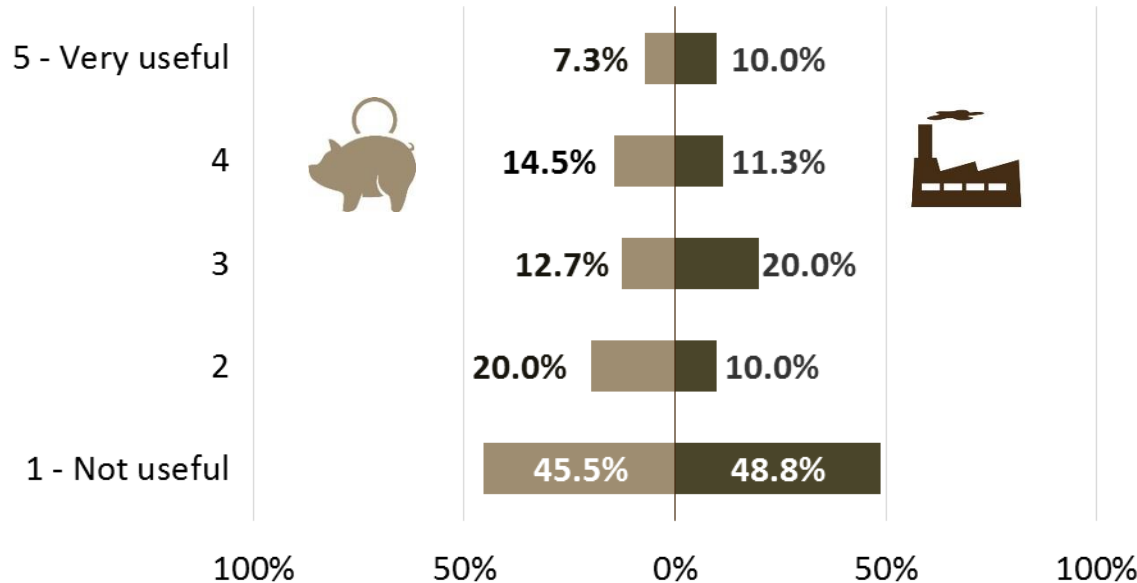
Question investors: In your opinion, to what extent are the interests of minority shareholders of a listed company in Switzerland protected by the current regulations?
(Investors)

Question issuers: How do you perceive the current regulation in protecting the interests of your minority shareholders?



Shareholder rights: loyalty dividend

Additional dividend paid to long-term investors



- The possibility to pay higher dividends to longer-term shareholders only receives little support by all participants.
- Interestingly, the highest negative fraction comes from international investors that profit potentially the most through their passive, long-term investments.

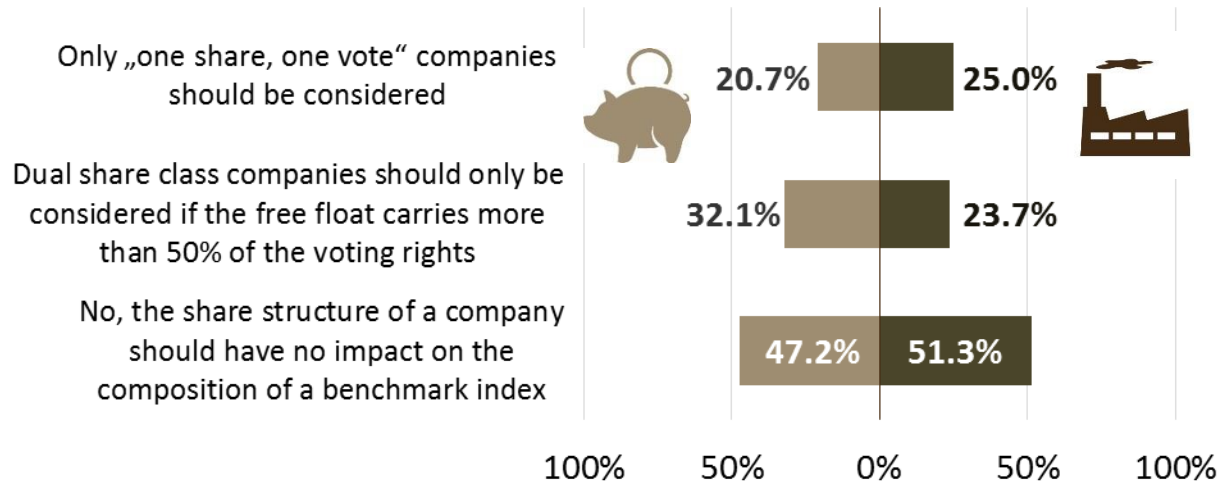
	Pension funds	CH asset managers	Int. asset managers
5 – Very useful	10.3%	7.7%	0.0%
4	13.8%	15.4%	15.4%
3	13.8%	15.4%	7.7%
2	17.2%	23.1%	23.1%
1 – Not useful	44.8%	38.5%	53.8%

Question: How useful would you deem an approach according to which long-term investors (e.g., holding shares at least for two years) may receive an additional dividend from the company?



Shareholder rights: dual class shares

Index composition and dual-class shares



- The majority of asset managers believes that share structure should have an impact on index composition.
- It is, however, not the share structure per se that should determine index composition, but rather the fraction of voting rights carried by the free float shares.

	Pension funds	CH asset managers	Int. asset managers
Only „one share, one vote“ companies should be considered	14.3%	27.3%	28.6%
Dual share class companies should only be considered if the free float carries more than 50% of the voting rights	28.6%	36.4%	35.7%
No, the share structure of a company should have no impact on the composition of a benchmark index	57.1%	36.4%	35.7%

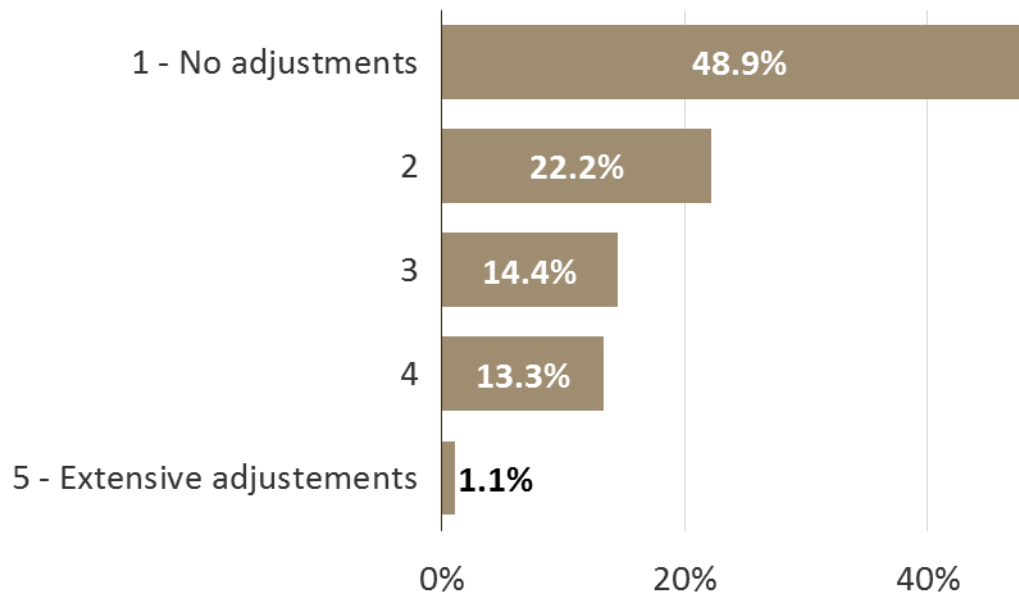
Question: Should the securities selection for benchmark indices (e.g., SMI/SPI) consider, besides market capitalization and stock liquidity, the share structure (voting shares, participation capital, etc.) of a company?



Governance: adjustments due to voting results

Adjustments in companies based on AGM voting results

Sample: issuers only



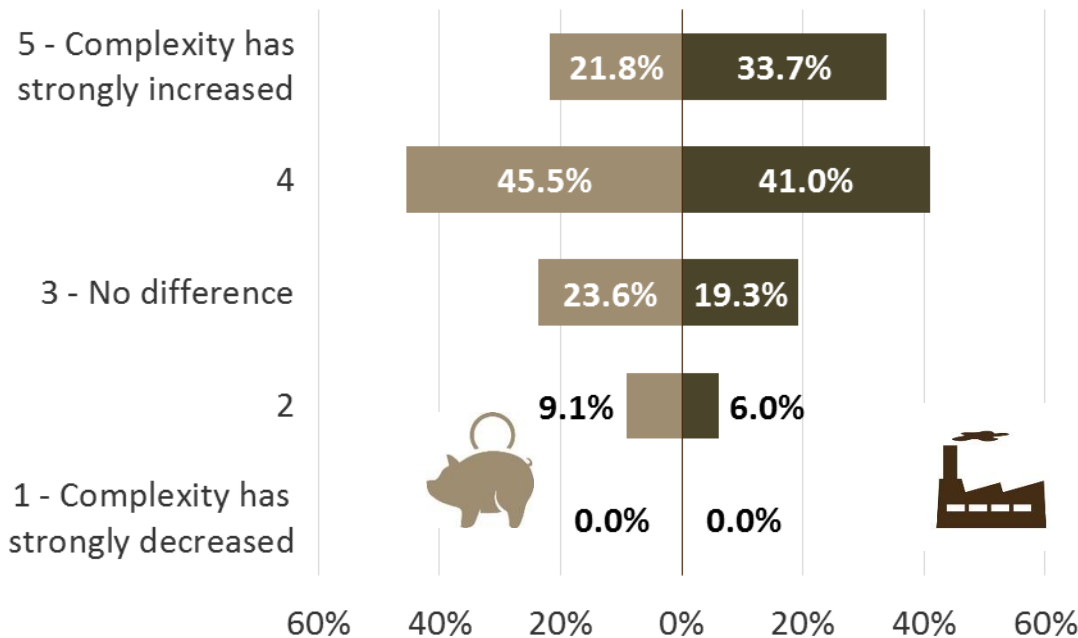
- For 48.9% of the issuers voting results did not lead to any adjustments.
- 22.2% of the issuers report small adjustments due to the voting results.

Question: Did you make any adjustments in your company due to the voting results of last year's annual general meeting?



Compensation: perceived complexity

Complexity of performance-based compensation plans in recent years



- The majority of all market participants perceive an increased complexity of variable compensation.
- This perception is less pronounced in the case of international investors.

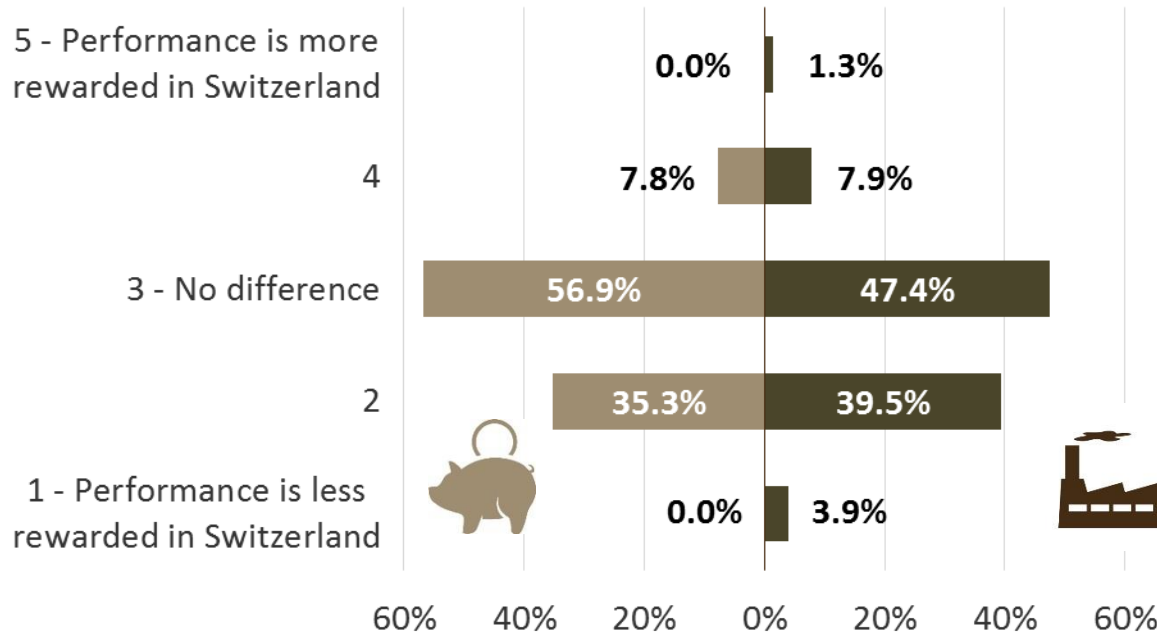
	Pension funds	CH asset managers	Int. asset managers
5 - Strongly increased	30.0%	23.1%	0.0%
4	36.7%	61.5%	50.0%
3 – No difference	30.0%	7.7%	25.0%
2	3.3%	7.7%	25.0%
1 - Strongly decreased	0.0%	0.0%	0.0%

Question: How do you assess the development of the complexity of performance-based remuneration plans in the previous years?



Compensation: international comparison

Rewards for executive performance in Switzerland compared to other countries



- Similar perceptions of relative pay performance between investors and issuers.
- Less than 10% of the market participants perceive performance as more rewarded in Switzerland.

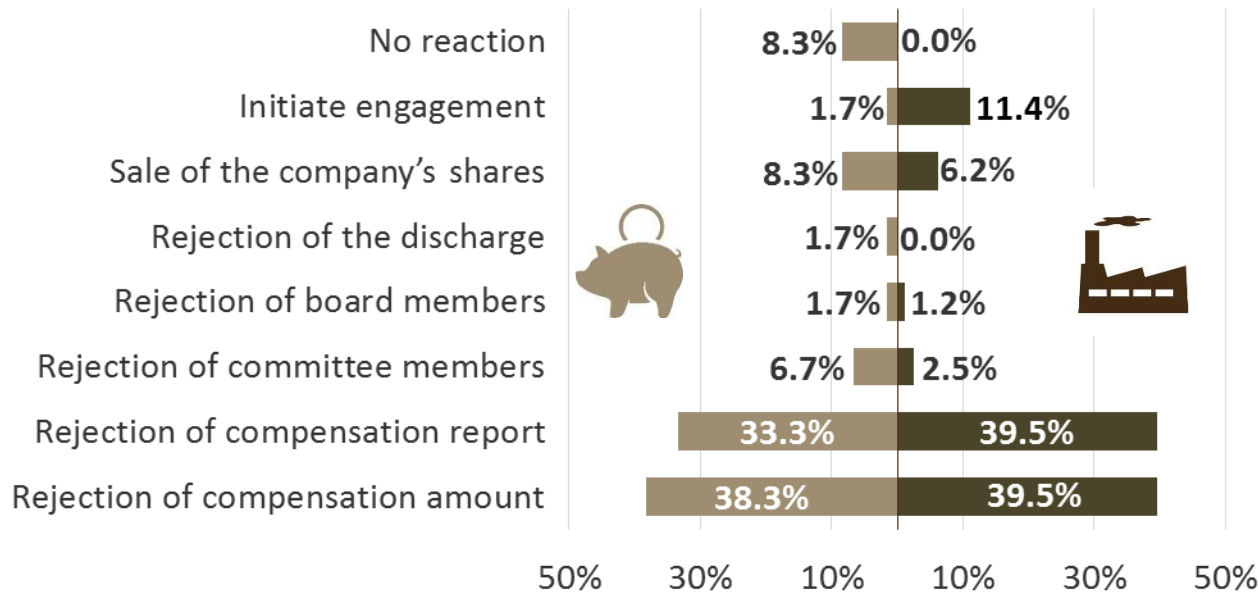
	Pension funds	CH asset managers	Int. asset managers
5-CH more rewarded	0.0%	0.0%	0.0%
4	12.5%	0.0%	6.7%
3-no difference	54.2%	50.0%	66.7%
2	33.3%	50.0%	26.7%
1-CH less rewarded	0.0%	0.0%	0.0%

Question: How do you assess the pay for performance in Switzerland compared to other countries (for example, in the Anglo-American countries)?



Compensation: excessive compensation

Primary investor reactions to perceived excessive compensation



➤ In case of an excessive compensation, one third of the investors would reject the compensation report, whereas 38.3% would rather reject the proposed amounts.

	Pension funds	CH asset managers	Int. asset managers
No reaction	12.9%	7.1%	0.0%
Initiate engagement	0.0%	0.0%	6.7%
Sale of the company's shares	6.5%	14.3%	6.7%
Rejection of the discharge	3.2%	0.0%	0.0%
Rejection of board members	0.0%	7.1%	0.0%
Rejection of committee members	6.5%	7.1%	6.7%
Rejection of compensation report	38.7%	21.4%	33.3%
Rejection of compensation amount	32.3%	42.9%	46.7%

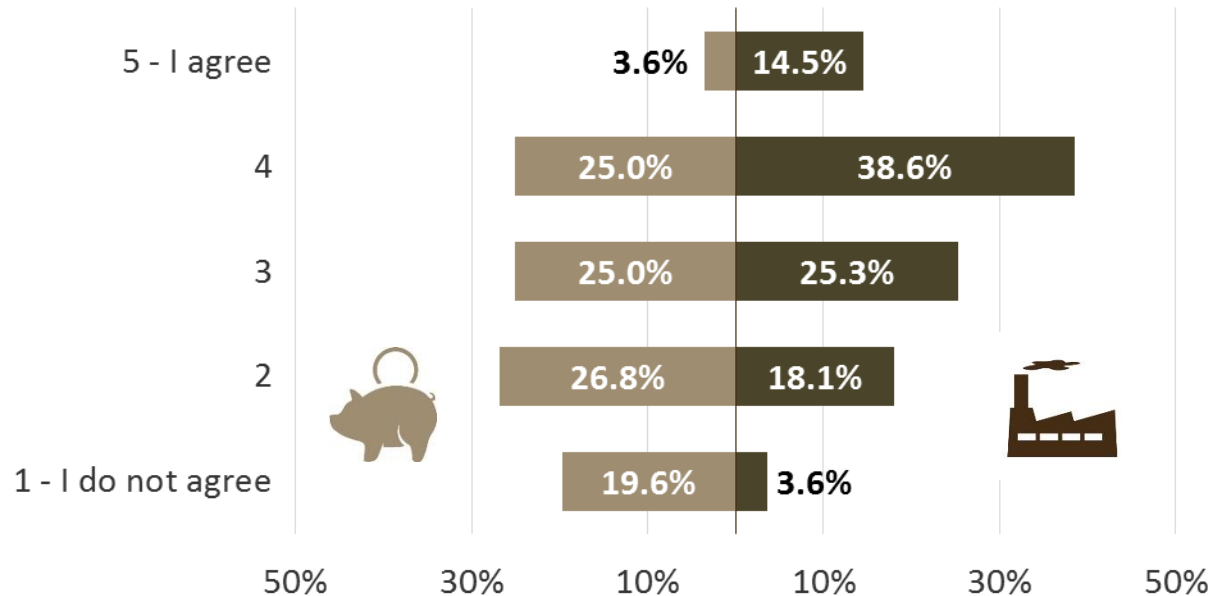
Question investors: How will your organization generally react in the event of a, in the view of your organization, excessive compensation package? (primary reaction)

Question issuers: How will your shareholders generally react in the event of a, in the view of your shareholders, excessive compensation package? (expected primary reaction)¹



Compensation: benchmarking compensation amounts

Benchmarking of compensation amounts with regards to comparable companies



- 53.1% of the issuers are of the opinion that compensation amounts should be benchmarked among comparable companies.
- Only 28.6% of the investors share this opinion.

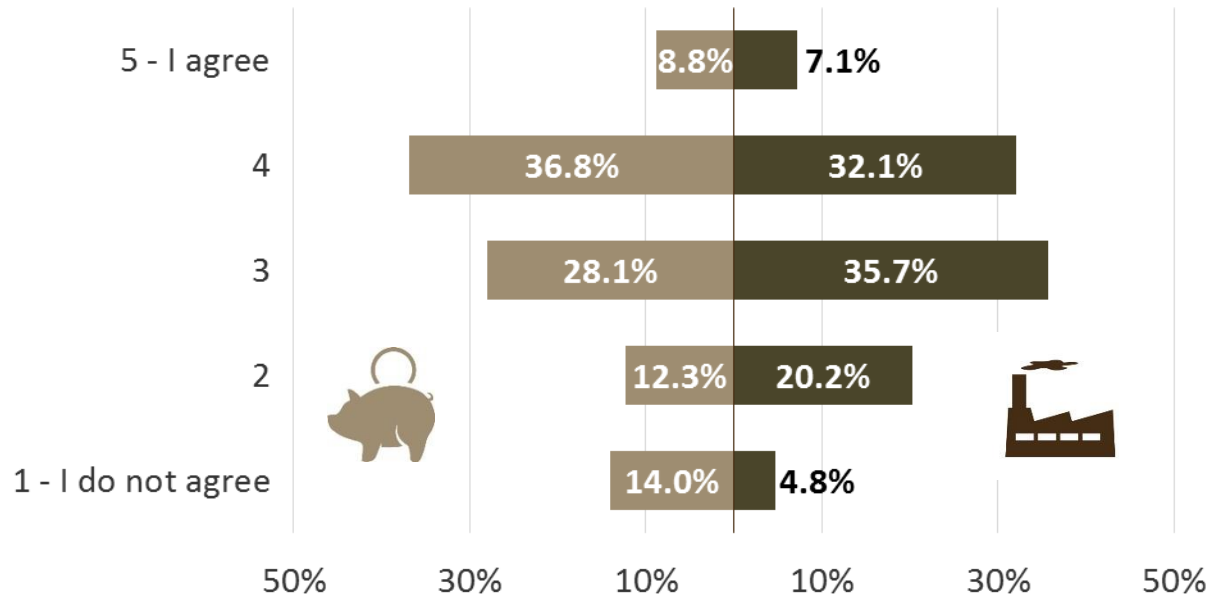
	Pension funds	CH asset managers	Int. asset managers
5 - I agree	6.9%	0.0%	0.0%
4	24.1%	33.3%	20.0%
3	24.1%	25.0%	26.7%
2	27.6%	25.0%	26.7%
1 - I do not agree	17.2%	16.7%	26.7%

Question: Do you agree with the following statement: "The target compensation amounts for the executive management should be benchmarked with the compensation amounts in comparable companies."



Compensation: benchmarking compensation structure

Benchmarking of compensation structure with regards to comparable companies



- More investors (45.6%) than issuers (39.2%) favor benchmarking the compensation structure.
- This is more pronounced for Swiss asset managers (61.5%) than for international asset managers (33.3%).

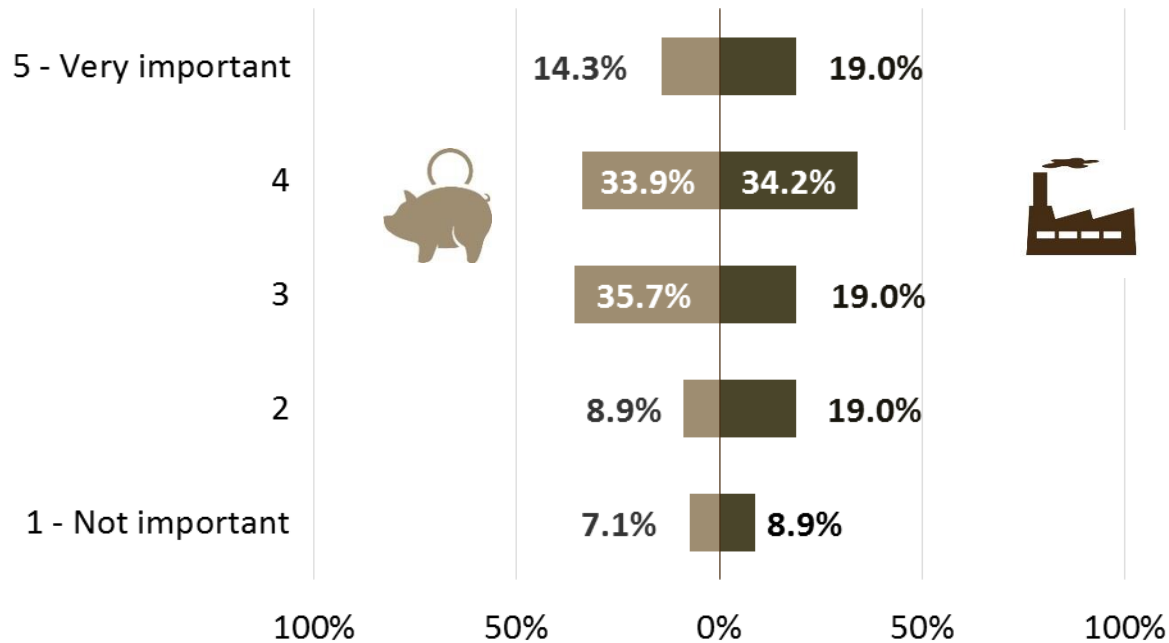
	Pension funds	CH asset managers	Int. asset managers
5 - I agree	3.4%	7.7%	20.0%
4	41.4%	53.8%	13.3%
3	24.1%	30.8%	33.3%
2	20.7%	0.0%	6.7%
1 - I do not agree	10.3%	7.7%	26.7%

Question: Do you agree with the following statement: "The target compensation structure for the executive management should be benchmarked with the compensation structure in comparable companies."



Board of directors: committees

Information about committee assignments



- Information on planned committee assignments of proposed board members is very important for international asset managers.
- More than half of the issuers agree that planned committee assignments are important in selecting board members.

	Pension funds	CH asset managers	Int. asset managers
5 - Very relevant	7.1%	14.3%	28.6%
4	32.1%	28.6%	42.9%
3	32.1%	57.1%	21.4%
2	14.3%	0.0%	7.1%
1 - Not relevant	14.3%	0.0%	0.0%

Question: How important do you deem the information about planned board committee assignments for the evaluation of a board candidate who stands for election? (investors) / Planned committee assignments play an important role in selecting new board members (issuers: agree / don't agree).



Contact

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