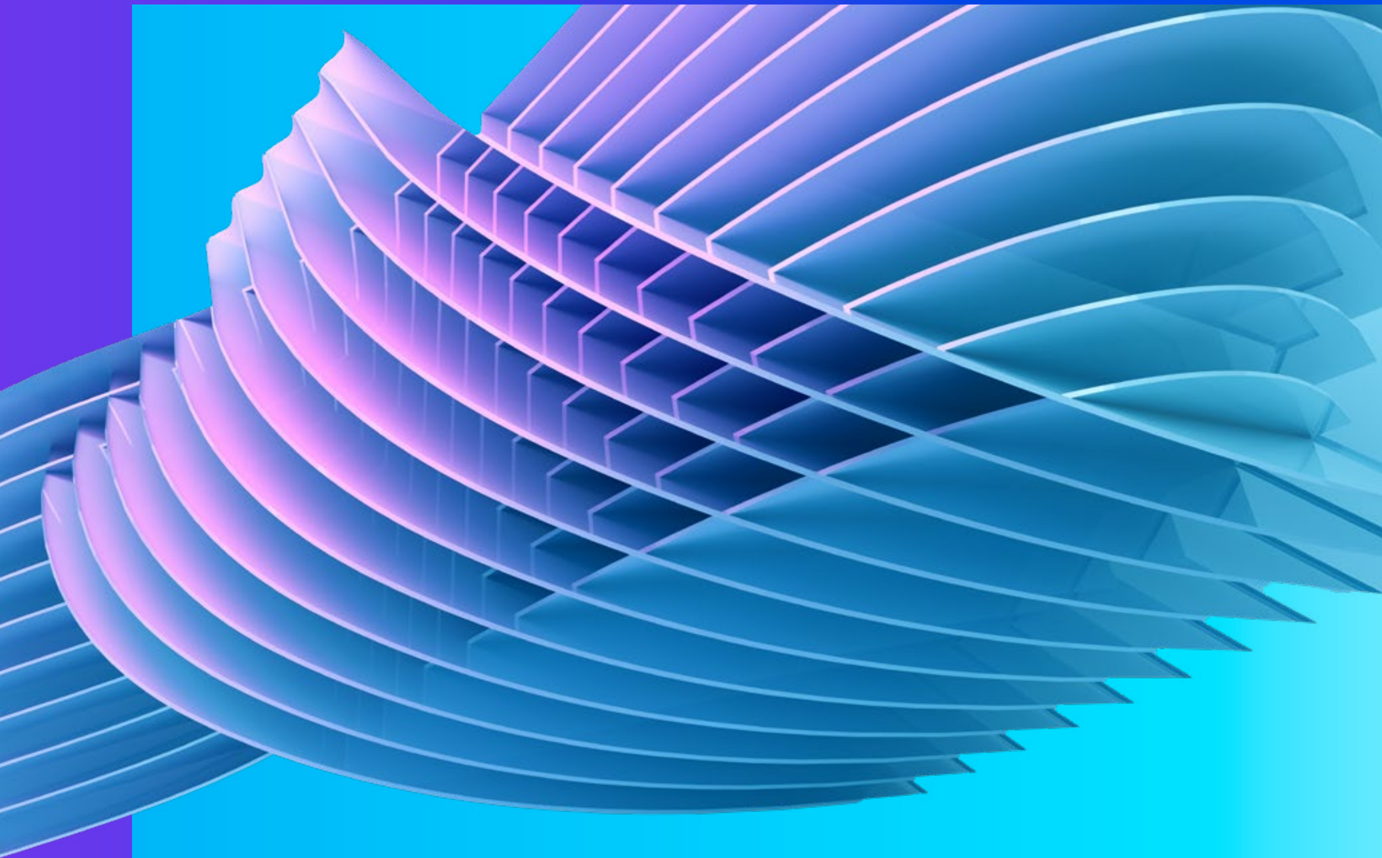
KPMG

SWIPRA
CORPORATE GOVERNANCE
SERVICES & DIALOGUE



Governance aspects of the ESG journey

Driving the ESG transformation

Reasons for Boards to rethink Governance

There are various reasons why Governance is at the center of a company's journey towards a more sustainable future. Consumers and employees have increasingly different expectations, both of the businesses they buy from, and those they work for. Leaders are under pressure from regulators and the market to prove that their organizations are acting responsibly and sustainably. Now more than ever, they need to rethink how they lead the transformation of their company, including their own governance structure, measures for progress and other key elements of a comprehensive corporate governance framework. **KPMG and SWIPRA Services have teamed up** to bring their long-standing experience and competences together to support you in the following areas:

Strategy, risk management

As risks and opportunities deriving from ESG aspects, including market, legal, reputational and regulatory risks, are becoming more visible, the fiduciary duties of directors increase. Companies need to challenge their current strategy and business model to create long-term sustainable growth, build resilience against risks and take opportunities arising from global megatrends, such as population growth and changes in demographics, climate change, biodiversity loss and others. Boards are required to show leadership.

Corporate culture and incentives

ESG needs to become part of a company's DNA and, therefore, be consistently embedded throughout the company. The tone from the top and the financial and non-financial incentives are key elements for shaping, advancing and strengthening corporate culture. Boards need to find the right balance of short-term and long-term incentives to trigger the desired behavior.

Communication with key stakeholders

High quality of relationships with key stakeholders are the core of a sustainable business model. Increased market pressure for additional transparency and ethical behavior from consumers and business partners, the expectations of employees and most of all, from investors for more resilient business models and their need for a better understanding of ESG risks in their portfolios, requires a holistic approach and improved communication on non-financial matters. The board needs to ensure appropriate communication to protect reputation, brand and value.

New regulatory requirements

New legal requirements specifically in the EU and Switzerland require the involvement of the board and a clear understanding of the obligations concerning ESG reporting and disclosure as well as due diligence along the supply chain to ensure compliance. A key challenge is the fast development of regulatory requirements, including spillovers from other jurisdictions, paired with short implementation times. Boards need to proactively engage in ESG matters to successfully cope with these requirements.

Did you know? Facts and figures

“Based on disclosure, only 39% of investors have a sufficient understanding of how a board functions”

“Only 33% of investors believe boards of Swiss companies assume sufficient responsibility with respect to ESG”

“18% of investors believe that Swiss companies’ ESG disclosure is clearly linked to strategy”

“27% of investors have a good understanding of which ESG factors a company deems material”

“23% of investors understand how ESG factors were reflected in the board’s decision on compensation”

“In the ongoing AGM season 2022, a major asset manager voted against 14% of ESG-related agenda items, but supported 34% of ESG shareholder proposals”

“Of the 100 most contested items in Swiss AGMs 2022, 67% concerned board elections”

Source: SWIPRA Surveys 2021/20 & SWIPRA AGM Analysis 2022

A holistic approach to ESG integration

Creating value for the company from ESG integration requires a holistic approach by the board and management. Boards need to invest in the quality of relationships with the business-relevant stakeholders, engage on material topics and align purpose with strategy based on these interactions:

1. A successful ESG initiative, embedded in the company's strategy and business model, reflects the requirements and expectations of key stakeholders.
2. Identifying risks and opportunities affecting the business in the short, medium and long run is key to enabling long-term value creation and efficient capital allocation.
3. Appropriate ESG KPIs and ESG management processes need to be developed. To drive performance, targets that underpin commitments made need to be set.
4. This allows to manage the execution and operationalization of the strategy, assess and track progress and performance over time, and substantiate commitments made.
5. Governance structures and incentives need to be reviewed, designed and implemented in line with strategy, performance targets and commitments.
6. Communicating your strategy, ESG targets and related performance to stakeholders is key to demonstrating how you intend to create sustainable value.

Key aspects for the Boardroom

Boards and board oversight may be affected in different ways. This depends on specific circumstances, such as the current board composition, committee structures, business context, workloads and scope of responsibility, as well as processes and practices related to the 3 Lines, specifically the enterprise risk management and internal control system, amongst others.

The solutions will be manyfold in practice, but some of the most important things to get right are relevant for all boards:

Integrate ESG into strategy and risk management

Why is this important?

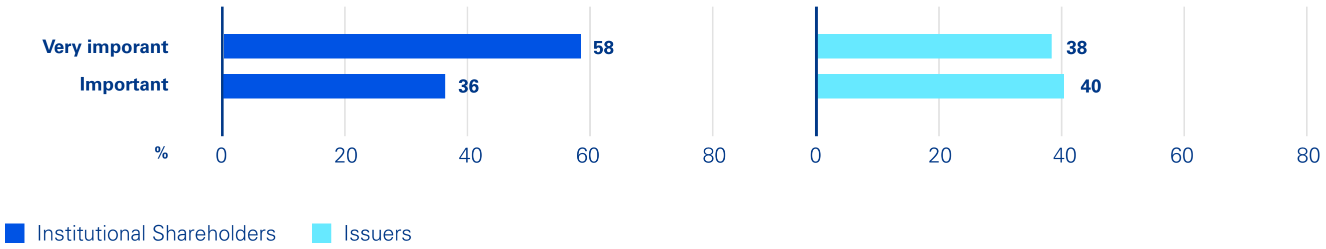
Boards are ultimately responsible for their company's strategy and its successful implementation, including the transformation of the business model in the context of long-term megatrends affecting every company.

A company's impact on societal value increasingly affects the short-term drivers of corporate value, namely revenues, costs and risks. This 'disappearing disconnect' between corporate and societal, long-term value creation derives from an increasing internalization of a company's impacts and the dependency on environmental and social capital. Boards need to understand the forces at work, the business case for sustainability and how it can steer the company towards a sustainable future.

Key considerations

It is up to the board of directors to define 'success' and the business model needed to achieve it. Future-proof corporate strategies need to address and integrate material ESG aspects. Risk management tools need to be enhanced to early identify potential risks threatening the company's long-term ability to create value. To consider risks deriving from climate change is expected by investors and the regulator, for example.

Importance of governance structure ("G") for a successful implementation of environmental and social policies ("E&S") *



94% of institutional investors and 96% of companies consider the governance structure as (very) important for a successful implementation of E&S policies.

How we can help:

- Support in shaping your governance and ESG frameworks with a view towards long-term value generation and targeted to your individual stakeholders.
- Profound analysis including a comprehensive governance and ESG risk assessment.
- Multidisciplinary approach to bring together non-financial and financial considerations of your ESG strategy.

* Source: SWIPRA Governance Survey 2022

Drive and reward performance

Why is this important?

Adopting a strategy embedding sustainability at its heart is becoming business-critical. Boards need to set ambitious goals on material ESG topics, underpinned by relevant key performance indicators to support a successful implementation of their strategy. Such indicators should reflect the material impacts to the company and the significant dependencies and risks against which their performance and progress can be measured.

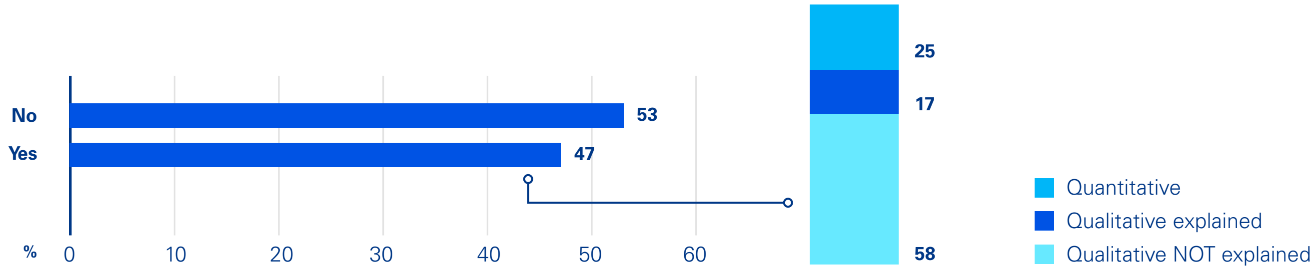
In order to align management's interest with the implementation of the ESG-integrated strategy and foster a supporting corporate culture, remuneration systems will need to be revisited and adjusted to reflect the new ESG dimensions. This means tying executive pay to environmental, social, and governance goals as investors, regulators, and activists increasingly scrutinize corporate behavior.

Key considerations

A structured approach to identify material topics and respective KPIs aligned with strategic goals and stakeholder expectations must be implemented. Boards need to ensure that processes and systems facilitating mission-critical developments are robust and trustworthy.

Defining a remuneration system with the right incentives to foster the set transformation is an important success element and should be communicated appropriately to shareholders.

ESG-KPIs in Compensation Systems *



47% of the largest 100 SPI companies have an ESG-KPI in their compensation system,
but in 58% of the cases, this KPI is of qualitative nature, not explained and not visibly linked to strategy.

How we can help:

- Assessing your incentives and compensation framework and supporting you in aligning your remuneration with strategic financial and non-financial (ESG) targets.
- Reflecting this in your disclosure and engagements with your key stakeholders.
- Challenging your current Key Performance Indicators and Targets based on robust benchmarking and available standards.

* Source: SWIPRA Governance Survey 2020

Set up board governance and define responsibilities

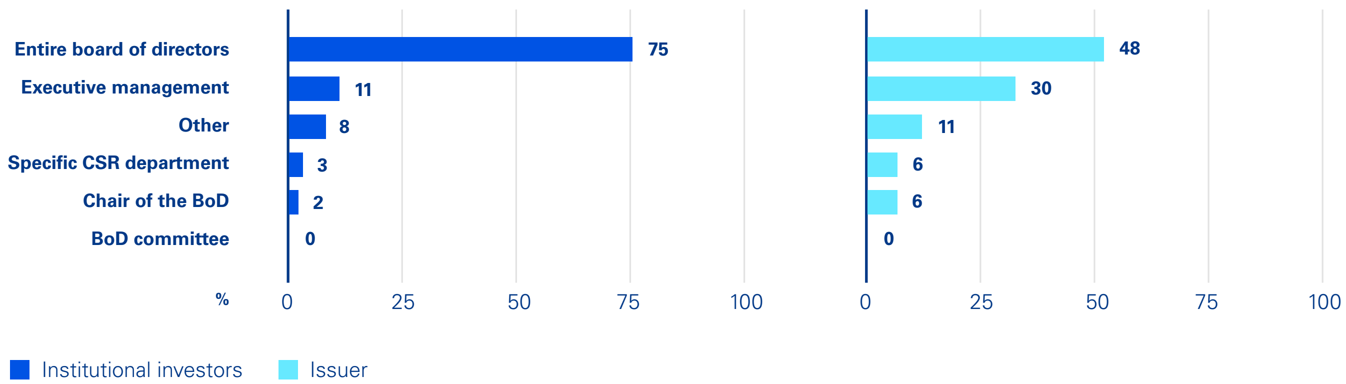
Why is this important?

Companies need to develop an appropriate oversight structure and the associated accountability for strategically relevant topics. It is the board's fundamental duty to take responsibility for these tasks. As ESG-related topics are growing in importance and are becoming central to many corporate strategies and their identification of long-term risks and opportunities, the governance infrastructure needs to be redesigned.

Key considerations

There will not be a 'one-size-fits-all' approach for ESG. The future structure of a board depends on various considerations, such as the company's business and industry, the existing competencies and workloads of the board, current processes and structures, as well as ESG-issues to be solved. There are a variety of alternatives observed in practice, ranging from full board responsibility to a specific sustainability board or a mix of existing board committees. The roles of existing committees might often also be affected by regulatory requirements and other considerations.

Who should be in charge of defining the corporate social responsibility strategy in a company?*



75% of institutional investors and 48% of companies believe that the entire board of directors should be in charge of seting a company's ESG strategy, no one indicated that this should be left to an ESG board committee

How we can help:

- Tailored board and committee evaluations, workshops
- Advice on market expectations and regulation
- Strategic ESG integration
- Crisis management
- Stakeholder dialog
- Board and committee processes and agenda setting
- Skill analysis and strategy mapping.

* Source: SWIPRA Governance Survey 2020

Communicate and build trust

Why is this important?

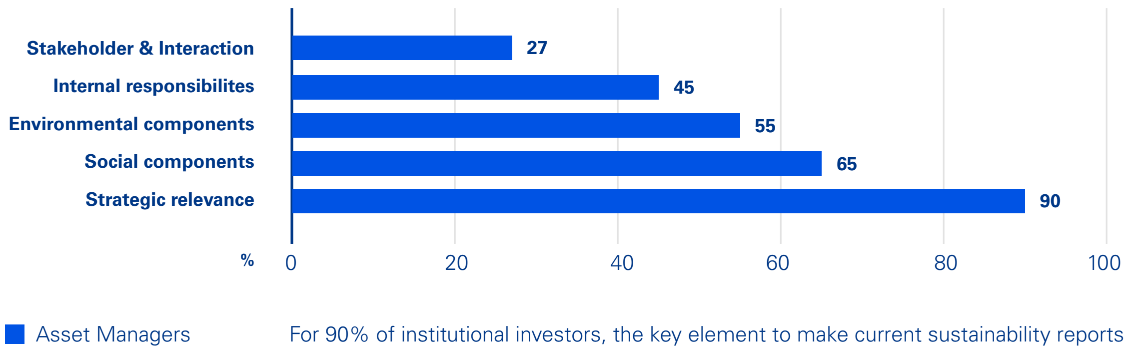
Sustainable business models and successful strategies depend on the quality of relationships between your company and its key stakeholders. An early identification of material factors and concerns is based on an extensive dialog between the board and your key stakeholders.

Transparency on ESG aspects has become important in decision-making, not only for clients and employees, but specifically for investors. To ensure efficient capital allocation and tackle growing concerns related to greenwashing, regulators have become active globally. New laws and regulation in the EU and Switzerland have direct implications for the communication of companies and the responsibility of boards related to such information.

Key considerations

Board members need to understand the relevant compliance framework as well as the upcoming regulation forming the boundaries within which your company has to operate. To explain the company's performance and targets in the short, medium and long run to shareholders and the wider stakeholder community, corporate reporting needs to go beyond the minimum compliance requirements. It is the board's responsibility to ensure that communicated information is reliable, requiring a solid governance framework, including internal and external assurance providers.

What relevant information is missing to make these current sustainability reports more meaningful? *



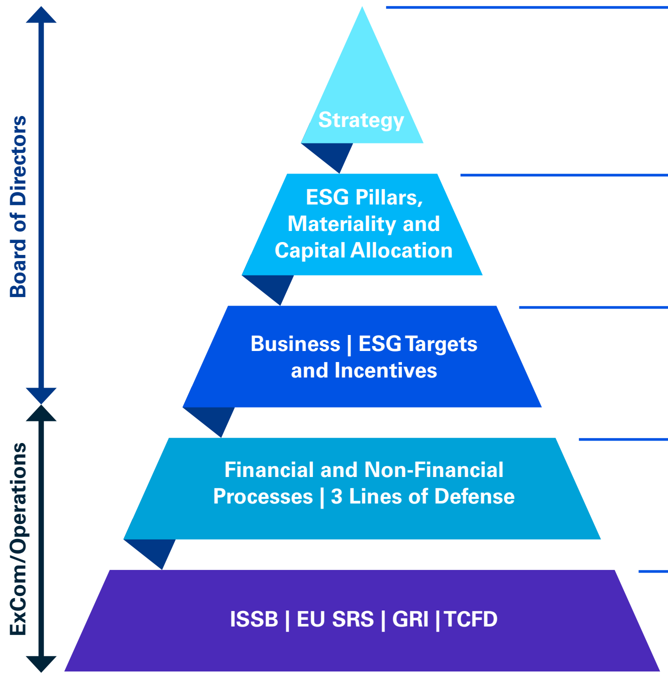
For 90% of institutional investors, the key element to make current sustainability reports more meaningful is information on ESG's strategic relevance.

How we can help:

- Developing ESG-related communication and engagement strategies targeted at internal and external stakeholders, complementary to your corporate reporting.
- Advancing your non-financial reporting, taking stakeholder and regulatory requirements into consideration.

* Source: SWIPRA AGM Analysis 2022

Our integrated service offering along your ESG journey



ESG Implementation Levels	Services	ESG Disclosure & Communication
Strategy	• Board assessment • Board workshops and trainings	• Governance regulations, board rules and organization • (Integrated) governance and non-financial reporting • Strategic communication • Investor and stakeholder engagements • Chair letters • Compensation report
ESG Pillars, Materiality and Capital Allocation	• Strategic CSR and non-financial reporting service • Materiality assessment for sustainability reporting	
Business | ESG Targets and Incentives	• Incentives and compensation services	
Financial and Non-Financial Processes | 3 Lines of Defense	• Assurance/audit services • Human rights and corporate responsibility services	• Internal guidelines • Organizational rules / Articles of Association
ISSB | EU SRS | GRI | TCFD	• Strategic reporting and disclosure advice • Sustainability reporting (standards and frameworks) services	• Financial report • Non-financial report • Assurance

Key questions for boards

- Is your strategy reflecting the impact of ESG risk and opportunities, including impact on financials, reputation and brand?
- Do you have a thorough understanding of the most important ESG issues and areas to create competitive advantage?
- Is you corporate communication best-practice and compliant with future requirements?
- Are you demonstrating leadership in comparison with peers and sustainability leaders?
- Are you addressing the needs and concerns of your most relevant stakeholders, including raters, investors?
- How can you unlock additional value-creation potential?

The impact of ESG issues is clearer than ever. The sustainability and governance specialists of KPMG and SWIPRA Services offer insights on every critical opportunity. Get in touch with us and tell us where you would value another view. We look forward to working with you.

About KPMG

KPMG has been supporting clients on their ESG journeys for many years. Our sustainability specialists employ their extensive understanding of building a more sustainable and resilient future to help you navigate complex business challenges. We work side-by-side with KPMG professionals from audit, tax and advisory including sector specialists, management consultants, tax accountants and experts in IT, supply chain and more and have access to our global network. You won't receive generic advice and one-size-fits-all solutions from us, instead you can benefit from a hand-picked multi-disciplinary team.

About SWIPRA Services

SWIPRA Services provides corporate governance and ESG services for listed companies and their boards of directors. We provide our clients with hands-on advice that takes into consideration relevant stakeholder opinions with aim of increasing the value of the company in the long term, based on principles of value-based management and empirically relevant criteria.

www.swipra.ch

Silvan Jurt
Partner, Head Corporate Sustainability Services
+41 58 249 50 25
sjurt@kpmg.com

Patrick Schmucki
Director, Corporate Responsibility Officer
+41 58 249 27 35
pschmucki@kpmg.com

Barbara A. Heller
Managing Partner
SWIPRA Services
+41 55 242 60 00
barbara.heller@swipra.ch

Dr. Ch. Wenk Bernasconi
Partner
SWIPRA Services
+41 55 242 60 02
christoph.wenk@swipra.ch