



2022 / AGM Season Review

Georgeson

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INTRODUCTION

We are proud to present Georgeson's AGM Season Review for 2022, a thorough analysis of the trends we are seeing at AGMs across seven major European markets.

Our unrivalled market expertise coupled with our strong relationships with investors allow us to deliver the highest quality support to all our clients. It also alerts us to how shareholder priorities are changing and how this affects their AGM voting behaviours. This report highlights these trends across Europe's biggest markets. We hope that it will be insightful and engaging for investors and issuers alike.

The 2022 AGM season marks only the second year that we have seen companies voluntarily put forward advisory votes on their climate action plans and disclosures. Three times as many companies put forward these resolutions this year compared to 2021. Whilst companies were lauded for putting forward Say on Climate proposals last year, this year companies were exposed to increased scrutiny amongst investors and proxy advisors. Indeed, there is a wide variety of opinions and expectations, from the debate as to whether Say on Climate votes should be put forward at all, to questions over the criteria on which climate action plans should be judged upon.

Proxy advisors maintained their strong influence on voting outcomes in 2022 as many of the largest investors continue to use their analysis and recommendations to form their own voting decision. Across all seven markets, we saw that the majority of resolutions that were not supported by the main proxy advisors received high levels of opposition from investors. This highlights the importance of issuers proactively engaging with proxy advisors as well as investors.

Investors in Europe continue to pay close attention to the remuneration practices of the companies in which they hold shares. In 2022, resolutions related to executive compensation were some of the most contested proposals across each market. Though it varies between markets, on aggregate the share of contested resolutions dropped for both remuneration reports and remuneration policies relative to last year. One interpretation of this development is that the companies which make up Europe's main indices are gaining a better understanding of shareholder expectations when it comes to remuneration.

The election of directors continues to be an area that investors consider carefully. Of the seven markets covered in this report, only the Netherlands saw a higher share of contested director election votes in 2022 relative to last year. We believe this is a sign that issuers are more aware now that if they put forward a nominee for the board that does not meet the expectations of shareholders, many will not hesitate to oppose their election.

We hope you find our report insightful and that it gives a sense of how shareholders' priorities are changing in relation to their expectations from investee companies. Throughout this report, we look at the instances where companies received higher opposition than their peers and why some investors chose not to support these resolutions.

We work tirelessly to ensure that our clients are informed about the trends in investor expectations as well as across the corporate governance and ESG landscape so that their AGM votes do not get highlighted in these reports as contested resolutions. Georgeson is available to help you with any queries. As you prepare for your next general meeting, please do not hesitate to reach out and let us support you in achieving favourable vote outcomes for your company by applying our market intelligence.

I would like to thank all our colleagues across Europe who contributed to the production of this document as well as Louise Dudley at Federated Hermes, Pippa O'Riley at Schroders, Asad Butt at HSBC Global Asset Management, and Edouard Dubois at Amundi Asset Management who agreed to provide their invaluable insights for this year's AGM Season Review. Lastly, a special thank you goes to Daniele Vitale, our Head of Governance UK/Europe, who edited the report.

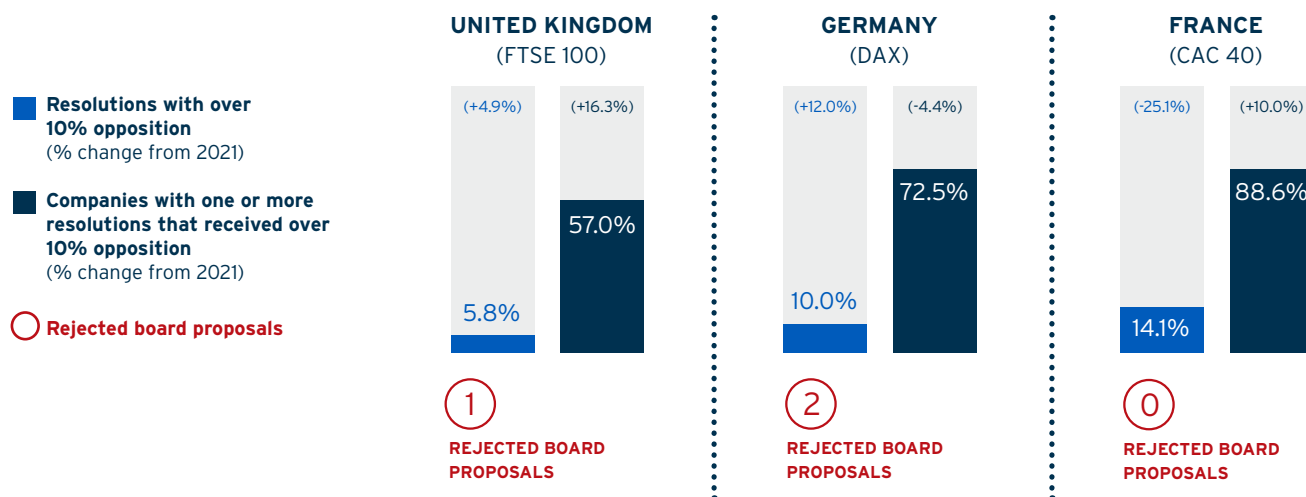


Domenic Brancati

Global Chief Operating Officer

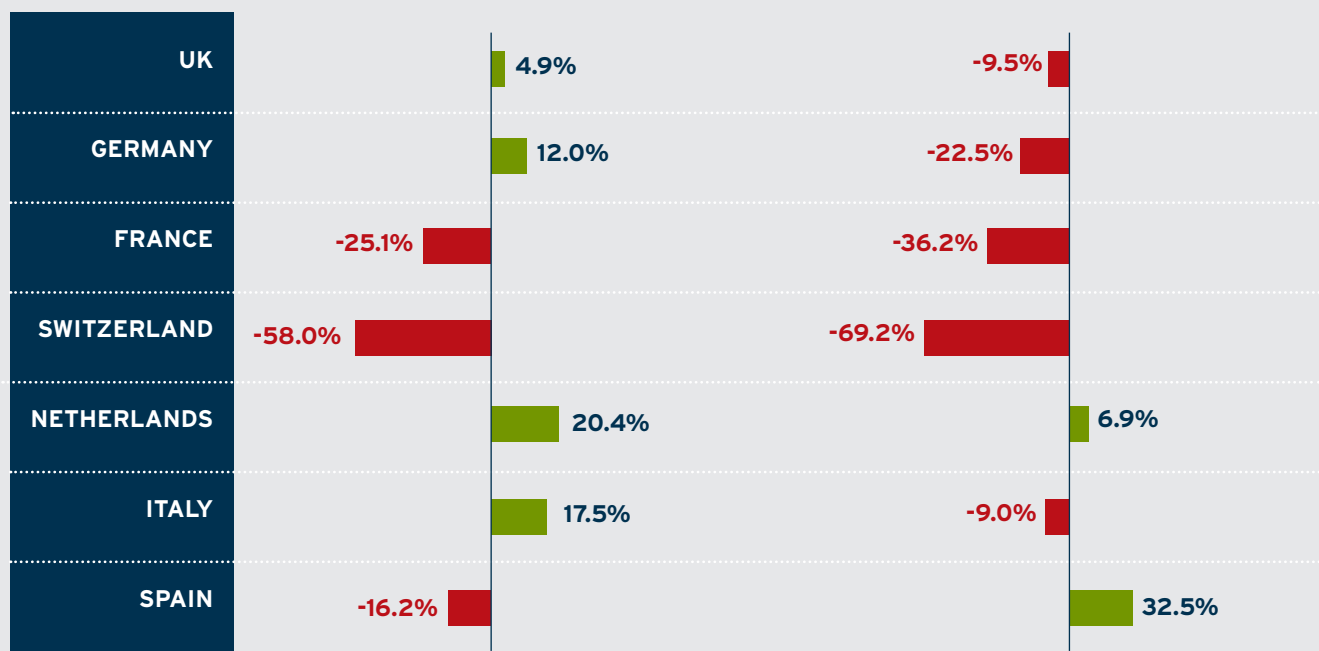
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KEY FIGURES

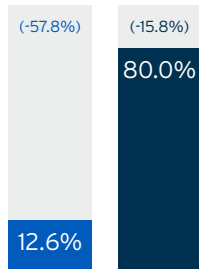


% change in number of contested resolutions (vs 2021)

% change in number of ISS negative recommendations (vs 2021)



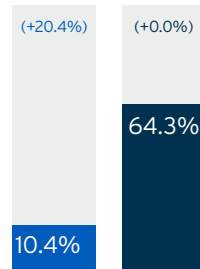
SWITZERLAND
(SMI)



1

REJECTED BOARD PROPOSALS

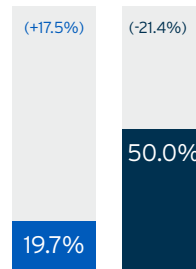
NETHERLANDS
(AMX-AEX)



6

REJECTED BOARD PROPOSALS

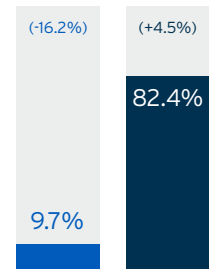
ITALY
(FTSE MIB)



0

REJECTED BOARD PROPOSALS

SPAIN
(IBEX 35)

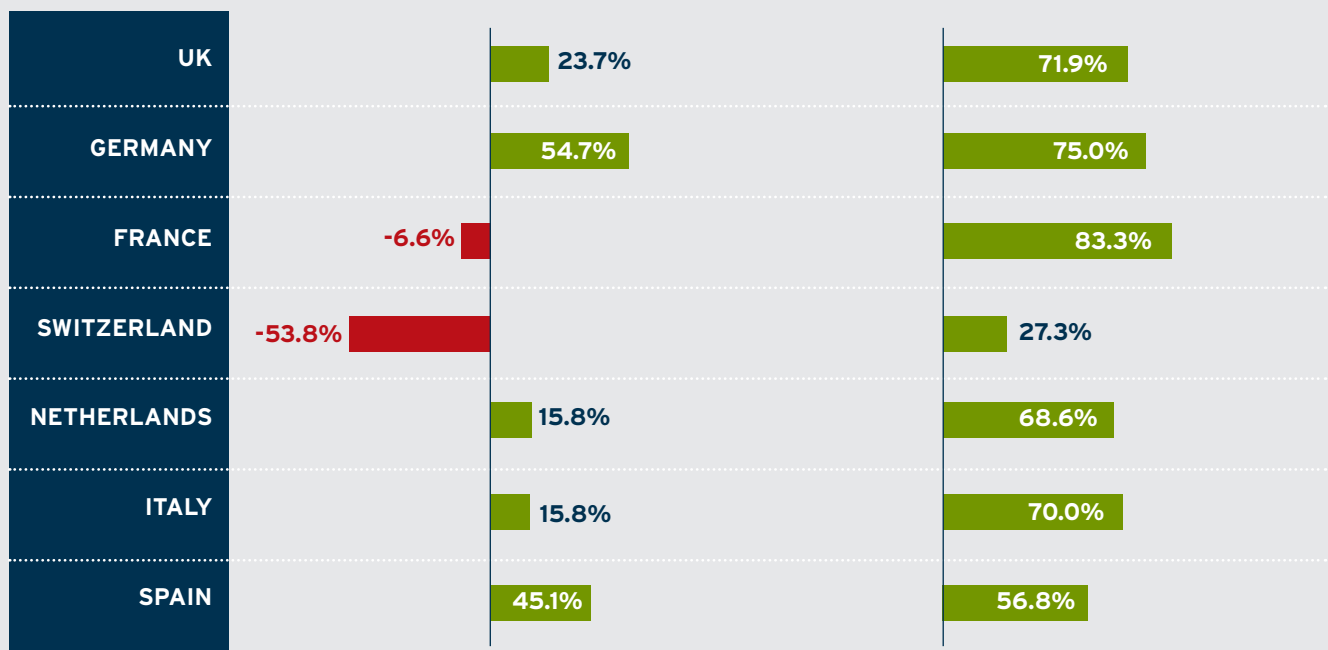


2

REJECTED BOARD PROPOSALS

% change in number of Glass Lewis negative recommendations (vs 2021)

% of resolutions with less than 80% support which had a negative ISS or Glass Lewis recommendation



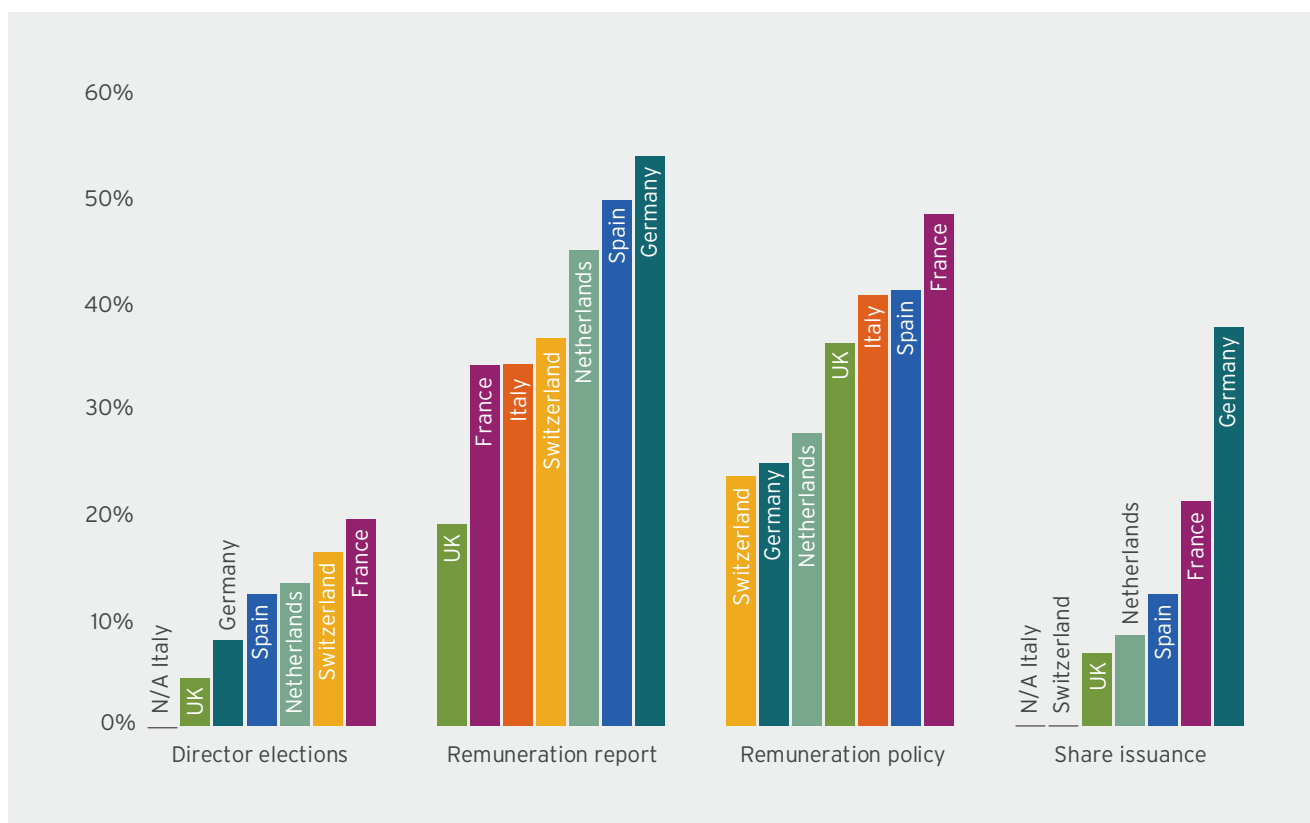
KEY TRENDS

- › **Resolutions relating to the remuneration of executives continue to be the most contested resolution type in Europe. Across the seven main European markets, there was a calibrated 4.2% decrease in contested remuneration votes from 2021.**
- › **Director elections were a continued area of focus and negative votes. Although there was a 20.1% decline from 2021 in the proportion of contested director elections across the seven main European markets, the average proportion of contested director elections in 2022 (11.2%) reflects the 2020 level (11.2%) following a peak in 2021 (14.1%).**
- › **Across the 7 markets, the UK saw the lowest proportion of contested remuneration report resolutions (albeit recording the third year-on-year increase), while Germany saw the highest. In line with legal changes, German companies in the DAX put forward their first remuneration reports at AGMs in 2022 and 54% of these resolutions received at least 10% opposition.**
- › **The market that had the highest share of contested remuneration policy votes in 2022 was France, where 48.6% were contested by shareholders.**

The graph below shows the level of dissent – expressed as a percentage of resolutions that were contested – across four major categories of resolutions common across major European markets, namely director elections, remuneration report, remuneration policy and share issuances.

On average 11.2% of director elections, 39.4% of remuneration report resolutions, 34.8% of remuneration policy resolutions and 14.5% of share issuances resolutions were contested.

Graph 1: Contested resolutions per category (%)



Executive remuneration

Executive remuneration continues to be an important area of focus for many investors.

- In the UK (FTSE 100) dissent over remuneration policy votes has increased by 45.6%, with 36.4% of remuneration policy resolutions receiving more than 10% opposition, compared to approximately 25.0% in 2021. Dissent on remuneration report votes also increased markedly by 18.5% year on year (with 19 out of 99 resolutions receiving more than 10% opposition in 2022 compared to 16 out of 99 resolutions in 2021)
- In Germany (DAX), 25.0% of remuneration policy/system votes were contested during the 2022 AGM season. This is a 6.8 percentage point drop from the share in 2021 (31.8%). It is worth noting that only 8 companies put forward remuneration policy votes in 2022, compared to 22 in 2021. This is the first year that remuneration report votes were required in Germany, 20 of these remuneration report votes received 10% or more opposition.
- The most contested resolution in France (CAC40) were remuneration policy proposals, where 48.6% of resolutions received at least 10% shareholder opposition.
- In Switzerland (SMI), the voluntary advisory vote on the remuneration report was contested in 38.9% of cases (7 out of 18). This is lower than the share of contested remuneration reports in 2021 when ten out of the seventeen advisory votes were contested by shareholders.
- In the Netherlands (AEX and AMX), proposals relating to the approval of the remuneration report had the highest share of contested votes, with 45.2% of the remuneration report proposals put forward within the AEX and AMX receiving more than 10% opposition.
- In Italy (FTSE MIB), there was a 14.3% decrease in the number of contested remuneration policy votes across the FTSE MIB in 2022 (12 resolutions), compared to 2021 (14 resolutions). There was also a 15.4% drop in the number of contested remuneration report votes from 13 in 2021 to 11 in 2022.
- In Spain (IBEX 35), the highest number of contested resolutions this year were related to remuneration, where 32 resolutions received more than 10% opposition, representing 38.6% of the total resolutions in this category (compared to 46 resolutions in 2021, which represented 48.9%).

Director elections

Director elections continue to grow as an area of focus and negative votes.

- In the UK (FTSE 100), there has been an 8.0% decrease in the number of contested director elections (10%+ opposition) since 2021. The share of director election votes that were contested fell from 4.9% in 2021, to 4.5% in 2022.
- In Germany (DAX), there were only 7 contested director elections votes (i.e. the election of supervisory board members), compared to 13 votes in both 2020 and 2021. This is despite the DAX increasing from 30 to 40 since the end of last year's AGM season.
- In France (CAC40), resolutions relating to director elections remain highly contested proposals where, across the analysed period, 28 resolutions were contested (10%+ opposition) representing 19.6% of total board election votes.
- In Switzerland (SMI), there was a decreased in opposition to director elections in 2022. 40 resolutions were contested compared to 55 in 2021. This corresponds to an 8.4 percentage point drop from 2021 in the share of contested board election votes.
- In the Netherlands (AEX+AMX), there was a surge in the number of contested director election votes. Whereas only 6 of these votes were contested in both 2020 and 2021, there were 17 contested director election votes in 2022.
- In Italy (FTSE MIB), there was only one director election vote that received over 10% opposition in 2022, the same as in 2021. This contested resolution accounted for 8% of the total director elections in the FTSE MIB during the proxy season.
- Among director elections in Spain (IBEX 35), 24 resolutions received more than 10% voting opposition, representing 12.5% of the total (compared to 18 resolutions in 2021 and 28 in 2020, with ratios of 14.6% and 17.0%, respectively).

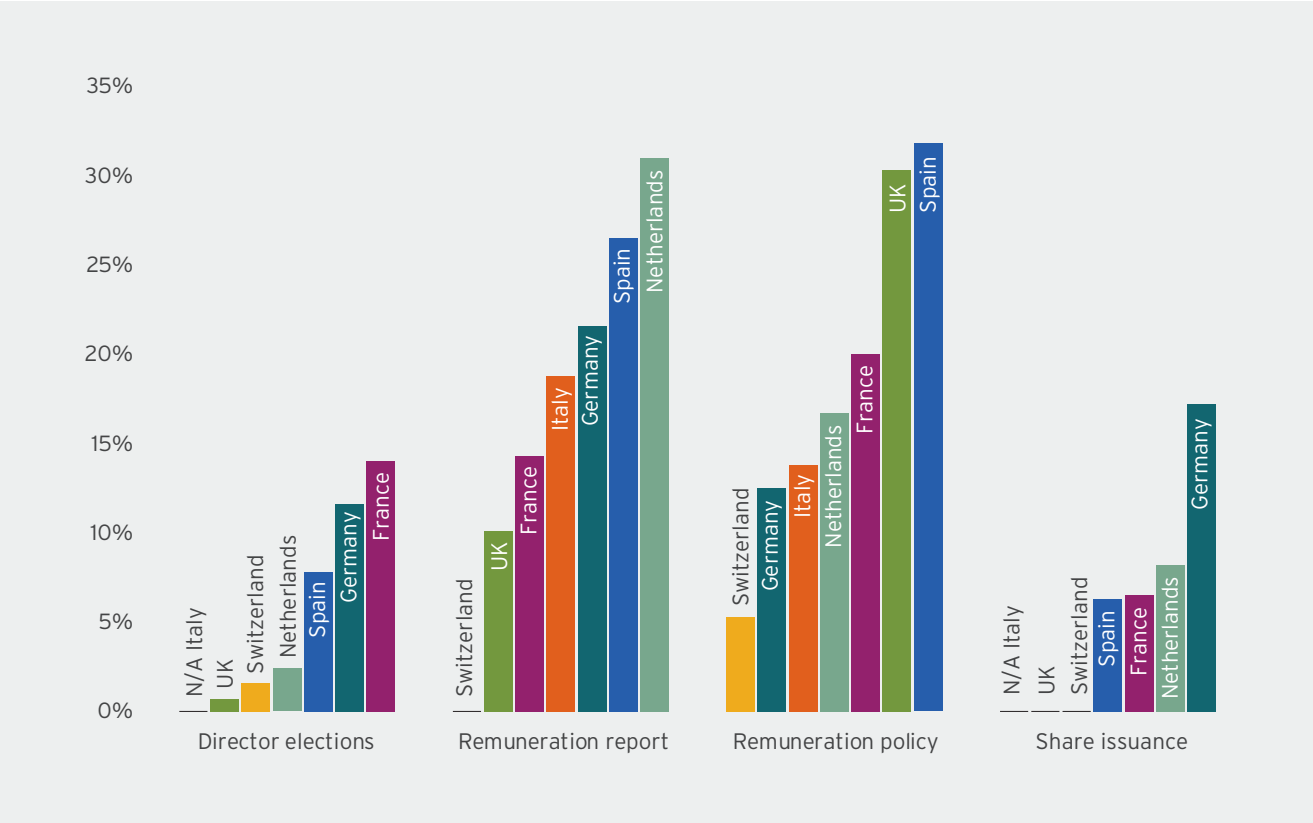
Proxy Advisors

ISS

The graph below shows the proportion of ISS negative recommendations across four major categories of resolutions common across major European markets, namely director elections, remuneration report, remuneration policy and share issuances.

On average 6.4% of director elections, 19.7% of remuneration report resolutions, 19.1% of remuneration policy resolutions and 6.4% of share issuances resolutions received negative recommendation by ISS.

Graph 2: ISS negative recommendations per category (%)

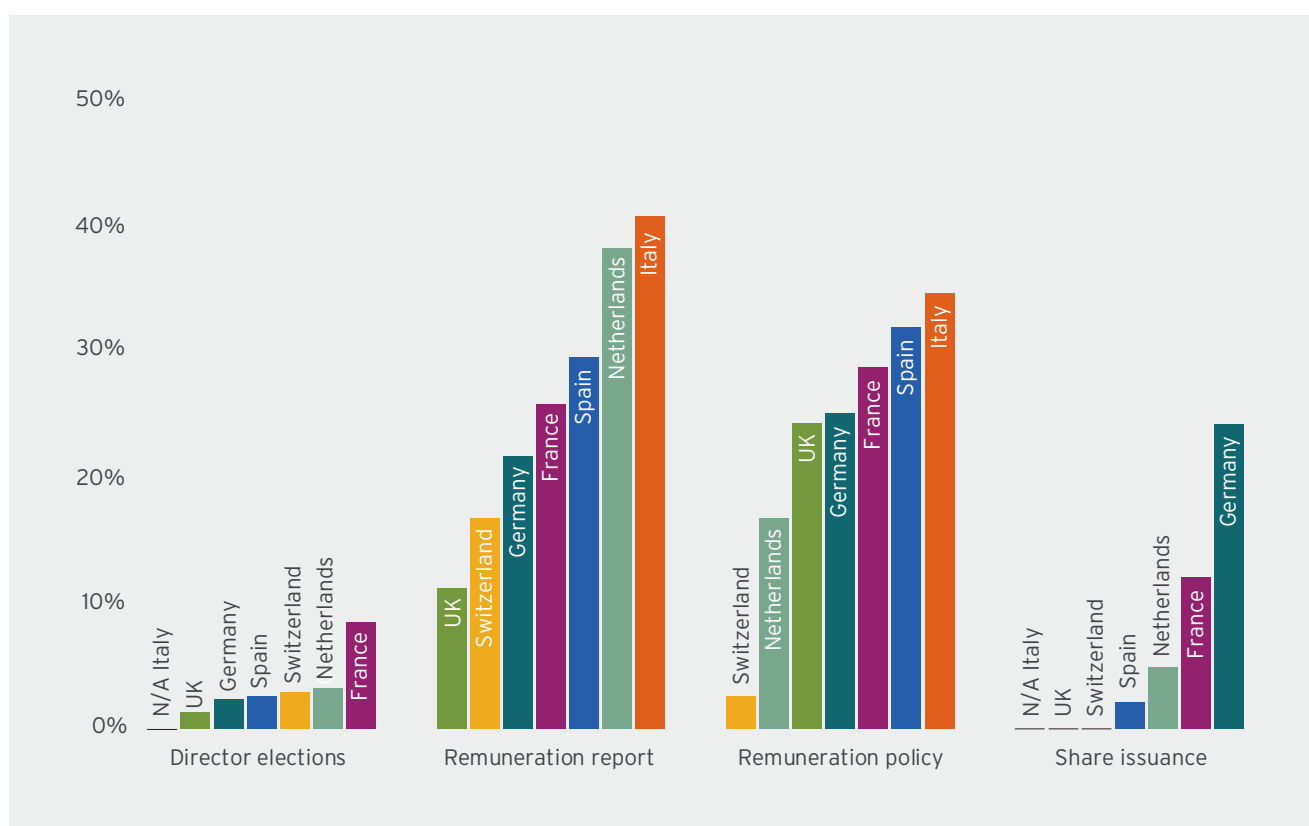


Glass Lewis

The graph below shows the proportion of Glass Lewis negative recommendations across four major categories of resolutions common across major European markets, namely director elections, remuneration report, remuneration policy and share issuances.

On average 3.5% of director elections, 26.2% of remuneration report resolutions, 23.3% of remuneration policy resolutions and 7.2% of share issuances resolutions received negative recommendations by Glass Lewis.

Graph 3: Glass Lewis negative recommendations per category (%)



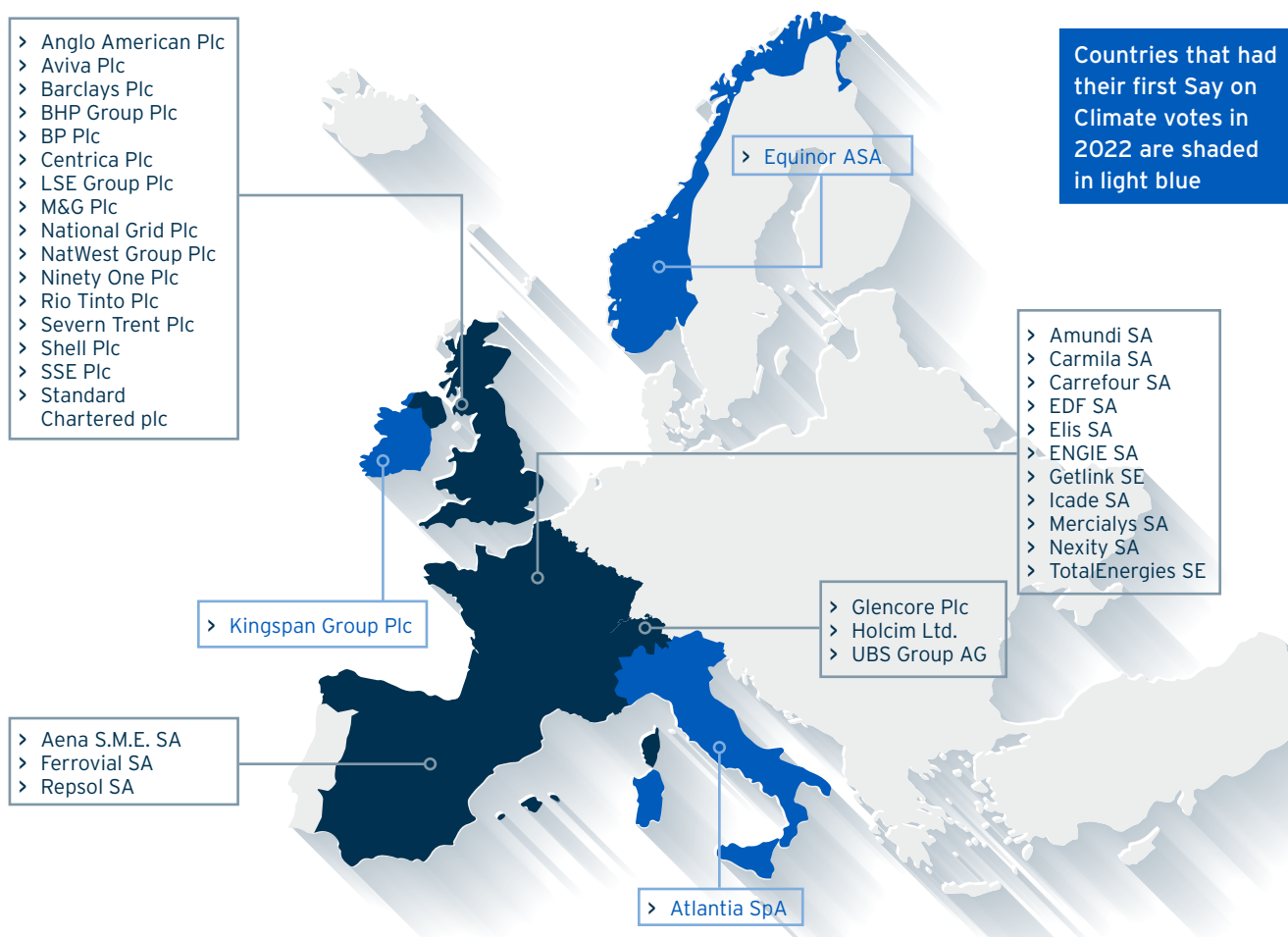
ENVIRONMENTAL AND SOCIAL AGM RESOLUTIONS

During the 2022 AGM season, the focus on E&S continued to grow. Across Europe, climate change continues to receive the spotlight with both Say on Climate board and shareholder proposals. We have also seen a number of interesting developments with non-climate E&S-related shareholder proposals within the past year.

1. SAY ON CLIMATE BOARD PROPOSALS

The 2022 AGM season was the second year that companies have voluntarily proposed so called “Say on Climate” resolutions. During the year under review (1 July 2021 – 30 June 2022), 36 companies across Europe have put forward board-sponsored advisory resolutions on their climate disclosures and action plans at their Annual General Meetings.

This is a large increase from the 2021 AGM Season (1 July 2020 – 30 June 2021) which saw 12 companies put forward board-sponsored Say on Climate resolutions. Indeed, the 2022 AGM season saw at least three times as many board-proposed Say on Climate votes than the 2021 AGM season, with Ireland through Kingspan Plc, Italy through Atlantia SpA, and Norway through Equinor SA, hosting their first. The graph below provides an overview of the geographical distribution of the Say on Climate resolutions this year.

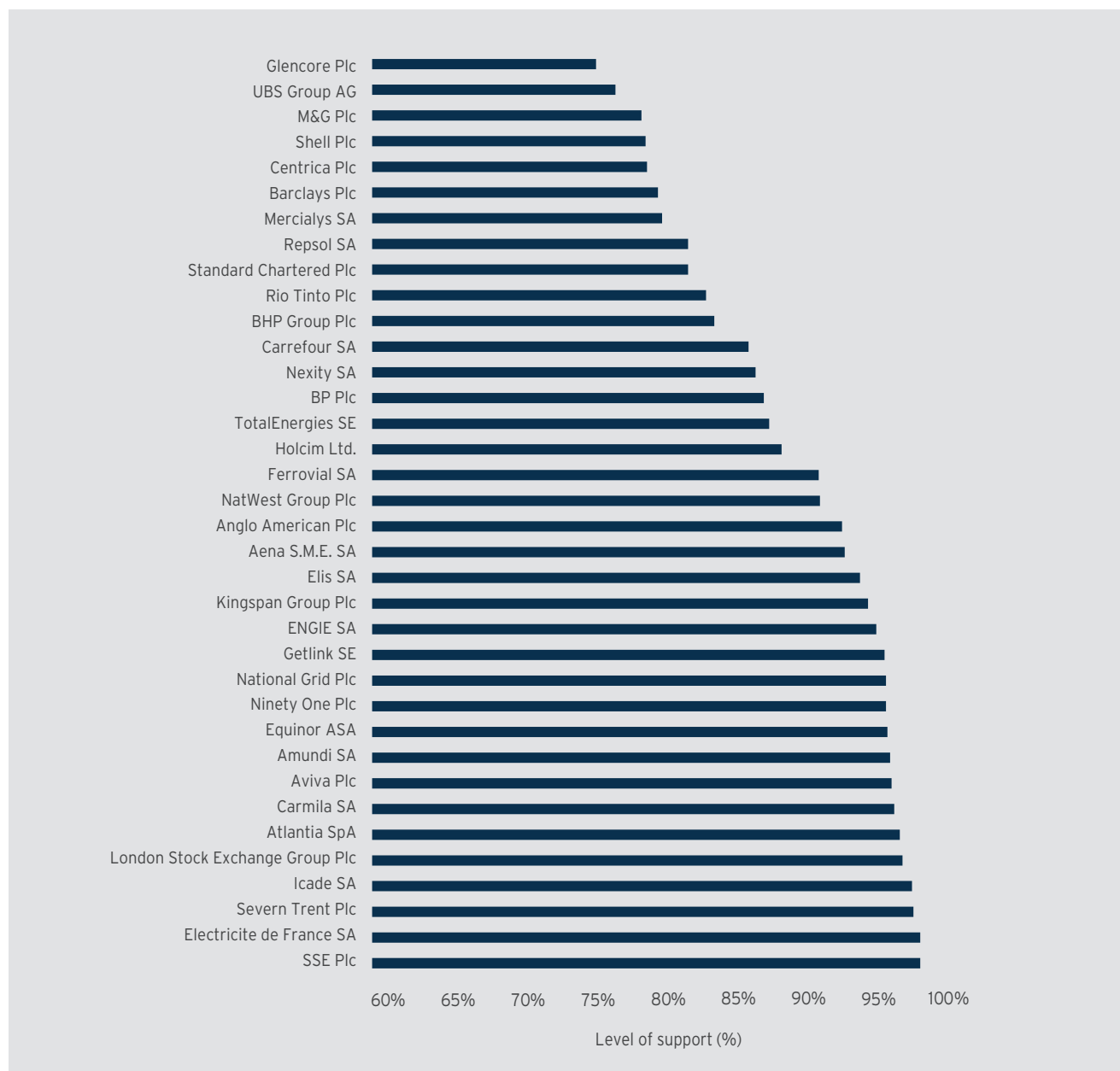


1.1 Level of Shareholder Support

The level of support from shareholders at the 2021 AGM season for this type of proposal in Europe was on average 97% and in all cases above 88.7%. However, during the 2022 AGM season there was increased scrutiny amongst shareholders and proxy advisors which led to the average level of support falling to 91%, with the lowest level of support being 76.3%. Interestingly, the 6 companies that put forward Say on Climate resolutions in both the 2021 and 2022 AGM seasons (Ferrovial SA, Aena S.M.E. SA, Glencore Plc, Aviva Plc, Shell Plc and TotalEnergies SE) saw their average level of support drop from 95.1% to 88.3%.

The graph below shows the level of support for all Say on Climate board proposals put forward in the 2022 AGM season across Europe. The sectors that feature most frequently below the average of 91% are the Financial, Oil & Gas and Materials sectors.

Graph 1: Level of Support for Say on Climate Board Proposals at AGMs

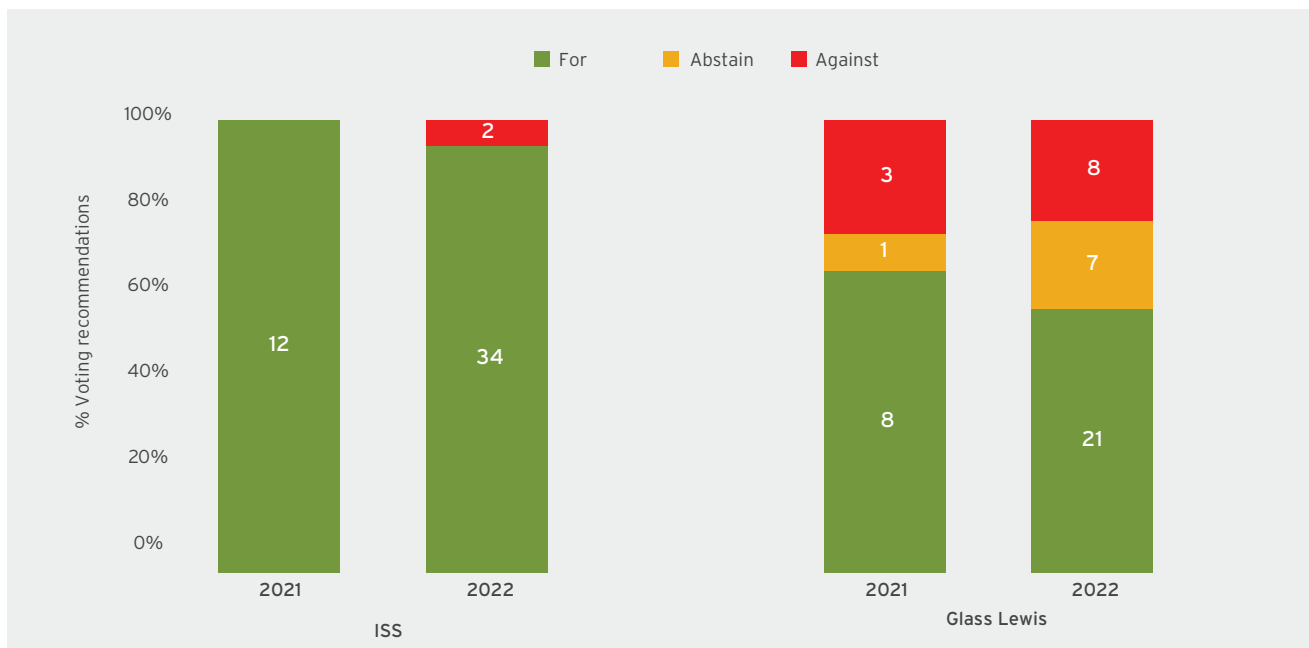


1.2 Proxy Advisors

Since this is only the second season that companies have put forward this type of resolution, proxy advisors adopted more specific guidelines relative to last season. The graph below summarises the recommendations of ISS and Glass Lewis in the 2022 AGM season compared to the 2021 AGM season.

In the 2021 AGM season, ISS supported the board-proposed Say on Climate resolutions in every instance. Glass Lewis, on the other hand, only provided their support for 8 of the 12 resolutions. This AGM season, ISS ceased to be unanimous in its support for Say on Climate proposals as it issued its first against recommendations at Glencore and Equinor. Interestingly, the share of Glass Lewis recommendations both For and Against Say on Climate proposals decreased this AGM season, with the share of Abstain recommendations rising from 8% to 19%.

Graph 2: ISS and Glass Lewis Voting Recommendations for Say on Climate Board Proposals at AGMs



1.2.1 ISS

ISS's updated guidelines state that they will "vote case-by-case on management proposals that request shareholders to approve the company's climate transition action plan, taking into account the completeness and rigor of the plan". The key criteria that ISS uses to judge the completeness and rigor of the plan is related to TCFD alignment, disclosure of Scope 1, 2 and 3 emissions, emission reduction targets, third-party verification of both climate data and the company's targets, the company's lobbying activities and capital expenditure, as well as how the company performed as compared to its industry peers.

Even with these stricter guidelines, ISS still recommended shareholders to support 94.4% of these Say on Climate management proposals. When recommending against Glencore's climate resolution, ISS were concerned with the company's activities around thermal coal, which accounts for the majority of their Scope 3 emissions. Additionally, ISS claimed that the company's lobbying activities seemed to counter the Paris Agreement goals of limiting global warming to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C.

Similarly, when recommending against Equinor's climate resolution, ISS were concerned that the company's ambition to become a net zero business was largely based on intensity reduction targets rather than absolute reductions. This concern was amplified by the company's plan to increase its Oil & Gas production between 2021 and 2026.

1.2.2 Glass Lewis

In comparison, Glass Lewis's guidelines state that "we look to the board to provide information concerning the governance of the Say on climate vote [...] because Say on Climate votes are relatively nascent, best practices or the standardization of the proposals or underlying disclosures have not been developed".

Indeed, Glass Lewis outlined their reservations towards direct shareholder votes on climate strategies. Their guidelines additionally argue that "Glass Lewis is broadly supportive of companies' providing robust disclosure concerning their climate strategies. However, we have some concerns regarding the implications associated with companies' Say on Climate votes. Generally, we believe that the setting of a company's business strategy is a function that is best served by the board, which has a fiduciary duty to shareholders. By allowing shareholders to weigh in on a company's long-term climate strategy (which we believe should be indistinguishable from the company's long-term business strategy), the board may be abdicating some of this responsibility."

Glass Lewis, therefore, look for companies to clearly articulate the governance of the vote and whether it is a vote on the company's strategy or its climate-related reporting. Glass Lewis believe a vote on climate-related reporting strikes the right balance between allowing shareholders to voice their concerns or support for a company's climate strategies while ensuring the board can be held accountable for its ultimate strategy.

1.3 Institutional Investors

Just as the approaches taken by proxy advisors differ with regards to Say on Climate proposals, institutional investors too have varying expectations of management-proposed climate transition plans.

BlackRock, for example, “encourage companies to disclose their Scope 3 emissions and targets where material to their business model” but “do not consider such Scope 3 disclosures and commitments essential to our support for directors”. However, for companies operating in sectors where Scope 3 emissions are a material portion of the footprint, BlackRock may integrate Scope 3 disclosures, commitments, and reduction goals into their assessment of the climate transition plan and efforts to decarbonise. Additionally, BlackRock place a large focus on TCFD-aligned disclosure and are unlikely to support directors responsible for climate risk oversight when disclosures do not sufficiently enable investors to assess risk through the TCFD’s recommendations.

Similarly, when boards choose to adopt a Say on Climate vote, Vanguard expect a company to produce robust reporting in line with the TCFD framework. However, Vanguard do not proactively encourage companies to hold Say on Climate votes “given the lack of established standards or widely accepted market norms that govern these votes”. Vanguard is wary of the potential “unintended consequences” that a Say on Climate might have on a board’s governance and accountability. Hence, Vanguard approaches Say on Climate with the view of providing feedback on the “coherence and comprehensiveness” of a company’s climate-related reporting and disclosures, rather than providing an opinion on the company’s strategy itself.

In comparison, over the 2022 AGM season, Legal & General Investment Management (LGIM) had explicit expectations of what a climate action plan should include for a Say on Climate management proposal to receive their support. Specifically, LGIM expect a public commitment to net zero, disclosure of current Scope 1, Scope 2, and material Scope 3 emissions as well as their associated short-, medium- and long-term targets which should be aligned with a 1.5°C trajectory. Going into the 2023 AGM season, LGIM will begin filing shareholder resolutions in conjunction with Climate Action 100+ if companies fail to put suitably ambitious and credible transaction plans to a shareholder vote.

For further insights and investor views regarding Say on Climate votes, please see the investor interviews on pages 17-21.

LGIM expect a public commitment to net zero, disclosure of current Scope 1, Scope 2, and material Scope 3 emissions as well as their associated short-, medium- and long-term targets which should be aligned with a 1.5°C trajectory

2. E&S SHAREHOLDER PROPOSALS

While there has been an upward trend in the number of Say on Climate management proposals this AGM season, E&S shareholder proposals that have gained traction are somewhat limited to those put forward by key activist groups. Some shareholder proposals of note include those put forward by Follow This and ShareAction. While Follow This target “big oil” with the aim of implementing Paris-consistent emissions reduction targets, ShareAction have targeted Credit Suisse over the finance of Fossil Fuel Assets and have targeted Sainsbury’s and Unilever with socially-related proposals.

2.1 Follow This

The Dutch activist group have filed annual climate shareholder proposals in Europe against Shell since 2016 (apart a proposal withdrawn in 2019) as well as BP (apart from a proposal withdrawn in 2020) and Equinor since 2019. Until this AGM season, the shareholder resolutions proposed by Follow This had been gaining momentum. In the 2021 AGM season, Follow This’s shareholder resolutions received 30.5% support at Shell, 20.7% at BP, and 5.6% at Equinor (or 39% if we exclude the holding of the Norwegian government, who are the majority shareholder of Equinor with a 67% holding of the company).

However, in the 2022 AGM season, the level of support for the Follow This shareholder proposals at these companies dropped to 20.3% at Shell, 14.9% at BP and 3.57% at Equinor.

2.3 ShareAction

2.3.1 Credit Suisse

ShareAction and Ethos Foundation put forward a shareholder resolution at Credit Suisse’s 2022 AGM which proposed the bank to include “additional disclosures on the Company’s short-, medium- and long-term steps it plans to take to reduce its exposure [...] to coal, oil and gas assets”. The shareholder proposal gained 18.5% support from shareholders, which included LGIM, BVK, Aviva Investors and Brunel Pension Partnership. A discussion about the special audit resolution at Credit Suisse can also be found in the Switzerland chapter of this season review.

2.3.1 Sainsbury’s

Sainsbury’s 2022 AGM included the first resolution committing a UK company board to pay its workers the living wage. ShareAction co-ordinated the filing of this resolution which was supported by a coalition of investors that included HSBC, LGIM and Fidelity International as well as retirement fund Nest and the Brunel Pension Partnership.

In response to the filing of this resolution, Sainsbury’s committed to raising the pay for its 171,000 direct employees in the UK to the living wage in April 2022. However, Sainsbury’s did not make the same commitment for those employed via third-party contractors. Angeli Benham, Senior Global ESG Manager at LGIM, claimed that this commitment “fell short of the asks of ShareAction and the investor coalition” which was “to pay the real living wage not only to their own employees but also to ensure parity for those employed by third party contractors working on their sites”.

ISS and Glass Lewis recommended voting against the resolution, and Schroders, one of Sainsbury’s top five shareholders, publicly opposed the proposal. Glass Lewis did not believe there was any evidence of Sainsbury’s mismanaging its wages, claiming that this type of proposal “bordered on micromanagement”. Similarly, Schroders believed that Sainsbury’s commitment to pay a fair living wage to its direct employees in April 2022 met their expectations and “goes beyond them when taking into consideration other benefits such as employee pensions and store discounts”.

On July 7 2022, the shareholder resolution was backed by just under 17% of Sainsbury's shareholders.

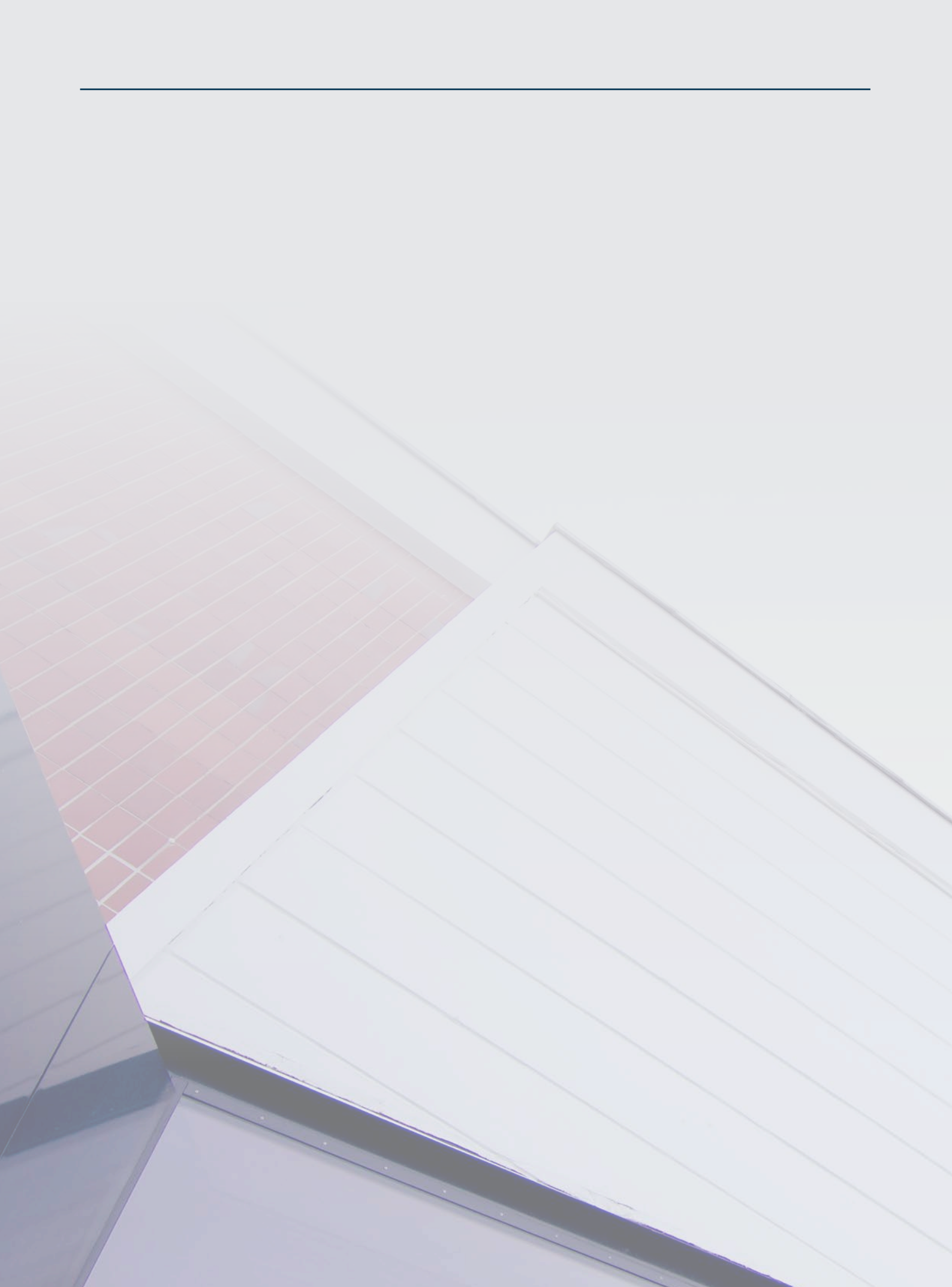
2.3.1 Unilever

On January 20 2022, ShareAction co-filed a health-focused shareholder resolution at Unilever, that asked the company to disclose, and significantly grow by 2030, the proportion of its sales coming from healthier foods as defined by government-endorsed standards. Ignacio Vasquez, senior manager at ShareAction claimed that "Regulatory trends, as well as consumer support for healthier products, mean that food businesses must consider health as an increasingly material risk factor".

By March 7 2022, Unilever committed to publicly report on the healthiness of the food it sells, by measuring the sales of its products against major government-endorsed Nutrient Profile Models as well as its own internal metric. The resolution was withdrawn by ShareAction and the investor coalition, in acknowledgement of Unilever's commitments. The first report on the healthiness of its products on a global scale, as well as for its 16 key strategic markets, will be published in October 2022. The report will set out new targets against external metrics on growing the proportion of its healthier products, which will be submitted for "shareholder scrutiny" before Unilever's 2023 AGM.

In April, Investors managing \$3tn in assets called upon Nestlé, Danone, Kraft Heinz and Kellogg to set out new disclosures and targets on healthy foods. As governments globally tighten regulations to help curb obesity, it seems investors are pushing major food brands to improve their health credentials and in next year's AGM season we may start seeing more resolutions of this kind.

"Regulatory trends, as well as consumer support for healthier products, mean that food businesses must consider health as an increasingly material risk factor"



INVESTOR INSIGHTS



HSBC GLOBAL ASSET MANAGEMENT

Asad Butt
Senior ESG Analyst



FEDERATED HERMES

Louise Dudley
Portfolio Manager



SCHRODERS

Pippa O'Riley
Corporate Governance
Analyst



AMUNDI ASSET MANAGEMENT

Edouard Dubois
Head of Proxy Voting



HSBC
GLOBAL ASSET
MANAGEMENT
Asad Butt
Senior ESG Analyst

How will you approach climate change engagement moving forward and what are your observations around 'Say on Climate' resolutions?

As a signatory of the NZAM initiative, we've committed working towards the target of net zero emissions across all AUM by 2050 or sooner. We've been involved with CA100+ since its inception and will continue to lead engagement with companies through this, especially those with extensive supply chains. Our continued contribution to the CDP non-disclosure campaign and our active dialogue with both IFRS and ISSB on financial and sustainability reporting has a strong focus on climate change related disclosure.

We support a just transition, engaging with issuers to ensure that impact assessments on workers, supply chains, communities and consumers are considered in their transition plans. We have existing commitments to engage with issuers exposed to thermal coal extraction and power generation. Through engagement, we encourage companies to set interim targets on achieving net zero, improve their emission disclosures and provide 'Climate KPIs' aligned with international best practices.

2022 saw a record number of climate proposals filed. With greater regulatory focus on climate change, coupled with increasing activism and stakeholder scrutiny of issuer climate strategies, we expect a continued trend of shareholder resolutions being filed. There have been instances where we have voted against a board Chair or BoD at companies in high-emitting sectors who failed to implement adequate reporting and/or measures on climate issues. 2022 has also seen us apply a 'Say on Climate' watchlist, using TPI climate transition and Influence Map's organisational metrics as reference.

What are some of the other key issues and trends that you observed on climate during the 2022 AGM season?

As previously mentioned, 2022 saw proponents filing a greater number of climate-related shareholder proposals (107 proposals YTD). Proponent proposals called for the development of emission reduction targets, improvements in climate reporting, alignment of targets with a net zero outcome, and a greater consideration environmental risks. We supported the majority of the

proposals filed, they were considered based on the company's climate strategy, our engagements with the company and alignment of proposals with climate science and good practice.

HSBC AM also co-led the filing of a shareholder proposal, calling on J-Power to set credible emission reduction targets and plans to disclose them as well. This was the first climate-related proposal to a Japanese firm.

YTD we have voted against management 197 times on climate considerations, including 126 times against director re-elections, where we noticed insufficient consideration of climate risk at their companies.

It was positive to see management increasingly engaged with shareholders, looking for their views and approvals on climate-targets and net zero strategies, with 42 proposals this year, an increase from 22 last year. We supported 33 of these proposals, declining to support in cases where we found plans to be not in line with our standards.

How do you see ESG initiatives evolving this year and what are your expectations of board oversight?

We encourage companies to enhance their climate strategies with board oversight to specifically address both risks and opportunities. Board oversight should include the adoption of sector-based decarbonisation where appropriate and available, along with actively participating in public policy engagements that enable industry-wide progress. We also expect boards and management to understand and measure climate change impact on business operations, strategy and financial planning. The greater influence of technology and data and their application in achieving the UN SDG will also be something that requires observation and analysis.



FEDERATED
HERMES

Louise Dudley
Portfolio Manager

How will you approach climate change engagement moving forward and what are your observations around 'Say on Climate' resolutions?

Our expectations of companies on their climate preparedness continues to escalate in light of the climate emergency we are facing. Encouragingly, we have seen an upgrade to in-house expertise at companies on ESG topics and climate in particular. Questions remain, however, on how this dedicated expertise is used by management teams and in different regions, as well as the governance functions to ensure these crucial considerations are embedded in business decisions. Company TCFD reporting is another area that will receive an ongoing critical assessment from investors and is helpful in standardising analysis.

Our key engagement priorities are the 'Just transition' as well as a broader climate strategy that goes beyond emission reduction approaches, capturing biodiversity and natural capital impacts. Recently, countries have been waylaid with the Russia/Ukraine situation and local geo-political instability thus climate concerns have become less of a near-term priority. Having an annual vote for shareholders is useful so investors can validate confidence in management's approach. High energy prices, coupled with numerous severe weather events around the world have ensured that, for individuals, climate action from companies continues to rank as a material concern. Going forward we will assess whether companies are on a trajectory aligned with Net Zero including short- and medium-term targets. Additionally, political lobbying alignment will be a validating factor.

What are some of the other key issues and trends that you observed on climate during the 2022 AGM season?

In the US, some companies are still pursuing carbon neutrality rather than Net Zero commitments. In the UK and Europe, leading companies have taken the opportunity presented by the voting season to listen to shareholder voices on their plans and adjust accordingly. In particular, companies in the Financials sector have significantly ramped up their commitments.

The Science-Based Targets Initiative has helped to standardise how companies report their commitments which is of great assistance to investors. The verification process gives a level of confidence to climate strategies.

We experienced heightened client interest in individual votes, particularly shareholder proposals, as well as climate policy decisions ahead of AGM season. We also witnessed greater outreach from companies to receive feedback on their plans. Increasingly ESG metrics are included in both short and long term incentive programmes and this level of diligence and strategic integration of material ESG issues is favourable for long term wealth creation.

How do you see ESG initiatives evolving this year and what are your expectations of board oversight?

We see a renewed focus on Governance following a lot of focus on Environmental and Social issues in recent years. We seek the mainstreaming of external assurance of ESG disclosures, which occurs for only the minority of issuers. We view board effectiveness and ethical culture as key topics and expect corporate decision making to support the enhancement of diversity with evidence of this at board and management level. Digital rights continue to be an engagement priority and we have set out our expectations for companies, advocating for strengthened oversight in the face of new challenges in this area. We seek companies that demonstrate responsible governance and are well managed as a way of delivering sustainable profitable growth. Our research shows that ESG factors continue to offer outperformance within global equities which supports our resolve, in particular when using ESG signals to avoid weak companies, and identify companies which are accelerating their positive impacts. We look forward to the next COP when a meeting of global leaders would be a success in light of recent geopolitical tensions. Public policy engagement will be crucial in furthering climate aims and creating additional opportunities for investment.



SCHRODERS

Pippa O'Riley
Corporate Governance
Analyst

How will you approach climate change engagement moving forward and what are your observations around 'Say on Climate' resolutions?

We have been engaging on climate change issues for many years, and alongside governance it is our most widely engaged theme.

Schroders has joined the Net Zero Asset Manager initiative and our greenhouse gas emission reduction goals have been formally validated by the Science Based Targets initiative. Our Climate Transition Action Plan sets out how we are planning net zero emissions, especially in our clients' investments. In our engagement blueprint we define four focus areas for our climate engagements:

- 1 Climate risk and oversight
- 2 Climate alignment
- 3 Climate adaptation
- 4 Carbon capture and removal

We have engaged with over 350 companies on climate change in 2022 year to date, in addition to joining collaborative opportunities such as CDP's Non-Disclosure Campaign and CA100+ Climate Lobbying Disclosures Letter.

Voting is also an important mechanism to encourage companies to commit to stretching climate plans. In 2022, we saw more Say on Climate proposals in the UK and Europe. Schroders welcomes these proposals and reviews them individually taking into consideration the complexities with the climate transition for each company. By mid-2022, we have supported around 70% of these proposals, compared with around 95% in 2021. This is due to our increasing expectations around climate.

What are some of the other key issues and trends that you observed on climate during the 2022 AGM season?

From a voting perspective, we targeted three agenda items to consider for climate: Say on Climate votes, individual director elections and shareholder resolutions. By mid- 2022, we have voted against over 60 directors at a number of companies, to escalate our concerns about

oversight of climate risk. We will support shareholder proposals that we believe will help push companies to transition and align with our climate expectations as set out in our Engagement Blueprint. In 2022, we supported over 70% of climate shareholder resolutions, pre-declaring at oil majors Shell, Exxon and Chevron. We also recognise the merits of co-filing resolutions and expect to pursue this for more companies in 2023.

We are also seeing more climate targets in executive remuneration plans. We recognise that management need to be accountable for the longer term. We see the LTIP as being the best place for climate targets and would encourage companies to tie management in for as long as possible, ideally until milestone (such as 2030) targets are reached.

How do you see ESG initiatives evolving this year and what are your expectations of board oversight?

Earlier this year, Schroders published our Engagement Blueprint which describes our active ownership principles for six thematic priorities: climate change, natural capital and biodiversity, human capital management, human rights, diversity and inclusion, and corporate governance. Of course, much of our engagement will be across ESG topics, but we chose these themes as the most material to the long-term value of our investee holdings.

Boards should have oversight of these themes and should be accountable where companies are lagging best practice. For a long time we have voted against the re-election of directors for governance issues; more recently we have extended this practice to climate concerns. We increasingly consider voting decisions relating to wider ESG matters.

In addition to director voting, we support a wide variety of shareholder proposals. Whilst we understand the complexities that these resolutions often present, we will consider the context and consequences of the proposal when voting. We are committed to holding companies accountable for the sustainability of their business models.



How will you approach climate change engagement moving forward?

As part of Amundi's 2025 Ambition Plan, we announced our intention to deepen engagement towards investee companies, with the objective of engaging with 1,000 additional companies so that they define credible strategies in terms of reducing their greenhouse gas emissions and alignment methods. In 2022, Amundi expects its investee companies to

- › Commit to reducing their overall carbon footprint at a pace that is compatible with reaching global carbon neutrality by 2050,
- › Disclose their climate plan and their achievements, annually,
- › Submit these items to an annual shareholder vote at their annual general meetings.

As proxy voting is an essential pillar of our stewardship efforts, Amundi will continue to exercise its voting rights to support the transition towards a sustainable inclusive and low carbon economy. For companies that operate in climate high impact sectors, we have been voting against board discharge and/or board re-elections on a selection of companies with poor climate strategy. We have also opposed say on pay proposals whenever the variable part of the executive pay of these companies did not include KPIs related to their climate strategy.

What are your observations around 'Say on Climate' resolutions?

Amundi is very supportive of the 'Say on Climate' initiative and we have therefore satisfyingly observed its international expansion across the different sectors during the first half of 2022.

This year, Amundi asked the companies that have submitted a climate strategy at their General Meetings to present comprehensive targets (in terms of figures scope and baseline scenarios), a precise agenda (short, medium and long term objectives) as well as clear resources to achieve their climate goals (including a three- to five-year investment plan), before analysing each strategy in its entirety in order to assess its soundness and

alignment with the Paris Agreement. This approach led to a differentiated and case-by-case exercise of our vote on the climate strategies submitted to the shareholders. Out of 40 Say on Climate resolutions tabled by companies this year, Amundi voted for less than 40%.

What are your expectations of board oversight on climate change?

Addressing the challenges of climate change requires a profound transformation in the organization of our economic system. It will require us to think differently on how to enhance the efficiency of resource use, reduce our environmental impact, and harness shifts in our consumption patterns.

Consequently, Amundi is particularly attentive to our investee companies' impact on natural capital and their ecosystem as a whole. It is also critical to consider the social impact of the transition.

Amundi wants to understand how the Board deals with this key subject. The Board of Directors is a strategic body and its decisions affect the future of the company and the responsibility of its members. The compliance with social and environmental standards is also its responsibility. During our engagements, we question how the Board gets concrete training, how it analyzes the impact of climate issues on the business model by studying stress tests, for example using carbon prices consistent with a net zero scenario or even more degraded. Engaging with Board members on these issues allow us to assess their expertise and awareness.

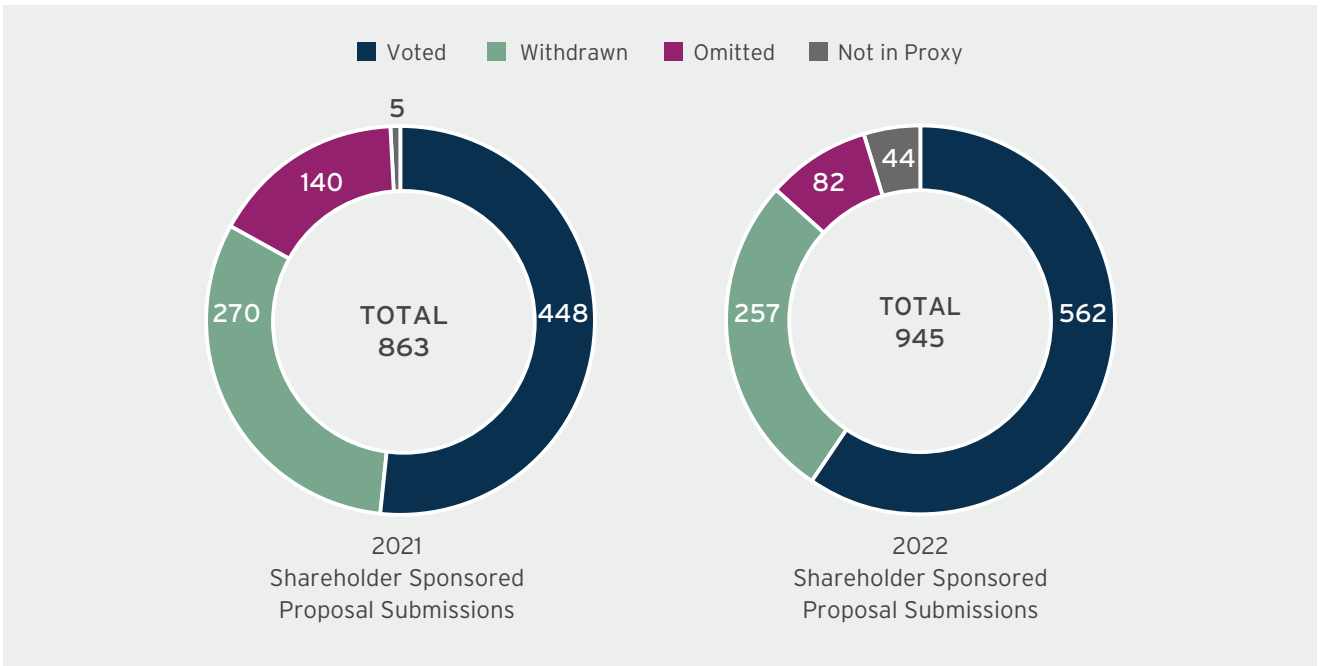
GEORGESON U.S. PROXY SEASON REVIEW EXCERPT

Every year, our U.S. colleagues produce a review of the proxy season in the American market based on data compiled by Georgeson. The following section highlights some of the findings from the full report that will be published by Georgeson next month.

An examination of US 2022 proxy season voting statistics for companies who are members of the Russell 3000 index and held Annual General Meetings from July 1 2021 to June 30 2022 yields a number of notable observations.

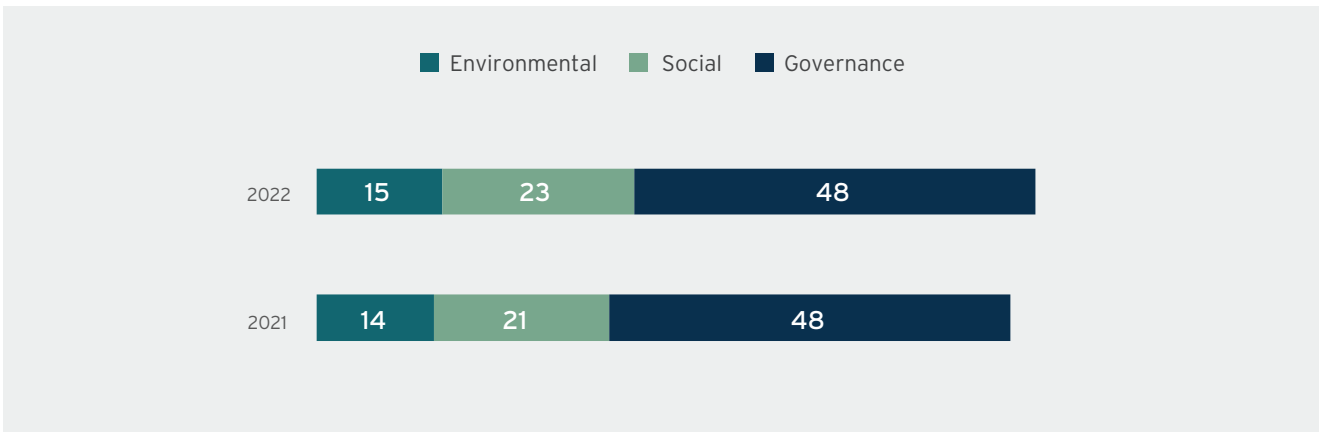
The U.S. observed a total of 945 shareholder proposal submissions for companies in the Russell 3000 index, significantly surpassing what was a record-breaking 863 number of submissions in the 2021 season.

Graph 1: The number of shareholder sponsored proposals submitted to Russell 3000 companies in 2021 as compared to 2022



While overall raw numbers of passing shareholder proposals in 2022 were in line with 2021, the percent of proposals voted that passed dipped due to an increase in the number of proposals voted upon. As in 2021, we saw significant withdrawal activity particularly within environmental and social-related proposals, as well as a decrease in the number of proposals omitted through the SEC’s no-action process due to a shift in SEC guidance in late 2021. Accordingly, what may appear on the surface as muted support we see as less as a matter of decreasing shareholder attention on ESG matters and more as a reflection of proponents’ heightened ambitions in the shareholder proposals voted upon in 2022.

Graph 2: A breakdown of the number of shareholder proposals that passed in 2021 compared to 2022





Across E, S and G

15, 23 and 48

proposals passed in each category in 2022.

This translates into passage rates for proposals that went to a vote of approximately

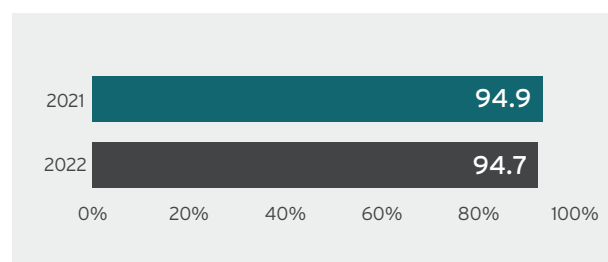
25%, 10% and 18% respectively.

Thematically, the US saw several new or evolving trends. On the environmental side, proposals requesting Scope 3 emissions reductions targets, policy alignment with the International Energy Agency's, or IEA's, Net Zero scenario, and cessation of financing to fossil fuel projects were notable in 2022. On the social side, racial equity audit proposals gained momentum and expanded into broader requests for civil rights audits. Across both categories, almost 20 new "system stewardship" proposals were submitted in 2022 focusing on companies' impacts to broader systems, with proposals focused for example on the public health costs of protecting vaccine technology at healthcare companies and external costs of misinformation at technology companies. On the governance side, the number of special meeting-related proposals submitted, as well as the number that passed, more than doubled since 2021; many of these proposals sought to lower the threshold required to call a special meeting (typically to 10%).

Director Elections

- Shareholder support for director election averaged 94.7% vote in 2022, a slight downtick from 94.9% in 2021.
- 62 directors received less than 50% support (down 7 from last year to 10%).
- Directors receiving 95+% support also declined (with 70.5% of directors receiving such support in 2022 compared to 72.3% in 2021).

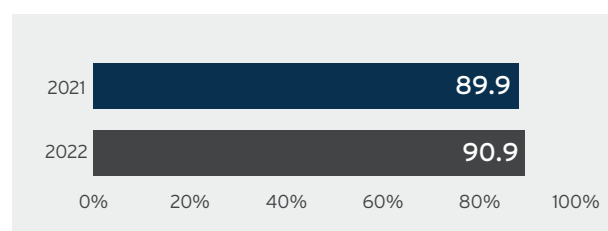
Average support for director elections was roughly in line with 2021 support levels, although trended slightly downwards this year.



Say on Pay

- Say on Pay results for 2022 season saw a decline in the average support for Russell 3000 companies, with approximately 89.9% of the votes cast in favour (excluding abstentions), compared to 90.9% support in 2021.
- S&P 500 companies have similarly garnered lower support, with approximately 87.3% of votes cast in favour, down from 2021 when they received 88.7% favourable support.
- 74 Russell 3000 companies failed to receive majority support for their Say on Pay proposals in the 2022 season.

Average support for Say on Pay proposals to date is roughly in line with support experienced in the 2021 proxy season.



REJECTED BOARD PROPOSALS

1

AVERAGE QUORUM

74.5%

RESOLUTIONS
WITH OVER 10% OPPOSE

5.8%

COMPANIES
WITH OVER 10% OPPOSE

57.0%

**United
Kingdom**
/ *FTSE 100*

UK HIGHLIGHTS

The average quorum across the FTSE 100 **decreased** from 74.9% in 2021 to **74.5% in 2022**.

In the FTSE 100, there has been an **8.0% decrease in the number of contested director elections** (10%+ opposition) since 2021.

Across the FTSE 100, **there was one board-proposed AGM resolution rejected by shareholders**; Informa's remuneration report vote.

The share of remuneration policy votes that were contested **increased from 25% in 2021 to 36.4% in 2022**. This means that of all the regular resolution types, remuneration policy votes are the most contested overall.

The number of FTSE 100 companies that had at least one contested proposal (10%+ opposition) was 57. **The overall number of contested resolutions increased from 121 in 2021 to 125 in 2022**. As the total number of resolutions put forward by FTSE 100 companies decreased over the same period, the percentage of resolutions that were contested increased from 5.51% last year to 5.78%.

The number of **contested remuneration report votes rose to 19 in 2022**, compared to 16 the previous year.

19.2% of remuneration report votes were contested in 2022. This figure has increased from 2020, when it was 12.1%, and from 2021, when it reached 16.2%.

ISS did not recommend supporting **33 resolutions in 2022** compared to 37 resolutions in 2021.

Glass Lewis did not recommend supporting **39 resolutions in 2022** compared to 32 resolutions in 2021.

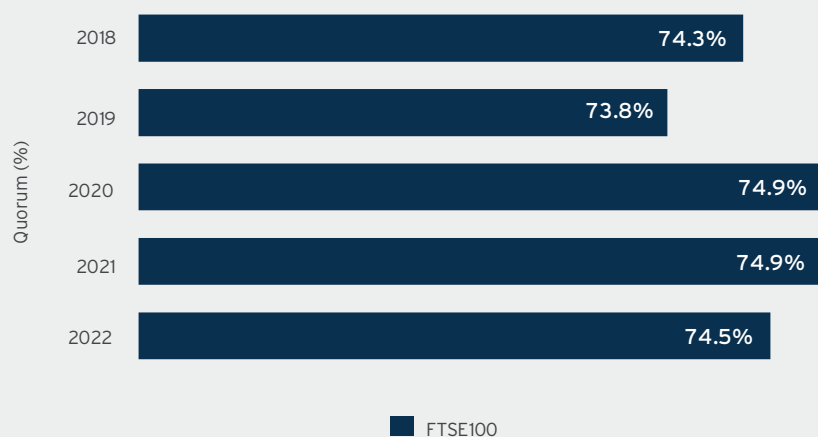
Proxy advisors continue to have a big impact on the outcome of proposals, and there is a **clear correlation between negative proxy advisor recommendations and lower vote results**. For instance, in the FTSE 100, the six remuneration reports with the lowest level of support all received negative recommendations from both ISS and Glass Lewis.

1. VOTING IN THE UNITED KINGDOM

1.1 Quorum overview

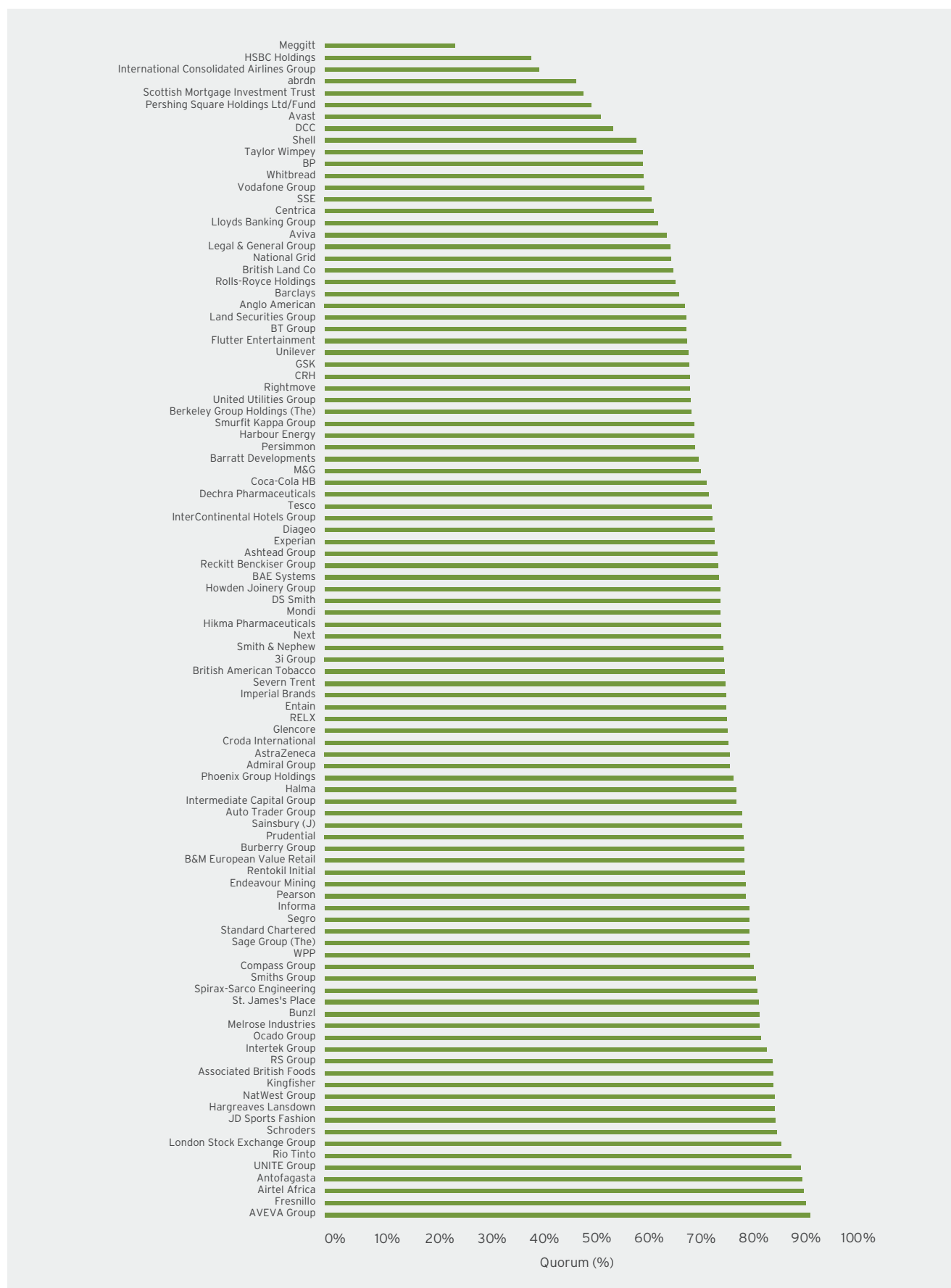
Georgeson has reviewed the quorum levels of FTSE 100 companies over the past five years. This year's review includes the companies that were part of the index as of 30 June 2022, and which held their AGMs between 1 July 2021 and 30 June 2022¹. In the FTSE 100 the average quorum for the reporting period was 74.5%. This is a slight decrease compared to the average 2020 and 2021 quorum levels but remains above the level reached in 2019.

Graph 1: Average AGM quorum levels in the FTSE 100 between 2018 and 2022.



This year's review includes the companies that were part of the index as of 30 June 2022, and which held their AGMs between 1 July 2021 and 30 June 2022¹.

¹ With the exception of Airtel Africa plc and 3i Group plc which held both their 2021 and 2022 AGMs in the period reviewed and for which we have considered their 2022 AGMs results.

Graph 2: Quorum levels at FTSE 100 companies during the 2022 reporting period.

1.2 Rejected resolutions

FTSE 100

Within the reporting period, only one company in the FTSE 100 had a management-proposed AGM resolution rejected by shareholders.

Informa

On 16 June 2022, Informa announced that the vote on their remuneration report failed to pass with 71.31% shareholder opposition.

After the AGM, the company stated²: “In relation to past decisions made in and through the height of the COVID pandemic, the outcomes of which were reflected for a final year and a final time within the 2021 Remuneration Report, the AGM results show a clear number of shareholders were not able to provide their support. The Board recognises and understands these different points of view on historical decisions, which have now fully and finally played out and led to some disappointment amongst shareholders. The Board made these decisions over two years ago in 2020, during a period of pressure and uncertainty for Informa, with the aim of focusing the entire 100+ Senior Leadership team on the immediate priorities for the Group and supporting the retention of key talent.”

ISS, Glass Lewis, and PIRC recommended against this proposal while IVIS issued a red top on the remuneration report.

Media reports³ noted that Informa’s remuneration report received the highest level of opposition seen since 2009 when NatWest’s remuneration report received only 20 percent support. They also reported that ISS and Glass Lewis’s concerns were primarily on the adjustments that were made by the remuneration committee to the metrics used to award variable compensation.

Within the reporting period, only one company in the FTSE 100 had a management-proposed AGM resolution rejected by shareholders.

² <https://www.londonstockexchange.com/news-article/INF/result-of-agm/15003812>

³ <https://www.ft.com/content/fbd654c6-3940-48b9-9fc6-1c1e95d51b0a>

FTSE 250

Across the FTSE 250, two companies saw management-proposed AGM resolutions rejected by shareholders during the period under review: Future Plc, and Plus 500 Ltd.

Future

At Future's 2022 AGM, the vote on the remuneration report failed, receiving 44.6% shareholder support.

After the AGM, the company stated⁴ "Resolution 3, the Approval of the Directors' Report on Remuneration, did not pass. As a result, the Board will initiate a new consultation process with shareholders regarding the matter. The Board remains of the view that the all-employee Value Creation Plan, which was approved by shareholders at the 2021 AGM, incentivises and rewards the whole Future workforce and supports the long-term success of the business, and the continued creation of sustainable long-term shareholder value. The plan is directly aligned to shareholder interests and will only vest if the Company delivers exceptional performance. The Board also acknowledges certain votes against Resolution 3 were based on the discretion exercised by the Remuneration Committee in respect of the leaving provisions of former CFO Rachel Addison. The Board believes that the leaving provisions were in the best interests of shareholders and that the value of downwards discretion applied significantly more than offset the value of upwards discretion."

The media reports⁵ on the remuneration report vote put forward two main reasons for shareholder's opposition. The first relates to the outgoing CFO's (Rachel Addison) leaving package including a cash bonus as opposed to a deferred bonus, which was not "aligned to good market practice" according to ISS. The second reason concerns the company's value-creation plan which Glass Lewis said had "the potential for excessive payouts under [its] structure".

Plus500

At Plus500's 2022 AGM, the vote on the remuneration report failed to pass, receiving 45.1% shareholders' support.

After the AGM, the company stated⁶ : "The Board of Plus500 notes that more than 20% of votes were cast against three resolutions. The Board takes these votes very seriously and will engage with shareholders and shareholder advisory bodies to ensure their feedback informs the Company's future approach to governance and remuneration. In accordance with the UK Corporate Governance Code, an update on the feedback received from shareholders will be published by Plus500 during the next six months. The Board remains fully committed to achieving the highest governance standards, while recognising the importance of providing the appropriate incentives to the Group's Board and Executive management, who continue to drive the value of Plus500's business for shareholders."

Media reports⁷ on Plus500's remuneration report vote outcome highlighted ISS's concern over the transparency of the bonus scheme and over how challenging the performance targets were.

⁴ <https://www.londonstockexchange.com/news-article/MRW/result-of-agm/15315041>

⁵ <https://www.ft.com/content/7236d9d2-6a31-4d23-a4d6-3736b43032f0>

⁶ <https://www.londonstockexchange.com/news-article/EMG/result-of-agm/15435632>

⁷ <https://www.thetimes.co.uk/article/plus500-pay-sparks-revolt-by-investors-f7w99lxt>

1.3 Contested resolutions

Among our sample of FTSE 100 companies which held their AGMs during the reporting period, 57 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 53 in 2021). The total number of resolutions that received over 10% opposition amounted to 125 (including the rejected resolutions discussed in section 1.2), compared to 121 in 2021.

In the UK, resolutions can be either ordinary⁸ or special⁹. Ordinary resolutions require a simple majority of votes cast, while special resolutions require a 75% majority. Whether a resolution must be proposed as a special resolution is defined in the Companies Act. However, in some cases institutional investor bodies expect a resolution to be put forward as a special resolution even though this is not required by law¹⁰.

In our FTSE 100 sample, the resolution category that had the most contested resolutions was the election of directors (46). The category with the second most contested resolutions relates to the authority to issue shares, both with and without pre-emptive rights (20).

Authorities with pre-emptive rights are proposed as ordinary resolutions while authorities to issue shares without pre-emptive rights are proposed as special resolutions.

The third most contested resolutions were remuneration report votes (19) followed by authorities to call Extraordinary General Meetings on short notice (13) as the fourth most contested category.

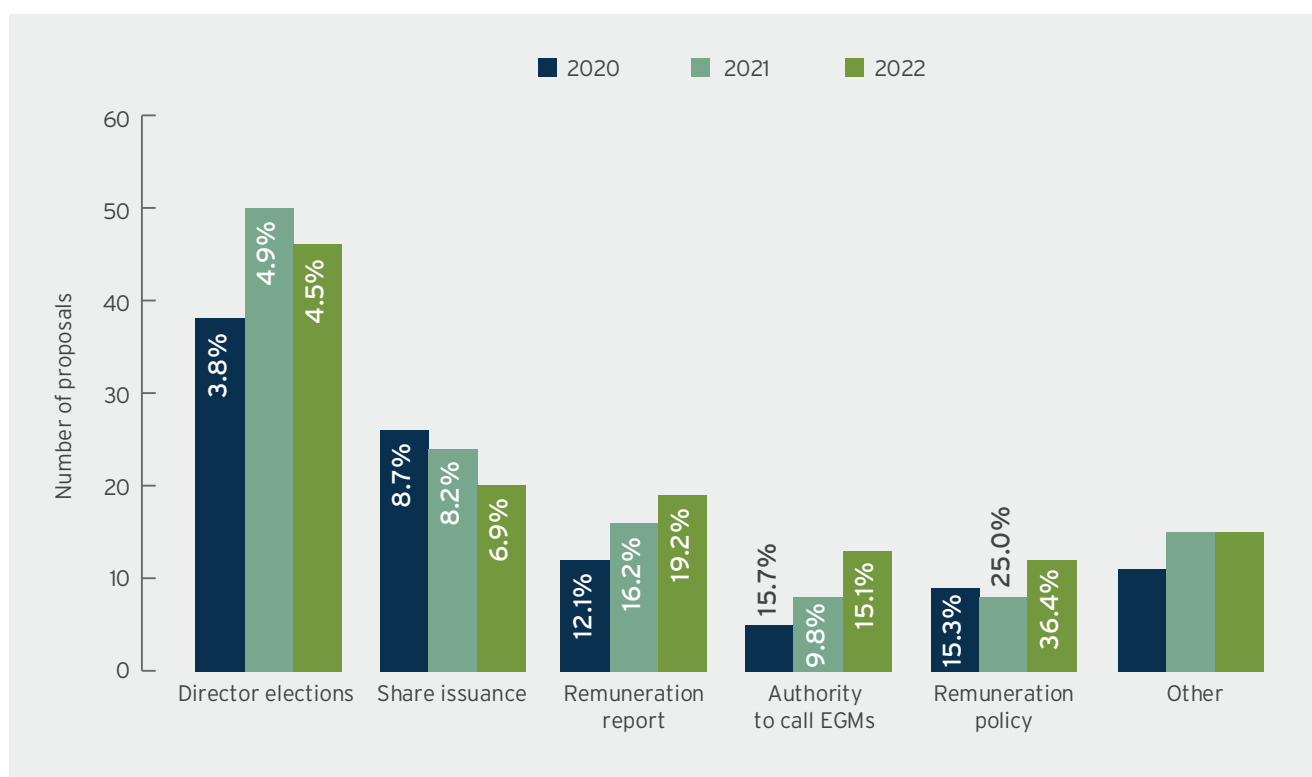
33 FTSE 100 companies put forward remuneration policies during the reporting period, 12 of which were contested. This means that the most frequently contested resolution category was the approval of remuneration policies (36.4%). Last year, the most contested category per resolution was also for the approval of remuneration policies; they were contested 25.0% of the time. The second most frequently contested resolution type during the 2022 AGM season was the approval of remuneration reports (19.2%). The rate at which remuneration report votes have been contested has increased from 2020, when the figure was 12.1%, and from 2021, when the figure increased to 16.2%.

⁸ <http://uk.practicallaw.com/4-107-6940>

⁹ <http://uk.practicallaw.com/9-107-7287>

¹⁰ For instance, in relation to authorities to repurchase own shares, the Investment Association states that “companies should seek authority to purchase their own shares whether on market or off market by special resolution and not simply an ordinary resolution as is allowed by Sections 694 and 701 of the Companies Act 2006”. See section 2.1.1 here: <https://www.ivis.co.uk/media/12250/Share-Capital-Management-Guidelines-July-2016.pdf>

Graph 3: Number of resolutions which received more than 10% against votes in the FTSE 100 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.3.1 Director elections

The five companies with the lowest levels of support for director election votes among our sample were:

- Meggitt (Caroline L. Silver – 68.2% in favour)
- Hikma Pharmaceuticals (Patrick Butler – 69.0% in favour)
- Tesco (Bertrand Bodson – 70.7% in favour)
- WPP (Jasmine Whitbread – 73.6% in favour)
- JD Sports Fashion (Andrew Leslie – 78.0% in favour)

We note that both ISS and Glass Lewis recommended against the election of Andrew Leslie, while they supported the other directors with the exception of Patrick Butler whose re-election was opposed by ISS.

Some institutional investors raised concerns over the board elections of Ms Caroline Silver, Mr Bertrand Bodson, and Ms Jasmine Whitbread because they were seen as overboarded at the time of the meeting.

1.3.2 Authorities to issue shares

Authorities to issue shares with pre-emptive rights¹¹ are proposed as ordinary resolutions (requiring a simple majority), while authorities to issue shares without pre-emptive rights¹² are proposed as special resolutions (requiring 75% approval). Many institutional investors and proxy advisors refer to the Investment Association's Share Capital Management Guidelines¹³ to assess authorities with pre-emptive rights, and to the Pre-emption Group's Statement of Principles to assess authorities without pre-emptive rights.

The revised Pre-emption Group Statement of Principles published in March 2015¹⁴ allow a company to undertake non-pre-emptive issuances of up to 10% of the share capital, as long as the company specifies that 5% of the authority will only be used in connection with an acquisition or specified capital investment. The Pre-emption Group recommends that this additional 5% should be put forward in a separate resolution¹⁵. As we later discuss in the Corporate Governance Development section, there could soon be changes to how pre-emption rights are treated moving forward.

Among our sample, the five companies with the lowest level of support on these types of resolutions were:

- abrdn (issue equity with pre-emptive rights: 80.88% in favour; issue equity without pre-emptive rights for convertible bonds: 81.99% in favour; issue equity with pre-emptive rights for convertible bonds: 82.73% in favour; issue equity without pre-emptive rights: 83.00% in favour);
- Kingfisher (issue equity with pre-emptive rights: 84.33% in favour).
- M&G Industries (issue equity without pre-emptive rights for convertible securities: 86.25% in favour; issue equity with pre-emptive rights: 87.45%).
- Mondi (issue equity without pre-emptive rights: 87.37% in favour).
- Intertek Group (issue shares with pre-emptive rights: 88.38%)

We note that ISS and Glass Lewis recommended in favour of each of these resolutions.

¹¹ Companies Act 2006, s. 551: <http://www.legislation.gov.uk/ukpga/2006/46/section/551>

¹² Companies Act 2006, s. 570: <http://www.legislation.gov.uk/ukpga/2006/46/section/570>

¹³ <https://www.ivas.co.uk/media/12250/Share-Capital-Management-Guidelines-July-2016.pdf>

¹⁴ <http://www.pre-emptiongroup.org.uk/getmedia/655a6ec5-fecc-47e4-80a0-7aea04433421/Revised-PEG-Statement-of-Principles-2015.pdf.aspx>

¹⁵ <http://www.pre-emptiongroup.org.uk/Principles-and-template-resolutions.aspx>

1.3.3 Remuneration

Since 2002 quoted companies in the UK have been required to prepare a Directors' Remuneration Report and to offer shareholders an opportunity to vote on an advisory ordinary resolution approving this report¹⁶. In 2013 regulations were introduced requiring a binding vote on executive remuneration¹⁷. Under the regulations, remuneration reporting is comprised of three elements: the Annual Statement; the Annual Remuneration Report; and the Directors' Remuneration Policy. The Annual Remuneration Report continues to be subject to an annual advisory vote. The Directors' Remuneration Policy is subject to a binding vote at least once every three years.

Remuneration report

During the reporting period, a total of 19 companies in our FTSE 100 sample received less than 90% support on their remuneration report, compared to 18 companies in 2021.

The five companies with the lowest level of support on the Remuneration Report among our sample were:

- > Informa (28.69% in favour)
- > Whitbread (61.56% in favour)
- > Ashtead Group (63.97% in favour)
- > Coca-Cola HBC (67.18% in favour)
- > Flutter Entertainment (67.55% in favour)

Both ISS and Glass Lewis recommended a vote against each of these resolutions.

For further detail on our analysis of the remuneration reports in the UK that received the most opposition in the 2022 AGM season, please refer to the Georgeson FTSE 350 Remuneration Report memos which we produce throughout the season.

Remuneration policy

During the reporting period, 12 companies in our FTSE 100 sample received less than 90% support on their Remuneration Policy votes, compared to 8 companies in 2021.

The five companies in our sample proposing a Remuneration Policy vote and receiving more than 10% opposition were:

- > Halma (60.18% in favour)
- > Ashtead Group (60.72% in favour)
- > GSK (61.76% in favour)
- > Compass Group (67.50% in favour)
- > Standard Chartered (68.81% in favour)

ISS recommended a vote against each of these resolutions. Glass Lewis recommended a negative vote against each of these resolutions with the exception of GSK and Compass Group. The main concerns that investors raised in most of these cases related to increases to the maximum bonus opportunity.

¹⁶ Companies Act 2006, s. 439: <http://www.legislation.gov.uk/ukpga/2006/46/section/439>.

¹⁷ The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (SI 2013/1981): <http://www.legislation.gov.uk/uksi/2013/1981/contents/made>.

2. PROXY ADVISORS

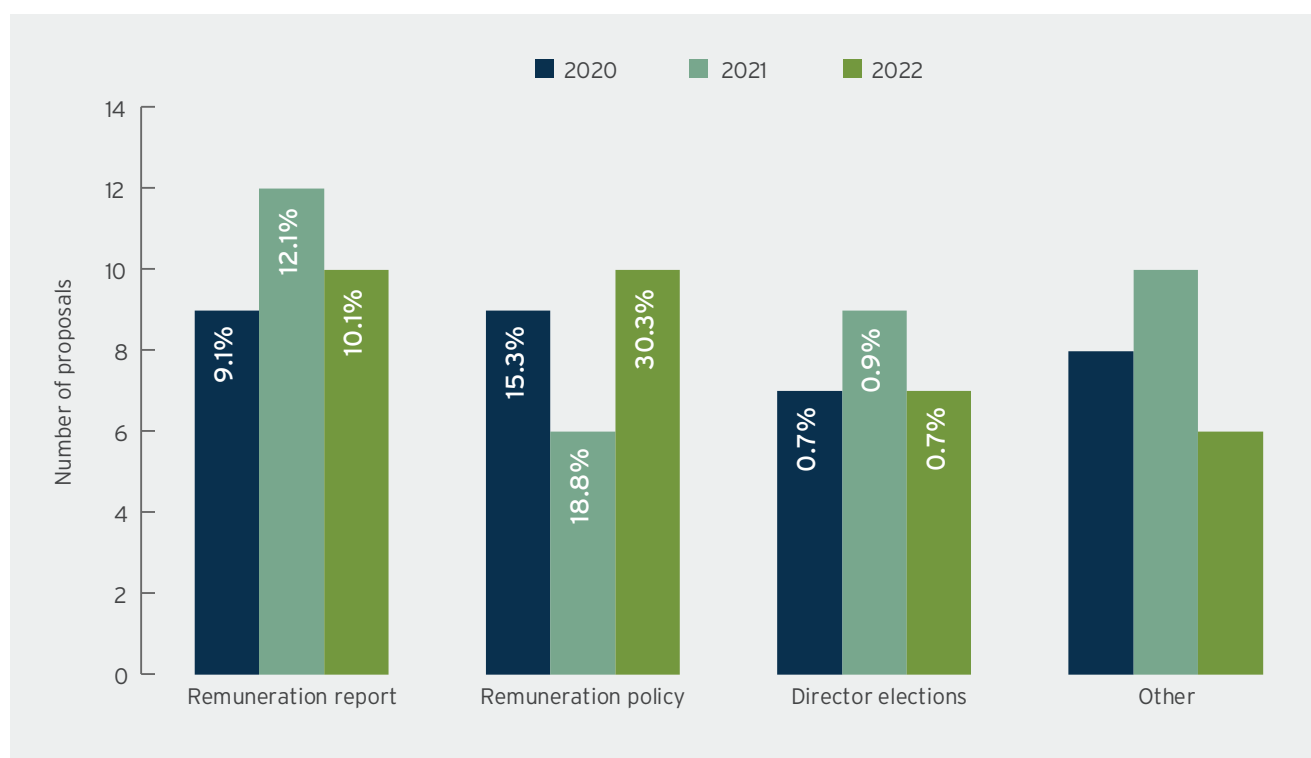
Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis, IVIS and PIRC for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the voting outcome of a given resolution.

2.1 Institutional Shareholder Services (ISS)

Institutional Shareholder Services¹⁸ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

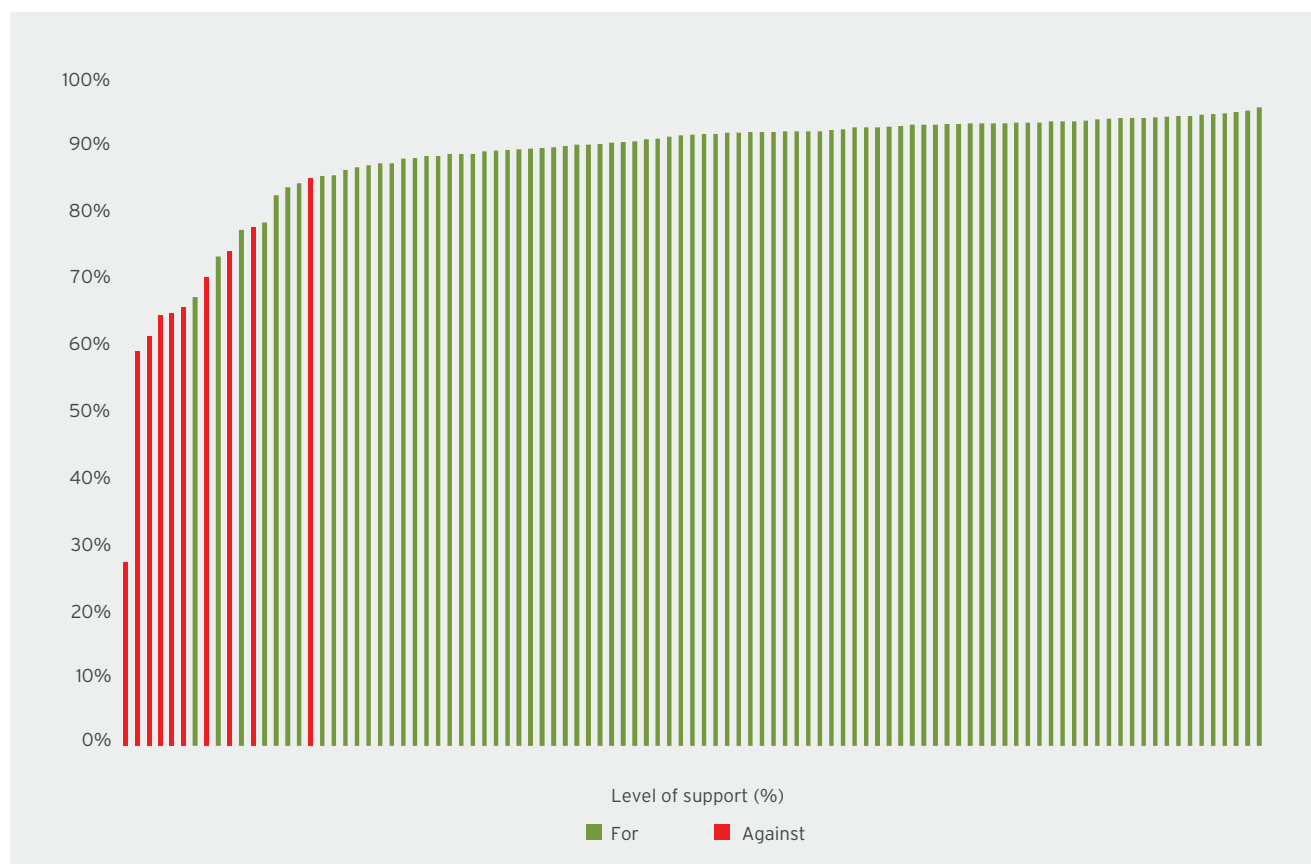
Between 1 July 2021 and 30 June 2022, 22 companies out of the FTSE 100 received at least one against or abstain recommendation from ISS (the same number as in 2021), for a total of 33 resolutions (compared to 36 resolutions in 2021).

Graph 5: Overview of the number of against/abstain recommendations by ISS at FTSE 100 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



¹⁸ <http://www.issgovernance.com/about/about-iss/>

Graph 6: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by ISS vote recommendation.

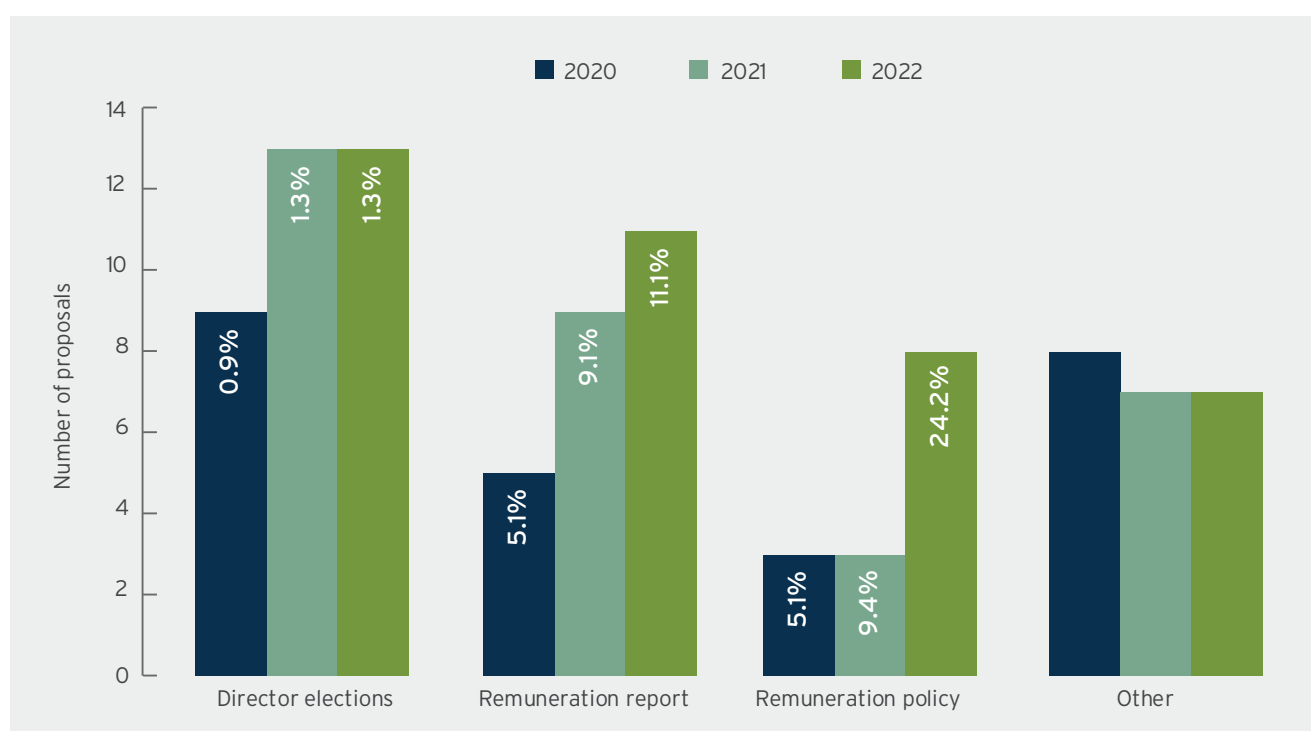


2.2 Glass Lewis

Glass Lewis¹⁹ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

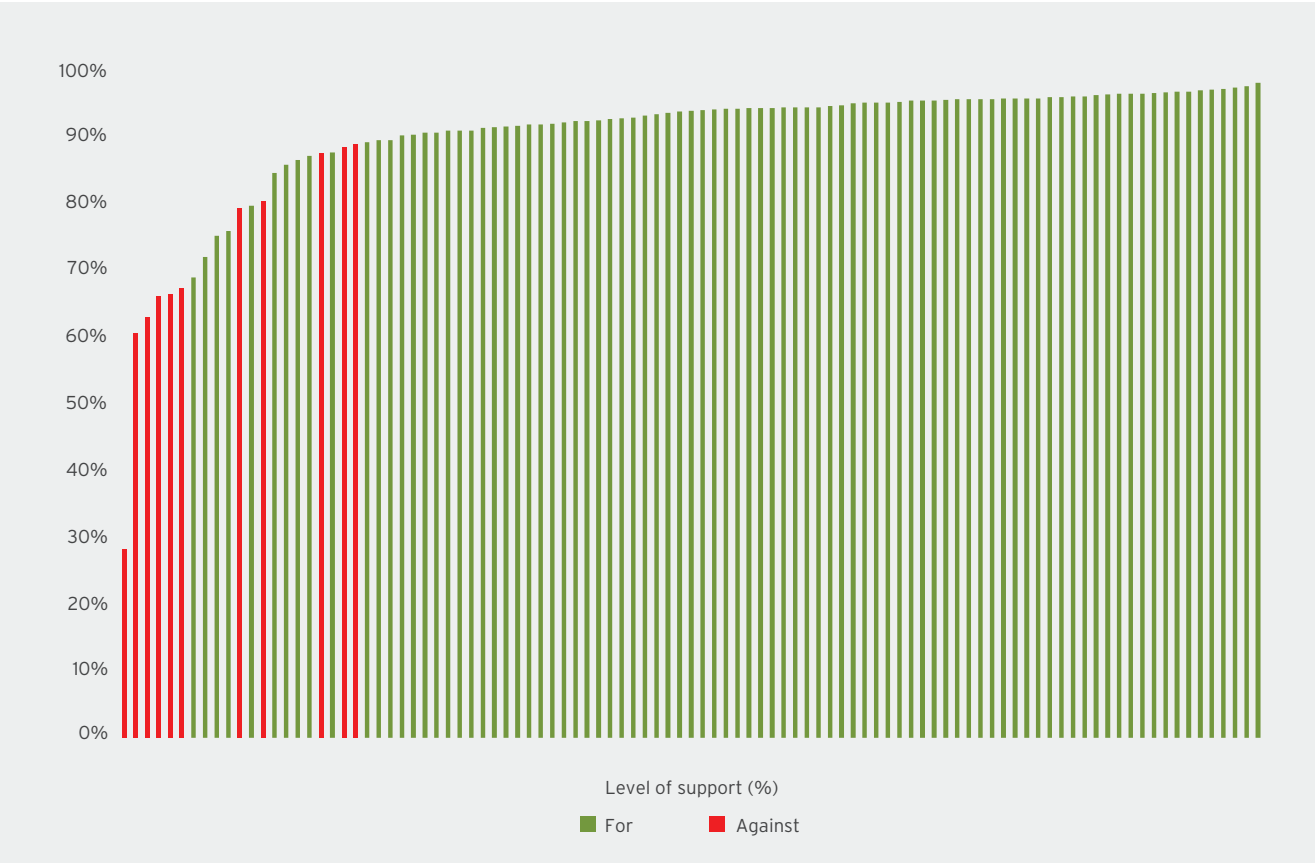
Between 1 July 2021 and 30 June 2022, 24 companies out of the FTSE 100 received at least one against or abstain recommendation from Glass Lewis (compared to 15 in 2021), for a total of 39 resolutions (compared to 32 resolutions in 2021).

Graph 7: Overview of the number of negative/abstain recommendations by Glass Lewis at FTSE 100 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



¹⁹ <http://www.glasslewis.com/about-glass-lewis/>

Graph 8: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation.

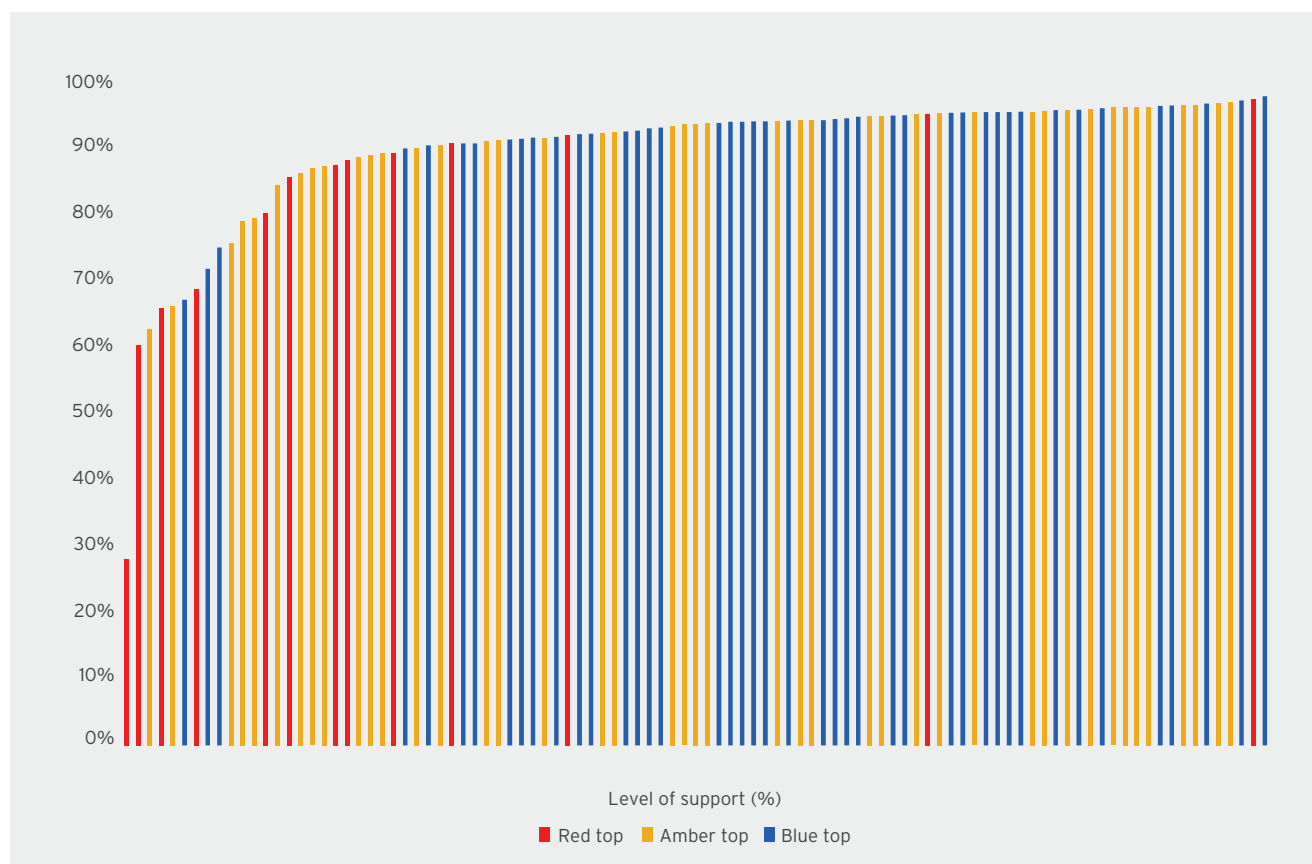


2.3 IVIS

The Institutional Voting Information Service²⁰ (IVIS) was founded by the Association of British Insurers (ABI) in 1993. Since June 2014, IVIS is part of the Investment Association. IVIS does not issue explicit vote recommendations. However, it uses a colour coded system which some investors will use as guidance on whether to vote negatively.

The colour showing the strongest concern is Red, followed by Amber which raises awareness to particular elements of the report. A Blue Top indicates no areas of major concern, while a Green Top indicates an issue that has now been resolved.

Graph 9: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by IVIS alert level.



²⁰ <https://www.ivas.co.uk/about-ivas/>

2.4 PIRC

Pensions & Investment Research Consultants²¹ (PIRC) was established in 1986 by a group of public sector pension funds. It provides proxy research services to institutional investors on governance and other ESG issues.

Graph 10: Vote in favour of the Remuneration Report among FTSE 100 companies (ordered by level of support), and colour coded by PIRC vote recommendation.



²¹ <https://www.pirc.co.uk/>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 UK Audit Bill

In May 2022, the UK government announced an “Audit regime overhaul to help restore trust in big business”. One of the government’s goals is to tackle the dominance of the ‘Big Four’ audit firms. It hopes that by setting up the new regulator, the Audit, Reporting and Governance Authority (ARGA), it will reduce the risk of big company collapses, protect jobs, and enhance the UK’s reputation as a “world-destination for investment”. A few of the main outcomes of the Audit Bill are as follows:

- ARGA’s scope will extend to the largest private companies- that have over 750 employees and over £750m in annual turnover.
- Directors who breach their legal duties with regards to openness with auditors will face sanctions and the government will address instances where executives are bringing in bonuses despite the collapsing of their companies.
- Companies will need to improve their transparency with regards to disclosing profits and losses. The government wants to avoid situations in which companies on the brink of collapse are issuing dividends to shareholders.
- FTSE 350 companies will also need to conduct part of their external audit with an auditor outside of the ‘Big Four’.

The government has yet to formally introduce this legislation.

3.2 New UK Corporate Governance Code

In July 2022, the Financial Reporting Council (FRC) published²² a Position Paper on the government’s plans²³ (first announced in March 2021) to improve the UK’s audit and corporate governance framework.

The government’s plans were outlined in a white paper titled “Restoring Trust in Audit and Corporate Governance”. The plan puts forward a list of proposals “for new reporting and attestation requirements covering internal controls, dividend and capital maintenance decisions, and resilience planning”. The white paper also proposes to ensure that the “regulator has effective investigation and civil enforcement powers to hold to account directors of large businesses which are of public importance for breaches of their duties in relation to corporate reporting and audit.”

The government proposed establishing the FRC’s successor body, the aforementioned ARGA. The government is proposing to give the regulator “competition powers and new powers to strengthen its corporate reporting review function, its oversight of audit committees and to enforce the corporate reporting duties of directors.”

The revisions to the UK Code, as reported by the position paper, will focus on the following:

- Providing additional support in the existing Code Provisions, where reporting is currently weaker.
- Making necessary revisions to reflect the wider responsibilities of the Board and Audit Committee for expanded Sustainability and ESG reporting.
- Including a Provision for boards to consider how audit tendering undertaken by the company takes account of the need to expand market diversity.
- Updating the Code to ensure that it covers proposed changes to legal and regulatory requirements as set out in the Government Response, including strengthening reporting on malus and clawback arrangements.

The Code will apply from January 2024, subject to legislation. The FRC will consult on the revised UK Code from 2023 Q1.

²² <https://www.frc.org.uk/news/july-2022/frc-sets-out-next-steps-in-transition-to-new-regul>

²³ <https://www.gov.uk/government/publications/restoring-trust-in-audit-and-corporate-governance>

3.3 FTSE Women Leaders Review

In February 2022, the FTSE Women Leaders Review produced a report²⁴ announcing 4 new recommendations, and highlighting to progress across the FTSE 350 for Women Leaders.

The FTSE Women Leaders Review is an independent, business-led framework supported by the government, which sets recommendations for Britain's largest companies to improve the representation of Women on Boards and in Leadership positions. It is the third phase of the Hampton-Alexander and Davies Reviews.

The four recommendations set out in the report set goals to achieve gender-balanced boards and leadership teams by 2025. They are as follows:

- Increased voluntary target for FTSE 350 Boards, and for FTSE 350 Leadership teams to a minimum of 40% women, by the end of 2025.
- FTSE 350 companies to have at least one woman in the Chair or Senior Independent Director role on the Board, and/or one woman in the Chief Executive or Finance Director role in the company, by the end of 2025.
- Key stakeholders to set best practice guidance, or have mechanisms in place to encourage FTSE 350 Boards that have not achieved the prior 33% target, to do so.
- The scope of the Review is extended to include the largest 50 private companies in the UK by sales.

The report also details the progress made by companies with the FTSE 100 and FTSE 250 indices. According to the report, "the number of women in the Combined Executive Committee & Direct Reports increasing to 32.5%, up from 30.6% last year". The FTSE 250 saw this figure increase from 28.5% last year to 30.7% in 2022. At the time of publication, there were 44 FTSE 100 companies that were meeting or exceeding the 33% target laid out in the Hampton-Alexander Review.

3.4 UK Secondary Capital Raising Review

In October 2021, the Treasury commissioned a review titled the "UK Secondary Capital Raising Review" to make commendations on how further capital raising processes by companies could be made more efficient. Mark Austin, the Freshfields Bruckhaus Deringer partner tasked with leading the review, published the report²⁵ in July 2022.

In the report, Mr Austin puts forward several recommendations including:

- That the Pre-Emption Group (PEG) be given a more formal and transparent governance structure. There should also be a review of the PEG's membership to ensure it is fully representative of today's UK capital markets.
- During the pandemic, the PEG relaxed its Statements of Principles on pre-emption in order to allow companies to raise capital more quickly and efficiently. The review suggests making this change permanent and for investors to support share issuances without pre-emptive rights of up to 20% of issued share capital, rather than the usual 10%. Half of this authority should be for any purpose, and the other 10% would be specifically for acquisitions or other specified capital investment. Companies should report publicly on how the share issuance process was conducted.
- That 'high growth' companies, that are particularly capital-hungry should be able to raise more than 20% of their issued share capital per year. The review recommends that a limit of 75% be applied instead, provided that the company can put forward a strong enough rationale to receive shareholder approval for the authority. This will make the UK capital markets more appealing to young companies in the tech and life sciences sectors, among others.
- The process of issuing Capital with pre-emption rights should be made quicker and cheaper. The review puts forward a number of recommendations to streamline the process of issuing shares while maintaining the pre-emption rights of shareholders.

²⁴ <https://ftsewomenleaders.com/?elqTrackId=22EDD5C94FE987F1508A3B637C48EA26&elqaid=1587&elqat=2>

²⁵ <https://www.gov.uk/government/publications/uk-secondary-capital-raising-review>

REJECTED BOARD PROPOSALS

2

AVERAGE QUORUM

68.3%

RESOLUTIONS
WITH OVER 10% OPPOSE

10.0%

COMPANIES
WITH OVER 10% OPPOSE

72.5%

Germany
/ DAX

GERMANY HIGHLIGHTS

In the third quarter of 2021, the DAX index brought in the 10 largest MDAX companies as it **expanded from 30 companies to 40**.

The average quorum across the DAX¹ increased from 66.3% in 2021 to **68.3% in 2022**.

Across the DAX, **two board-proposed AGM resolution were rejected** by shareholders.

ISS recommended negatively on 36 resolutions in 2022, **opposing 6.1% of all resolutions**.

The remuneration report has become the most contested resolution type across the DAX, where **20 resolutions out of 37 received at least 10%+ opposition (54.1%)**.

The number of contested (10%+ opposition) **remuneration policy (system) votes saw a decrease** from 7 in 2021 to 2 in 2022.

Across the DAX, 25.0% of remuneration policy (system) votes received more than 10% opposition. **It should be noted that 8 DAX companies held such a vote in 2022**.

The number of DAX companies that had at least one contested proposal (10%+ opposition) was 29. **The overall number of contested resolutions increased** from 42 in 2021 to 59 in 2022.

Glass Lewis recommended negatively on 46 resolutions in 2022, **opposing 7.1% of the total resolutions**.

¹ DAX constituent Linde plc has been excluded in the calculations, due to the AGM being held outside of the timeframe under consideration. All further references to DAX are excluding Linde plc.

1. VOTING IN GERMANY

1.1 Quorum overview

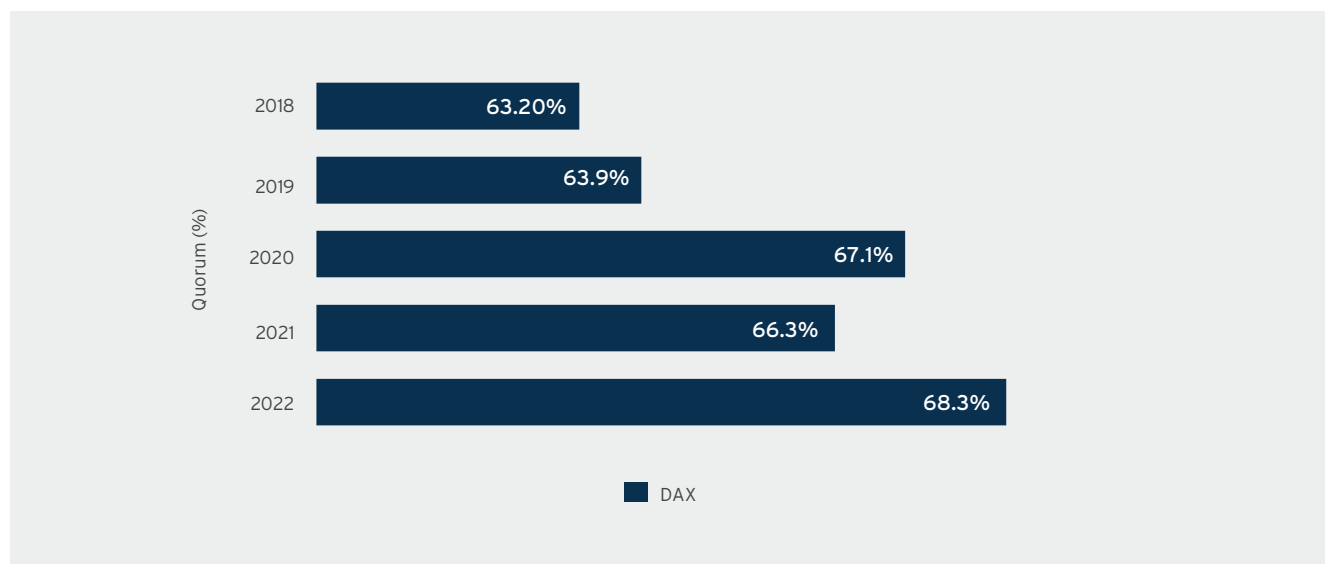
Georgeson has reviewed the quorum levels of the DAX Index² over the past five years. Our survey includes the companies that were part of the index as of 1 June 2022 and which held their AGMs between 1 July 2021 and 30 June 2022.

As of 20 September 2021, the DAX Index was increased from 30 to 40 companies. For this extension, 10 MDAX companies which adhered to the DAX criteria were introduced into the DAX Index. The MDAX was consequently reduced from 60 companies to 50.

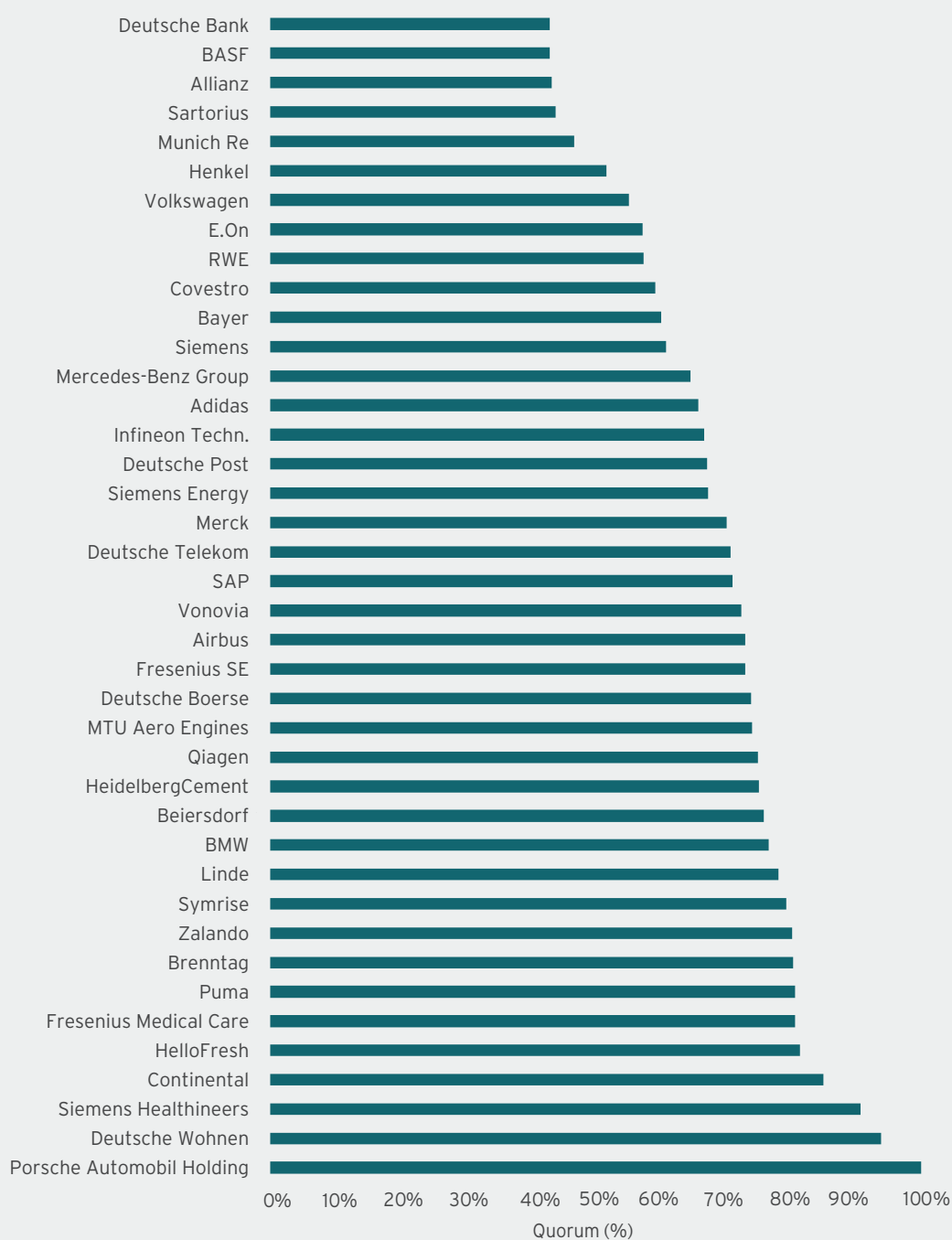
A few of the additions to the new DAX have noteworthy shareholder structures. Porsche Automobil Holding has a free float which currently only holds preference shares without voting rights. Sartorius has a free float of shares with voting rights of 7%. Following the acquisition by Vonovia, Deutsche Wohnen has a free float of shares with voting rights of 12%. Siemens Healthineers has a free float of shares with voting rights of 24%.

The average quorum among DAX companies was 68.3%, an increase over the 2021 quorum of 1 percentage point, and an 8.1 percentage point increase from quorum levels in 2018.

Graph 1: Average AGM quorum levels in the DAX between 2018 and 2022.



² The DAX Index tracks the segment of the largest and most important companies on the German equities market. It contains the shares of the 30 largest and most liquid companies admitted to the FWB Frankfurt Stock Exchange in the Prime Standard segment. The DAX represents about 80% of the aggregated prime standard's market cap. See here: <https://deutsche-boerse.com/dbg-en/our-company>.

Graph 2: Quorum levels at DAX companies during the 2022 reporting period.

1.2 Rejected resolutions

DAX

Within the reporting period from 1 July 2021 until 30 June 2022 across the DAX, two management proposal was rejected by shareholders. The companies whose resolutions failed during this period are Bayer and Hello Fresh.

Bayer

At the 20 April 2022 AGM of Bayer AG, the vote on the company's 2021 remuneration report only received 24.1% support from all voting shareholders and hence failed to receive the required 50% approval to pass³.

Bloomberg reported⁴ in the weeks leading up to the AGM that while both ISS and Glass Lewis recommended to investors to vote in "support of Bayer AG Chief Executive Officer Werner Baumann's team at the AGM", they recommended against a compensation package they deemed excessive as it "failed to reflect performance and the potential fines from Roundup settlements".

They further pointed out that the company lost tens of billions of euros in value since its Monsanto acquisition in 2018 and "although shares have recouped part of the past years' declines, some shareholders, including long-time investor Temasek Holdings Pte, have lost faith in Baumann to spearhead a sustained turnaround, and have called on Bayer's chairman to find a replacement".

In addition, Bloomberg reported that Alatus Capital, another shareholder, had objected to ratifying the performance of Baumann and his management team at the 29 April meeting, pointing to "the loss in market value during his time at the helm."

Meanwhile, Glass Lewis said in a note to clients that "we do not believe it is in shareholders' interests to broadly recommend to withhold support from this proposal at this time".

Hello Fresh

The vote on the remuneration report received 41.9% support⁵ from shareholders at the company's 12 May 2022 AGM and was hence rejected by shareholders. In addition to against recommendations issued by ISS and Glass Lewis, shareholders had raised concerns regarding the non-alignment of pay with performance and peers. Furthermore, shareholders had pointed out that payouts under the short-term incentive were not subject to any performance criteria or caps, and that an extraordinary tranche under the long term incentive plan had been granted based on the 2021 compensation system, which was not approved at the 2021 AGM.

³ <https://www.bayer.com/sites/default/files/voting-results-asm2022.pdf>

⁴ <https://www.bloomberg.com/news/articles/2022-04-15/glass-lewis-iss-in-favor-of-bayer-management-yet-against-pay>

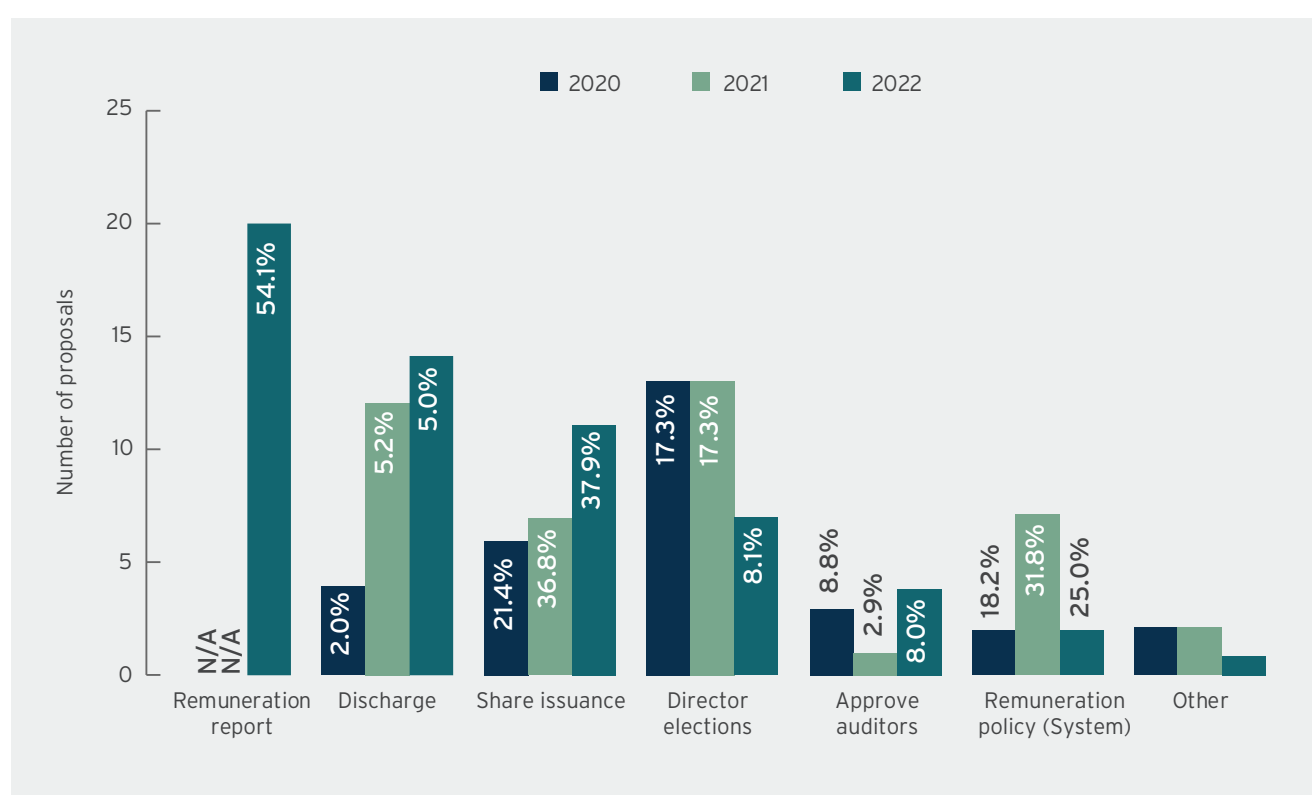
⁵ https://ir.hellofreshgroup.com/download/companies/hellofresh/Hauptversammlung/Abstimmungsergebnisse_Uebersicht_EN.pdf

1.3 Contested resolutions

Among our sample of the 40 DAX companies that held AGMs during the reporting period, 29 companies saw at least one management-proposed AGM resolution receive more than 10% shareholder opposition (22 in 2021). The total number of resolutions that received over 10% opposition amounted to 59 proposals, up from 42 proposals in 2021.

There were 20 contested Remuneration report votes in 2022, making it the most contested resolution type. The second most contested resolutions were related to management and supervisory board discharge (14), while the third most contested resolutions were the general authority to issue shares (11).

Graph 3: Number of resolutions which received more than 10% against votes in the DAX (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



There were 20 contested Remuneration report votes in 2022, making it the most contested resolution type.

1.3.1 Vote on the remuneration report

While the rules for shareholder votes relating to the remuneration policy (system) were fully implemented in 2021, the first non-binding votes on remuneration reports took place during the 2022 AGM season looking back at the 2021 fiscal year.

The companies with the highest level of opposition relating to the vote on the remuneration report were:

- › Bayer (24.11% in favour of the remuneration report)
- › HelloFresh (41.97% in favour of the remuneration report)
- › Symrise (52.92% in favour of the remuneration report)
- › Zalando (60.28% in favour of the remuneration report)

We note that the average level of support for the (backward-looking) vote on the remuneration report was 83.3%, compared to an average support of 91.0% for the remuneration system in 2021. This indicates a higher level of scrutiny from investors, especially following qualified support of the remuneration system with high expectations on the level of disclosure to be provided in the remuneration report published the following year.

Some of the most commonly raised concerns by institutional investors were the pension contributions to executives if they went beyond what is being offered to regular employees, and low levels of disclosure in the remuneration report compared to the levels seen in other European markets.

The ARUG II legislation⁶ requires companies to publish a separate remuneration report, covering the remuneration of both the management board and the supervisory board in a single document. The remuneration report must also contain information on the ratio of the average remuneration for directors to the average remuneration for the company's full-time employees over the past five years. The company is obliged to explain in the remuneration report how it determined the comparative group. The remuneration report must be put up for shareholder vote on an annual basis. The vote is also non-binding, subject to a simple shareholder majority for approval and has an advisory character.

1.3.2 Discharge of the Management and Supervisory Boards

It is a legal requirement in Germany for companies to propose an annual discharge vote on the supervisory board and on the management board. The vote is largely symbolic as the legal position of shareholders and board members does not change based on the results of this vote. As a result, shareholders have been using these resolutions to express their discontent with the current management and/or supervisory Board. The reasons for not granting the discharge range from corporate governance concerns, to investigations into misconduct or fraud. Corporate governance concerns may include the lack of disclosure of individual supervisory board members' meeting attendance records, long supervisory board terms, a lack of response to low support of key resolutions at the previous shareholder meeting (such as the vote on the remuneration system), a lack of gender diversity or independence on the board (and/or committees), as well as concerns about the current executive remuneration system.

While it is common practice to propose the discharge of the whole supervisory board and the whole management board each as a single resolution, in many cases at the AGM itself, the vote is split into individual discharge votes on each board member following a request from a shareholder. However, this was not possible during the 2022 proxy seasons, as shareholders were unable to make such requests during the online broadcast of the shareholder meeting and participation as such was not possible.

In a limited number of cases, the company decided to split this resolution on the proxy card allowing shareholders to vote on the individual discharge of each board member. Institutional shareholders have been pushing companies to allow for an individual discharge vote, however, so far, only a limited number of companies have proposed the resolutions as individual sub-resolutions from the outset. This is also the reason why the overall number of resolutions in this category may differ notably from year to year, which is also reflected in the contested resolutions result.

In cases where shareholders consider the discharge of a single member (or group of management or supervisory board members) to be controversial, this practice would allow the shareholders present at the meeting to grant the discharge for the remaining members.

⁶ https://www.bmj.de/SharedDocs/Gesetzgebungsverfahren/DE/Aktionaersrechterichtlinie_II.html

The companies with the highest level of opposition on management and supervisory board discharge were:

- › BMW Group (71.75% in favour of the discharge of the supervisory board member Stefan Quandt)
- › MTU Aero Engines (74.13% in favour of the discharge of the supervisory board)
- › Mercedes-Benz Group (78.18% in favour of the discharge of the supervisory board)
- › Mercedes-Benz Group (78.38% in favour of the discharge of the management board)

1.3.3 General authorities to issue shares

German companies routinely request shareholder authority to issue shares over a period of up to five years for general purposes, to allow for smaller acquisitions or for the conversion of financial instruments. These authorities are split between “authorised” and “conditional” capital but are subject to the same overall dilution limits.

There has been a notable reduction in the number of shares that can be issued without pre-emptive rights, including for contributions in kind. While a threshold of 20% of issued share capital was commonly accepted in Germany, most investors now lean towards a maximum threshold of 10%. Based on this, ISS had lowered the threshold in its guidelines from 20% of ISC to 10% back in February 2019, while Glass Lewis still allows for pre-emptive rights to be excluded for up to 20% of issued share capital.

The BVI (Bundesverband Investment und Asset Management e.V.) changed its guidelines⁷ in advance of the 2021 proxy season to limit each authority to issue shares to 20%, also setting an overall (“cumulative”) limit of 40% for all authorities to issue shares with pre-emptive rights, while the exclusion of pre-emptive rights continues to be subject to an overall limit of 10% (including any outstanding authorities). By law, the overall number of shares to be issued under a single authorization cannot exceed 50% of the current issued share capital, which is in line with the guidelines of the major proxy advisors ISS and Glass Lewis.

In addition, it had been common practice in the past to disregard any outstanding authorizations from previous AGMs which may have only been used partially, potentially allowing the accumulation of several authorities over several years. However, in recent years it has become more common to either cancel any outstanding authorities or to incorporate them as part of the new authority, applying an explicit overall threshold for the max. exclusion of pre-emptive rights for all outstanding authorities.

During the reporting period, seven proposals relating to share issuance received more than 10% in opposition, compared to two in 2020. The proposals with the largest opposition were the following:

- › Delivery Hero (80.46% in favour for an authority to issue convertible debt instruments (I))
- › Delivery Hero (80.46% in favour for an authority to issue convertible debt instruments (II))
- › Delivery Hero (80.83% in favour for an increase in authorised capital (II))
- › Delivery Hero (80.87% in favour for an increase in authorised capital (I))
- › Allianz (84.59% in favour for an authority to issue share with or without pre-emptive rights)

⁷ <https://www.bvi.de/en/services/samples-and-working-aids/analysis-guidelines-for-shareholder-meetings-althv/>

1.3.4 Director elections (supervisory board member elections)

Of the 86 supervisory board election votes held during the period, seven received more than 10% opposition at seven different companies. This means that 8.1% of the supervisory board elections were contested, down from 17.3% in 2021.

Based on feedback Georgeson has gathered from investors and proxy advisors, the main reasons to vote or recommend against the election of supervisory board members in Germany continues to be over concerns relating to the overall independence of the supervisory board and/or its committees (including for tenure reasons), lack of gender diversity and overboarding concerns. Some investors have gradually changed their guidelines to allow fewer external mandates for newly elected or re-elected supervisory board members, with some of them having reduced the maximum number of board seats from five to four, whilst counting any chairmanship as double. Furthermore, the guidelines stipulate a lower maximum number of seats for executives or members of key committees. In addition, a growing number of investors also consider comparable mandates at non-listed companies, foundations or other roles. The lack of independence on key board committees has also led investors to vote against the re-election of incumbent board members. Extra scrutiny is applied by investors due to the long-term length for board supervisory members in Germany (which can last up to 5 years) compared to an average of 3 years across major European markets. This was pointed out by a group of leading UK-based investment managers who had written to the chairs of German DAX companies in 2020.

As a result, ISS had changed its guidelines in February 2021 to vote against any new board terms exceeding 4 years. In addition, Glass Lewis updated its guidelines for the 2022 proxy season setting the expectation for large companies to propose the election or re-election of supervisory board members for terms shorter than the maximum five-year term permissible under German law. Where a DAX company would propose a supervisory board member for a term of five years without providing compelling rationale for doing so, Glass Lewis will now generally recommend that shareholders vote against the re-election of the nominating committee chair.

As up to 50% of the supervisory board in Germany is required by law to comprise employee representatives (elected separately by employees of the Company), many institutional investors require at least one-third of the full Supervisory Board and/or half of the shareholder-elected members to be independent. Additionally, a majority of investors require key committees to be majority independent.

Overboarding concerns are generally raised for supervisory board candidates who have a significant number of other board seats or serve as executives at other companies. Shareholders also continue to consider poor attendance or undisclosed attendance records for board members as reasons to vote against the re-election of a supervisory board member. In addition, some investors in the domestic market require more transparency on the supervisory board members and candidates, to include full CVs and biographical details, such as when they were first elected and their nationality. While the majority of foreign institutional investors only count mandates at listed companies a number of domestic institutions also count mandates at non-listed companies and other professional roles.

The companies with the highest level of opposition on supervisory member elections among our sample were:

- > HeidelbergCement (Bernd Scheifele – 53.4% in favour)
- > Bayer (Norbert Bischofberger – 74.5% in favour)
- > SAP (Xin-Zhe Li – 75.8% in favour)
- > Deutsche Telekom (Frank Appel – 83.8% in favour)
- > QIAGEN (Elizabeth Tallett – 85.5% in favour)

1.3.5 Vote on the executive remuneration policy (system)

New provisions under the ARUG II legislation require the supervisory board to adopt a remuneration policy (system) for members of the management board. The law requires that the remuneration policy include a number of elements such as a fixed cap on remuneration for the members of the management board. It only became mandatory for companies to put remuneration policies up for a shareholder vote for AGMs held after 31 December 2020. As a result, only a limited number of German companies had put up a remuneration policy vote on the AGM agenda during the 2020 proxy season, followed by the bulk of votes on this item in 2021. In 2022, only 8 companies put forward remuneration policies at their AGMs.

This significantly differs from the implementation in neighbouring EU countries. The Netherlands, for example, made it mandatory for all listed companies to put their remuneration policy up for a shareholder vote in 2020. In addition, the vote in the Netherlands is binding and subject to a minimum approval rate of 75% of all votes cast.

With the law relating to an advisory vote on the remuneration policy (system) fully implemented, shareholders must now vote at least once every four years (or in the case of material changes) on the remuneration policy proposed by the supervisory board. The vote requires a simple majority to pass. Shareholders cannot bring legal challenges against the vote following the shareholder meeting. In the event that shareholders do not approve the remuneration policy, the supervisory board is obliged to submit a revised remuneration policy no later than the next AGM.

Furthermore, a shareholder proposal can lead to a binding vote on the reduction of the maximum remuneration amount for the management board that was determined by the supervisory board. Shareholders requesting such a vote would need to hold at least 5% (or €500,000) of nominal share capital.

A remuneration policy (system) must also be adopted for members of the supervisory board, with a vote also to be held at least every 4 years, even if no changes to the supervisory board fees have been made.

In 2022, eight proposals relating to the management board remuneration policy (system) were put forward with two receiving more than 10% shareholder opposition:

- > Symrise (87.6% in favour)
- > Covestro (88.8% in favour)

2. PROXY ADVISORS

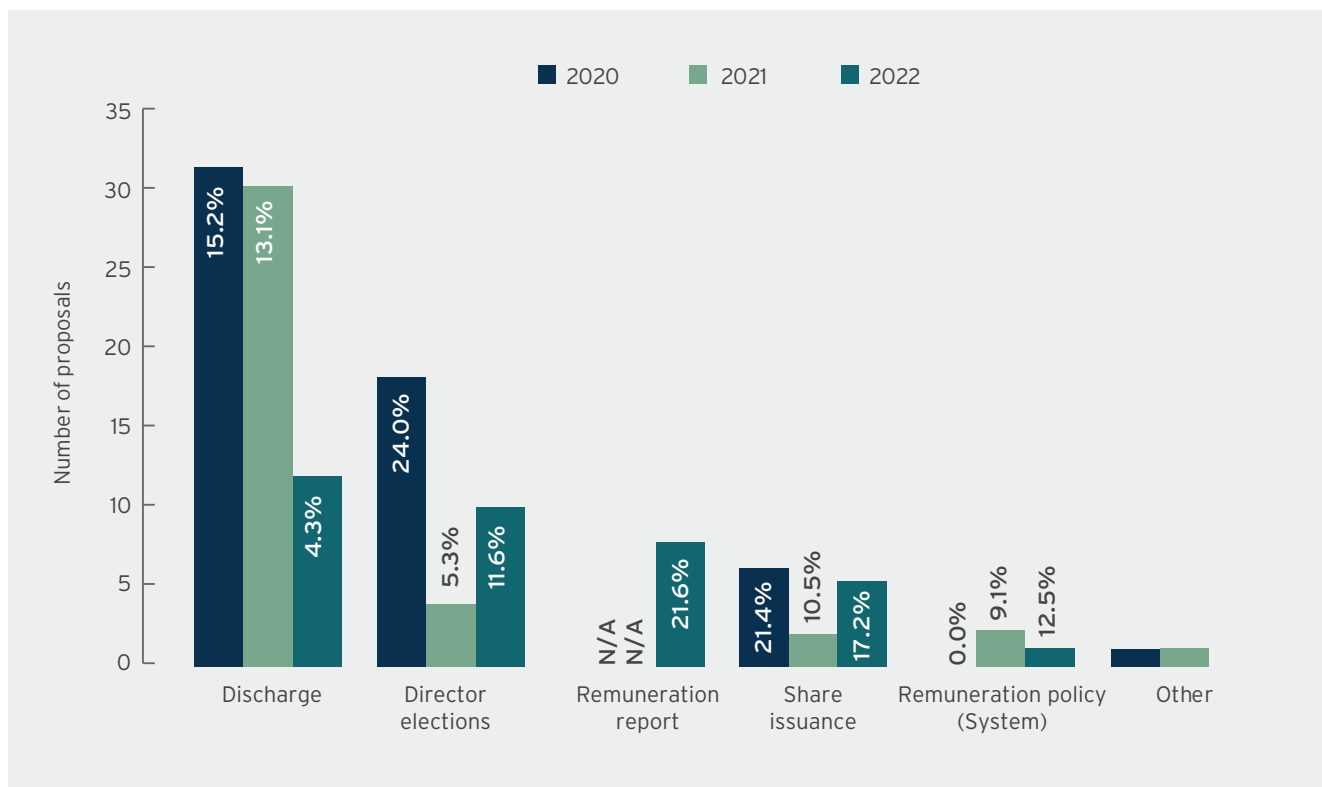
Many institutional investors rely on proxy advisory firms, such as ISS and Glass Lewis, for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services⁸ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

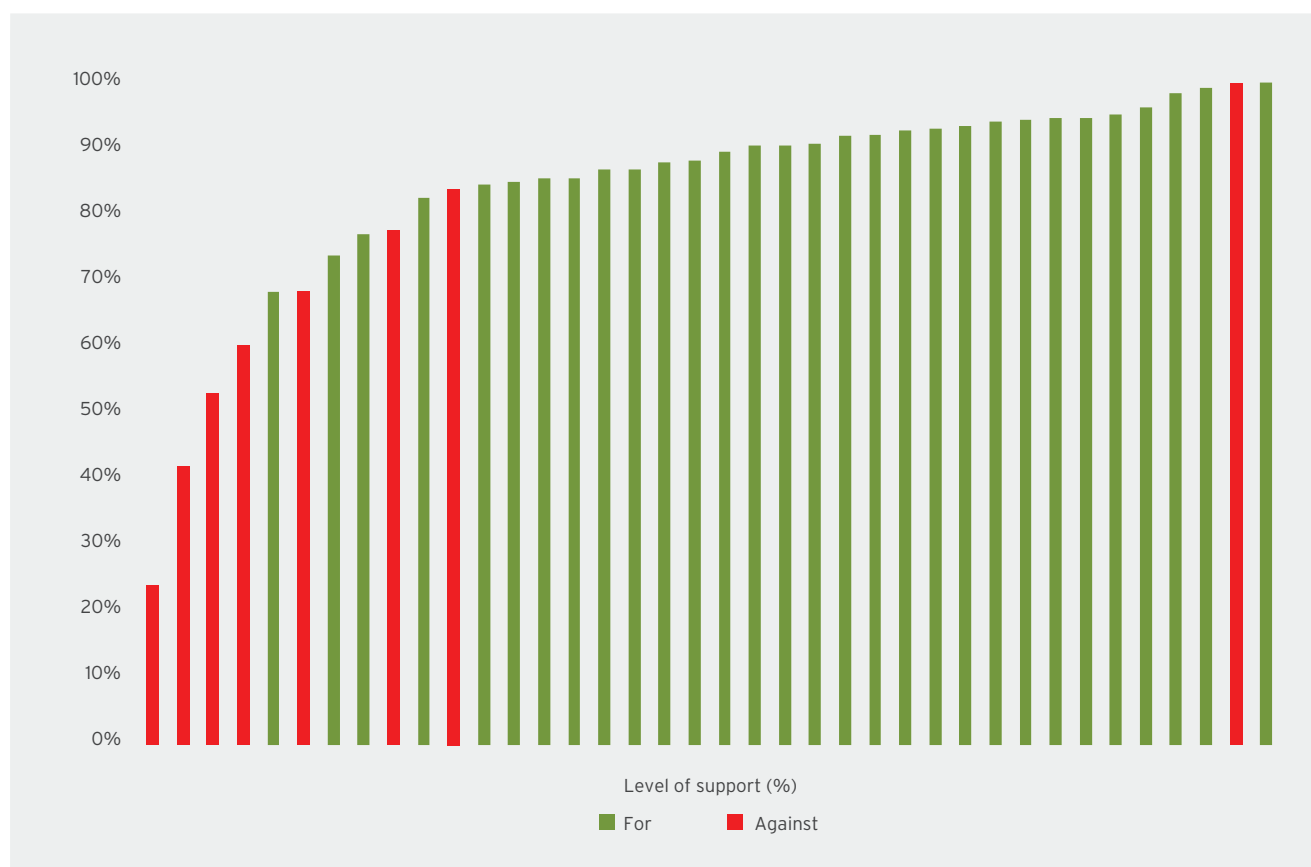
During the 2022 AGM season, 15 companies in the DAX index received at least one against recommendation from ISS. The total number of resolutions where ISS recommended its clients to vote against amounted to 36, compared to 39 in 2021. This is despite the DAX increasing from 30 constituent companies to 40.

Graph 4: Overview of negative recommendations by ISS at DAX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



⁸ <http://www.issgovernance.com/about/about-iss/>

Graph 5: Vote in favour of the Remuneration Report among DAX companies (ordered by level of support), and colour coded by ISS vote recommendation.

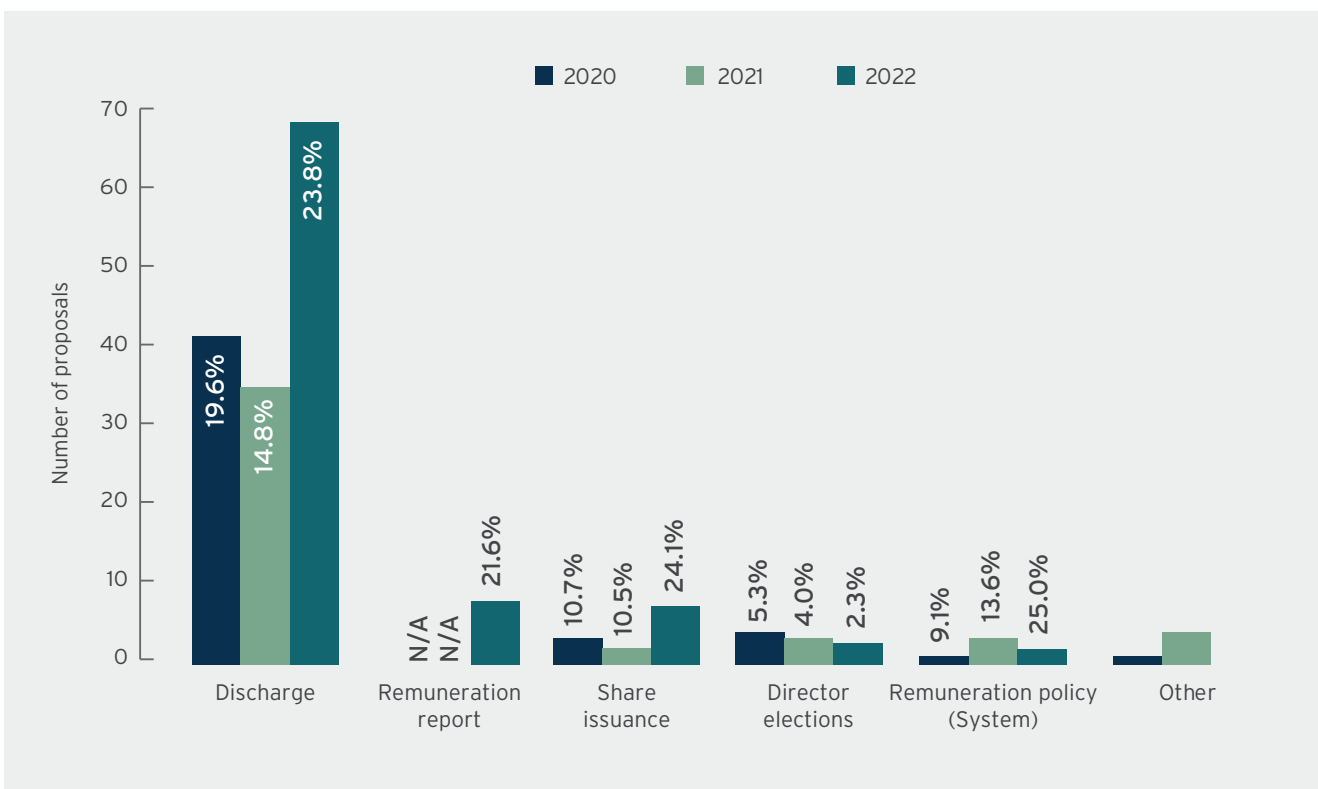


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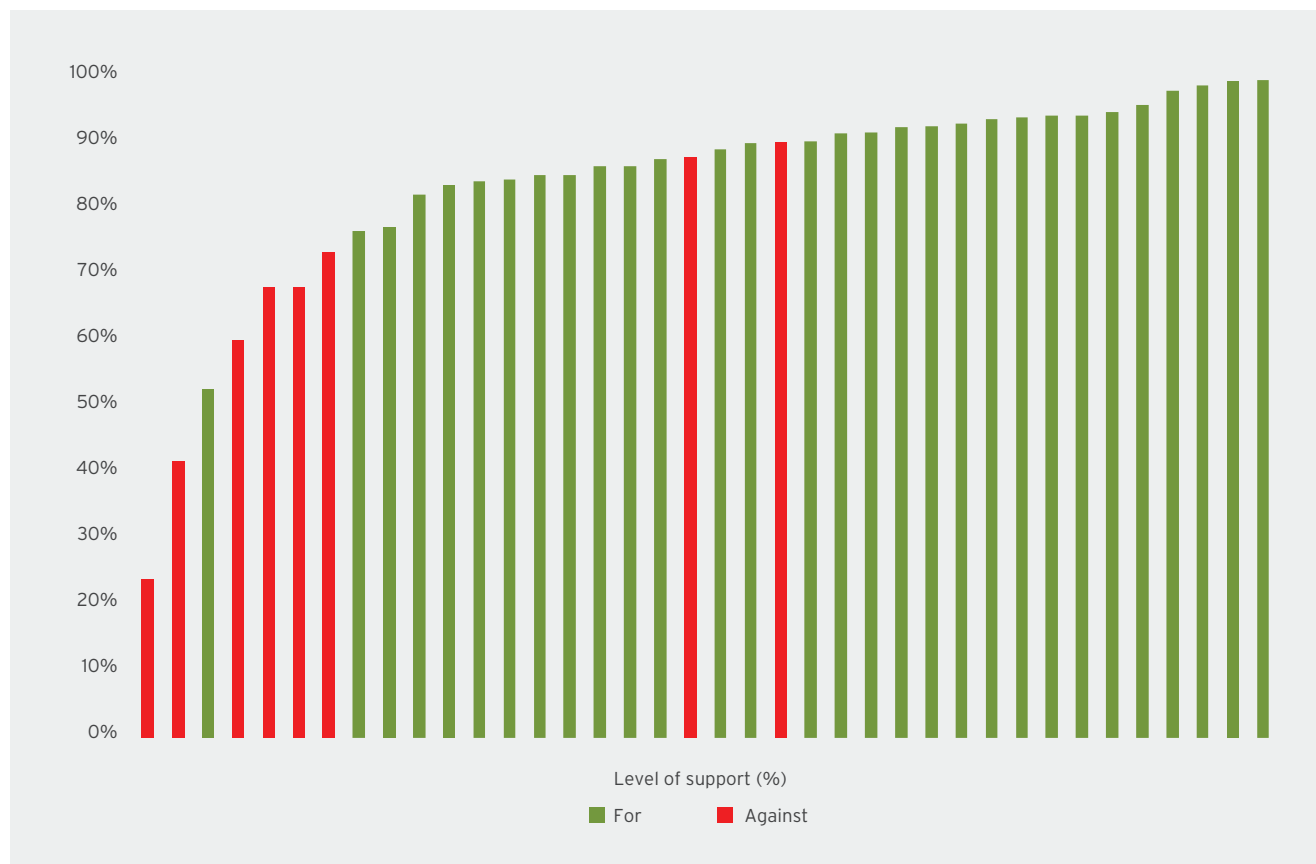
During the 2022 AGM season, 15 companies in the DAX index did not receive support for at least one resolution from Glass Lewis. The total number of resolutions where Glass Lewis recommended its clients to vote against (or abstain) amounted to 86, compared to 46 in 2021. The majority of the increase is composed of recommendations to abstain on the discharge of Supervisory and Management Board members of Deutsche Bank.

Graph 6: Overview of the number of negative recommendations by Glass Lewis at DAX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



⁹ <http://www.glasslewis.com/about-glass-lewis/>

Graph 7: Vote in favour of the Remuneration Report among DAX companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation



3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Legislative Changes relating to Virtual Shareholder Meetings

In March 2020, the German Government passed legislative changes intending to address challenges and uncertainties in the preparation and undertaking of general meetings during the COVID-19 pandemic. The legislation covered how “virtual general” meetings should be conducted, the approach to time limits and other aspects, such as the dividend policy for German companies.

On 29 October 2020, the German parliament passed another act¹⁰ extending the relevant emergency legislation until 31 December 2021, the provisions were once again extended until 31 August 2022, covering the whole of the 2022 proxy season.

In the meantime, on 27 April 2022, the German Government adopted a draft bill which has been submitted by the German Federal Ministry of Justice on the introduction of virtual General Meetings on a permanent basis. After lengthy discussions, the bill was passed on 6 July 2022 in the German Bundestag, replacing previous COVID related legislation which was due to expire at the end of August.

The German parliament reported¹¹ that lengthy discussions had taken place involving representatives from the shareholder side and representatives of the company side, who had long feared that virtual AGMs would create a number of legal uncertainties and extra liabilities for companies.

In his statement, Marc Tüngler of DSW e.V., (representing the shareholder side) emphasized that the law would enable “genuine interaction” between shareholders and company management, while at the same time ensuring a balance between the interests of companies and shareholders. The format of the Annual General Meeting should not determine the quality of investor rights, Tüngler emphasized. Overall, he said, the draft represented a suitable, appropriate and balanced solution, especially in contrast to the draft bill.

The aim of the new law is to create an approximation to the well-known general meeting with physical attendance of shareholders, a comparable dialogue between shareholders and companies through the creation of a new type of general meeting, different to the general meeting allowed under the previous “COVID-19 Act”. Once again shareholders should be able to exercise their rights in full during the shareholder meeting rather than before the date of the AGM.

Key provisions of the new law include:

- Virtual shareholder meetings will require provisions in the articles of association of the company (to be approved by shareholders) and are limited for a duration of five years.
- For shareholder meetings convened before 31 August 2023, a transitional provision is provided so that the 2023 AGM season can already be held virtually, even without a provision in the articles of association.
- Virtual AGMs can pass all resolutions that can be passed by an AGM with physical attendance.
- The articles of association must not include limitations of matters that can be ratified during a virtual shareholder meeting.
- Shareholder motions (and proposals, as regularly permitted) can be put forward during a virtual shareholder meeting via video communication.
- Any company statements on questions received in advance can be access-restricted and limited to shareholders registered for the AGM.
- Companies may perform technical checks on shareholders joining the meeting via video link who will also need to request to speak, comparable to a physical meeting
- Shareholders have the right to receive information during the AGM via electronic means; in principal management is still required to answer all questions during the course of the AGM. Companies may in addition allow questions to be submitted in advance of the shareholder meeting.

¹⁰ https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/DE/Verlaengerung_Bekaempfung_Corona.html#:~:text=Der%20Entwurf%20regelt%20die%20Verl%C3%A4ngerung,Dezember%202021.

¹¹ <https://www.bundestag.de/dokumente/textarchiv/2022/kw25-pa-rechtsausschuss-hauptversammlung-895824>

3.2 The revised German Corporate Governance Code

The latest version of the German Corporate Governance Code (GCGC)¹² entered into force on 27 June 2022, and had previously been agreed on back in April 2022.

Following the latest reform, the Code puts particular emphasis on sustainable corporate governance and asks the management board of German companies to “systematically identify and assess the opportunities and risks for the company associated with social and environmental factors, as well as the environmental and social impacts of the company’s activities. Also, environmental and social goals shall be taken into account in corporate strategy and planning.”

“In the long term, economic, ecological and social goals are often mutually dependent. Ecological and social sustainability are just as much a prerequisite for long-term increase in value as economic strength and stability are a prerequisite for investments and other measures that serve ecological and social objectives,” reads the rationale for the new Recommendation A.1.

In addition to recommendations and suggestions that reflect the best practice of corporate governance, the GCGC aims at enhancing the German corporate governance system’s transparency and comprehensibility, in order to strengthen the confidence of international and domestic investors, clients, employees and the general public in the management and supervision of German listed companies. The Commission reviews the Code on an annual basis in order to find out if it still describes the best practice of good corporate governance and adapts it when indicated.

...the Code puts particular emphasis on sustainable corporate governance and asks the management board of German companies to “systematically identify and assess the opportunities and risks for the company...

¹² <https://www.dcgk.de/en/code.html>

REJECTED BOARD PROPOSALS

0

AVERAGE QUORUM

72.0%

RESOLUTIONS
WITH OVER 10% OPPOSE

14.1%

COMPANIES
WITH OVER 10% OPPOSE

88.6%

France
/ CAC 40

FRANCE HIGHLIGHTS

The average quorum across the CAC 40 increased from 71.1% in 2021 to **72.0% in 2021**.

Across the CAC40, **no board-proposed AGM resolutions were rejected** by shareholders.

The number of CAC40 companies that had at least one contested proposal (10%+ opposition) was 31. **The overall number of contested resolutions decreased from 171 in 2021 to 125 in 2022**. This corresponds to a fall in the share of resolutions that were contested from 18.9% in 2021, to 14.1% in 2022.

The most commonly contested proposals (10%+ opposition) were remuneration-related resolutions where **21.7% of the resolutions received at least 10% shareholders' opposition**. However, on average, we recorded an **increase in the level of support for CEO remuneration report votes** at 2022 CAC40 AGMs (89.6% on average) compared to 2021 (87.9% on average).

The number of CAC40 companies that had at least one resolution that **received more than 20% opposition** from investors was 16 (45.7% of the total).

Resolutions relating to director elections remain highly contested proposals in France where, across the analysed period, **28 resolutions were contested** (10%+ opposition) representing 19.6% of total board election votes.

ISS recommended negatively on 71 resolutions in 2022, compared to 114 in 2021. This corresponds to a fall in the share of resolutions that ISS opposed from 12.6% in 2021, to 8.0% in 2022.

Glass Lewis recommended negatively on 92 resolutions in 2022, compared to 101 in 2021. This corresponds to a **fall in the share of resolutions that ISS opposed** from 11.1% in 2021, to **10.4% in 2022**.

1. VOTING IN FRANCE

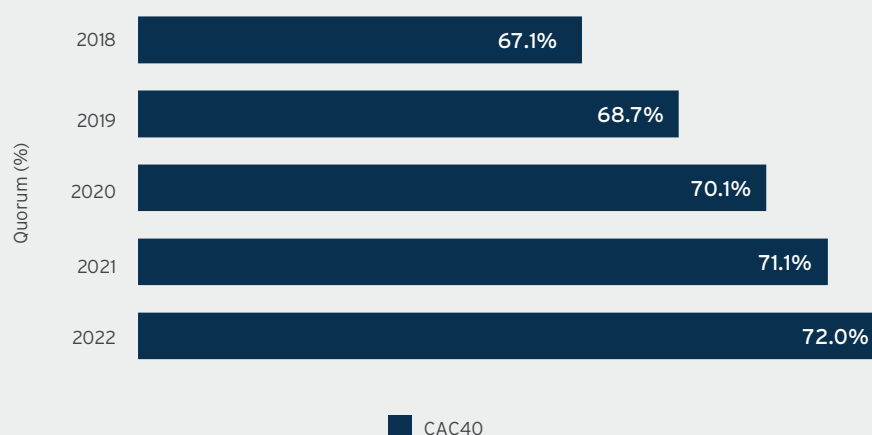
1.1 Quorum overview

Georgeson has reviewed the quorum levels of the CAC40 index¹ over the past five years. This year's survey includes the 35 CAC40 companies with corporate headquarters located in France and which held their AGM between 1 July 2021 and 30 June 2022. Therefore, our analysis excludes Airbus Group, ArcelorMittal, Eurofins Scientific, Stellantis and STMicroelectronics, as their corporate headquarters are located outside France.

In 2022, after two years of virtual AGMs in the context of the COVID-19 pandemic, shareholders were once again able to physically attend these meetings without any restrictions. The average shareholder vote participation at the AGMs of our CAC40 sample during the 2022 proxy season increased from 71.1% in 2021 to 72% in 2022.

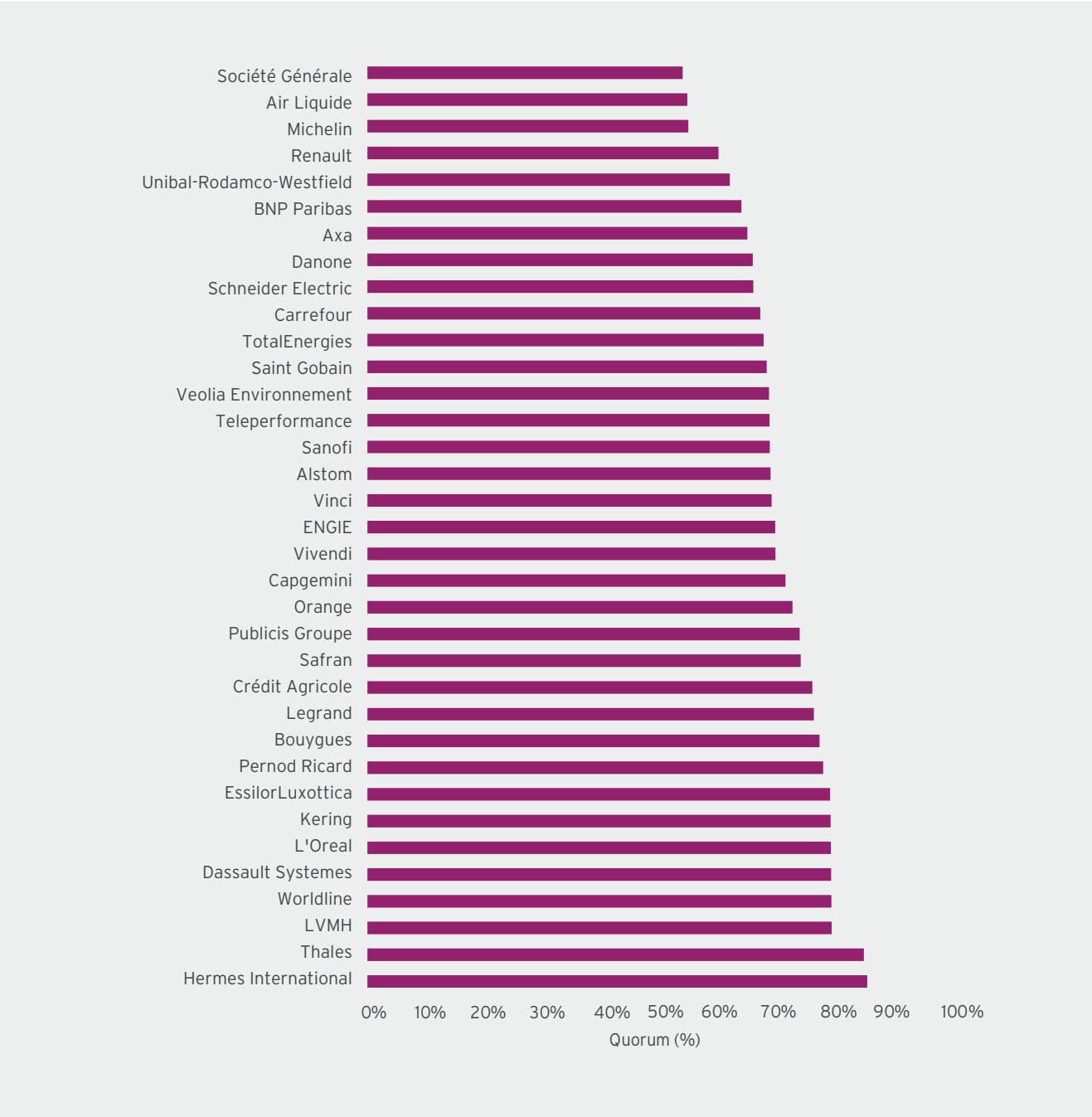
The below graph illustrates the evolution of the average of CAC40 quorum over the past five years.

Graph 1: Average AGM quorum of shareholder meetings in the CAC40 between 2018 and 2022.



¹ The CAC40 is a benchmark French stock market index which comprises the 40 largest and most liquid stocks trading on the Euronext Paris. See here: <https://www.euronext.com/en/products/indices/FRO003500008-XPAR/market-information>

Graph 2: Quorum levels at CAC40 companies during the 2022 reporting period.



1.2 Rejected resolutions

Amongst the 35 CAC40 companies in our sample which held their AGMs between 1 July 2021 and 30 June 2022, no resolutions proposed by the board were rejected by shareholders.

Shareholder resolutions

Six shareholder proposals (which were not supported by the board) were filed at the AGMs of Crédit Agricole, Danone, Engie and Orange. All six failed to gather sufficient support from shareholders and were therefore rejected.

Crédit Agricole

A shareholder proposal was filed at Crédit Agricole's AGM² by the FCPE Crédit Agricole SA Actions, but was rejected with dissent at over 84%. The FCPE Crédit Agricole SA Actions proposed that the discount level to be applied to shares issued in future capital increases reserved for employee stock purchase plans to be set at a mandatory 30 percent of market price.

Both ISS and Glass Lewis had recommended voting against the proposal.

Danone

At Danone's AGM³, Phitrust (together with Mirova, ERAFP, Ircantec, OFI AM and the Caisse d'assurance vieillesse des pharmaciens) requested the inclusion of a resolution proposing to amend Danone's bylaws in order to clarify the role of the Honorary Chairman. The Agefi reported⁴ that "the aim seems to be to limit the influence of Franck Riboud, 66, on the board. The latter had specified last summer that he would not ask for the renewal of his directorship at the 2022 general meeting, while remaining honorary chairman. He had received this honorary title in 2017 'in recognition of his invaluable contribution to the work of the board', according to the universal registration document."

Both ISS and Glass Lewis had recommended for this resolution, however the resolution failed to achieve the required two-thirds majority of voting rights cast and was rejected by shareholders with nearly 60% support.

Engie

At Engie's AGM⁵, the Link France mutual fund (FCPE) submitted the following two proposals which failed to gather sufficient support from shareholders:

- To reduce the dividend amount proposed by the board from €0.85 per share to €0.45 per share (resolution A);
- In case the proposed dividend of 0.85 per share is voted, to set the dividends for fiscal years 2023 and 2024 at between 40% and 60% of net income, Group share (resolution B).

² <https://www.credit-agricole.com/en/pdfPreview/193620>

³ <https://www.danone.com/content/dam/danone-corp/danone-com/investors/en-all-publications/2022/shareholdersmeetings/addendumavisdeconvocation0422.pdf>

⁴ <https://www.agefi.fr/gouvernance/actualites/quotidien/20220330/actionnaires-danone-questionnent-role-president-d-340770#:~:text=Phitrust%20et%20cinq%20investisseurs%20ont,d'honneur%2C%20Franck%20Riboud.&text=Franck%20Riboud%2C%20l'ex%2D,pr%C3%A9sident%20d'honneur%20depuis%202017>

⁵ https://www.engie.com/sites/default/files/assets/documents/2022-03/ENG2022_BDC_ADDENDUM_EN_MEL.pdf

Orange

Two shareholder proposals⁶ were filed at Orange's AGM by the Orange Action savings plan's mutual fund (FCPE), but were rejected with dissent at over 81%. The FCPE Orange Action proposed:

- To amend the eighteenth resolution (Authority to issue up to 0.07% of free shares for use in performance share plans) to allocate free company shares to all group employees with the same regularity as the LTIP is awarded to Corporate Officers and certain employees of the Orange group (Resolution A);
- To amend an article of the company's bylaws regarding overboarding of directors (Resolution B).

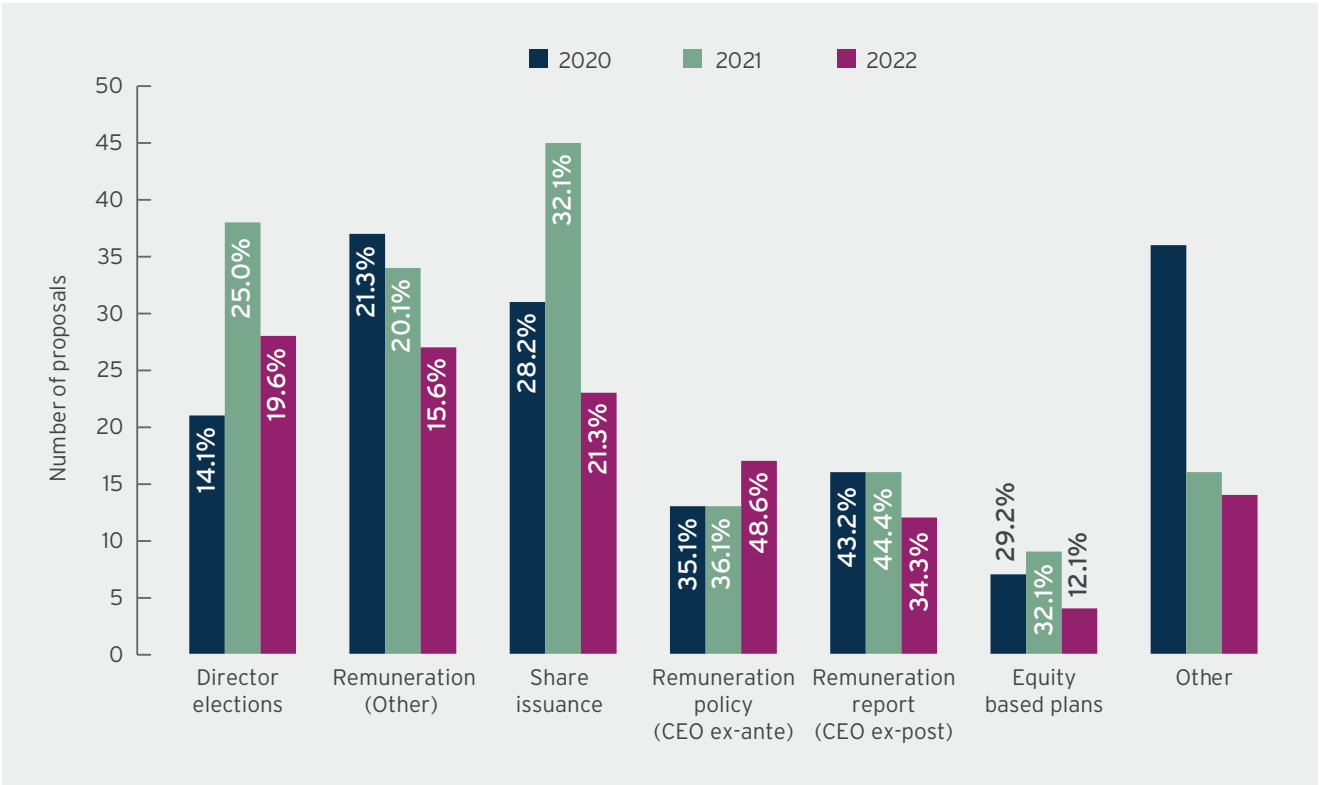
Both ISS and Glass Lewis had recommended against the shareholder resolutions proposed at Engie and Orange.

1.3 Contested agenda items

Among the 35 CAC40 companies in our sample that held their AGM between 1 July 2021 and 30 June 2022, 31 companies saw at least one resolution receive more than 10% shareholder opposition (compared to 29 in 2021). The total number of resolutions that received over 10% dissent amounted to 125 (excluding the rejected shareholder resolutions discussed in section 1.2), compared to 171 resolutions in 2021.

Resolutions related to remuneration received the highest share of contested votes (21.7%), followed by share issuance votes (21.3%), and then by director elections (19.6%).

Graph 3: Number of resolutions which received more than 10% against votes in the CAC 40 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



⁶ <https://www.orange.com/sites/orange.com/files/documents/2022-04/Notice%20of%20meeting%202022%20GM.pdf>

1.3.1 Remuneration-related resolutions: Binding vote on executive remuneration and remuneration policy

Since 2014, companies which refer to the AFEP-MEDEF Code have proposed an advisory vote on executive remuneration at their AGM.

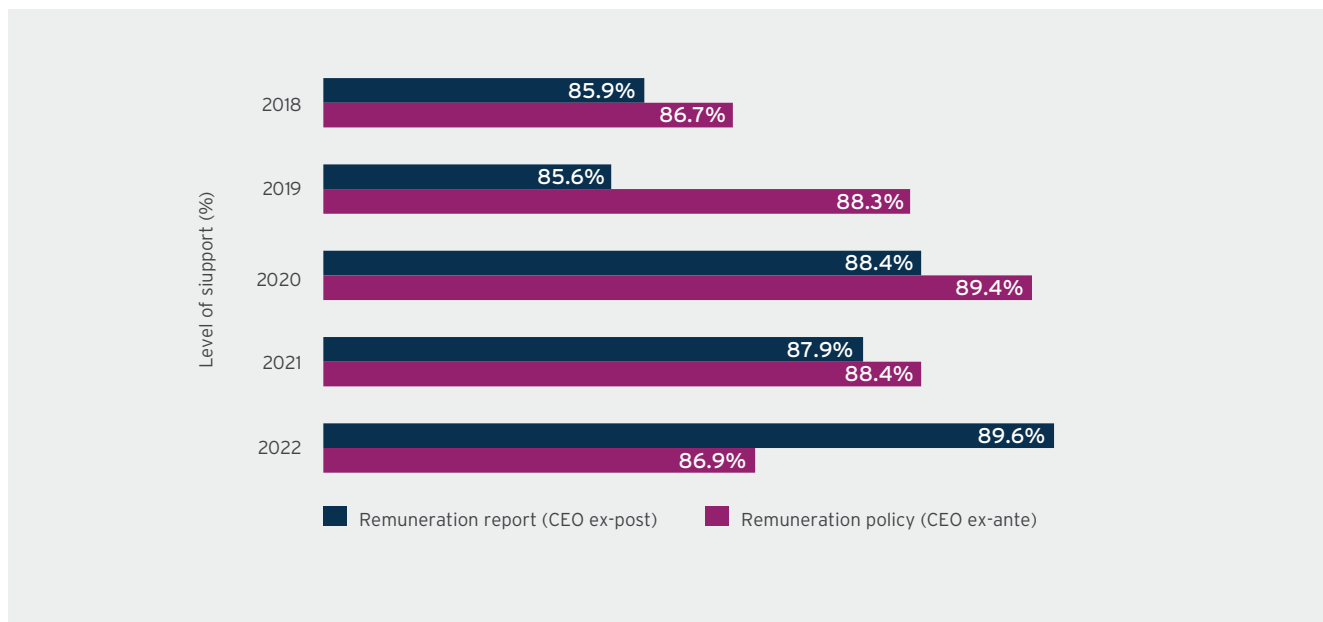
Since 2017, the remuneration policies for executive officers have had to be submitted annually for binding shareholder votes and since 2018, companies have also had to put forward binding annual ex post remuneration "report"-type votes. Since 2019, with the implementation of the SRD II provisions in French law, French companies are now required to put forward additional annual binding votes on the total remuneration granted to all corporate officers. Furthermore, the remuneration policy also has to cover post-employment benefits such as termination packages and pension schemes.

On average, we recorded an increase in the level of support for the votes on CEO ex post remuneration reports at the 2022 CAC40 AGMs (89.6% on average) compared to 2021 (87.9% on average).

However, the level of support for CEO ex ante remuneration policies decreased at this year's AGMs (86.9% on average in 2022 versus 88.4% in 2021). It should be noted that several companies proposed an increase of the CEO's annual fixed salary in their 2022 remuneration policy which could explain this higher level of dissent votes.

The below graph illustrates the average of the 35 CAC40 companies vote results on the CEO remuneration and on the CEO remuneration policy over the past five years.

Graph 4: Vote results for the binding vote on CEO remuneration and remuneration policies among the 35 CAC40 companies surveyed over the past five years



1.3.2 Director elections

Director elections remain an area of increased focus and negative votes. This year, at CAC40 AGMs, 28 director elections were contested. After the lack of independence on board, overboarding is the main driver behind investors opposition to board elections. An increasing number of investors have stricter director overboarding policies than ISS and Glass Lewis.

The five companies with the lowest level of support on director elections among our sample were:

- › Legrand (Edward A. Gilhuly – 56.74% in favour)
- › Vivendi (Philippe Benacin – 66.14% in favour)
- › Worldline (Johannes Dijsselhof – 67.72% in favour)
- › Carrefour (Charles Edelstenne – 73.18% in favour)
- › Danone (Geraldine Picaud – 75.06% in favour)

We note that both ISS and Glass Lewis recommended against the re-election of Philippe Benacin and Johannes Dijsselhof, while they supported the election of Geraldine Picaud. ISS opposed the re-election of Edward A. Gilhuly while the re-election of Charles Edelstenne was opposed by Glass Lewis.

1.3.3 Authorities to issue shares

In France, every two years issuers usually propose an array of resolutions requesting shareholders to authorise the board to issue shares with or without pre-emptive rights. Capital increase authorities are proposed as extraordinary agenda items (requiring a two-thirds majority of the voting rights cast).

This year, at CAC40 AGMs, 23 authorities to issue shares, including 20 without pre-emptive rights, received more than 10% negative votes.

Among the 35 CAC40 companies surveyed, the companies with the lowest level of support on these types of resolutions were:

- › Bouygues (authority to issue free warrants with pre-emptive rights during a public tender offer: 76% in favour)
- › Dassault Systèmes (authority to increase capital in connection with contribution in kind: 79% in favour)
- › TotalEnergies (three of its capital increase authorities registered between 80% and 83% positive votes).

We note that both ISS and Glass Lewis recommended against the resolution proposed by Bouygues and Dassault while they supported the authorities proposed by TotalEnergies.

2. PROXY ADVISORS

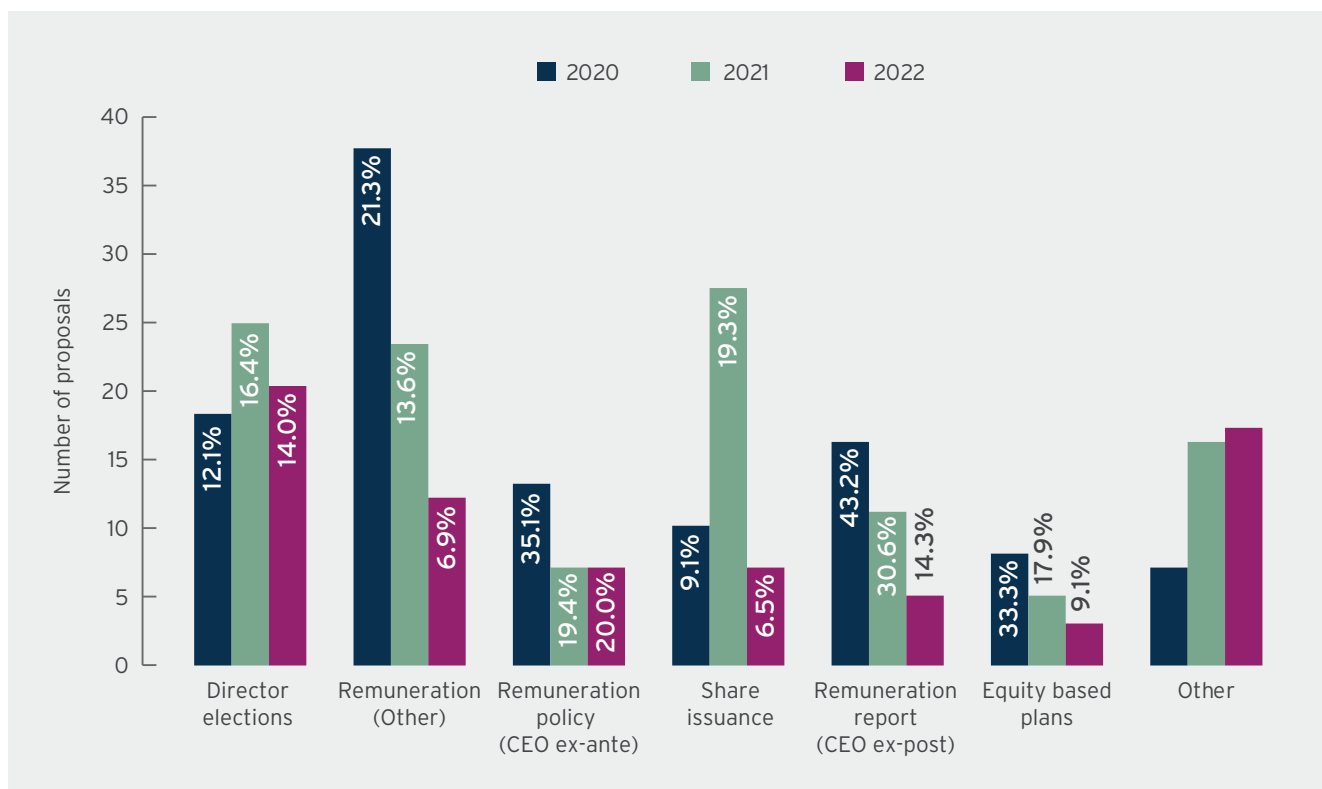
Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis and the AFG for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services⁷ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

Between 1 July 2021 and 30 June 2022, 19 companies out of the 35 CAC40 companies surveyed received at least one against recommendation from ISS. The approval of remuneration-related resolutions (which include executive remuneration and remuneration policy, equity incentive plans, severance pay agreements, pension schemes and non-compete agreements) are the resolutions which have received the highest number of against recommendations (27 resolutions). This is followed by director elections (20 resolutions) and share issuances (7 resolutions). The total number of against recommendations has significantly decreased from 114 in 2021 to 71 in 2022.

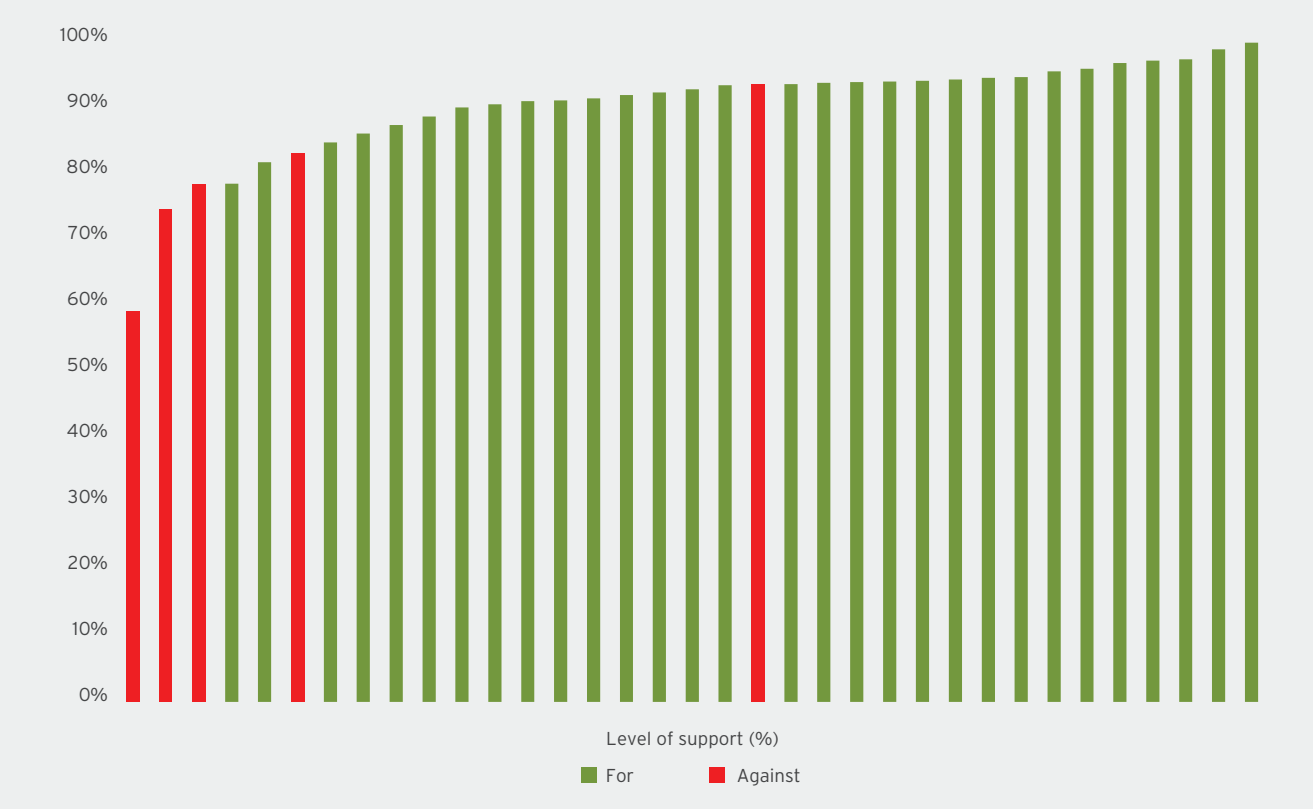
Graph 5: Overview of the number of negative recommendations by ISS at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



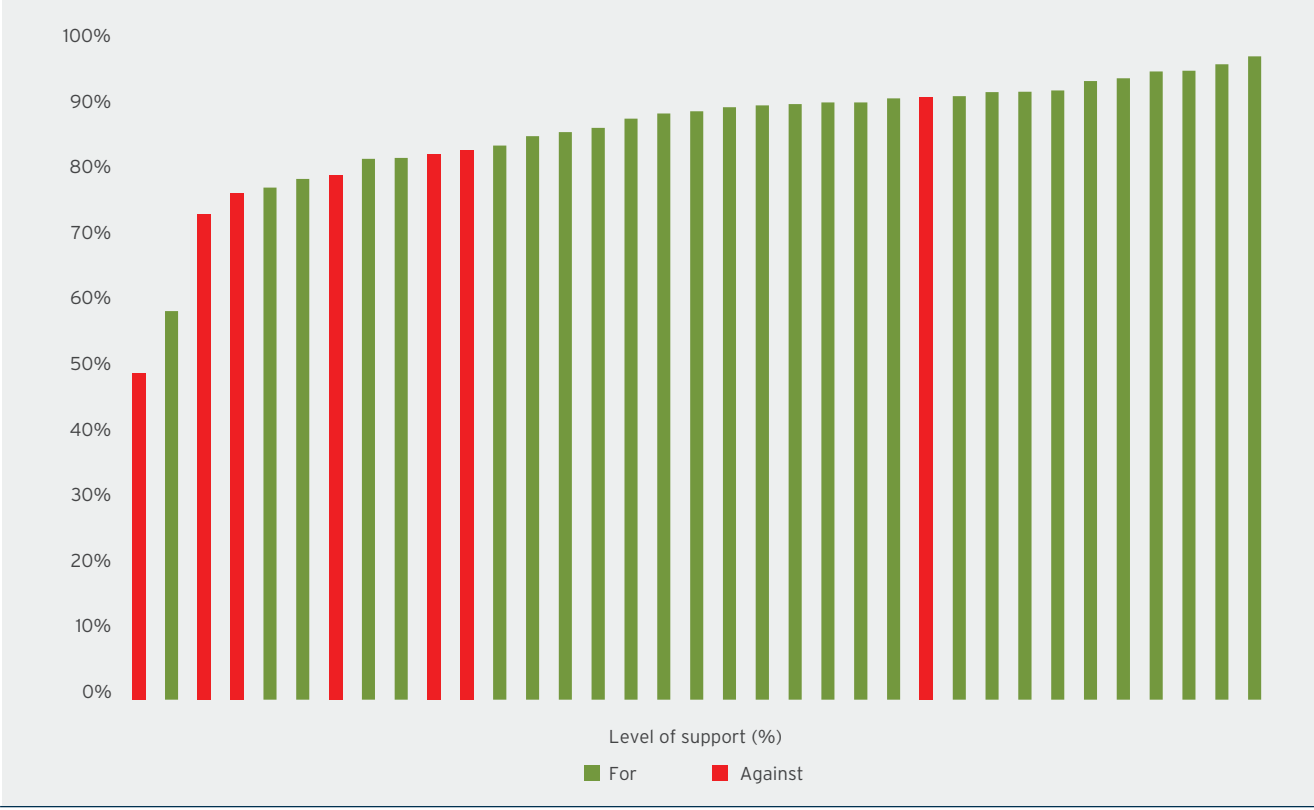
⁷ <http://www.issgovernance.com/about/about-iss/>

Below is an overview of the level of support for the binding vote on CEO remuneration among the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by ISS vote recommendation.

Graph 6: Level of support for the CEO remuneration (ex-Post) of the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by ISS vote recommendation.



Graph 7: Level of support for the CEO remuneration (Ex-Ante) of the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by ISS vote recommendation.



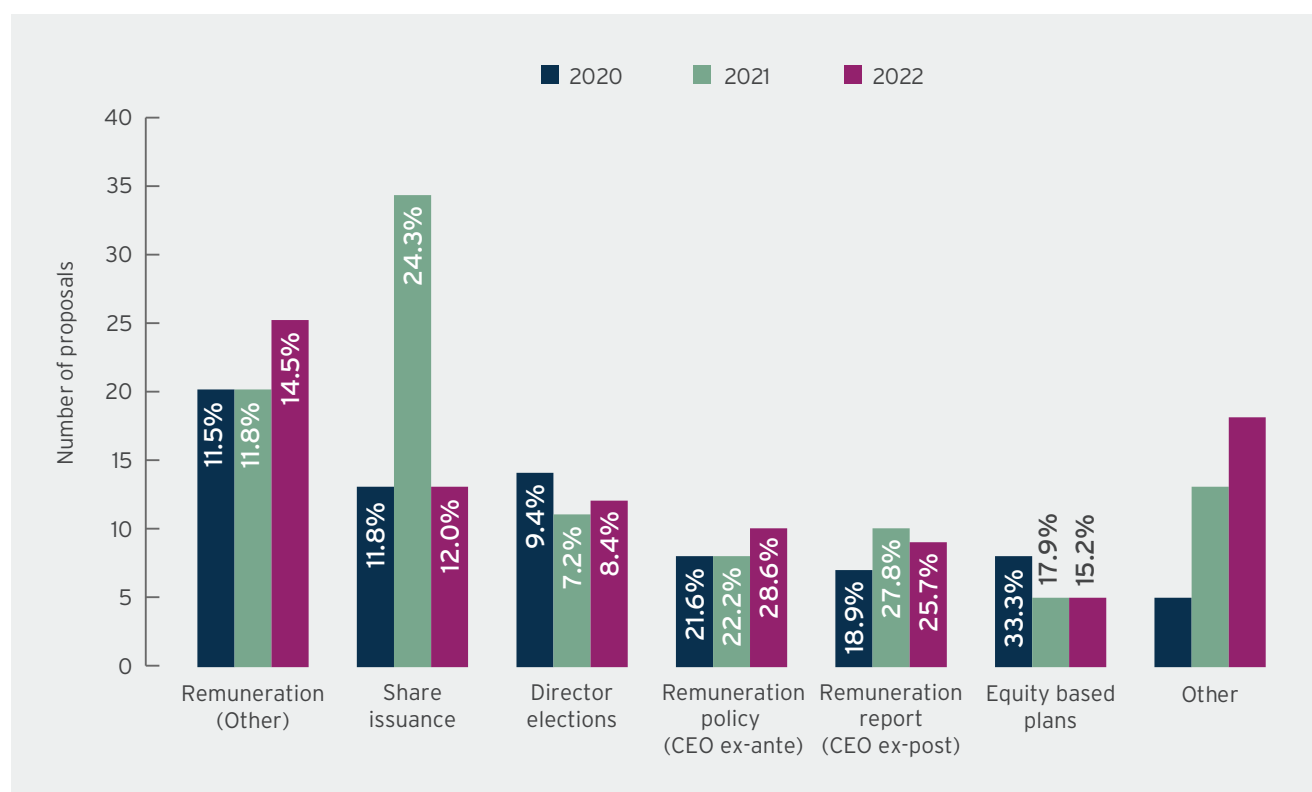
2.2 Glass Lewis

Glass Lewis⁸ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 July 2021 and 30 June 2022, 19 companies out of the 35 CAC40 companies surveyed, received at least one against or abstain recommendation from Glass Lewis. Remuneration-related resolutions are the resolutions that have received the highest number of against recommendations (49 resolutions). This is followed by equity issuances (13 resolutions) and director elections (12 resolutions).

Below is an overview of the number of negative recommendations by Glass Lewis at the 35 CAC40 AGMs we surveyed over the past three years. The total number of against or abstain recommendations has decreased from 101 in 2021 to 92 in 2022.

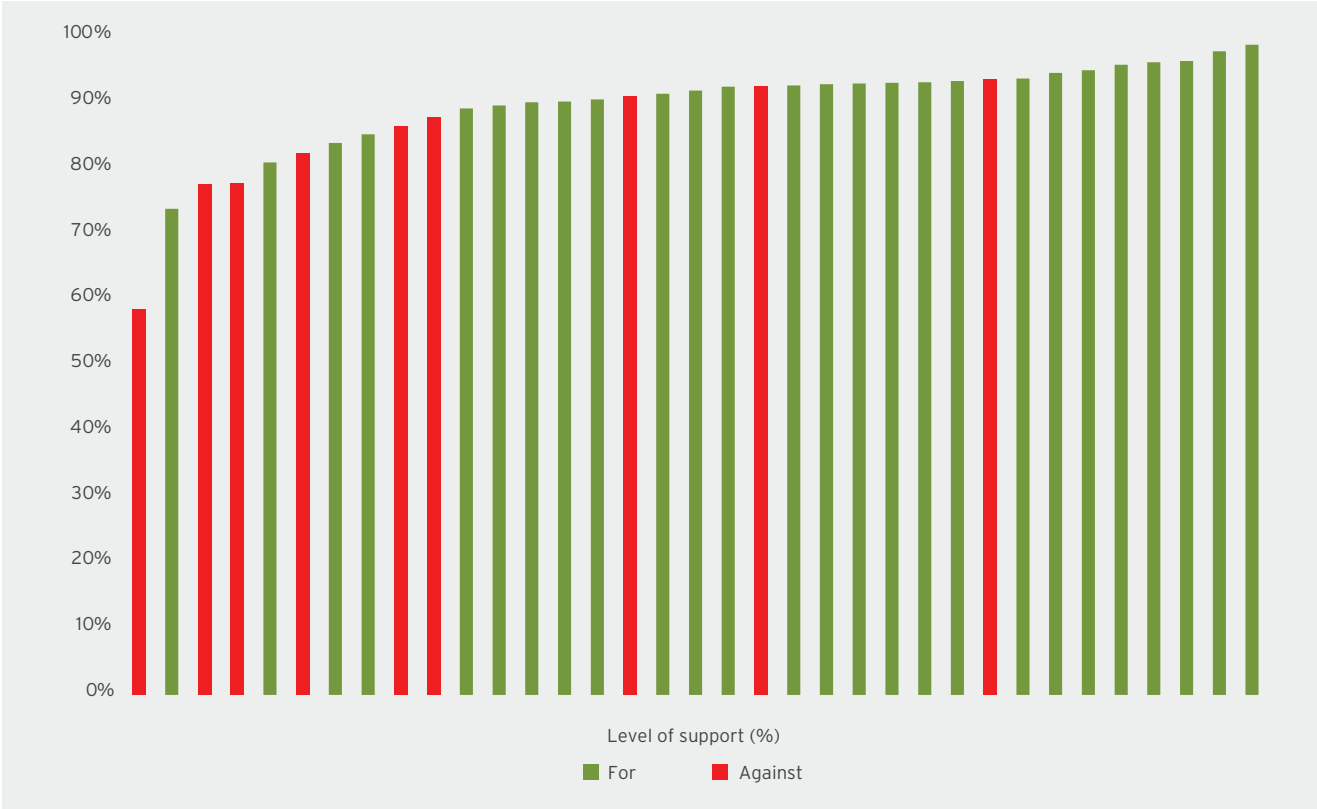
Graph 8: Overview of the number of negative recommendations by Glass Lewis at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



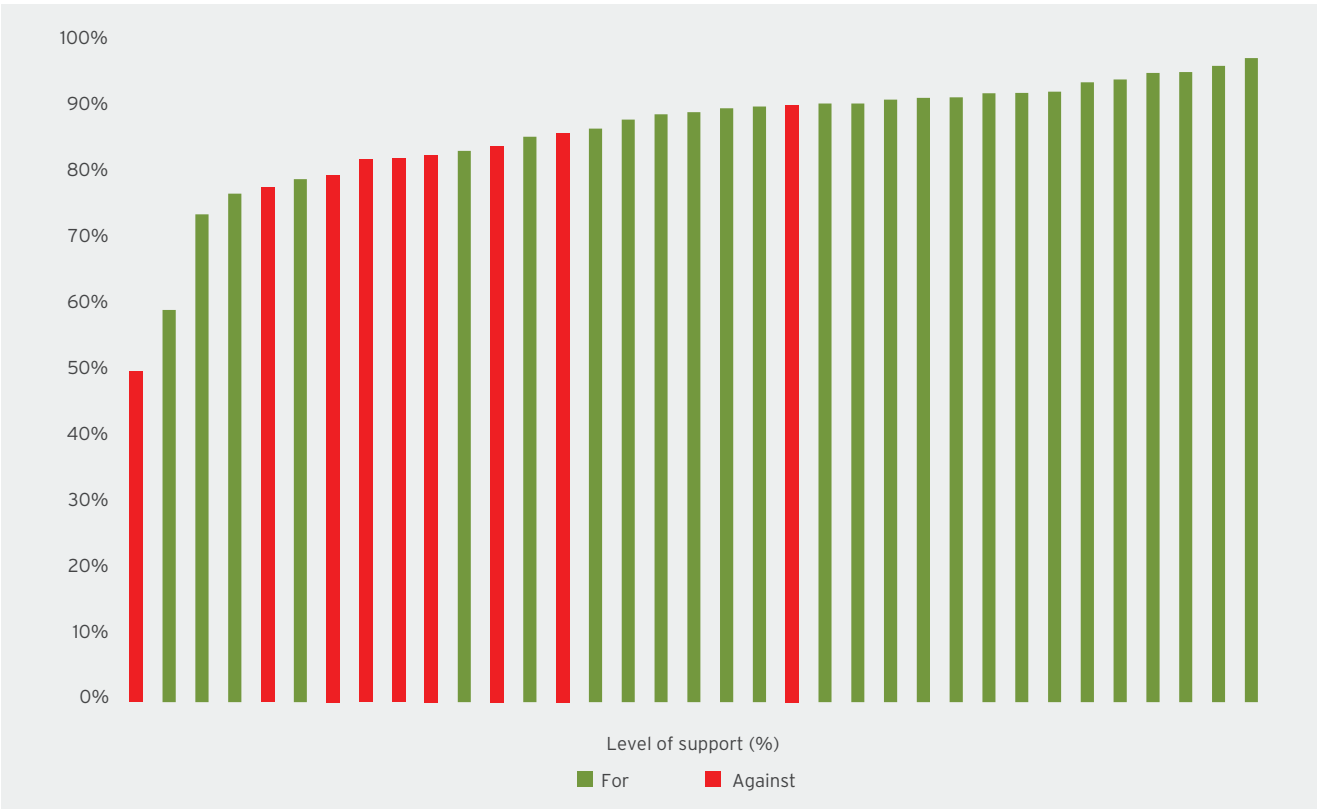
⁸ <http://www.glasslewis.com/about-glass-lewis/>

Below is an overview of the level of support for the CEO remuneration among the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by Glass Lewis vote recommendations.

Graph 9: Level of support for the CEO remuneration (Ex-Post) among the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by Glass Lewis vote recommendation.



Graph 10: Level of support for the CEO remuneration (Ex-Ante) among the 35 CAC40 companies surveyed (ordered by level of support) and colour coded by Glass Lewis vote recommendation.



2.3 AFG

The AFG (Association Française de la Gestion financière)⁹, the French asset management association, represents and promotes the interests of the French asset management industry. The AFG, via its alert programme, issues a report for each AGM in the SBF120 index which either highlights resolutions that do not comply with their code or states that all resolutions are in line with their code.

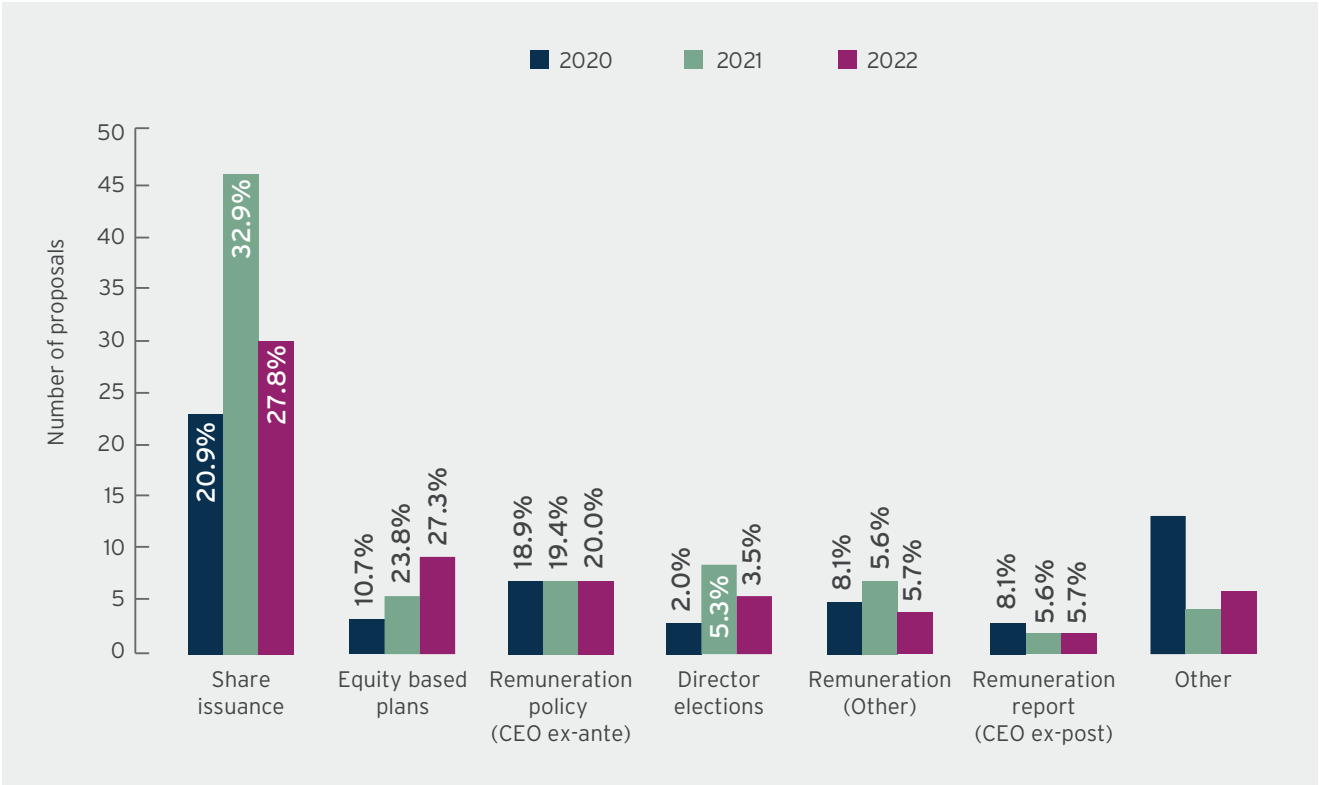
Between 1 July 2021 and 30 June 2022, 21 companies out of the 35 CAC40 companies surveyed received at least one alert from the AFG. The approval of share issuance authorities received the highest number of alerts (30 resolutions). This is followed by the approval of remuneration-related resolutions (22 resolutions).

Below is an overview of the number of alerts raised by the AFG at the 35 CAC40 AGMs we surveyed over the past three years. The total number of alerts has increased from 79 in 2021 to 63 in 2022.

Between 1 July 2021 and 30 June 2022, 21 companies out of the 35 CAC40 companies surveyed received at least one alert from the AFG.

⁹ <http://www.afg.asso.fr/en/afg/about-us/overview-2/>

Graph 11: Overview of the number of alerts raised by the AFG at CAC40 AGMs over the past three years. The percentages represent the ratio between the number of proposals that received an alert and the total number of proposals in each category.



3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 AMF Annual Report on Corporate Governance

On December 2021, the Autorité des marchés financiers ("AMF"), the French securities regulator, published its Annual Report on Corporate Governance and Executive Compensation in listed companies .

"Against the backdrop of the health crisis, the 2021 annual report is the opportunity to review the functioning of shareholders' meetings in France within the context of the restrictions imposed by exceptional legislation. The report reiterates the importance for shareholders of listed companies to be offered, in addition to the right to attend general meetings "in person", voting and participation procedures that enable them to exercise their powers – live and remotely – under conditions similar to those available to them at general meetings. Because this is an important issue for the future of the financial community, the AMF stresses the importance and usefulness of the work that some industry associations are currently undertaking on the development of "hybrid" general meetings. The AMF will be interested to learn about the findings and any recommendations that emerge from this work, including any regulatory changes that might be needed to support the development of hybrid general meetings and live remote voting in France."

The report also reviews the information provided by companies on executive compensation and discusses the issues of the adjustments to the criteria for determining 2020 compensation. The AMF notes in its report that "these adjustments raise the question of the respective roles of the board of directors and the general meeting, and the question of the extent of the board's discretionary power in assessing performance and determining compensation."

For the second year running, the report also examines the information provided by proxy advisers. The three proxy advisory firms whose information was reviewed by the AFM are ISS, Glass Lewis and Proxinvest. "The AMF points out that the disclosure of conflicts of interest and managing them is a key consideration for investors. For example, a proxy advisor with sources of income from both investors and issuers is in a structural conflict of interest situation."

3.2 AFEP-MEDEF – High Committee on Corporate Governance's Report

In June 2013, the AFEP-MEDEF formed The High Committee on Corporate Governance (HCGE), a High Committee responsible for monitoring the implementation of their Code.

In January 2014, the HCGE published its Guide d'application du code de gouvernement d'entreprise ("Guide on the application of the Corporate Governance Code"). This guide provides details on how issuers are intended to implement the AFEP-MEDEF's Corporate Governance Code. Companies are required to explain any non-compliance of the AFEP-MEDEF Code to the AFEP-MEDEF High Committee and publish the explanation in their annual report. The High Committee published its first activity report at the end of that year.

In November 2021, the HCGE published its 8th Annual Report :

"An analysis of the information on governance and compensation published in 2021 by SBF 120 companies shows that the degree of compliance with the Code's provisions is increasing on major subjects, in a context of mature governance.

The report explains the positions taken by the High Committee in 2021, notably on the qualification and consequences of a general and lasting conflict of interest concerning directors, on the independence or non-independence of former directors of a subsidiary and on the review of directors' independence in the event of business ties between the director and the company. It emphasised the progress made, and to be continued, in the presence of directors representing employees on the Compensation Committee and provided details on the organisation of meetings of Board members without the presence of executive directors.

Lastly, the High Committee continued its analyses of the implementation of targets for the number of women in management bodies and of ratios on pay differentials. On gender diversity, it emphasised the progress made and reaffirmed the need for ambitious, quantified action plans that include targets for increasing the number of women at the highest levels of management.

Concerning the ratios on pay differentials, it asks that the perimeter of the entity or entities taken into account be clearly mentioned, while explaining the reasons and the relevance of the perimeter chosen."

3.3 The AFG published updated recommendations

In January 2022, The AFG (French Asset Management Association) published an updated version of their Corporate Governance Recommendations for General Meetings and Boards of Directors of listed companies ahead of the general meeting season. It is intended to help management companies in their voting practices:

The main 2022 updates focus on the following points:

- › A transparency prior to voting on the financial accounts
- › One share, one vote, pillar of a good governance
- › Executives' remuneration
- › Risks analysis

As of mid-2020, women accounted for 21% on average of the main French-listed companies' Executive Committees (SBF 120).

3.4 The French 30% Club Investor Group Report on Gender Diversity in French Companies

The French 30% Club Investor Group was established in November 2020 when six French asset management companies came together to promote better gender diversity within the SBF120's executive management teams to reach at least 30% by 2025:

"In France, under the Copé-Zimmermann law, listed companies have been required to have a minimum of 40% of women on the Board of Directors since 2017. As a natural second step, gender diversity is expected to trickle down from the board to reach all executive management layers.

As of mid-2020, women accounted for 21% on average of the main French-listed companies' Executive Committees (SBF 120). Their roles are predominantly functional: only 12% of operational roles in SBF 120 Executive Committees are held by women.

As investors, we believe both boards and executive management teams that genuinely embrace cognitive diversity, as manifested through appropriate gender representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for investors."

In January 2022, the Group published a report¹⁰ entitled Driving Gender Diversity in French Companies – The state of play in 2021. The report includes key observations from the group regarding gender diversity in France.

¹⁰ https://30percentclub.org/wp-content/uploads/2022/01/30Club_France_Diversity_Report_Final.pdf

REJECTED BOARD PROPOSALS

1

AVERAGE QUORUM

63.1%

RESOLUTIONS
WITH OVER 10% OPPOSE

12.6%

COMPANIES
WITH OVER 10% OPPOSE

80.0%

Switzerland / SMI



The average quorum across the SMI increased from 62.6% in 2021 to **63.1% in 2022**.

Across the SMI, **one board-proposed AGM resolution was rejected by shareholders**, the management discharge of Credit Suisse Group AG.

The number of SMI companies that had at least one contested proposal (less than 90% support) was 16. **The overall number of contested resolutions decreased from 106 in 2021 to 58 in 2022.**

Across the SMI the voluntary advisory vote on the remuneration report was **contested in 38.9% of cases** (7 out of 18). This is lower than the share of contested remuneration reports in 2021 when ten out of the seventeen advisory votes were contested by shareholders.

The mandatory remuneration proposals in the SMI saw a fall in opposition in 2022 compared to the previous year. **The share of binding votes on executive remuneration that were contested in 2022 was 19.4%**, compared to 23.1% in 2021.

2022 saw a notable decrease in opposition to compensation committee elections resolutions. In 2022, 14 resolutions were contested compared to 36 resolutions in 2021. This corresponds to a 27.2 percentage point drop from 2021 in the share of contested compensation committee elections.

Decreased opposition to director elections was observed in the SMI in 2022. 20 resolutions were contested compared to 35 in 2021. This corresponds to an **8.5 percentage point drop from 2021** in the share of contested board election votes.

ISS recommended negatively on 14 resolutions in 2022, compared to 47 resolutions in 2021.

Glass Lewis recommended negatively on 17 resolutions in 2022, compared to 38 resolutions in 2021.

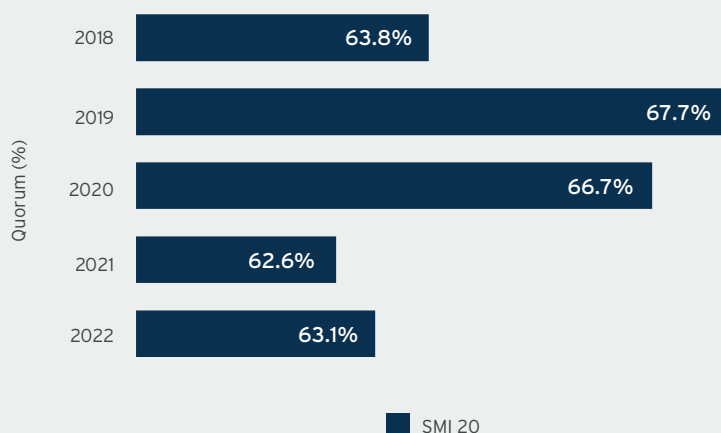
1. VOTING IN SWITZERLAND

1.1 Quorum overview

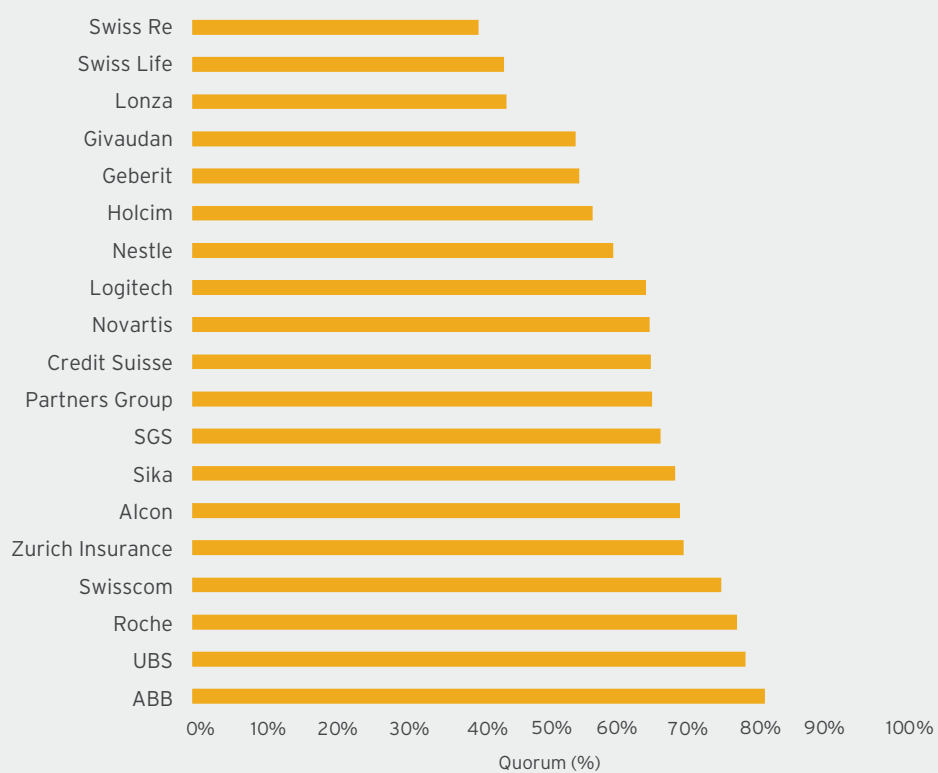
Georgeson has reviewed the quorum levels of the 20 companies which comprise the SMI¹ index over the past five years. We have considered companies which comprised the index on 31 May 2022 and held their AGM between 1 July 2021 and 30 June 2022.

The average quorum for the SMI was 63.1% during the reporting period. This represents an increase of 0.5 percentage points compared to 2021 and over quorum levels in 2018.

Graph 1: Average AGM quorum levels in the SMI between 2018 and 2022.



¹ The SMI is Switzerland's most important stock index and comprises the 20 largest equities in the SPI (a selection of companies which includes all Swiss companies listed on the SIX Swiss Exchange). The SMI represents about 80% of the total capitalisation of the Swiss equity market. See here: <https://www.six-group.com/dam/download/market-data/Indices/equity-indices/six-factsheet-smifamily-en.pdf>

Graph 2: Quorum levels at SMI companies during the 2022 reporting period.

1.2 Rejected resolutions

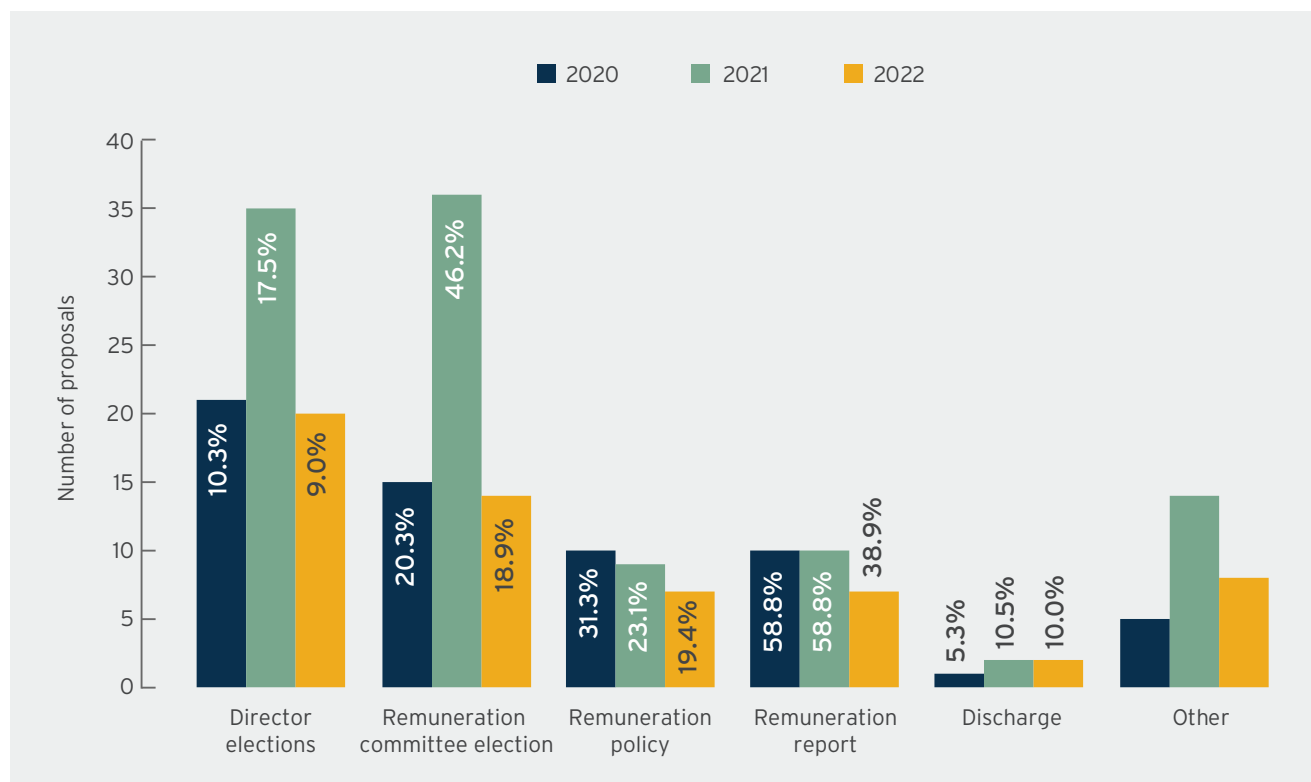
SMI

Among SMI companies, only one management proposal was rejected by shareholders, the discharge of the Management Board at Credit Suisse Group.

In a press statement, issued by Credit Suisse Group following the AGM, the company stated: "Together with the newly elected and re-elected Board members I [Alex P. Lehman, Chair] am deeply committed to continuing to strengthen Credit Suisse and re-building the trust that our stakeholders deserve. We are clear on what Credit Suisse must stand for: a strong client focus, and the right risk and 'speak-up culture' to create lasting value for our shareholders, clients, employees and regulators. I am convinced we are on the right path forward."

In advance of the 29 April 2022 AGM, media outlets had reported² that both proxy advisors, ISS and Glass Lewis, had recommended their clients to vote against the discharge of the management citing a "range of risk and control issues revealed by investigations and settlements, which have entailed substantial monetary and reputational costs for the company, and by extension its shareholders".

Graph 3: Number of resolutions which received less than 90% support votes in the SMI (by resolution type). The percentages represent the ratio between the number of proposals that received less than 90% support and the total number of proposals in each category.



² <https://www.reuters.com/article/credit-suisse-gp-agm-iss-idUSFWN2WA1HL>

³ https://www.richemont.com/media/t5hi0pxl/minutes-of-the-general-meeting-held-on-9-september-2020_.pdf

1.3 Contested resolutions

The number of SMI companies who saw at least one resolution receive more than 10% shareholder opposition was 16 in 2022. The total number of resolutions that received less than 90% support amounted to 58 in 2022, compared to 106 in 2021.

It should be noted that all vote results in this section exclude Compagnie Financière Richemont³ which at the time of this writing only confirmed that their resolutions were approved by shareholders but did not provide a breakdown of their voting results for each resolution. Furthermore, it should be noted that the Articles of Associations of some SMI companies do not count abstention votes for certain types of resolutions.

In our SMI sample, the most commonly contested resolutions were director elections (20). The second most commonly contested resolutions related to remuneration committee elections (14), followed by the binding votes on executive remuneration (7) and the advisory votes on remuneration reports (7).

1.3.1 Director elections

Swiss companies are required to hold annual votes to (re-)elect all non-executive directors on an annual basis. Furthermore, shareholders must vote on the position of the chair and all members of the compensation committee must be confirmed with a separate shareholder vote for each member (please also see 1.3.2).

As in prior years, it appears that the main reasons for investors to vote against the election of directors were related to the overall independence of the board, its committees and the number of external positions held by individual board members. In addition, international investors and proxy advisors have increased their focus on board diversity, having lead to an increased number of against votes for the chair of the nomination committee for companies with insufficient gender diversity on the board.

A trend among institutional investors is that some are lowering the maximum number of mandates they allow directors to hold before considering them overboarded, with a growing number of investors now only allowing a total of four board positions, while counting the role of chair double. In addition, a number of institutional investors will also count mandates at non-listed companies and may include other mandates e.g. at international organisations, premiums or academic teaching positions.

The companies with the highest level of opposition on director elections among our sample were:

- Alcon (Keith Grossman – 65.7% votes in favour)
- Credit Suisse Group (Ana Pessoa – 69.5% votes in favour)
- Swiss Life Holding (Monika Bütler – 77.0% votes in favour)

1.3.2 Compensation committee elections

Until 2014, shareholders were only able to vote on the election of directors, but not on their memberships of board committees. Since the implementation of the 'Minder' Ordinance, shareholders have the opportunity to vote on the election of directors to serve on the compensation committee. Based on investor feedback collected by Georgeson, some institutional investors have used the election to express their dissatisfaction against certain pay practices at Swiss issuers. This may be in addition to a vote against the remuneration report or executive and/or non-executive compensation put up for a shareholder vote.

As this represents a separate voting item, investors are able (for example) to support the election of a candidate to the Board but oppose their election to the compensation committee.

The companies with the highest level of opposition on compensation committee member elections in the SMI were:

- Holcim (Claudia Ramírez – 77.9% votes in favour)
- Swiss Life Holding (Klaus Tschütscher – 80.6% votes in favour)
- Credit Suisse Group (Michael Klein – 81.6% votes in favour)

1.3.3 Binding votes on Executive Remuneration

In Switzerland, the general meeting of shareholders has to vote on an annual basis on the compensation of the board of directors, of the executive management, and of the advisory board.

The articles of association must define the details of the vote and the steps to take in case the proposals are rejected. The votes have a binding effect. The ordinance allows companies to implement either prospective or retrospective binding votes on the quantum of fixed and variable remuneration, while votes on the remuneration report or policy are not required.

In order to comply with the ordinance, most SMI companies opted for a forward looking binding vote on an overall budget covering both fixed and variable executive remuneration, and a forward looking binding vote on a

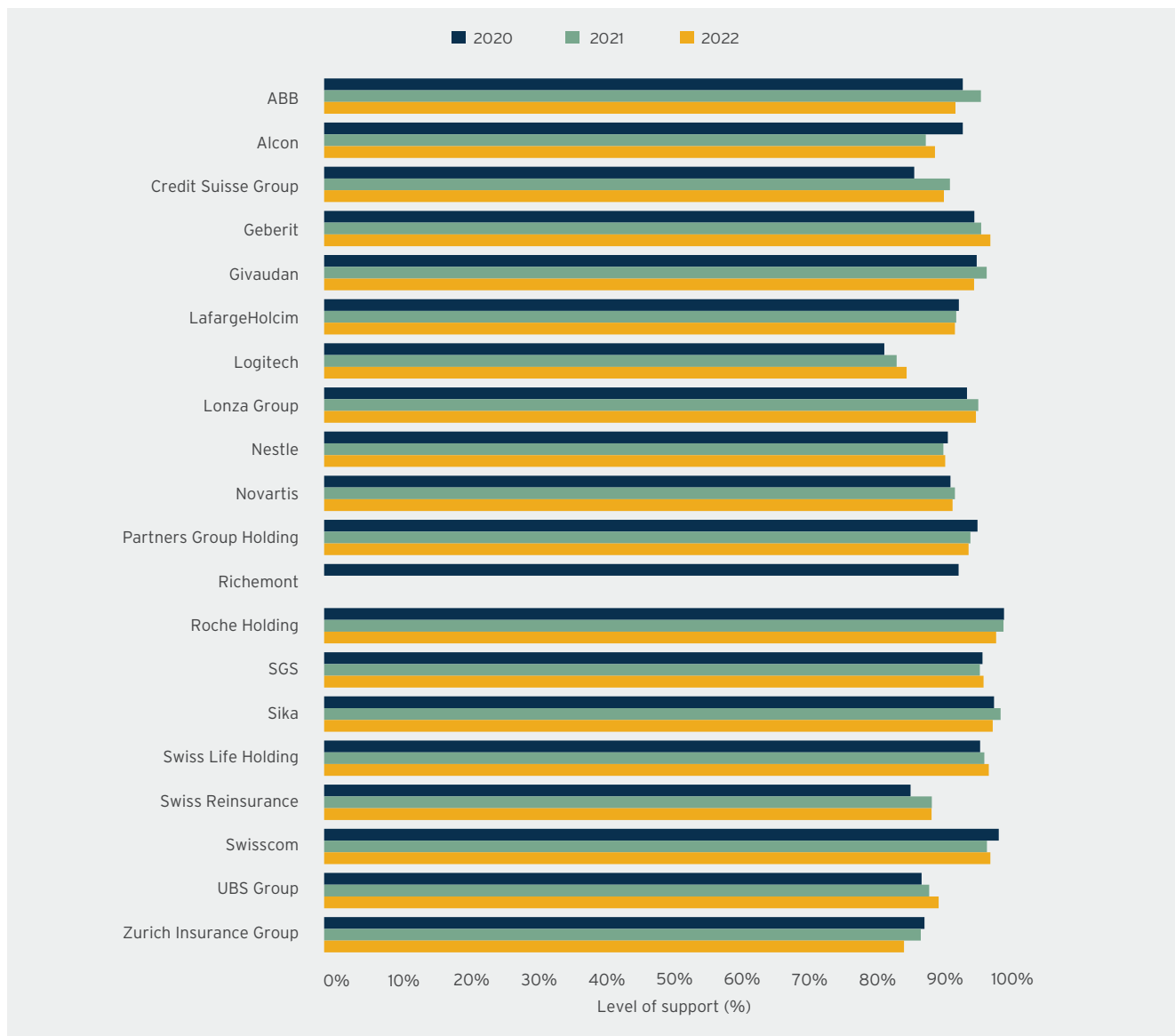
budget for non-executive fees. Many companies consider this to be the least risky option as a failed binding retrospective vote may involve a legal obligation to claw back remuneration to an extent that is not practicable.

However, in order to complement the binding votes required by the ordinance, 18 out of 20 SMI companies have continued to propose a voluntary advisory vote on their remuneration report. This allows shareholders to express a backward-looking view on the way companies have used the budget and the level of disclosure provided on their remuneration decisions.

The companies with the lowest level of support on the binding vote on executive compensation in the SMI were:

- > Credit Suisse Group (84.0% – votes in favour)
- > Zurich Insurance Group (85.0% – votes in favour)
- > Logitech International (85.4% – votes in favour)

Graph 4: Level of support for the binding vote of executive remuneration over three years at the SMI companies surveyed



1.3.4 Advisory vote on the remuneration report

Even though a binding vote on remuneration was introduced under the 'Minder' Ordinance, the majority of Swiss issuers continue to voluntarily offer shareholders an advisory vote on the remuneration report. This practice is aligned with the Swiss Code of Best Practice for Corporate Governance⁴.

This practice allows shareholders to express their satisfaction or dissatisfaction retrospectively over the payments made to executives and non-executives as well as the disclosure provided in the remuneration report of the past financial year.

Of the 20 SMI companies, 18 companies submitted a vote on their remuneration report during the 2022 proxy season. The exceptions were Compagnie Financière Richemont and Roche, which did not put their remuneration report up for an advisory shareholder vote in connection with their 2022 AGM.

Of the 18 SMI companies which published results for their advisory vote on the remuneration report, seven received opposition in excess of ten percent compared to ten last year.

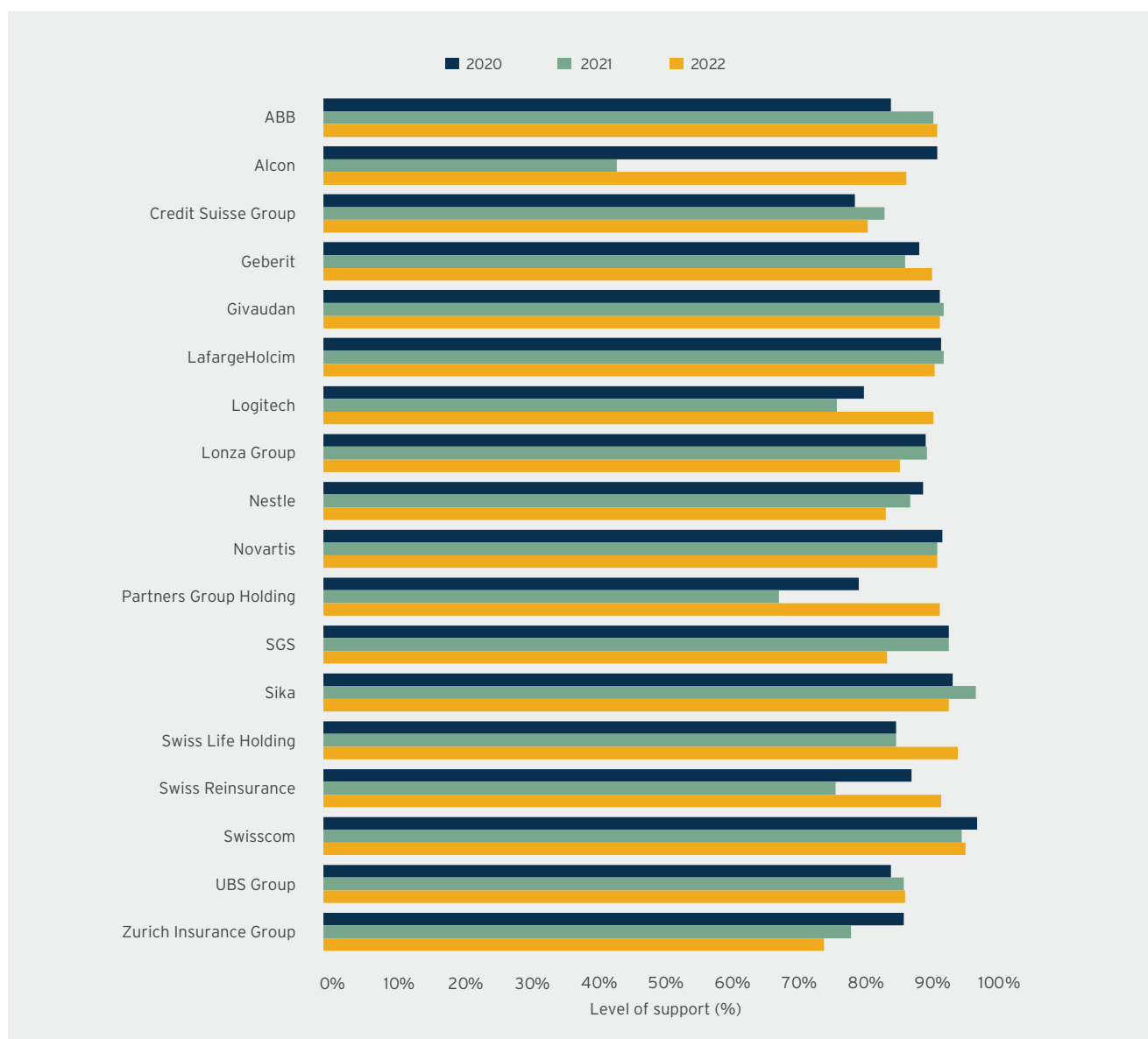
The companies with the lowest level of support on the remuneration report were:

- › Zurich Insurance Group (74.5% – of votes in favour)
- › Credit Suisse Group (81.1% – of votes in favour)
- › Nestle (83.8% – of votes in favour)
- › SGS (83.9% – of votes in favour)
- › Lonza Group (85.9% – of votes in favour)

Even though a binding vote on remuneration was introduced under the 'Minder' Ordinance, the majority of Swiss issuers continue to voluntarily offer shareholders an advisory vote on the remuneration report.

⁴ https://ecgi.global/sites/default/files/codes/documents/swiss_code_26sep2014_en.pdf

Graph 5: Level of support for the advisory vote on the remuneration report over three years at the SMI companies surveyed.



1.3.5 Discharge board and senior management

Issuers in Switzerland are required to place a discharge vote for their board and senior management on the AGM agenda. While there are no immediate legal consequences for failing to pass this resolution, according to Article 758 of the Swiss Code of Obligations⁵ shareholders who do not vote in favour of the discharge or who have acquired shares following the ratification, have a six month period to file claims against the company. However, the discharge from liability is binding for any shareholder who voted in favour of the proposal, reacting to any misconduct or offences which were known at the time the discharge vote took place. As this may restrict claims against board members, a number of shareholders have decided to routinely vote against the discharge.

A high level of opposition on the discharge vote is often a result of ongoing investigations against a company, concerns about its performance or discontent with a single or multiple members of the board or senior management. The resolution may be presented by the company in a single vote or as individual discharge resolutions by board/senior management member. There have been occasions when the company has decided to postpone the discharge vote to a future AGM date, especially if investigations were still ongoing at the time the AGM would have routinely voted on the discharge of the past financial year.

The company with the highest level of opposition to their discharge vote in our sample was Credit Suisse Group (Discharge of Board and Management Acts – Excluding Supply Chain Finance Funds Matter – 37.5% votes in favour).

⁵ <https://www.admin.ch/opc/de/classified-compilation/19110009/index.html#a758>

2. PROXY ADVISORS

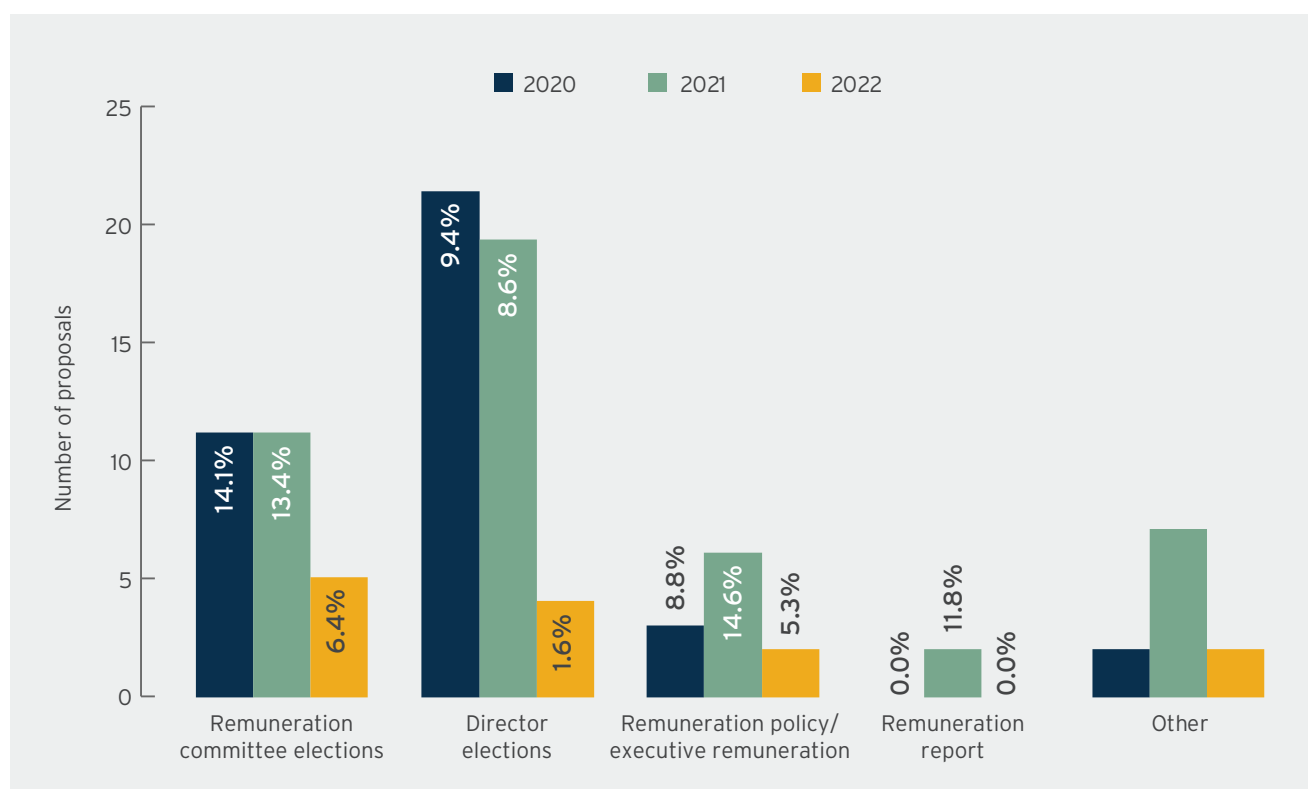
Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis and Ethos (ECGS), for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

2.1 ISS

Institutional Shareholder Services⁶ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

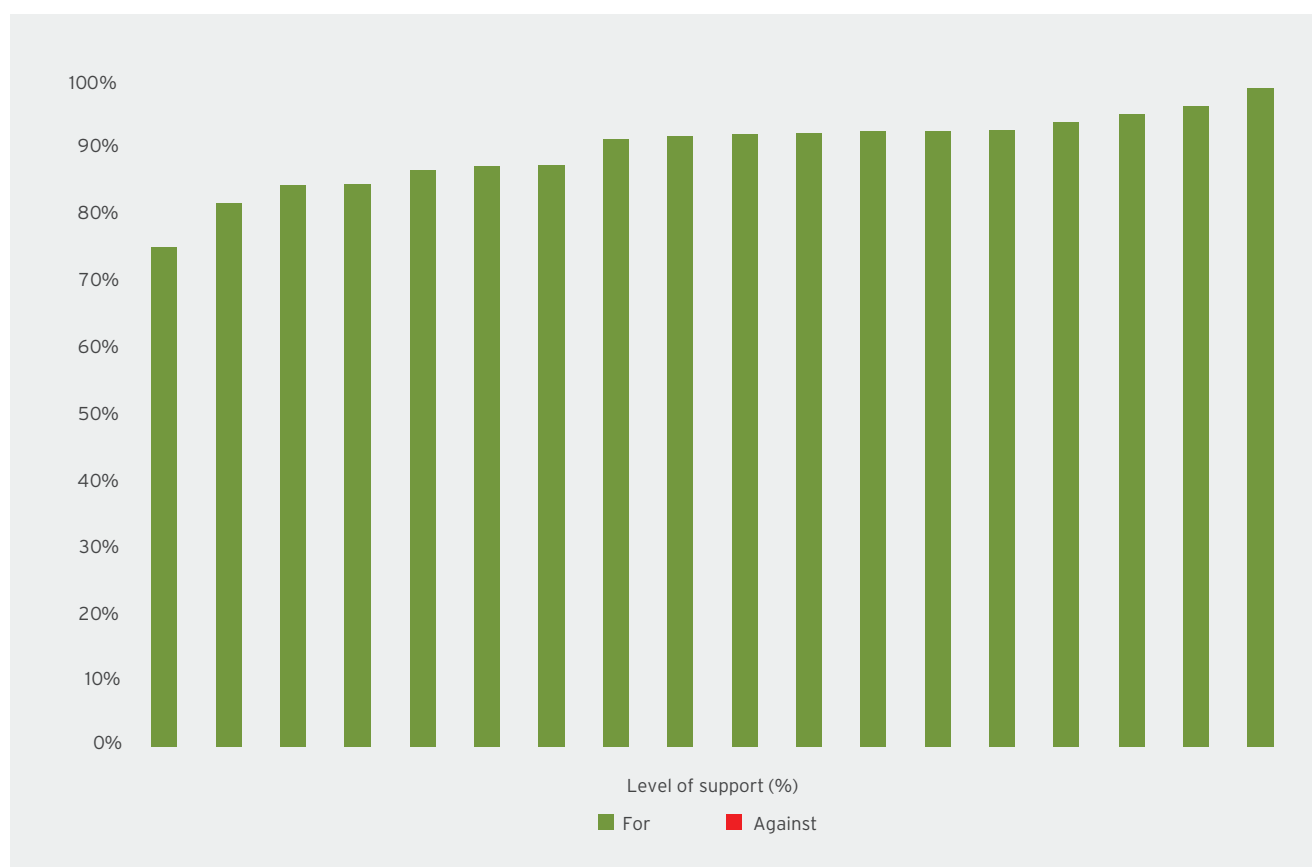
During the 2022 reporting period, 7 companies of the SMI received at least one against/abstain recommendation from ISS, compared to 8 in 2021. The total number of resolutions where ISS recommended a vote against amounted to 14 in 2022, compared to 42 in 2021.

Graph 6: Overview of negative recommendations by ISS at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



⁶ <https://www.issgovernance.com/about/about-iss/>

Graph 7: Level of support for the advisory vote on the remuneration report among the SMI companies surveyed⁷ (ordered by level of support) and colour coded by ISS vote recommendations



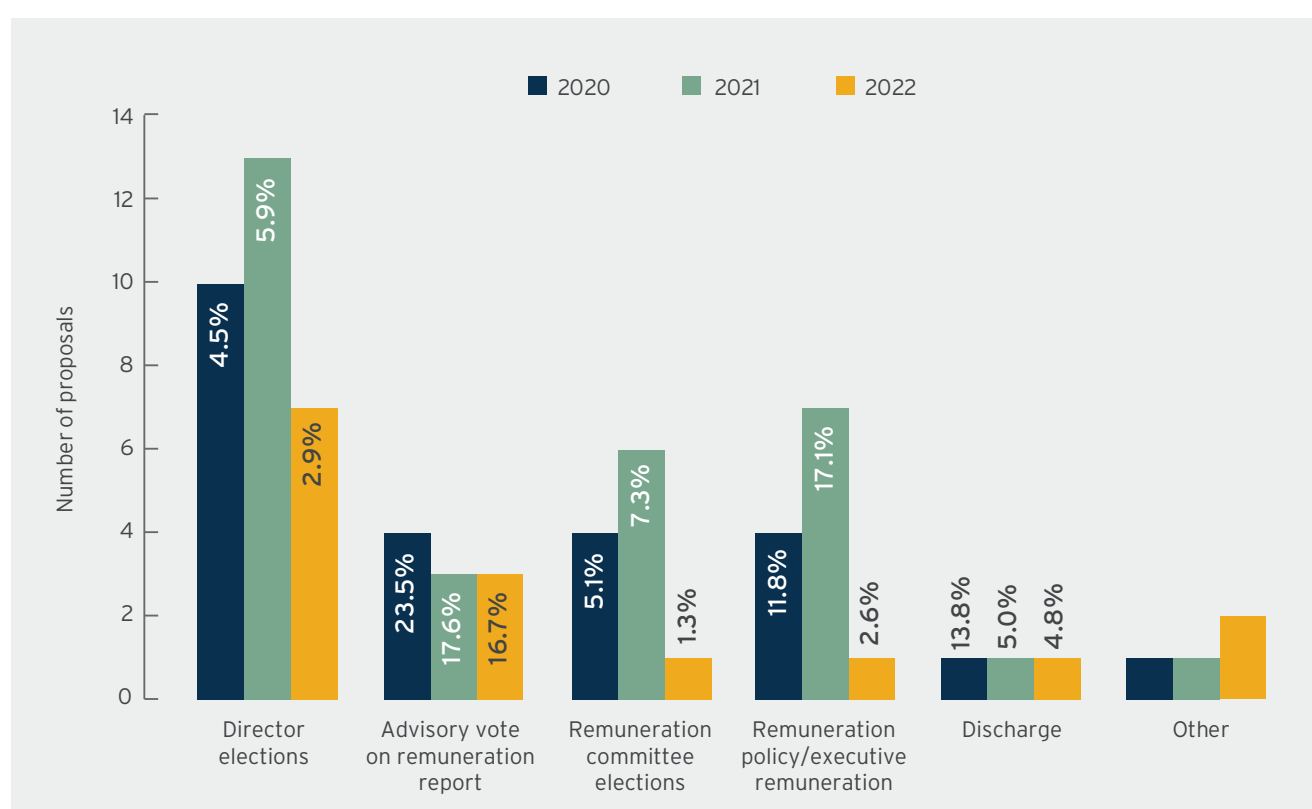
⁷ Excludes Compagnie Financière Richemont and Roche Holding AG as the companies did not put forward a vote on the remuneration report.

2.2 Glass Lewis

Glass Lewis⁸ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

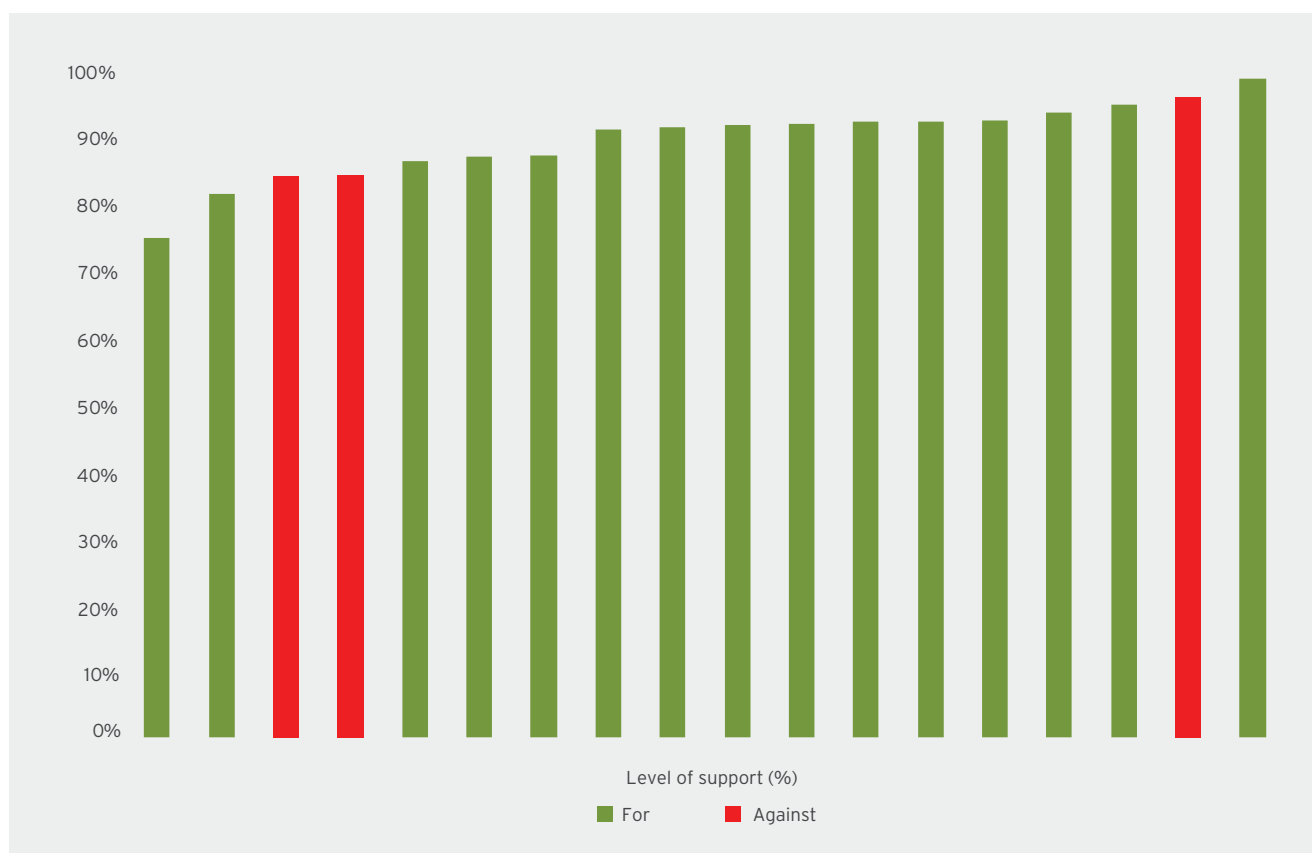
During the 2022 reporting period, 9 companies out of the SMI received at least one against/abstain recommendation from Glass Lewis, compared to 11 in 2021. The total number of resolutions where Glass Lewis recommended its clients to vote against amounts to 17, compared to 31 in 2021.

Graph 8: Overview of the number of negative recommendations by Glass Lewis at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



⁸ <http://www.glasslewis.com/about-glass-lewis/>

Graph 9: Level of support for the advisory vote on the remuneration report among the SMI companies surveyed⁹ (ordered by level of support) and colour coded by Glass Lewis vote recommendations



⁹ Excludes Compagnie Financière Richemont and Roche Holding AG as the companies did not put forward a vote on the remuneration report.

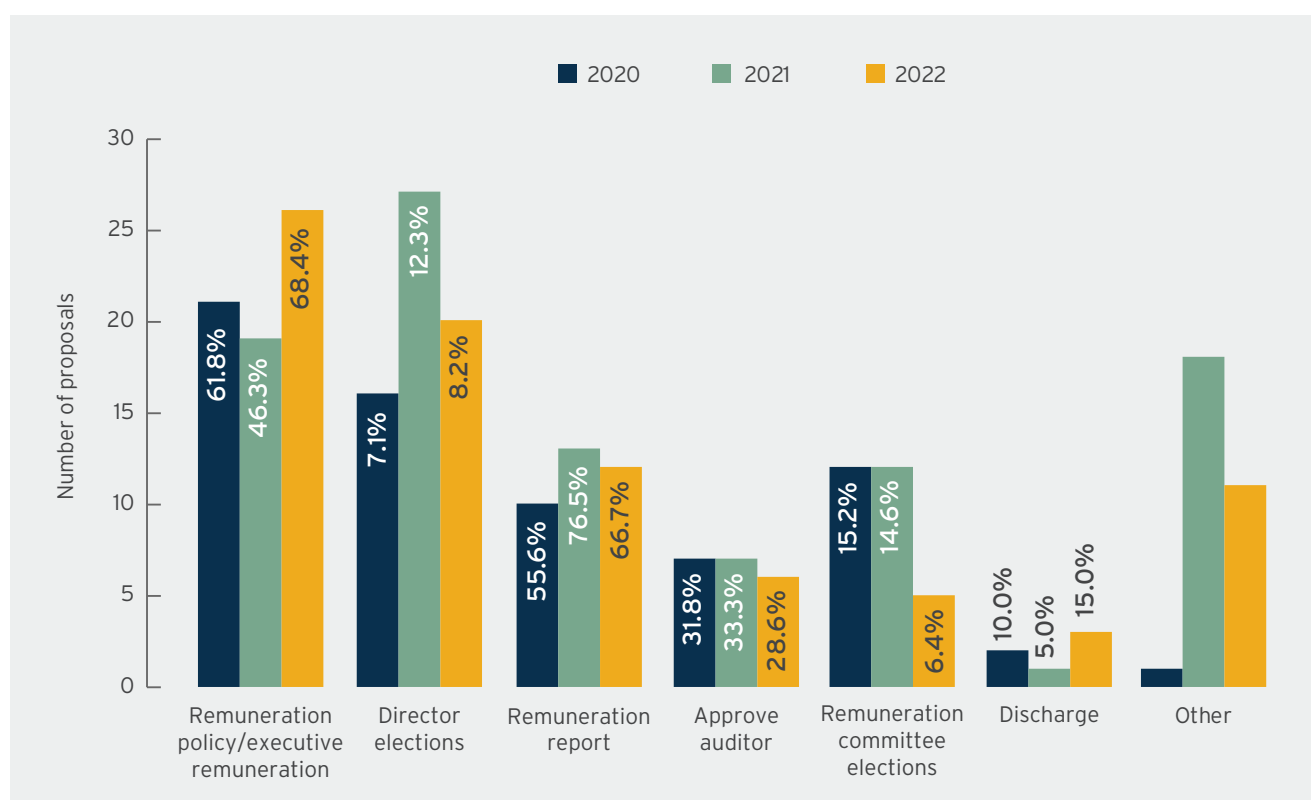
2.3 Ethos

Ethos¹⁰, the Swiss Foundation for Sustainable Development was founded in 1997. It is composed of 238 Swiss pension funds and other tax-exempt institutions and aims at promoting socially responsible investment (SRI). They are also members of the Expert Corporate Governance Service¹¹ (ECGS), a partnership of independent local proxy advisors.

Ethos offers a wide range of SRI-funds, provides analyses of general meeting agendas including voting recommendations, a shareholder engagement programme as well as sustainability and corporate governance ratings and analyses of listed companies. All activities of Ethos Services are based on the concept of sustainable development and the Charter of the Ethos Foundation.

During the 2022 reporting period, 18 companies out of the SMI received at least one against recommendation from Ethos, compared to 14 in 2021. The total number of resolutions where Ethos recommended voting against amounts to 83, compared to 90 in 2021.

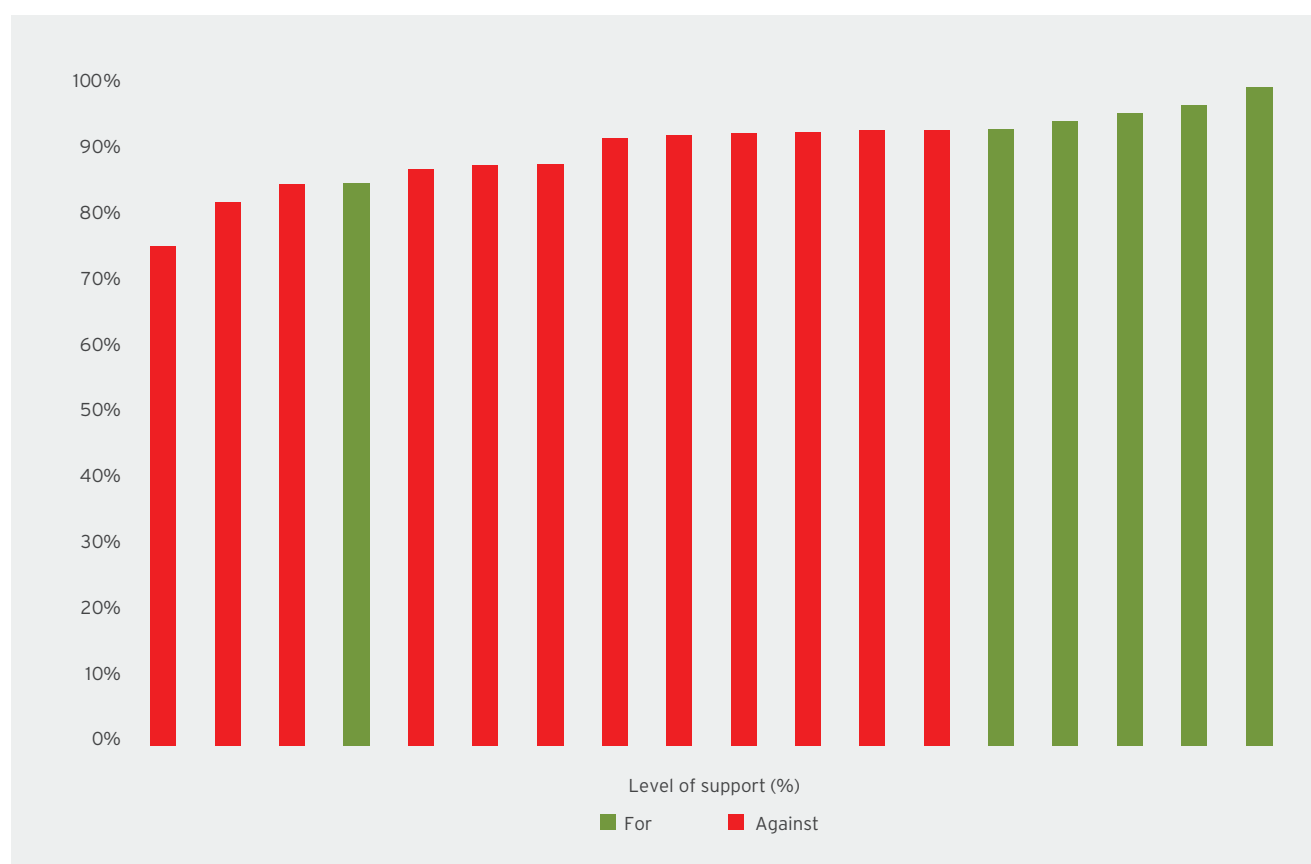
Graph 10: Overview of the number of negative recommendations by Ethos at SMI AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Ethos recommendation and the total number of proposals in each category.



¹⁰ <https://ethosfund.ch/en/about-ethos/overview-of-ethos>

¹¹ <http://ecgs.com/partners>

Graph 11: Level of support for the advisory vote on the remuneration report among the SMI companies surveyed¹² (ordered by level of support) and colour coded by Ethos vote recommendations



2.4 Ethos Shareholder Proposals at Credit Suisse

A group of institutional investors led by Ethos and ShareAction, involving eleven institutional investors filed a shareholder resolution in early March for the 29 April 2022 AGM of Credit Suisse Group AG¹³.

The co-filing group constituted investors representing CHF 2.2 billion of assets under management, including Europe's largest asset manager Amundi, Actares, the pension fund of the canton of Bern, the pension fund of Berner teachers, CAP Prévoyance, the CIEPP, Ethos Services SA, LGPS Central Limited, the pension of the Swiss Post, Publica and the pension fund of the city of Zürich. The proposal was the first climate related resolution on the agenda of a Swiss shareholder meeting.

Through a proposed amendment to the bank's articles of association, the group asked Credit Suisse to improve its transparency regarding its climate impact and to reduce its exposure to the financing of companies active in fossil fuels. This was one of two shareholder proposals filed at Credit Suisse, both lead by Ethos. The proposal failed at the AGM, having only received 18.5% support from the shareholders that voted.

The second shareholder proposal was put forward at the end of March, by Ethos and seven Swiss pension funds, calling for a special audit of the bank in connection with the Greensill affair. The "supply chain finance funds" debacle that followed and the recent so-called "Suisse Secrets" revelations.

Ethos said that "as long-term shareholders, Ethos and the other investors expect Credit Suisse to provide additional information on the Greensill affair, which led the bank to freeze investment funds with CHF 10 billion under management in March 2021. Especially since the board decided in February 2022 not to publish the main conclusions of the investigation report written by the law firm Walder Wyss, despite what had been indicated in the minutes of the 2021 general meeting." This proposal failed as well, after only receiving support from 10.4% of the voting shares.¹⁴

¹² Excludes Compagnie Financière Richemont and Roche Holding AG as the companies did not put forward a vote on the remuneration report.

¹³ <https://www.ethosfund.ch/en/news/ethos-and-11-other-investors-file-climate-shareholder-resolution-at-credit-suisse-agm>

¹⁴ <https://www.credit-suisse.com/media/assets/about-us/docs/events/annual-general-meeting/agm-2022-votingresults-en.pdf>

3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Swiss Company Law Revision

The revised Swiss stock corporation law¹⁵, aimed to introduce simplifications while allowing for greater flexibility and protection of specific interests, will fully enter into force on 1 January 2023.

The most significant corporate governance related changes relate to shareholder meetings, shareholder rights, executive compensation and say on pay, gender quotas, over-boarding, disclosure obligations for companies exploiting natural resources, and – based on a separate new law – non-financial reporting obligations as well as new due diligence and reporting obligations of companies potentially connected to child labor or dealing in minerals and metals from conflict areas.

Shareholder meetings

Virtual, multi-local and general meetings outside Switzerland will be allowed and shareholders will be able to submit statements with their shareholder proposals, which the company will be required to publish as part of the invitation to the shareholder meeting. Further, the new law introduces lower hurdles to call a general meeting (from 10% to 5%) or to put an item on the agenda (from 10% or shares with nominal value of CHF 1 million, to 0.5%). Lastly, as regards shareholders meeting, the independent proxy will now be required to keep proxies confidential (also vis-à-vis the company).

Shareholder rights

Shareholders with 5% of share capital can request a court sanctioned special audit (reduced from previously 10%). In addition, shareholders with 5% of share capital can demand access to company books and files if required for the effective exercise of shareholders' rights and provided that no vital interests of the company are endangered, no longer requiring sanctioning by the general meeting of the company.

Executive compensation and say on pay

Sign-on bonuses and replacement awards are only permissible if they compensate a financial disadvantage and if there is evidence for said disadvantage. Compensation for non-compete situations is only permissible if commercially justified and if the compensation does not exceed the total average annual compensation over the past three years. Further, compensation payments to former board or executive committee members are only permitted if they are in line with market practice and they must be disclosed. Lastly, a prospective shareholder vote is allowed if combined with a non-binding vote on the compensation report.

Gender quotas

There is a gender quota for boards (30%) as well as for executive committees (20%), subject however to a long transition period of five years for boards and ten years for executive committees.

Over-boarding

When considering if a board candidate is over-boarded, executive positions in other companies also fall under the maximum number of board seats.

¹⁵ https://fedlex.data.admin.ch/filestore/fedlex.data.admin.ch/eli/cc/27/317_321_377/20220101/en/pdf-a/fedlex-data-admin-ch-eli-cc-27-317_321_377-20220101-en-pdf-a-3.pdf

Disclosure obligations for companies exploiting natural resources

Companies that are directly or indirectly active in the production of natural resources must disclose payments to public authorities exceeding CHF 100,000 in aggregate.

New non-financial reporting obligations as well as diligence and reporting obligations related to potential child labor or dealing in minerals and metals from conflict areas

Based on a separate new law, non-financial reporting obligations covering environmental, social, employee, human rights and anti-corruption matters of big, listed companies and certain financial institutions as well as new diligence and reporting obligations of companies potentially connected to child labor or dealing in minerals and metals from conflict areas are introduced starting from 2023, with the first report based on the new rules to be issued in 2024 for the year 2023.

The reports are subject to board and shareholder approval. No audit is required except for the reported information related to the conflict minerals and metals.

Details related to climate reporting will be regulated in a separate ordinance. According to the draft of this ordinance, large Swiss companies will have to issue a climate report. Such report can (but does not have to) be based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)

It should be noted that Swiss companies with substantial business in the EU will be subject to the proposed new EU Directive on Corporate Sustainability Due Diligence, which obligates companies to identify, prevent, end or mitigate adverse human rights and environmental impacts arising from their own operations but also from those of their subsidiaries and certain companies they are working with in the value chain.

3.2 Revision of Swiss Code of Best Practice for Corporate Governance

The “Swiss Code of Best Practice for Corporate Governance” (the “Swiss Code”) was last updated in 2016. Since then, best practices for good corporate governance have further evolved, in particular in relation to ESG, non-financial reporting, Board diversity, over-boarding, dual mandate, compliance and corporate culture. Therefore, the Swiss Code is currently under revision and the revised draft is planned to be put in force as per 1 January 2023, together with the revised Swiss stock corporation law.

No draft has been published yet. Revisions relating to the above-mentioned areas are however expected¹⁶ – in particular the following new best practices:

- > a responsibility of the audit committee to review also the non-financial reporting of the company;
- > a responsibility of the full board to be accountable for the ESG performance of the company;
- > executive compensation to be linked (also) to ESG targets
- > broader diversity expectations of boards (not only gender but also background, competence, age, country of origin, etc., including board members who are familiar with Swiss conditions);
- > no over-boarding and related disclosures (e.g. disclosing meeting attendance);
- > self-dealing of board members requiring express approval of the independent board members;
- > combined chairman and CEO mandate only in exceptional situations and limited in time;
- > boards to have a lead independent (or senior independent) director – not only if chairman and CEO mandate is combined;
- > expectation that boards “act” upon significant shareholder dissent at AGM, and
- > introduction of whistleblowing

¹⁶ <https://www.economiesuisse.ch/en/publications/swiss-code-best-practice-corporate-governance>

REJECTED BOARD PROPOSALS

6

AVERAGE QUORUM

74.5%

RESOLUTIONS
WITH OVER 10% OPPOSE

10.4%

COMPANIES
WITH OVER 10% OPPOSE

64.3%

Netherlands
/ AEX+AMX

The average quorum across AEX and AMX increased from 73.9% in 2021 to 74.5% in 2022. Our analysis looks at the 42 Dutch incorporated companies in the two indices.

Overall Glass Lewis recommended negatively on **35 resolutions (6.4% of the total) in 2022**, compared to 30 resolutions (5.5%) in 2021.

Across AEX and AMX there was **one shareholder-sponsored AGM resolution rejected** by shareholders (i.e. Royal Dutch Shell).

The number of AEX and AMX companies that had at least one contested proposal (10%+ opposition) was 25. The overall number of **contested resolutions increased** from 48 in 2021 to 57 in 2022.

Proposals relating to the approval of remuneration report had the highest share of contested votes (10%+ opposition), with **45.2% of the remuneration report proposals put forward within the AEX and AMX receiving more than 10% opposition**.

Overall ISS recommended **negatively on 28 resolutions (5.1% of the total) in 2022**, compared to 26 resolutions (4.8%) in 2021.

Across AEX and AMX there were **six management-sponsored AGM resolutions rejected** by shareholders.

Of the 18 remuneration policy proposals, **5 resolutions (27.8%) were contested**. Three resolutions received an against recommendation from both ISS and Glass Lewis (16.7%).

Of the 42 remuneration report proposals put forward, 13 resolutions received an against recommendation from ISS (31.0%), whilst **Glass Lewis recommended against 16 resolutions (38.1%)**.

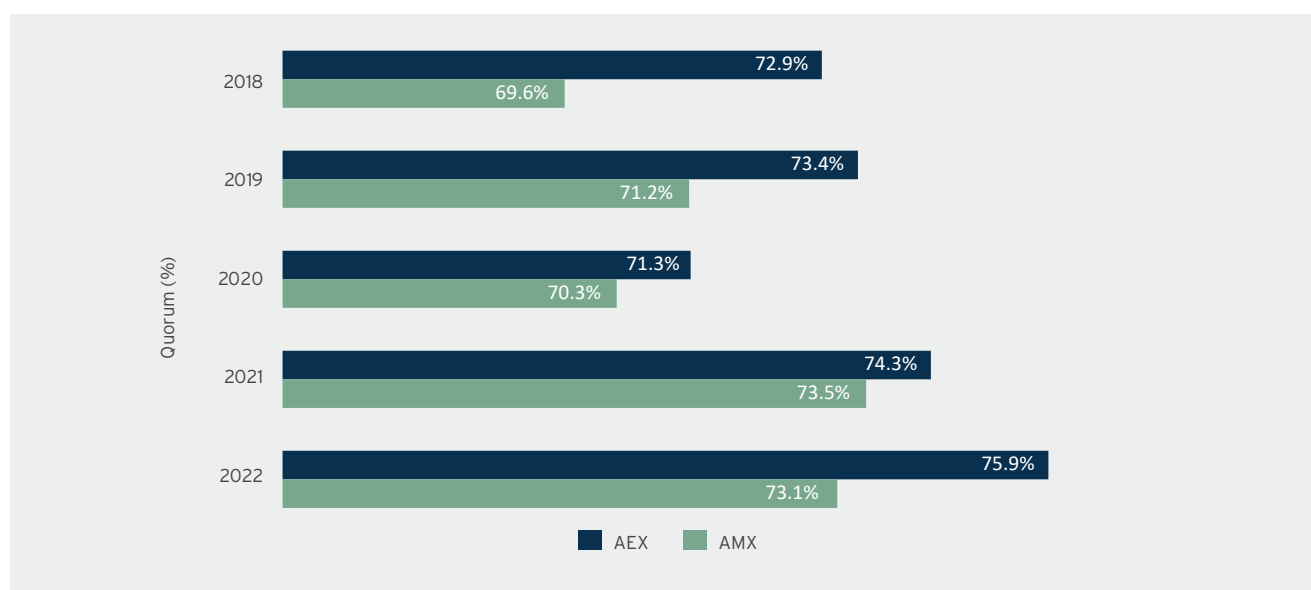
1. VOTING IN THE NETHERLANDS IN 2022

1.1 AEX and AMX quorum overview

We have reviewed the quorum levels of AEX¹ and AMX² companies over the past five years. Our survey includes companies that were part of the aforementioned indices on 31 May 2022 and held their AGM between 1 July 2021 and 30 June 2022. We only included Dutch incorporated companies and Shell Plc and Unilever Plc, due to their significant weight in the AEX. This resulted in 22 companies in the AEX and 20 companies in the AMX.³

The average quorum level in the AEX has increased from 74.3% in 2021 to 75.9% in 2022. The average AMX quorum in 2022 was 73.14%, a 0.37 percentage point drop since last year.

Graph 1: Average AGM quorum levels in the AEX and AMX between 2018 and 2022.

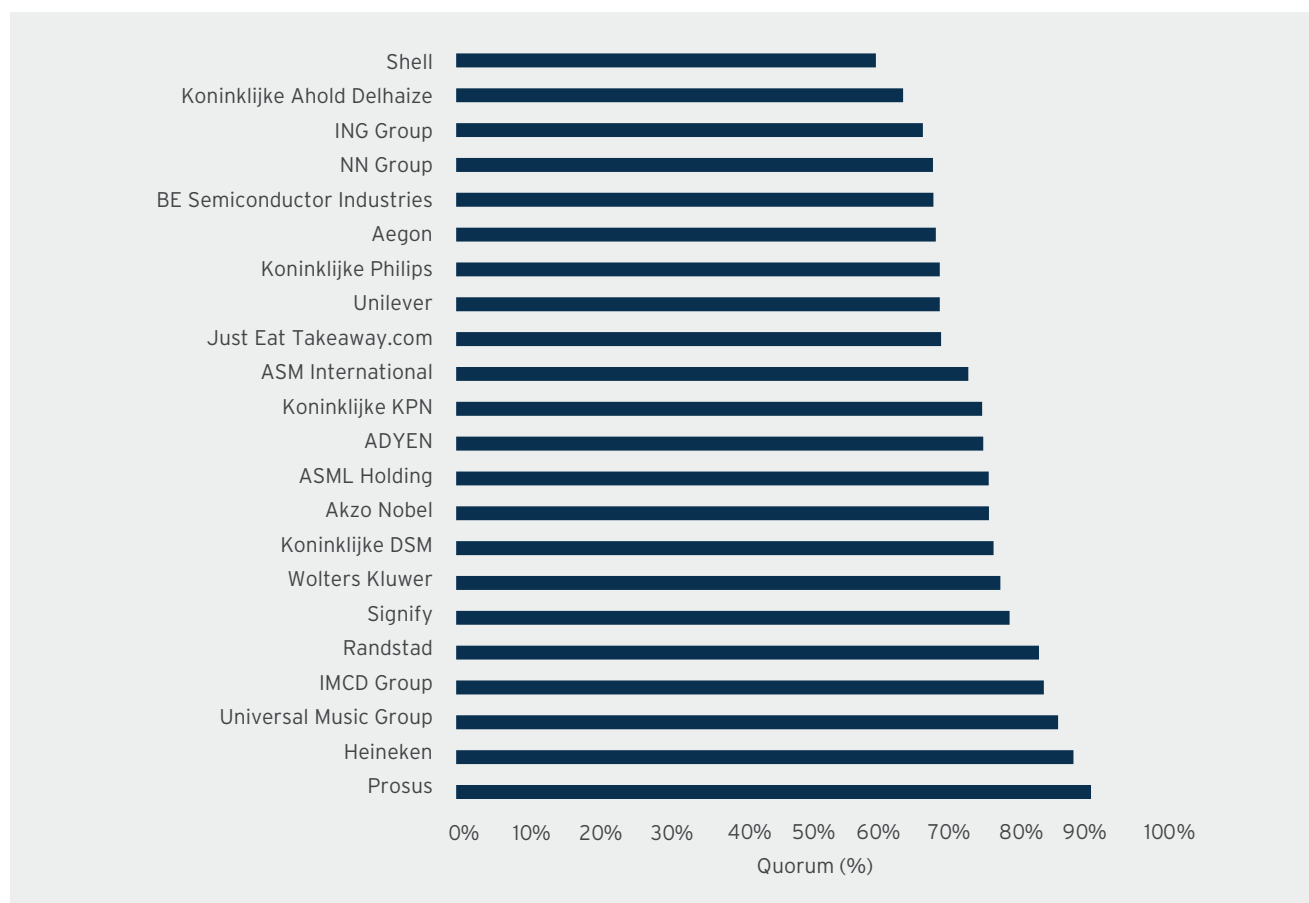
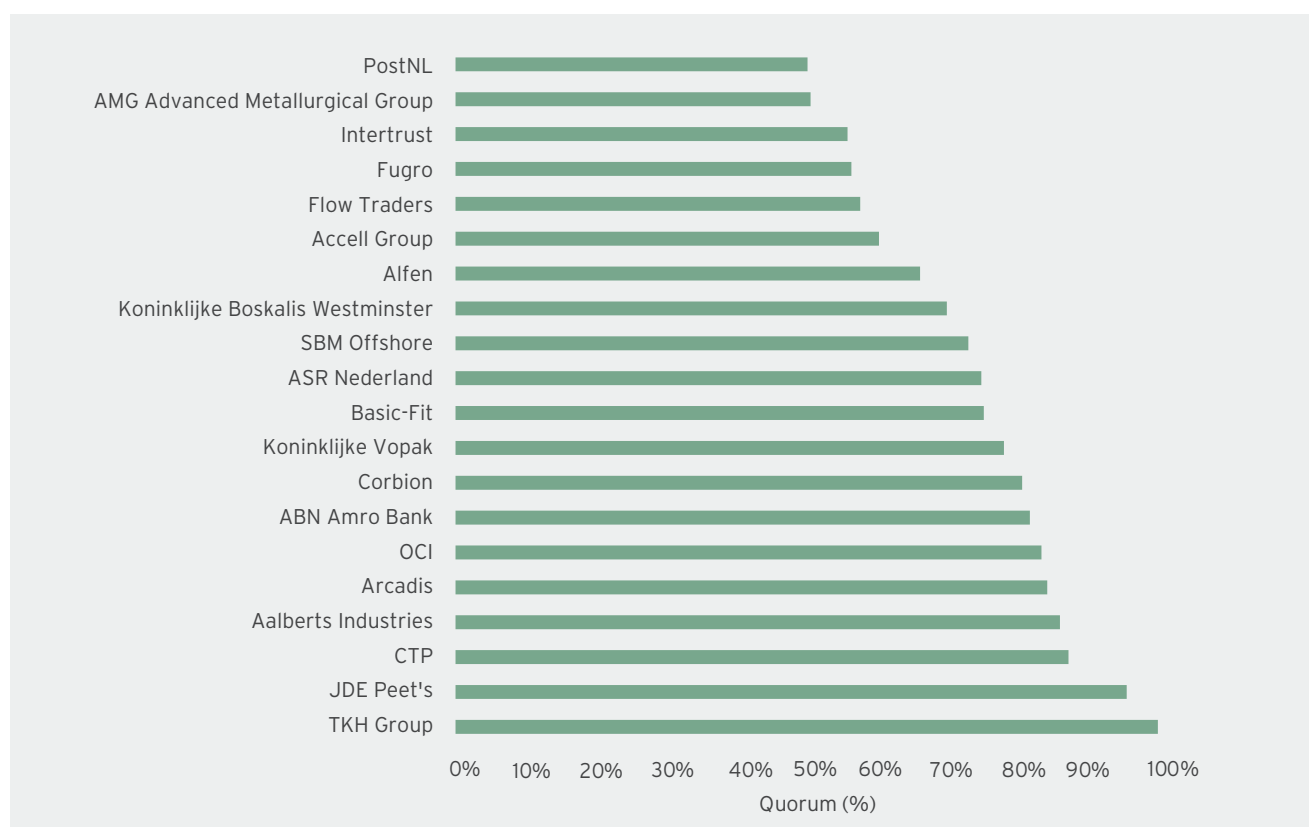


The average quorum level in the AEX has increased from 74.3% in 2021 to 75.9% in 2022

¹ The AEX reflects the performance of the 25 most actively traded shares listed on NYSE Euronext Amsterdam. See here: <https://live.euronext.com/en/product/indices/NL0000000107-XAMS/market-information>

² The AMX reflects the performance of the next 25 most actively traded shares listed on NYSE Euronext Amsterdam. See here: <https://live.euronext.com/en/product/indices/NL0000249274-XAMS/market-information>

³ We have included Dutch-incorporated companies only, with the exception of Shell and Unilever. For the AEX this excludes ArcelorMittal, Relx, Unibail-Rodamco-Westfield. For the AMX it excludes Air France-KLM, Aperam, WDP, Galapagos and Fagron.

Graph 2: Quorum levels at AEX companies during the 2022 reporting period.**Graph 3:** Quorum levels at AMX companies during the 2022 reporting period.

1.2 Rejected agenda items

Among the 42 AEX and AMX companies in our sample that held their AGM between 1 July 2021 and 30 June 2022, six companies recorded management-proposed resolutions that were rejected by shareholders.

AEX

AkzoNobel

At the AkzoNobel AGM in April 2022, one resolution (approval of the remuneration report) was rejected with 42.74% support⁴. Both ISS and Glass Lewis recommended their clients vote against the resolution. This is the second year the remuneration report did not receive the required level of support.

BE Semiconductor Industries

At the BESI AGM in April 2022, one resolution (approval of the remuneration report) was rejected with 22.47% support⁵. Both ISS and Glass Lewis recommended their clients vote against the resolution.

Koninklijke Philips NV

At the Philips AGM in May 2022, one resolution (approval of the remuneration report) was rejected with 22.62% support⁶. Both ISS and Glass Lewis recommended their clients vote against the resolution.

AMX

Accell Group

At the Accell AGM in April 2022, one resolution (remuneration report of the board of management) was rejected with 40.35% support⁷. Both ISS and Glass Lewis recommended their clients vote against the resolution.

Flow Traders

At the FlowTraders AGM in April 2022, one resolution (approval of the remuneration policy for the management board) was rejected with 57.38% support⁸. Both ISS and Glass Lewis recommended their clients vote against the resolution. This is the second year the remuneration policy did not receive the required level of support.

OCI

At the OCI AGM in May 2022, one resolution (amendment of the 2020 remuneration policy) was rejected with 74.73% support⁹. Both ISS and Glass Lewis recommended their clients vote against the resolution.

1.3 Withdrawn resolutions

In comparison to last year, we have seen an increase in the number of resolutions that were withdrawn prior to shareholder meetings. This year, 4 resolutions in the AEX and AMX were withdrawn, up from 3 resolutions in 2021.

ASML

ASML announced on 1 April 2022¹⁰ that it had withdrawn the nomination of Deloitte Accountants B.V. (Deloitte) as its new external auditor from the agenda for the 2022 AGM to be held on 29 April 2022. The reason behind the withdrawal was that Deloitte informed ASML of a conflicting advisory role involving a company for which ASML holds an equity stake in. Deloitte was not able to guarantee its ability to resolve all independence conflicts in the time it would need to. ASML has re-initiated the selection process and the Supervisory Board intends to present a new nomination for the appointment of the external auditor starting from the reporting year 2025 at the annual general meeting in 2023.

For the reporting years 2023 and 2024, KPMG has been nominated for appointment as ASML's external auditor.

⁴ <https://www.akzonobel.com/en/about-us/governance-/shareholder-meetings-/annual-general-meeting-of-shareholders-2022>

⁵ <https://www.besi.com/investor-relations/annual-general-meeting/>

⁶ <https://www.philips.com/a-w/about/investor-relations/shareholder-meetings.html>

⁷ <https://www.accell-group.com/en/corporate-governance/gm-2022/gm-2022.htm>

⁸ <https://www.flowtraders.com/investors/corporate-governance/agm?tab=agm-2022>

⁹ <https://www.oci.nl/investor-centre/2022-annual-general-meeting-of-shareholders/>

¹⁰ <https://www.asml.com/en/news/press-releases/2022/asml-2022-annual-general-meeting-update>

Just Eat Takeaway.com

Just Eat Takeaway.com announced on 4 May 2022¹¹ that it had withdrawn the reappointment of Mr. Jörg Gerbig as member of the Management Board from the agenda for the 2022 AGM to be held on 4 May 2022. The company stated: "The Supervisory Board has recently been informed of a formal complaint regarding Jörg Gerbig relating to possible personal misconduct at a company event. The Company has initiated an investigation into the allegations in line with the Company's Speak Up Policy and will engage an external expert to conduct the investigation. As the investigation is in its initial stage, no conclusions have been drawn." Additionally, they wrote that "Formally Mr Gerbig's term will end at the closing of today's AGM and he will from that moment cease to be a Management Board member. This will continue at least until the end of the investigation. Mr Gerbig may be put for re-election if the allegations are determined to be unfounded."

Additionally, Just Eat Takeaway.com announced on 4 May 2022¹² that it had withdrawn the reappointment of Mr. Adriaan Nühn as chairman of the Supervisory Board from the agenda for the 2022 AGM. The company stated: "It is clear that shareholders have concerns about the challenges the Company is facing. The Supervisory Board shares and understands these concerns, and the Company has been in the process of addressing them. To ensure that the Supervisory Board can fully focus on the challenges and opportunities ahead, I believe it is important that there is strong support, particularly also among shareholders, for both the Company and the Supervisory Board. Not seeking re-election is, I believe, the best decision I can take with regard to serving the interests of the Company and its stakeholders, including its shareholders."

Vopak

Vopak announced¹³ on 15 April 2022 that it had withdrawn the agenda items which seeks approval of the remuneration policy for the supervisory board from the agenda for the 2022 AGM to be held on 20 April 2022. The company stated that it had decided, after engagement with shareholders and other stakeholders, to remove the item from the agenda. As a result, the existing remuneration policy for the supervisory board remains in place for the time being.

¹¹ <https://www.justeattakeaway.com/newsroom/en-WW/213923-reappointment-coo-withdrawn-from-agm-agenda>

¹² <https://www.justeattakeaway.com/newsroom/en-WW/213920-adriaan-nuhn-not-to-serve-new-term-as-chairman-of-the-supervisory-board-of-just-eat-takeaway-com>

¹³ <https://www.vopak.com/system/files/Agenda%20change.pdf>

1.4 Contested agenda items

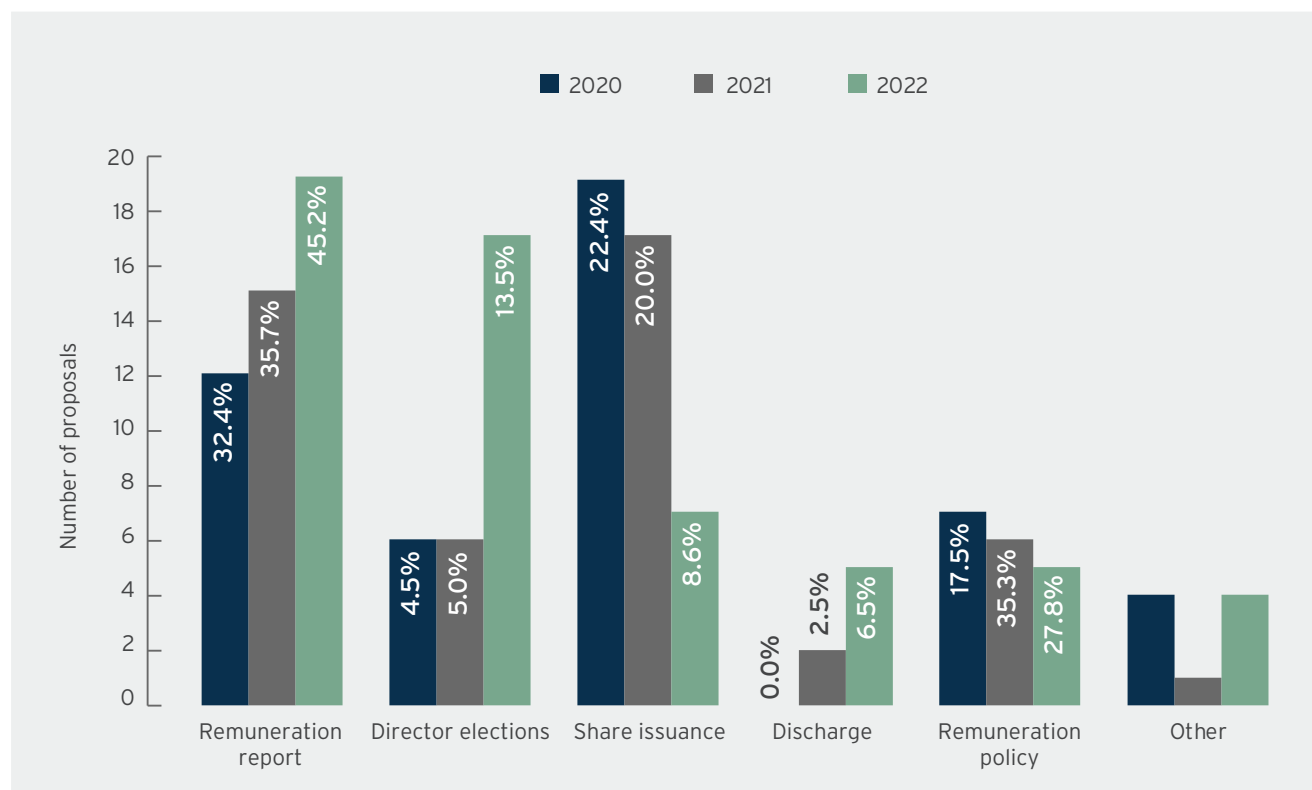
Among our sample of 42 AEX and AMX, we saw a significant increase in the number of resolutions that received more than 10% shareholder opposition. The total number of resolutions that received more than 10% opposition amounted to 57 in 2022, up from 48 in 2021.

The most contested resolution category was the approval of the remuneration report. Of all remuneration report resolutions, 19 (45.24%) were contested resolutions compared to 15 (35.7%) in 2021.

The second most contested resolution category was for board elections. Of all board election resolutions, 17 (13.49%) were contested resolutions compared to 6 (5.04%) in 2021.

The third most contested resolution category was for the authority to issue shares. Of all share issuance resolutions, 7 (8.64%) were contested resolutions compared to 17 (20.00%) in 2021.

Graph 4: Number of resolutions which received more than 10% against votes in the AEX/AMX (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.4.1 Remuneration Reports

In 2020, the AGM season was dictated by the implementation of SRD II. This meant that, for the first time, companies in the Netherlands were obligated to put remuneration reports up for an annual advisory vote. Dutch regulation also requires companies to put their remuneration policy up for a binding vote every 4 years.

Among our sample, the companies with the lowest level of support on these types of resolutions were:

AEX – Remuneration report

- › Koninklijke Philips (20.62% in favour)¹⁴
- › BE Semiconductor Industries (22.47% in favour)¹⁵
- › Akzo Nobel (42.74% in favour)¹⁶
- › Signify (70.94% in favour)¹⁷
- › Universal Music Group (71.02% in favour)¹⁸

AMX – Remuneration report

- › Accell Group (40.35% in favour)¹⁹
- › Flow Traders (60.25% in favour)²⁰
- › TKH Group (61.27% in favour)²¹
- › Koninklijke Vopak (71.17% in favour)²²
- › Koninklijke Boskalis Westminster (79.94% in favour)²³

1.4.2 Board (re)elections

Proposals to (re)elect board members require a simple majority. This category of resolution had the second most contested resolutions in 2022 with 17 (13.49%) out of 126 proposals.

The number of contested resolutions is in line with the trend of shareholders' increasing scepticism with regards to the (re)election of directors to the board. In 2020, 6 (4.55%) director (re)election proposals received more than 10% opposition, in 2021 also 6 proposals (5.04%) were contested. In 2022, these numbers more than doubled.

This year, we have also seen a significant increase in board (re)elections at both AEX and AMX companies that received more than 20% against votes. In total, there were 10 board (re)election votes that received over 20% against votes, whereas in 2021 there were none.

Overboarding

Over the years, a growing number of shareholders (e.g. BlackRock²⁴, Vanguard²⁵, and State Street²⁶) have adopted voting guidelines that are more stringent on overboarding than prescribed by the Dutch laws and the guidelines applied by ISS and Glass Lewis. Under Dutch law²⁷ (Wet Bestuur en Toezicht 2013) supervisory board members are allowed to hold up to five mandates at Dutch incorporated companies. This limit is consistent with the guidelines that ISS²⁸ and Glass Lewis²⁹ set for board members, globally. In all instances, executive roles are counted as three mandates and the non-executive chairman roles are counted as two mandates. This resulted in several board member who hold a total of five mandates to receive against votes on their (re)-election.

¹⁴ <https://www.philips.com/a-w/about/investor-relations/shareholder-meetings.html>

¹⁵ <https://www.besi.com/investor-relations/annual-general-meeting/>

¹⁶ <https://www.akzonobel.com/en/about-us/governance-/shareholder-meetings-/annual-general-meeting-of-shareholders-2022>

¹⁷ <https://www.signify.com/global/our-company/investors/shareholder-info/agm>

¹⁸ <https://investors.universalmusic.com/governance/agm/>

¹⁹ <https://www.accel-group.com/en/corporate-governance/gm-2022/gm-2022.htm>

²⁰ <https://www.flowtraders.com/investors/corporate-governance/agm>

²¹ <https://www.tkhgroup.com/en/investors/corporate-governance/meeting-of-shareholders/>

²² https://www.vopak.com/investors/corporate-governance/shareholders/shareholders-meetings?language_content_entity=en&date=2022

²³ <https://boskalis.com/ir/corporate-governance/general-meeting-of-shareholders.html>

²⁴ BlackRock Proxy voting guidelines for EMEA securities 2022, p. 9, <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-emea.pdf>

²⁵ Vanguard Proxy voting policy for European and UK portfolio companies, p.7, https://corporate.vanguard.com/content/dam/corp/advocate/investment-stewardship/pdf/policies-and-reports/Europe_UK_Proxy_Voting.pdf

²⁶ State Street Proxy Voting and Engagement Guidelines, p. 4, <https://www.ssga.com/library-content/pdfs/ic/proxy-Voting-and-engagement-guidelines-europe.pdf>

²⁷ Art. 2:142a BW Dutch Civil Code

²⁸ ISS Continental Europe Voting Guidelines 2021, p. 10, <https://www.issgovernance.com/file/policy/active/emea/Europe-Voting-Guidelines.pdf>

²⁹ Glass Lewis, Continental Europe Policy Guidelines 2022, p.16, <https://www.glasslewis.com/wp-content/uploads/2021/11/Europe-Voting-Guidelines-GL-2022.pdf?hsCtaTracking=ec7f46ba-dc87-455d-b1f0-99777828f9f2%7C76f3aba6-e20f-4a25-bfff-8ead25781bcb>

Remuneration

To express their discontent about remuneration practices, more investors have started voting against board members who sit on the remuneration committee as well as opposing the remuneration related proposals being put forward. While a number of investors included this principle in their guidelines a few years ago, it appears that they have now started applying this principle more broadly. Investors are holding remuneration committee members directly accountable for their company's remuneration practices.

Eumedion

In their 2022 AGM Evaluation, Eumedion writes³⁰ that "supervisory directors of Dutch listed companies do not take sufficient responsibility and actions to address the concerns of shareholders when the shareholders' meeting rejects a remuneration report." To improve supervisory directors' accountability, Eumedion has announced it will issue alerts regarding the (reappointment of) supervisory directors that do not take sufficient action to address shareholders' concerns from the 2023 AGM season onwards. Initially an alert will be issued on the re-election of the chair of the remuneration committee. If the chair is not up for re-election, the alert will then be issued on the re-election of another member of the remuneration committee or the chair of the supervisory board. If none of these supervisory board members are up for election, Eumedion will issue an alert on the discharge of supervisory board.

We expect investors to take a stricter approach to director (re)elections in relation to overboarding and remuneration in the coming years.

Among our sample, the companies with the lowest level of support on these types of resolutions were:

AEX – Board elections

- > BE Semiconductor Industries (69.19% in favour)³¹
- > Just Eat Takeaway.com (70.24% in favour)³²
- > Koninklijke Philips (77.21% in favour)³³
- > Universal Music Group (79.47% in favour)³⁴
- > Akzo Nobel (79.57% in favour)³⁵

AMX – Board elections

- > Flow Traders (64.68% in favour)³⁶
- > Accell Group (83.67% in favour)³⁷
- > Alfen (86.45% in favour)³⁸

³⁰ Eumedion Evaluation of the 2022 AGM Season, p. 10, <https://en.eumedion.nl/clientdata/217/media/clientimages/Evaluation-AGM-season-2022-def.pdf?v=220718110613>

³¹ <https://www.besi.com/investor-relations/annual-general-meeting/>

³² <https://www.justeattakeaway.com/general-meeting>

³³ <https://www.philips.com/a-w/about/investor-relations/shareholder-meetings.html>

³⁴ <https://investors.universalmusic.com/governance/agm/>

³⁵ <https://www.akzonobel.com/en/about-us/governance-/shareholder-meetings-/annual-general-meeting-of-shareholders-2022>

³⁶ <https://www.flowtraders.com/investors/corporate-governance/agm>

³⁷ <https://www.accell-group.com/en/corporate-governance/gm-2022/gm-2022.htm>

³⁸ <https://alfen.com/nl/investors/shareholder-meetings>

1.4.3 Share Issuance

Authorities to issue shares with pre-emptive rights are proposed as ordinary resolutions, requiring a simple majority. Authorities to issue shares without pre-emptive rights require a majority of two-thirds of the votes cast when less than 50% of the issued share capital is represented at the meeting.

The issuance of shares was the third most contested proposal category with 7 resolutions (8.64% of the total) put forward receiving 10% or more of shareholder opposition. The number of contested share issuance proposals has decreased the last couple of years.

Among our sample, the companies with the lowest level of support on these types of resolutions were:

AEX & AMX – Share Issuance

- › Corbion (57.36% in favour)³⁹
- › OCI (72.79% in favour)⁴⁰
- › SBM Offshore (77.29% in favour)⁴¹
- › Universal Music Group (78.74% in favour)⁴²
- › Just Eat Takeaway.com (84.41% in favour)⁴³

Many institutional investors rely on proxy advisory firms, such as ISS and Glass Lewis for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the vote outcome of a given resolution.

³⁹ <https://www.corbion.com/en/Investor-relations/shareholder-information/Shareholder-meetings>

⁴⁰ <https://www.oci.nl/investor-centre/2022-annual-general-meeting-of-shareholders/>

⁴¹ <https://www.sbmoffshore.com/investors/shareholders-meetings>

⁴² <https://investors.universalmusic.com/governance/agm/>

⁴³ <https://www.justeattakeaway.com/general-meeting>

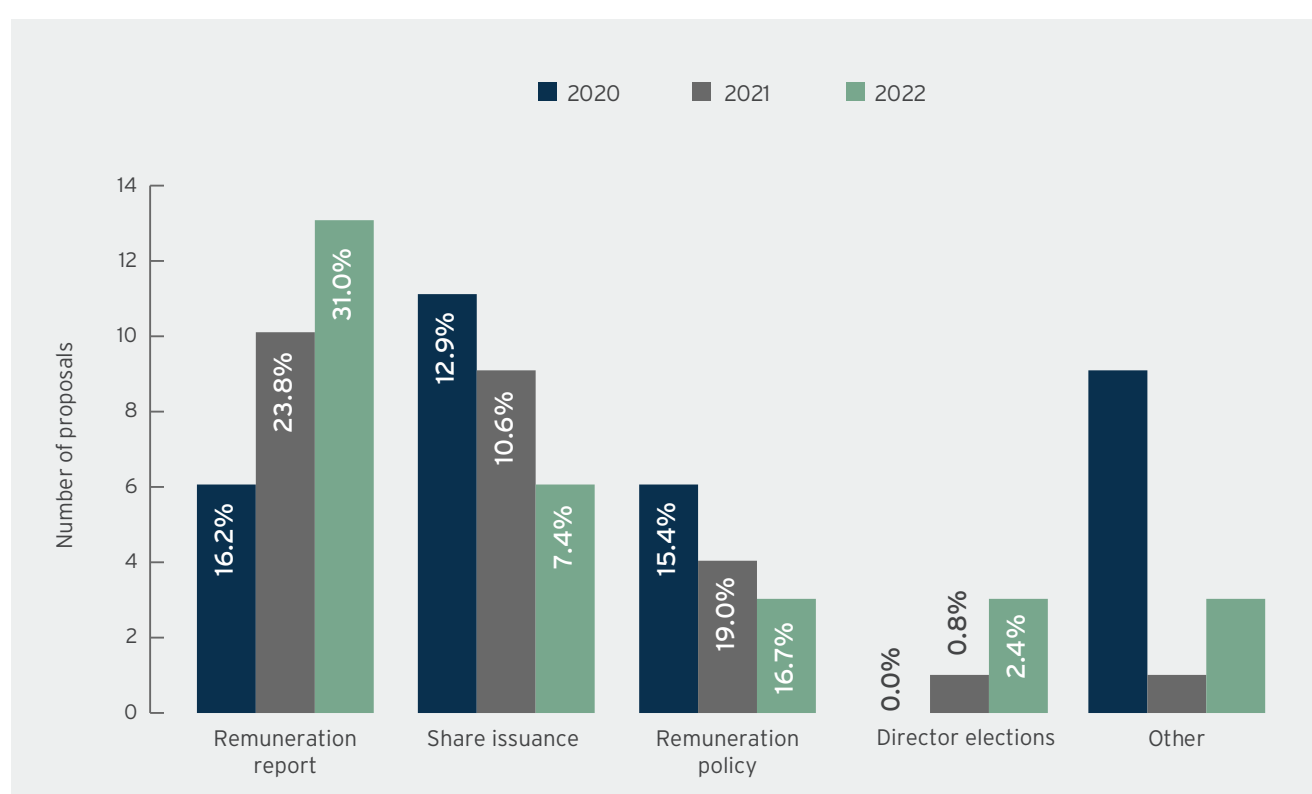
2. PROXY ADVISORS

2.1 Institutional Shareholder Services (ISS)

Institutional Shareholder Services⁴⁴ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

During the 2022 proxy season, 17 companies out of the 42 AEX and AMX companies surveyed received at least one against recommendation from ISS. This is a slight increase in comparison with 2021 when 15 out of the 42 AEX and AMX companies received at least one against recommendation from ISS.

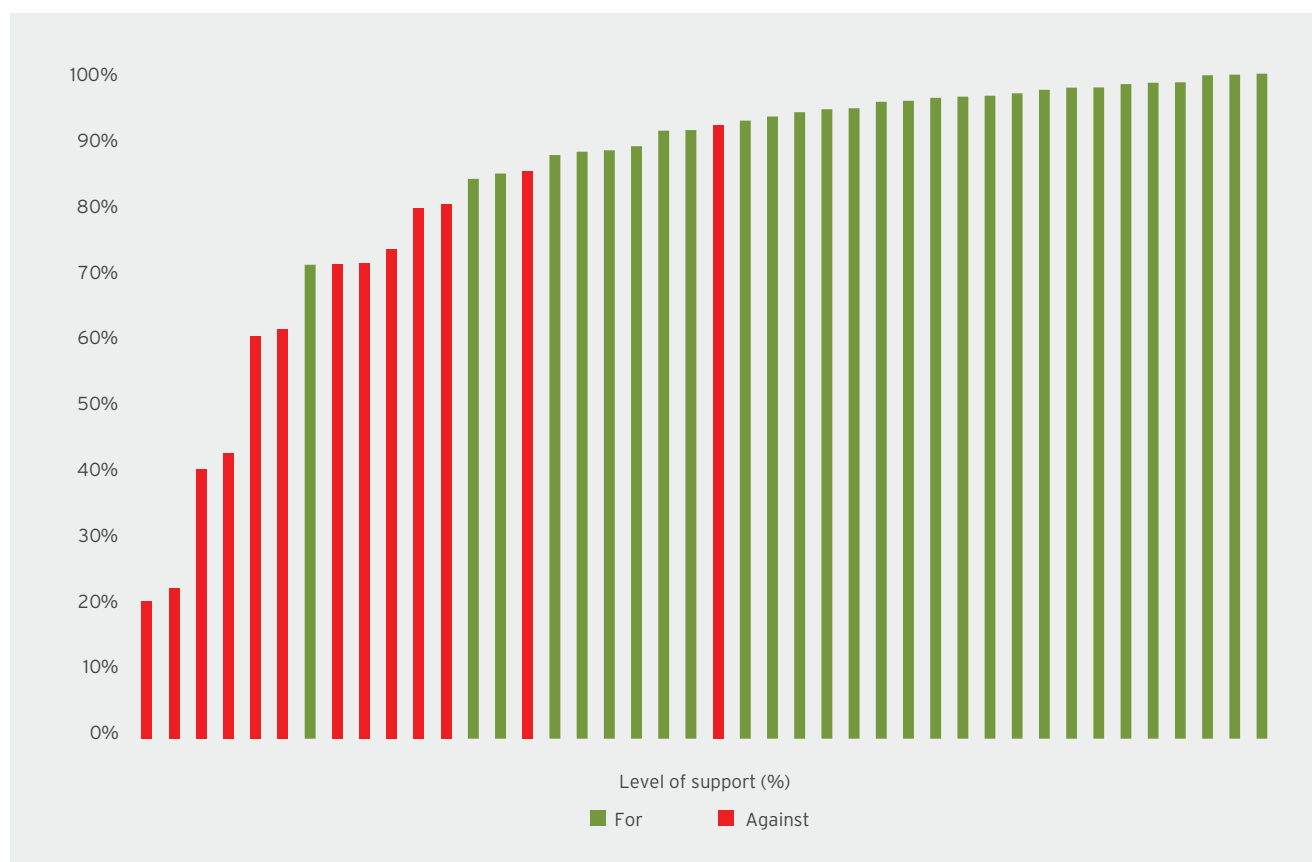
Graph 5: Overview of negative recommendations by ISS at AEX and AMX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.



During the 2022 proxy season, 17 companies out of the 42 AEX and AMX companies surveyed received at least one against recommendation from ISS

⁴⁴ <http://www.issgovernance.com/about/about-iss/>

Graph 6: Vote in favour of the Remuneration Report among AEX and AMX companies (ordered by level of support), and colour coded by ISS vote recommendations.

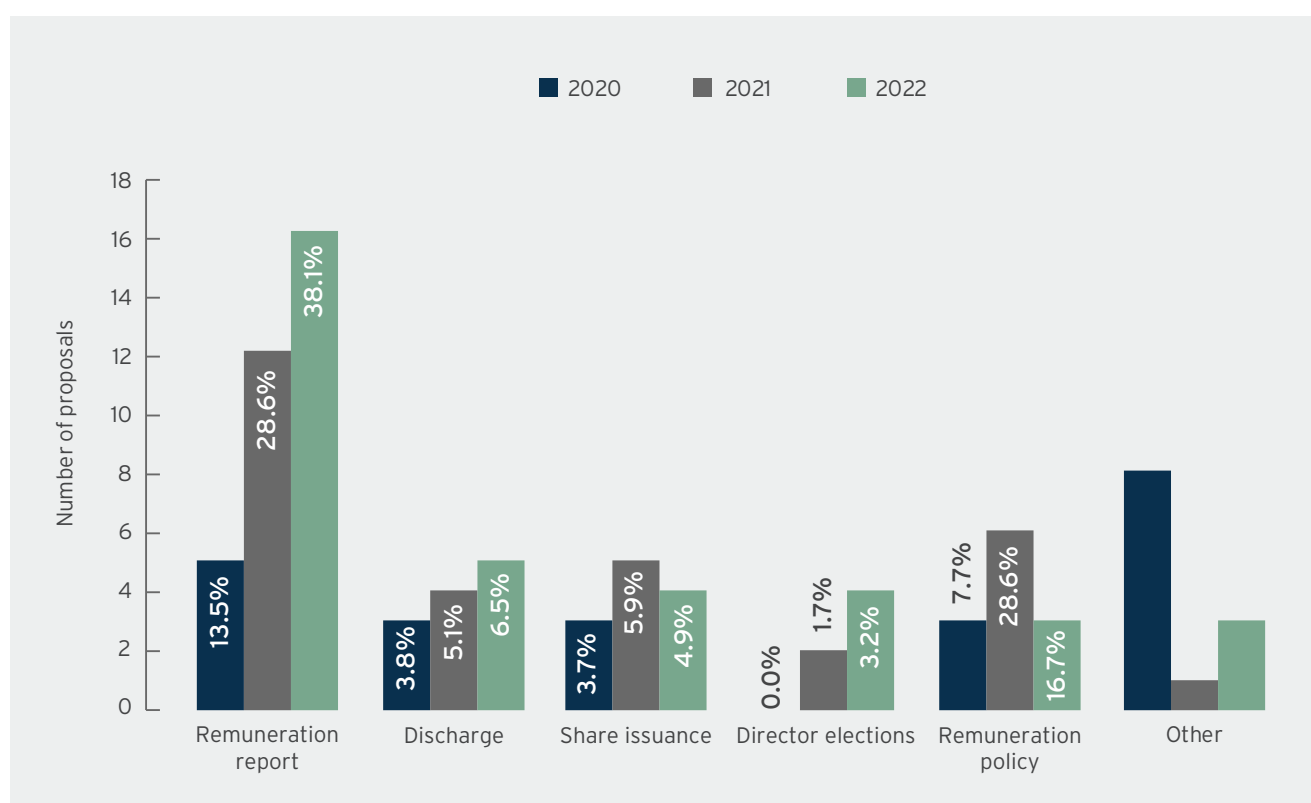


2.2 Glass Lewis

Glass Lewis⁴⁵ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

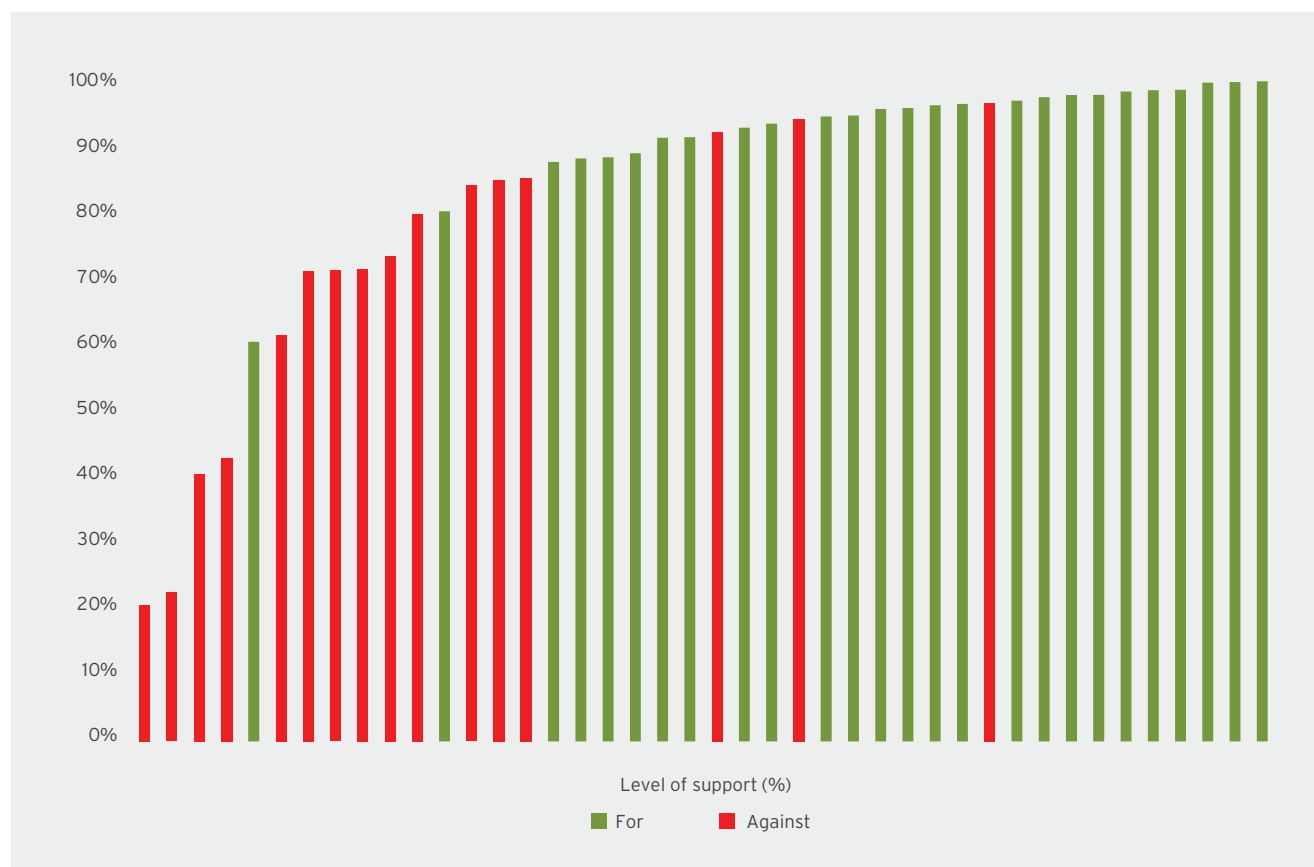
During the 2022 proxy season, 19 companies out of the 42 AEX and AMX companies surveyed received at least one against recommendation from Glass Lewis. The 2022 proxy season saw the highest number of negative recommendations from Glass Lewis in the last three years.

Graph 7: Overview of negative recommendations by Glass Lewis at AEX and AMX AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



⁴⁵ <http://www.glasslewis.com/about-glass-lewis/>

Graph 8: Vote in favour of the Remuneration Report among AEX and AMX companies (ordered by level of support), and colour coded by Glass Lewis vote recommendations.



3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Permanent Dutch legalisation for virtual AGMs

On 27 June 2022, The Minister for Legal Protection, Franc Weerwind, wrote in a letter⁴⁶ to the Speaker of the House of Representatives about his intention to incorporate the right to hold virtual meetings into permanent law. For the past two years, listed companies were able to hold their AGM virtually based on the COVID-19 (Temporary Measures) Act 2020, this will expire in October 2022. Over the past two years benefits from virtual meetings have become clear, and with permanent legalisation, Dutch Corporate Law remains competitive, flexible, and up to date, according to the minister.

The minister acknowledges that the ease of accessing virtual meetings maximises the involvement of all shareholders. The minister underlines that a virtual meeting is a time and cost efficient and sustainable alternative. Besides, companies can save on renting external locations and additional costs.

On the other hand, the minister also mentioned the disadvantages. Virtual meeting can be seen as distant, and the interaction between the board and shareholders does not always go smoothly. Therefore, he aims to initiate well-balanced legislation that takes the pros and cons into account. A preliminary draft for (internet) consultation is expected before the end of 2022.

3.2 Milieudedefensie (Friends of the Earth Netherlands)

After winning a court case against Shell in 2021, Milieudedefensie increased the pressure on more listed companies to reduce emissions in line with the Paris Climate Agreement. In January 2022, Milieudedefensie wrote a letter to 29 Dutch companies and asked them to publish a climate plan to cutting carbon emissions, including those produced by their customers (scope 3), by 45 per cent by 2030⁴⁷. This demand is in line with the demands imposed on Shell court ruling last year, which is now used as precedent. However, the appeal of that case is ongoing, and will likely not be decided on until late 2024.

In the meantime, Shell is obliged to comply with the verdict as the court declared the ruling provisionally enforceable⁴⁸. On 25 April 2022, Mileudedefensie warned the Shell's board of possible personal liability if it fails to comply with the verdict⁴⁹.

The intention to hold directors accountable is part of broader trend by environmental NGOs who no longer limit their campaigning to companies but now also target directors individually.

On 4 July 2022, Mileudedefensie published its Climate Crisis Index after the assessment of the climate action plans of the 29 Dutch companies, eight of which are financial institutions⁵⁰. The research that was conducted by the NewClimate Institute, concluded that none of the investigated companies achieved a high or even reasonable integrity rating for their climate responsibility approaches. Additionally, the report states that none of the investigated companies present concrete and publicly accessible emissions reduction plans that are aligned with the Paris Climate Agreement. Finally, the report showed that the eight financial institutions have not yet adopted comprehensive exclusion or engagement policies.

Consequently, on July 12 2022, the youth wing of Milieudedefensie presented four specific demands to Ahold Delhaize (which was included in the abovementioned research) that will attribute to a more credible climate plan⁵¹. Furthermore, they are asking the public to sign a petition hold Ahold Delhaize to the four demands. In the near future we expect more public campaigns from Milieudedefensie against the companies that have been included in the Climate Crisis Index of Mileudedefensie.

⁴⁶ <https://www.rijksoverheid.nl/documenten/kamerstukken/2022/06/27/tk-voortgang-van-de-modernisering-van-het-ondernemingsrecht>

⁴⁷ <https://en.milieudedefensie.nl/climateplan/big-polluters-show-us-your-climate-plan>

⁴⁸ Shell Court Case 26 May 2021, I.c. 4.5.7. <https://uitspraken.rechtspraak.nl/inziendocument?id=ECLI:NL:RBDHA:2021:5339>

⁴⁹ <https://milieudedefensie.nl/actueel/brief-aan-de-bestuurders-van-shell/@download/file/2022-04-25%20Letter%20to%20Shell's%20directors.pdf>

⁵⁰ <https://milieudedefensie.nl/actueel/samenvatting-en-onderzoek-naar-de-klimaatplannen-van-29-grote-vervuilers>, p. 7

⁵¹ <https://milieudedefensie.nl/actueel/ahold-delhaize-ligt-op-ramkoers-met-het-klimaat>

3.3 Eumedion

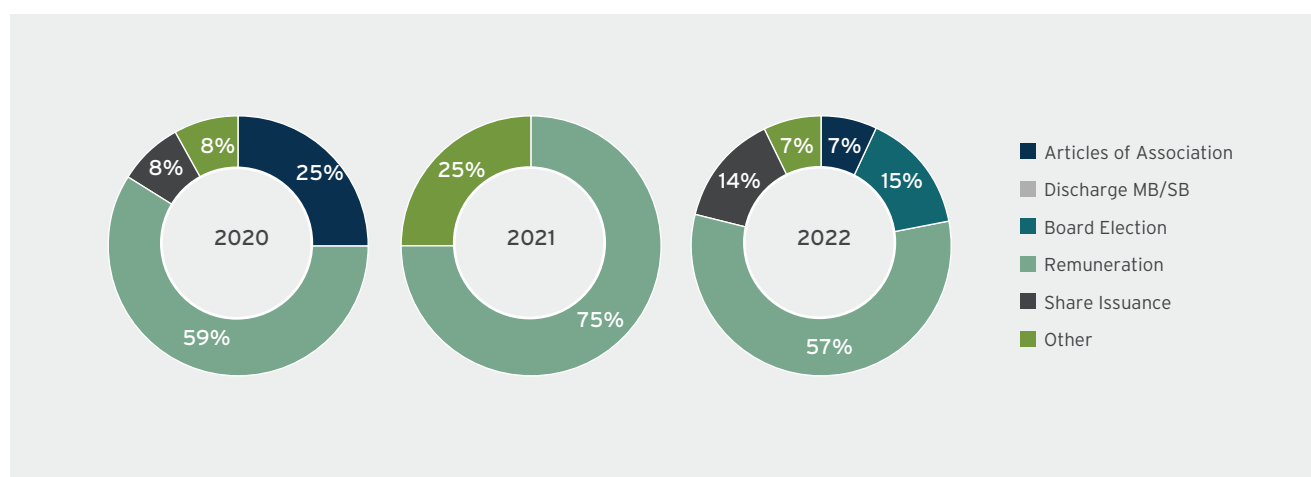
Eumedion is a Dutch corporate governance and sustainability platform operating on behalf of institutional investors. Eumedion currently has about 60 institutional investor participants⁵².

The Eumedion investment committee, which consists of 24 participants, is responsible for their alert programme which covers the AGMs of all Dutch listed companies⁵³. Eumedion members receive an alert to highlight any highly controversial voting item on the agenda of a shareholders' meeting of a Dutch listed company. These alerts are not intended as a vote recommendation but are aimed at providing additional information to Eumedion's participants.

Between July 1 2021 and June 30 2022, nine companies out of the companies listed on Euronext Amsterdam received at least one alert from the Eumedion. Remuneration related resolutions have received the highest number of alerts (eight).

Below is an overview of the number of alerts raised by the Eumedion at the AGMs of issuers listed on Euronext Amsterdam we surveyed over the past three years. The total number of alerts in 2022 increased by five relative to 2021.

Graph 9: Eumedion alerts issued on shareholder meetings for companies listed in the Euronext Amsterdam.



⁵² <https://en.eumedion.nl/>

⁵³ <https://en.eumedion.nl/About-Eumedion/Committees-and-Working-Groups.html>

REJECTED BOARD PROPOSALS

0

AVERAGE QUORUM

70.4%

RESOLUTIONS
WITH OVER 10% OPPOSE

19.7%

COMPANIES
WITH OVER 10% OPPOSE

50.0%

Italy
/ FTSE MIB



The average quorum across the FTSE MIB increased from 68.98% in 2021 to **70.4% in 2022**.

Across the FTSE MIB, there were **no board-sponsored AGM resolutions rejected** by shareholders.

The number of FTSE MIB companies that had at least one contested proposal (10%+ opposition) was 16. **The overall number of contested resolutions increased from 39 in 2021 to 47 in 2022**. The share of resolutions that were contested increased from 16.8% in 2021 to 19.8% in 2022.

Proxy advisors continue to have a big impact on the outcome of proposals, but the correlation between negative proxy advisor recommendations and lower vote results seems to have weakened for the remuneration policy.

Across the FTSE MIB, there has been a **12.7% decrease in contested remuneration report votes** from 13 in 2021 to 11 in 2022.

ISS recommended negatively on 28 resolutions in 2022, compared to 30 resolutions in 2021 (a 9.0% decrease when calibrating for the total number of resolutions).

Glass Lewis recommended negatively on 38 resolutions in 2022, compared to 32 resolutions in 2021 (a 15.8% decrease when calibrating for the total number of resolutions).

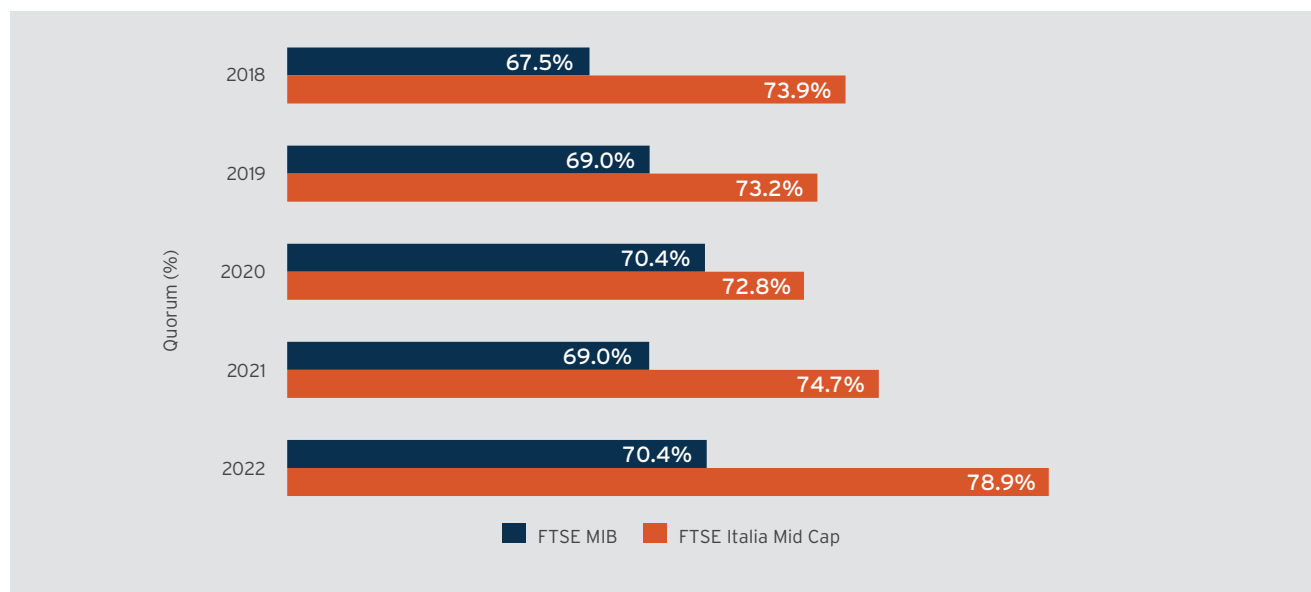
There was a **11.3% decrease in contested remuneration policy votes** across the FTSE MIB in 2022 (12 resolutions), compared to 2021 (14 resolutions).

1. VOTING IN ITALY

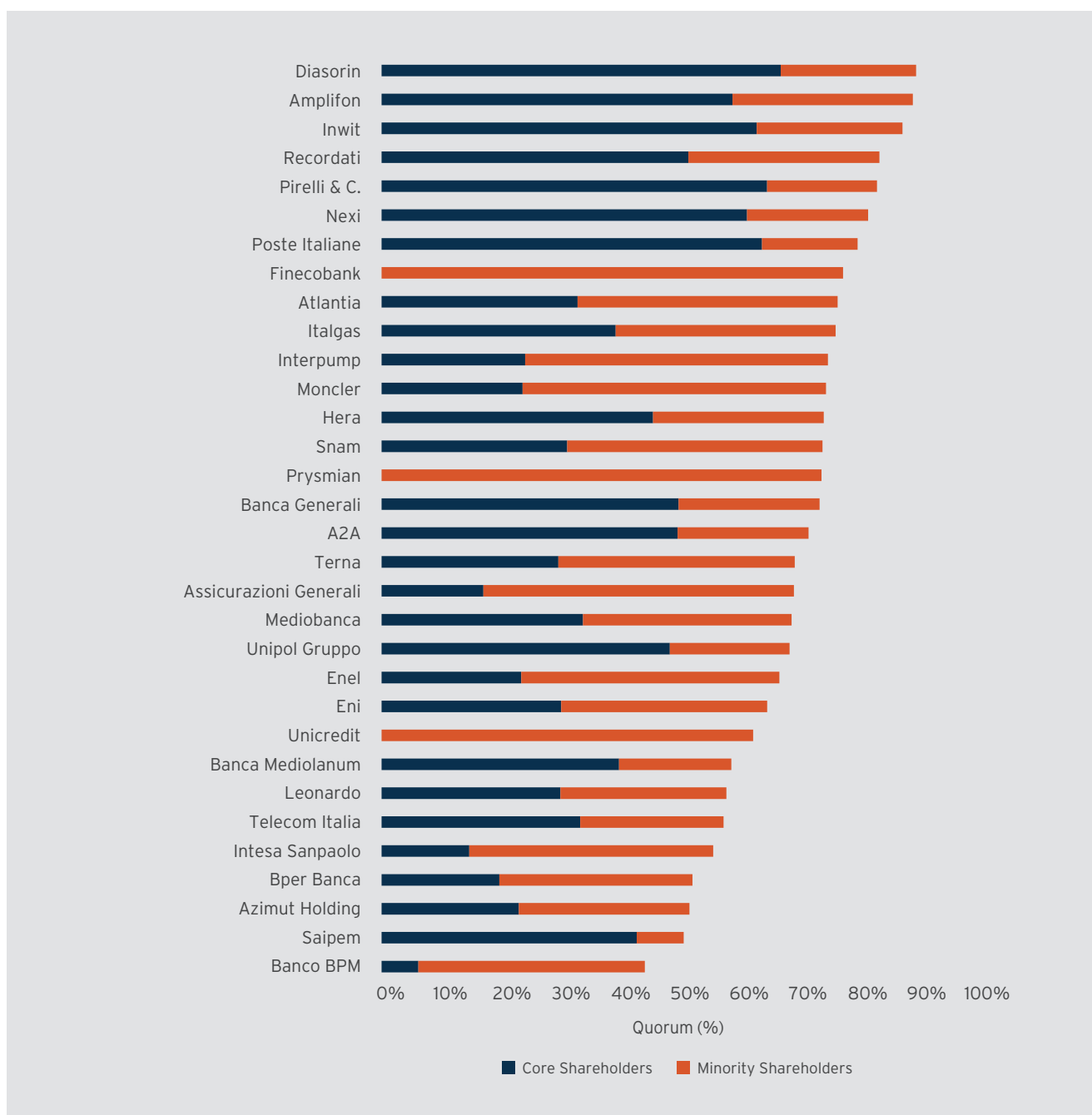
1.1 Quorum overview

Georgeson has reviewed the quorum levels of FTSE MIB and FTSE Italia Mid Cap companies over the past five years. This year's review includes 32 companies that were part of the FTSE MIB index as of 30 June 2022, and which held their AGMs between 1 July 2021 and 30 June 2022. In particular, the analysis excluded companies with their corporate headquarters located outside of Italy (Campari, CNH Industrial, Exor, Ferrari, Iveco Group, Stellantis, STMicroelectronics and Tenaris).

Graph 1: Average AGM quorum levels in the FTSE MIB and FTSE Italia Mid Cap between 2018 and 2022.



Graph 2: Quorum levels at FTSE MIB companies during the 2022 reporting period split between core shareholders and minorities¹.



¹ Minorities' participation was calculated by subtracting the shares held by core shareholders from the meeting quorum

1.2 Rejected resolutions

FTSE MIB

Within our sample of FTSE MIB companies, there have been no management-proposed resolutions rejected by shareholders.

FTSE Italia Mid Cap

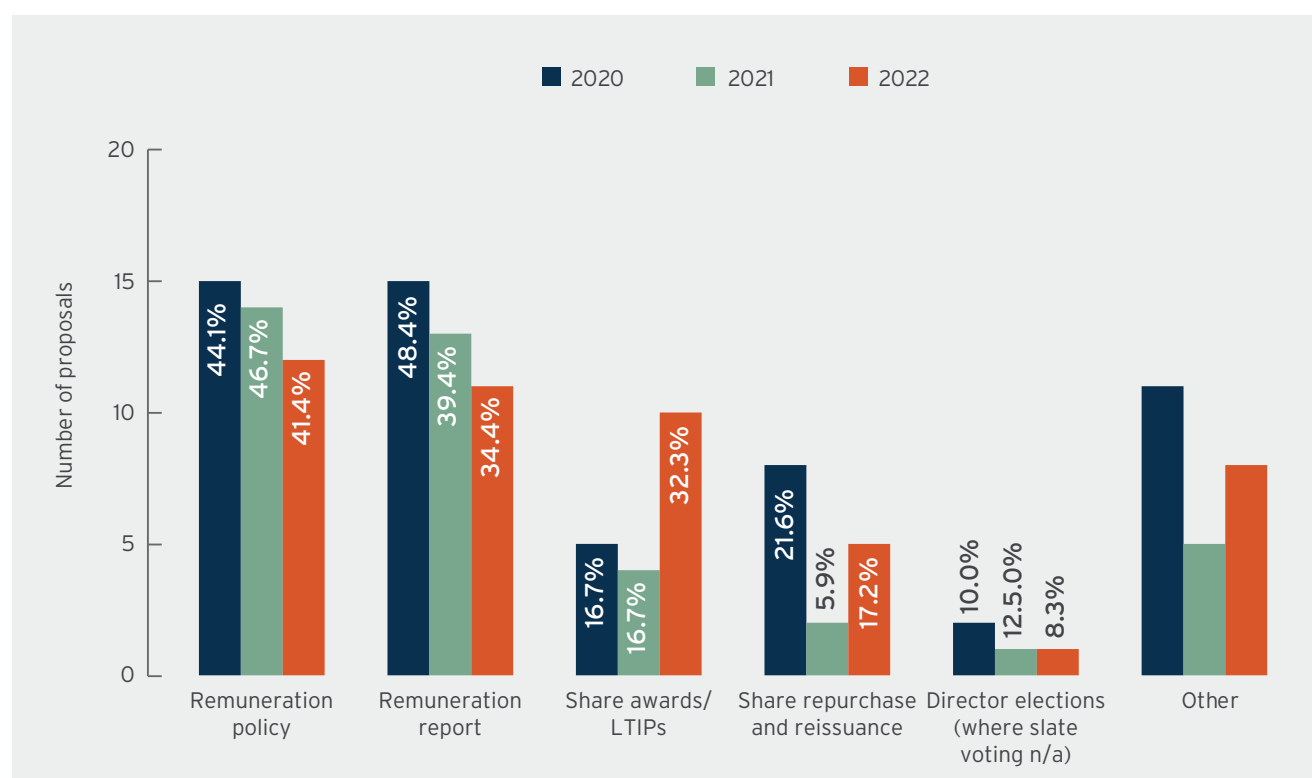
Within our sample of FTSE Italia Mid Cap companies, there have been no management-proposed resolutions rejected by shareholders.

1.3 Contested resolutions

Among our sample of 32 FTSE MIB companies, 16 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition (compared to 21 the previous year). The total number of resolutions that received over 10% opposition amounted to 47, compared to 39 resolutions in 2021.

In our FTSE MIB sample, the resolution type that had the most contested votes was that of remuneration policies (12). The second most commonly contested resolution type was for remuneration reports (11). Finally, resolution class with the third-most contested votes was for share awards (10), these are incentive plans for the granting of equity instruments and/or monetary incentives based on stock value.

Graph 3: Number of resolutions which received more than 10% against votes in the FTSE MIB (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% against and the total number of proposals in each category.



1.3.1 Remuneration Policy (first section of the remuneration chapter)

As mentioned above, resolutions pertaining to remuneration matters were the most highly contested. According to Italian law², issuers are required to publish a remuneration report at least 21 days before the relevant annual general meeting.

The said report is comprised of two sections and their contents have been defined by the Italian stock market regulator (Consob) with an ad hoc regulation adopted on 23 December 2011³. The first section (i.e. the Remuneration Policy) illustrates the general principles guiding how executives will be compensated in the following year along with the applicable procedures. These must be submitted for a mandatory binding vote of shareholders at least every three years and whenever the board proposes changes to the remuneration policy. However, it is common practice for companies in Italy to put Remuneration Policies forward on an annual basis.

The companies with the lowest level of support on the Remuneration Policy among our sample were:

- › Telecom Italia (59.8% in favour)
- › Assicurazioni Generali (68.6% in favour)
- › Mediobanca (70.3% in favour)
- › Amplifon (73.7% in favour)
- › Unicredit (75.2% in favour)

ISS and Frontis Governance both recommended against Amplifon and in favour of the four other resolutions, while Glass Lewis issued positive recommendations on Assicurazioni Generali and Mediobanca and negative recommendations on the three remaining proposals.

1.3.2 Remuneration Report (second section of the remuneration chapter)

The second section of the remuneration chapter (i.e. the Remuneration Report) provides a detailed disclosure on the remuneration paid to each board member, the managing director and the top management overall and must be submitted, as a separate item of the agenda, to a mandatory and advisory vote every year.

The companies with the lowest level of support on the Remuneration Report of the remuneration chapter among our sample were:

- › Interpump (54.8% in favour)
- › Moncler (65.5% in favour)
- › Assicurazioni Generali (68.4% in favour)
- › Mediobanca (70.4% in favour)
- › Telecom Italia (77.2% in favour)

ISS and Glass Lewis both recommended in favour of Assicurazioni Generali and Mediobanca and against the three other resolutions, while Frontis Governance issued positive recommendations on Moncler and Mediobanca and negative recommendations on the three remaining proposals.

² Article 123bis of the Italian Financial Law, available at: <http://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1998-02-24;58!vig=>.

³ <http://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1998-02-24;58!vig=>

1.3.3 Adoption of share awards plans

According to Italian law⁴, the adoption of remuneration plans that relate to financial instruments (such as stock options, share awards and/or phantom shares) and aim to remunerate, among others, members of a company's controlling or supervisory bodies must be approved by shareholders.

The companies with the lowest level of support on the approval of equity related plans among our sample were:

- Moncler (71.2% in favour)
- Interpump (73.6% in favour)
- Unicredit (78.9% in favour)
- Telecom Italia (80.2% in favour)
- Unipol Gruppo (83.8% in favour)

ISS recommended against Moncler and Unipol Gruppo and in favour of the three remaining resolutions, while Glass Lewis recommended against each of the proposals. Frontis Governance issued a negative recommendation on Interpump.

1.3.4 Authorities to repurchase and reissue shares

According to article 2357 of the Italian Civil Code, share repurchase programmes and the use of repurchased shares are subject to shareholder approval. The law requires issuers to disclose limitations in terms of scope, amount and duration of the authorisation.

The companies with the lowest level of support on the approval of share repurchase programmes among our sample were:

- Interpump (72.2% in favour)
- Amplifon (83.3% in favour)
- Assicurazioni Generali (first proposal, 84.2% in favour)
- Assicurazioni Generali (second proposal, 84.8% in favour)
- Unipol Gruppo (89.5% in favour)

ISS recommended in favour of the two proposals of Assicurazioni Generali and against the three remaining resolutions, while Glass Lewis recommended in favour of each of the proposals. Frontis Governance issued a negative recommendation on Interpump.

⁴ Article 114-bis of the Italian Consolidate Financial Law, introduced by Law n. 262 of 28 December 2005

1.3.5 Director elections (where slate voting was not applicable)

Italian law requires that the Board of Directors be elected by a slate voting system. Therefore it is not normally possible for investors to vote on directors individually. However, when random vacancies arise (affecting less than 50% of the board elected by the shareholders' meeting) and directors are co-opted to the Board, they are subject to an individual shareholder vote decided by a simple majority⁵.

Regarding the election of the Chair of the Board, Italian law⁶ provides that they be appointed by the members of the Board, unless an individual is named by the shareholders. However, appointment by a majority vote of shareholders is the common practice.

The company with the lowest level of support on director elections and election of the Chair of the Board among our sample was Interpump for a director election (75.6% in favour). ISS recommended against the proposal, while both Glass Lewis and Frontis Governance issued positive recommendations.

⁵ Article 2386 of the Italian Civil Code

⁶ Article 2380 of the Italian Civil Code

2. PROXY ADVISORS

Many institutional investors rely on proxy advisory firms such as ISS, Glass Lewis and Frontis Governance to help them analyse meeting agendas and support them in casting informed votes. A negative recommendation from a proxy advisor often has an adverse impact on the voting outcome of a given resolution.

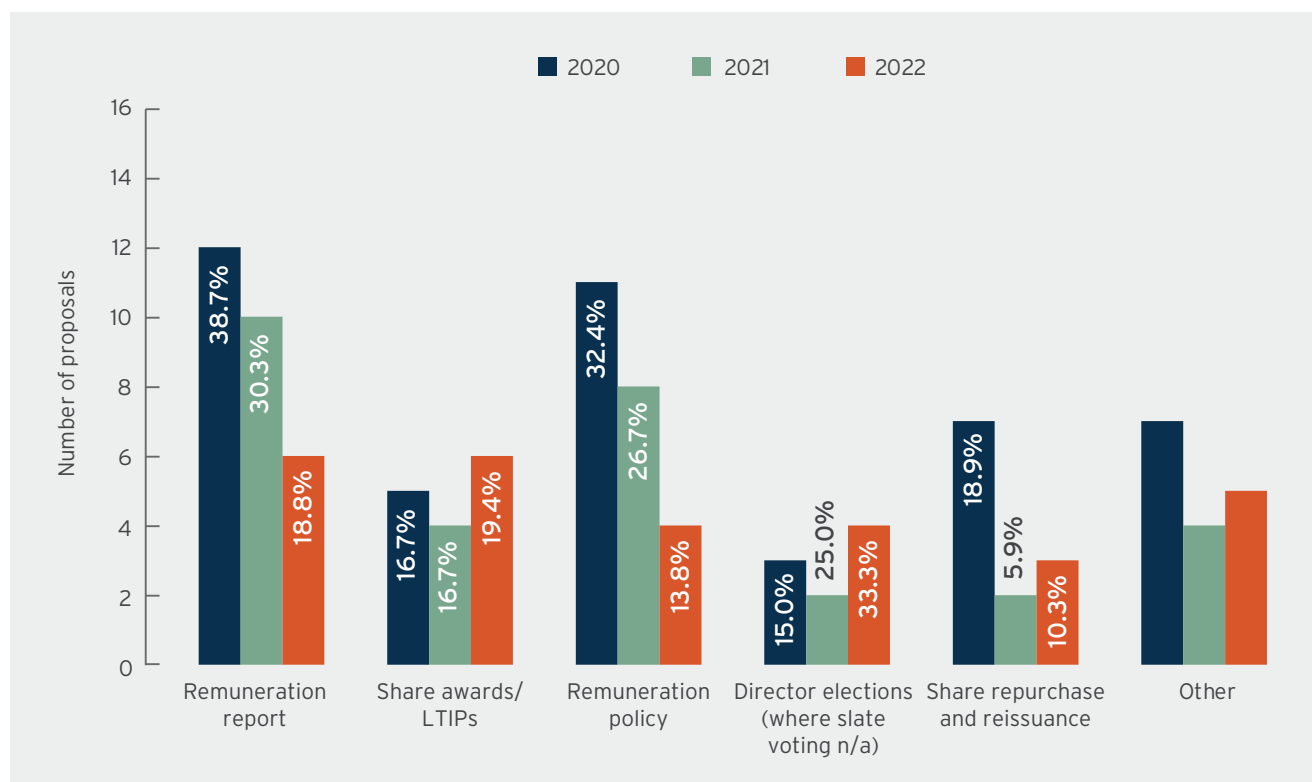
2.1 Institutional Shareholder Services (ISS)

Institutional Shareholder Services⁷ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

Between July 1 2021 and June 30 2022, 13 out of 32 FTSE MIB companies analysed received at least one against or abstain recommendation from ISS, for a total of 28 resolutions.

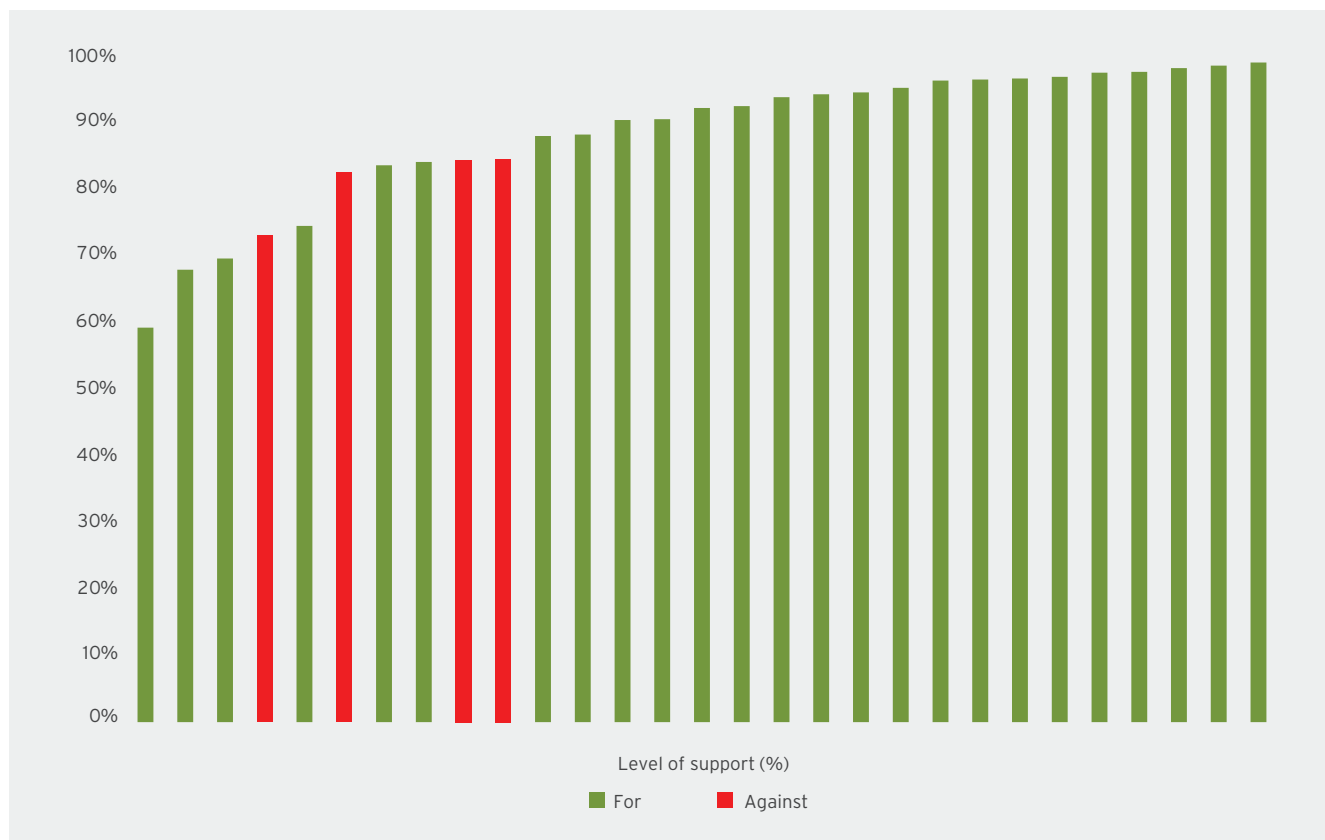
The resolution types that received the most negative recommendations from ISS were those for the approval of remuneration reports and of incentive plans. ISS recommended against 6 proposals for each resolution type. Graphs 5a and 5b suggests that companies receiving negative recommendations from ISS tended to receive lower levels of shareholder support, though this correlation isn't as strong for remuneration policy votes.

Graph 4: Overview of the number of negative recommendations by ISS at FTSE MIB AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category.

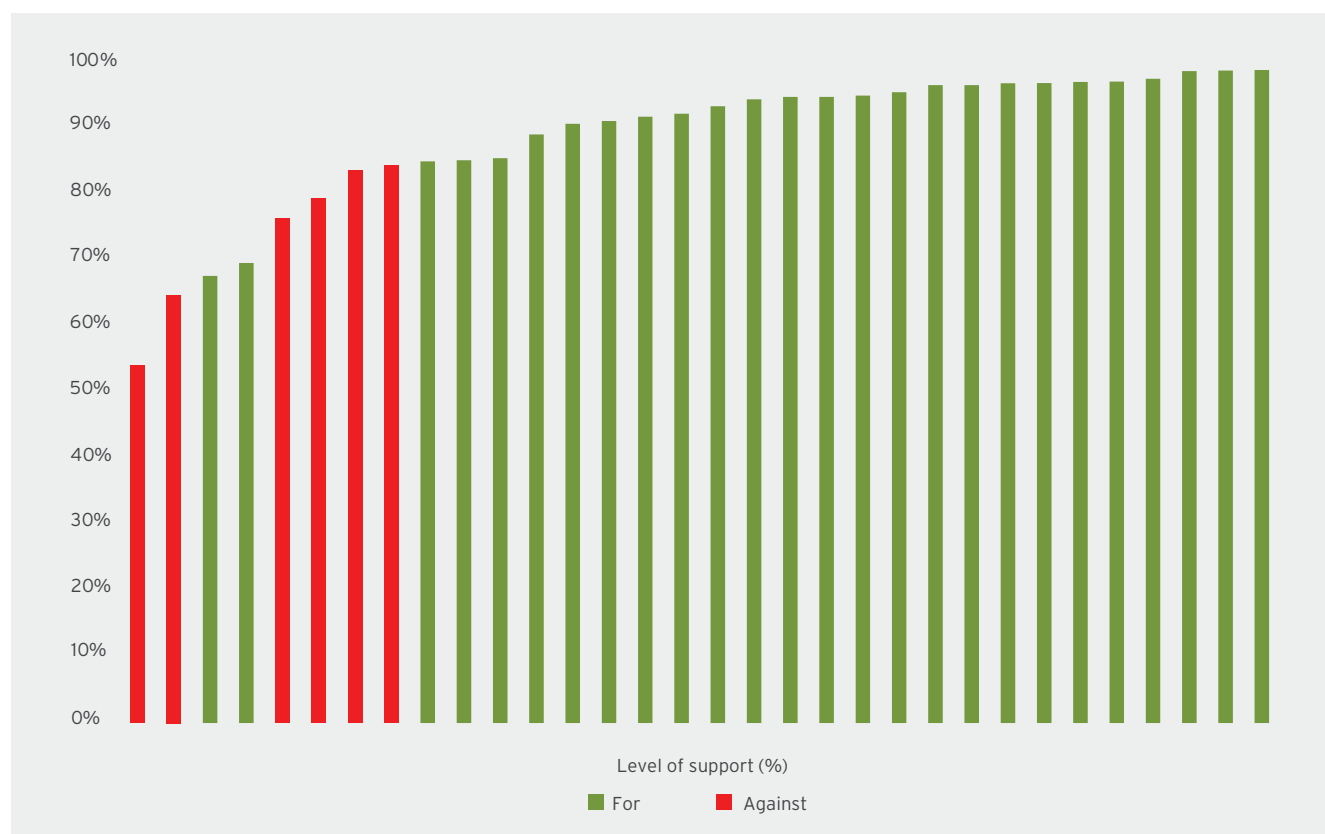


⁷ <http://www.issgovernance.com/about/about-iss/>

Graph 5a: Votes in favour of the Remuneration Policy among FTSE MIB companies (sorted by level of support), and colour coded by the ISS vote recommendation.



Graph 5b: Votes in favour of the Remuneration Report among FTSE MIB companies (sorted by level of support), and colour coded by the ISS vote recommendation.

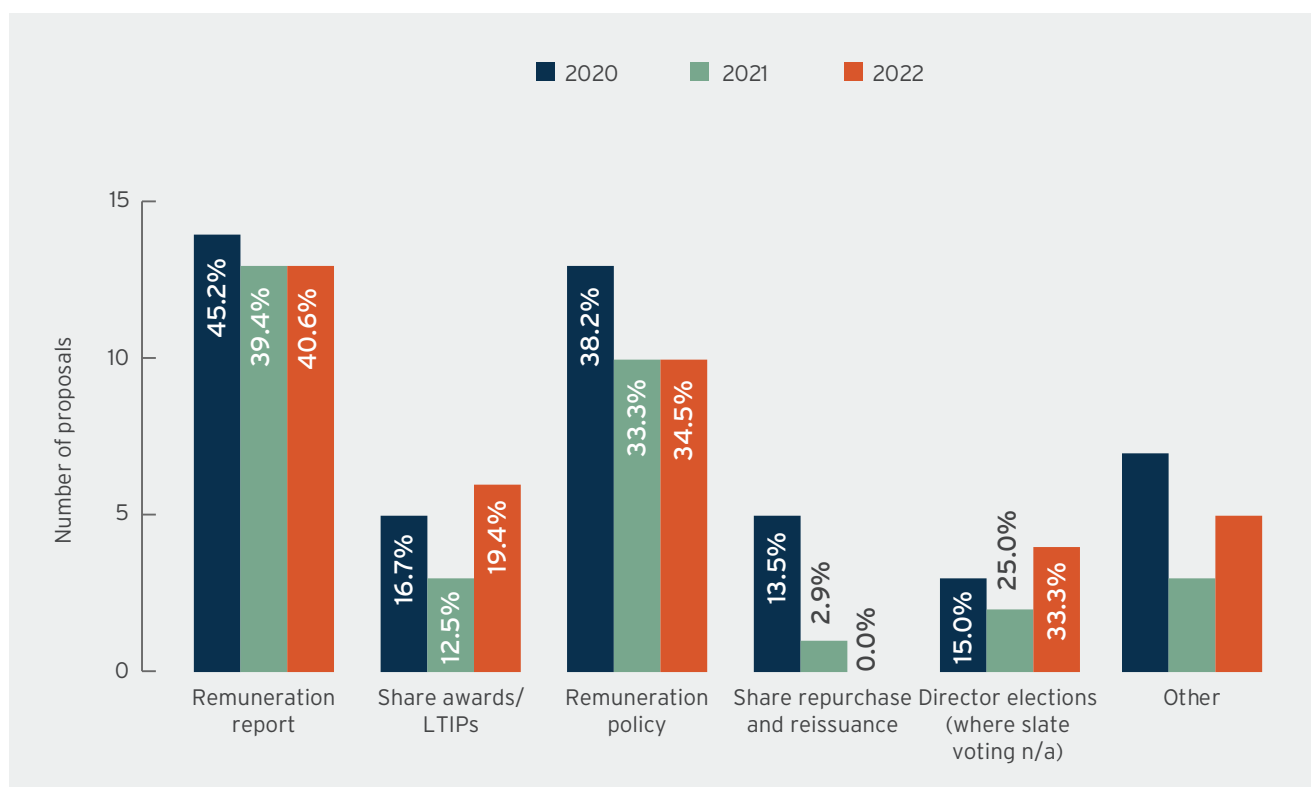


2.2 Glass Lewis

Glass Lewis⁸ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 July 2021 and 30 June 2022, 16 FTSE MIB companies received at least one against or abstain recommendation from Glass Lewis, for a total of 38 resolutions. Over 75% of Glass Lewis's against recommendations were directed to resolutions related to remuneration (reports, policies, or incentive plans). Graphs 7a and 7b suggests that companies receiving negative recommendations from Glass Lewis tended to receive lower levels of shareholder support, though this correlation isn't as strong for remuneration policy votes.

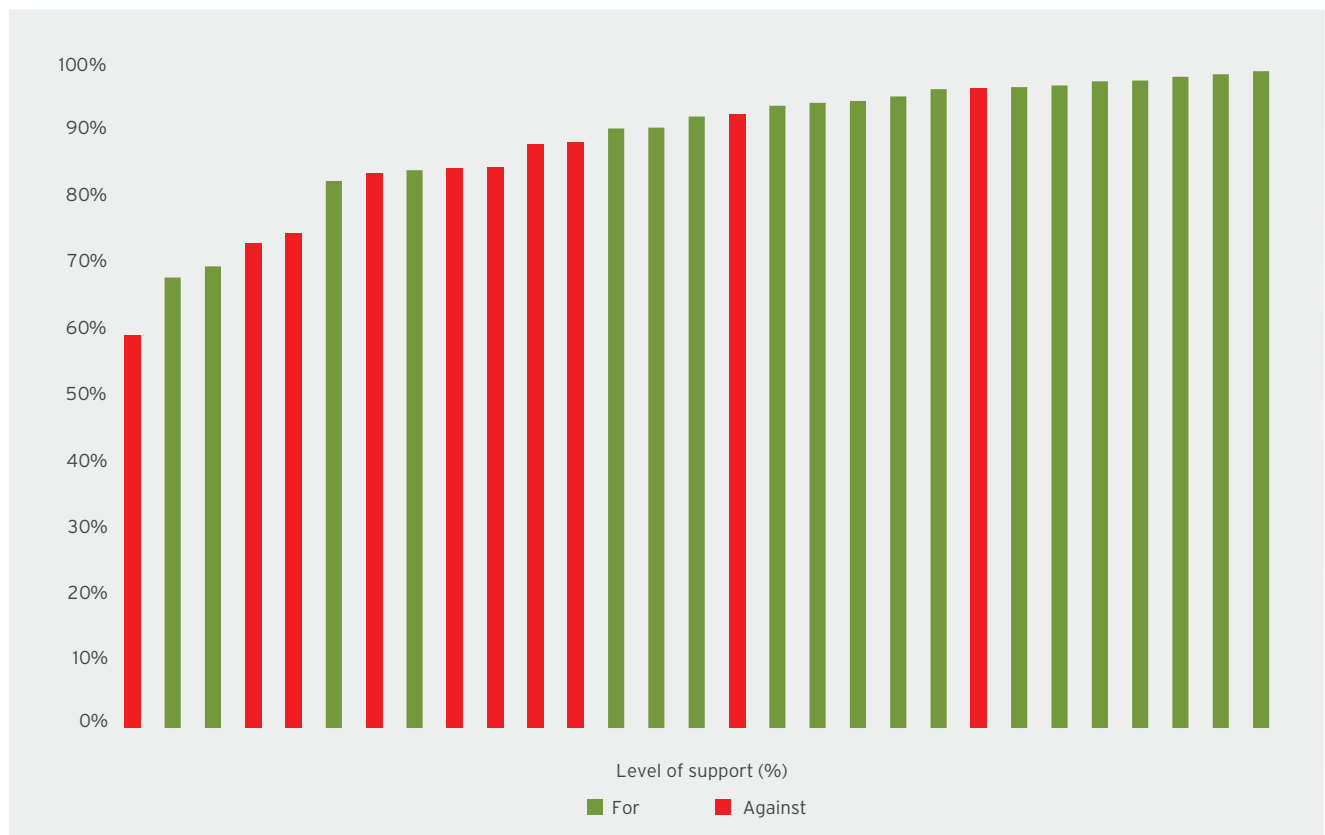
Graph 6: Overview of the number of negative recommendations by Glass Lewis at FTSE MIB AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category.



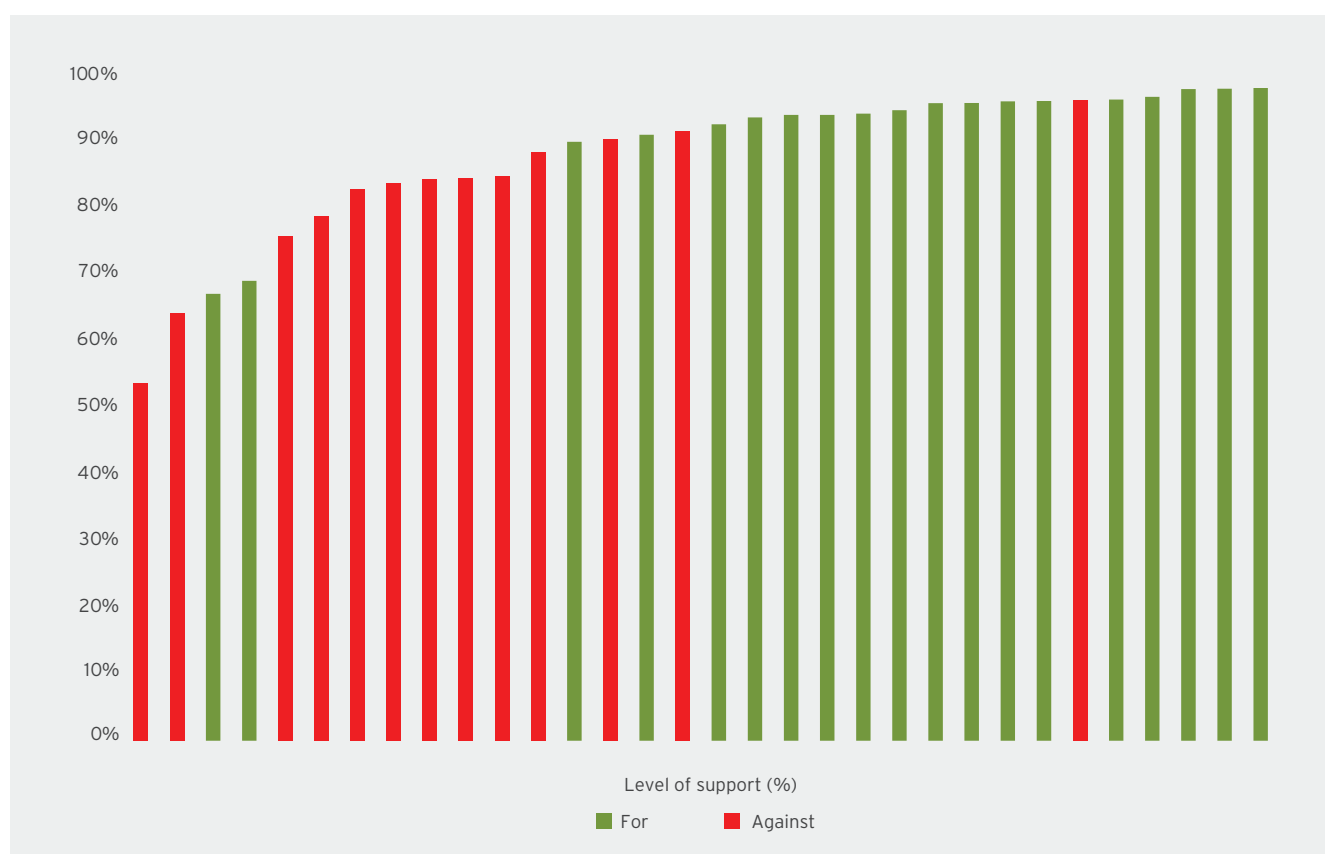
Over 75% of Glass Lewis's against recommendations were directed to resolutions related to remuneration

⁸ <http://www.glasslewis.com/about-glass-lewis/>

Graph 7a: Votes in favour of the Remuneration Policy among FTSE MIB companies (sorted by level of support), and colour coded by the Glass Lewis vote recommendation.



Graph 7b: Votes in favour of the Remuneration Report among FTSE MIB companies (sorted by level of support), and colour coded by the Glass Lewis vote recommendation.

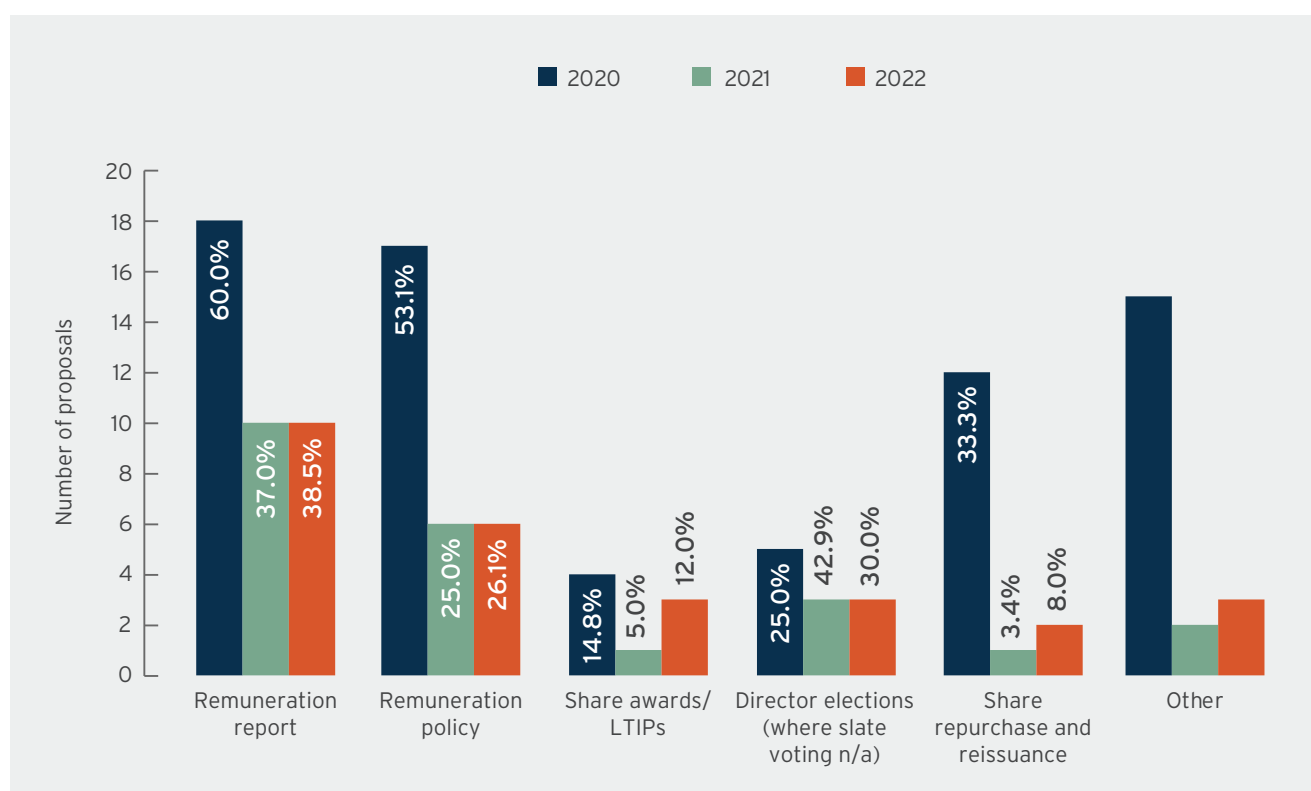


2.3 Frontis Governance

Frontis Governance⁹ is an Italian proxy advisory firm founded in September 2011. It is member of the Expert Corporate Governance Service (ECGS)¹⁰, a partnership of independent local proxy advisors.

Between 1 July 2021 and 30 June 2022, 13 companies out of the FTSE MIB received at least one against or abstain recommendation from Frontis Governance, for a total of 27 resolutions. Graphs 9a and 9b suggests that companies receiving negative recommendations from Frontis Governance tended to receive lower levels of shareholder support, though this correlation isn't as strong for remuneration policy votes.

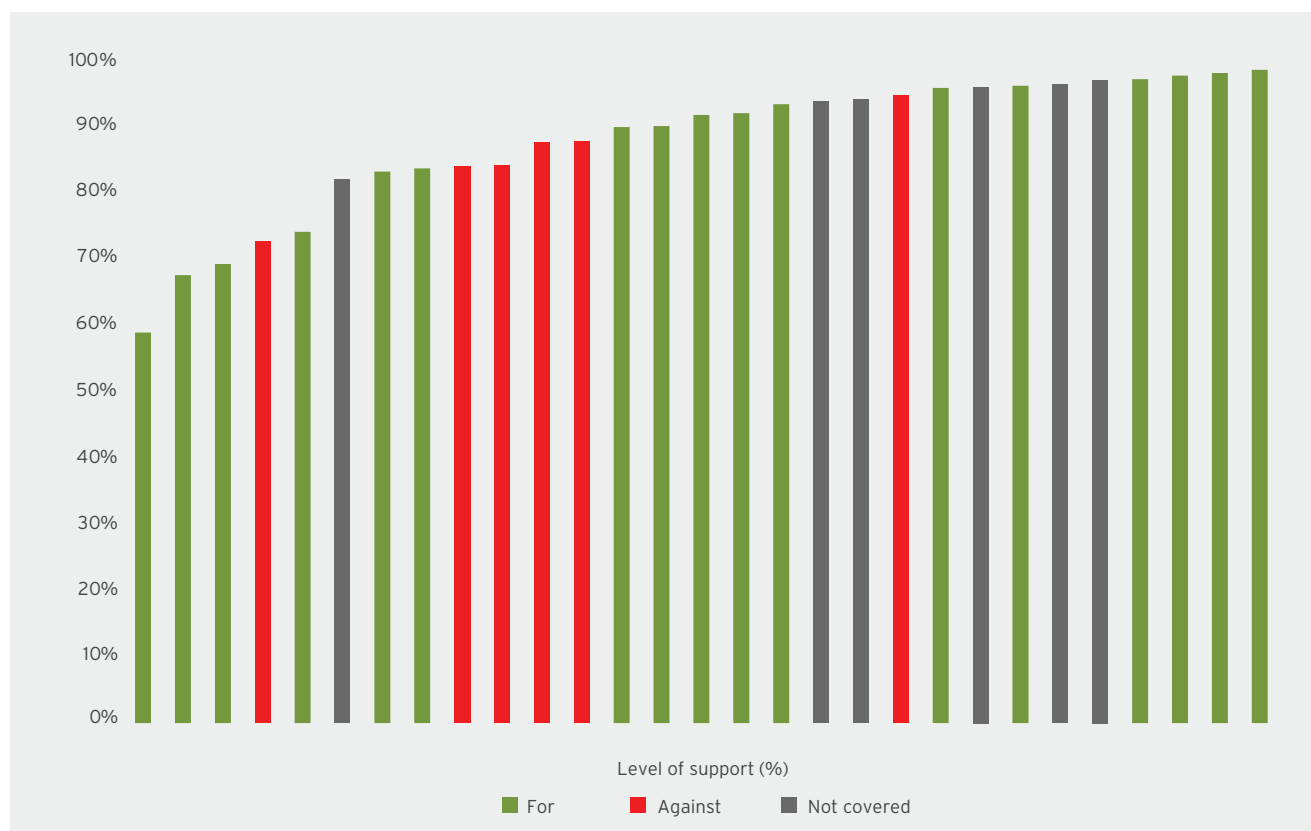
Graph 8: Overview of the number of negative recommendations by Frontis Governance at FTSE MIB AGMs over the past three years. The percentages represent the ratio between the number of proposals that received a negative Frontis Governance recommendation and the total number of proposals in each category.



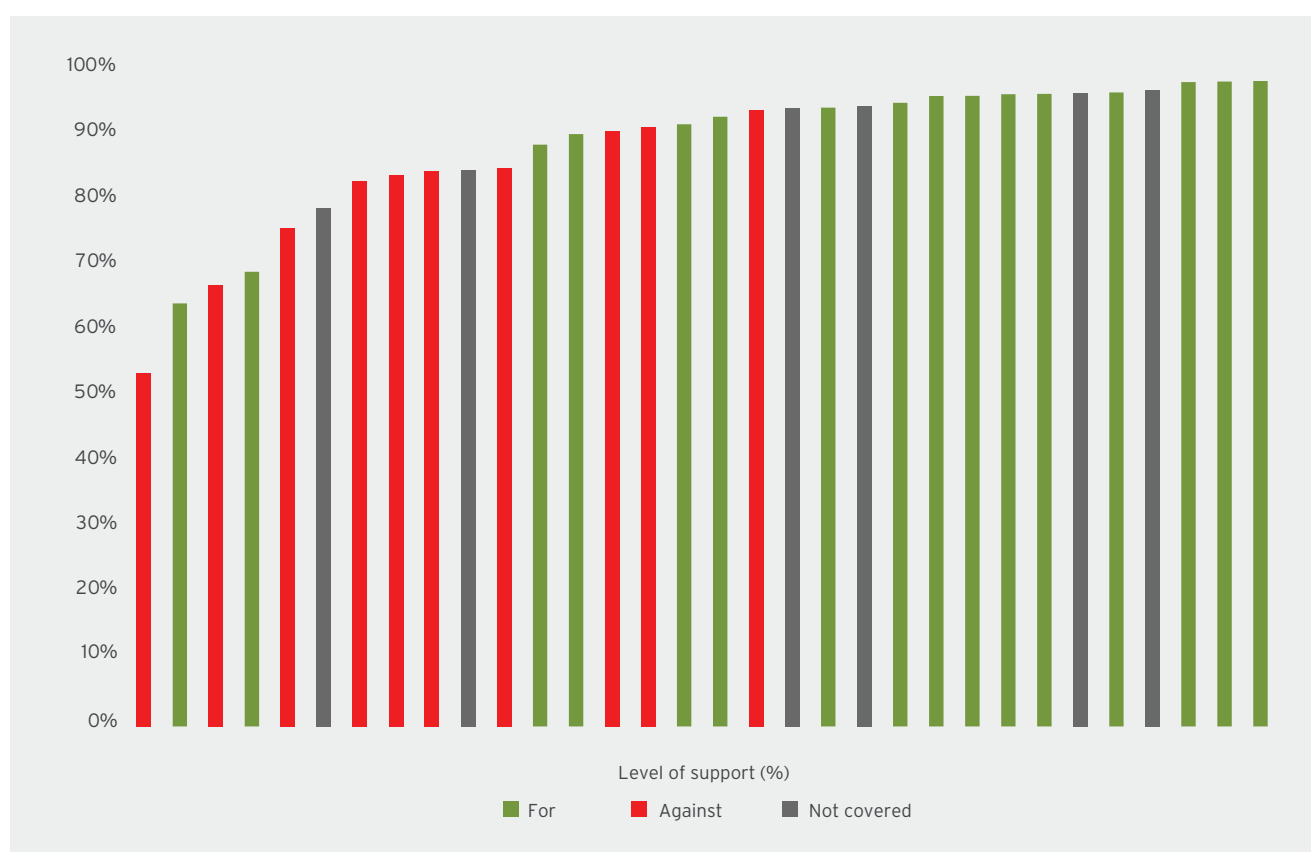
⁹ <http://www.frontisgovernance.com/en/>

¹⁰ <http://www.ecgs.org/partners>

Graph 9a: Votes in favour of the Remuneration Policy among FTSE MIB companies (sorted by level of support), and colour coded by the Frontis Governance vote recommendation.



Graph 9b: Votes in favour of the Remuneration Report among FTSE MIB companies (sorted by level of support), and colour coded by the Frontis Governance vote recommendation.



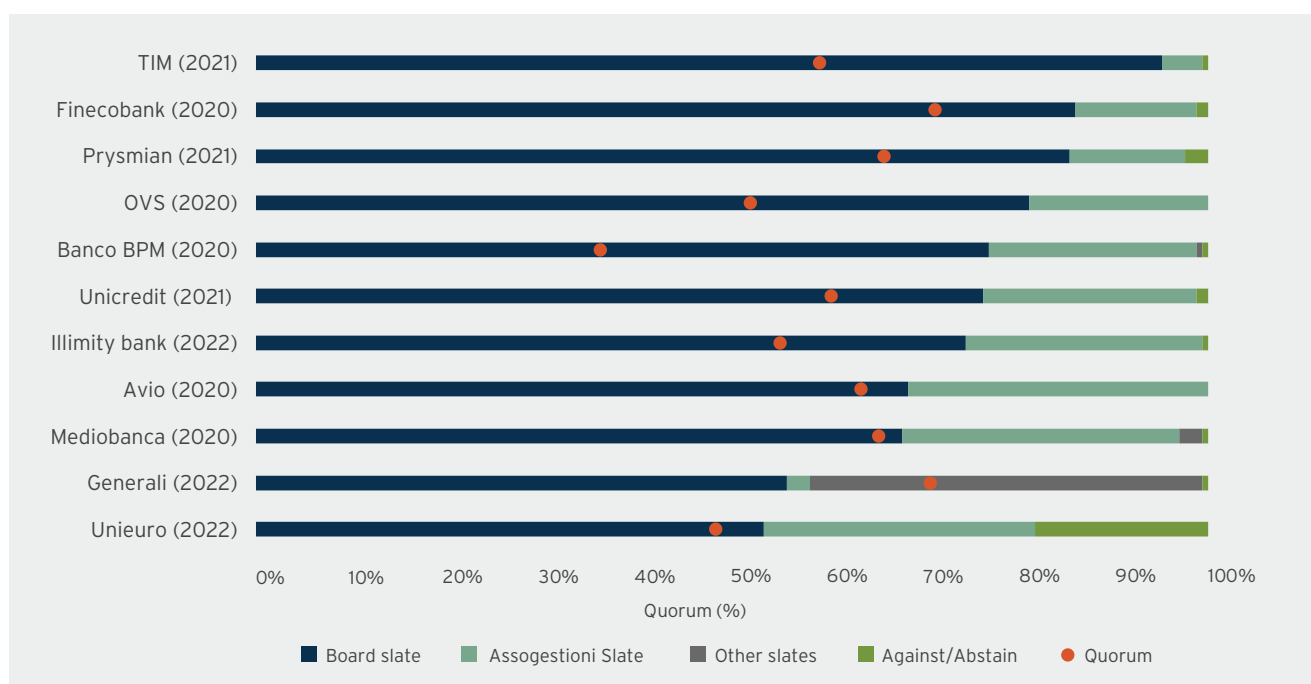
3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Board Slate – Consob Opinion

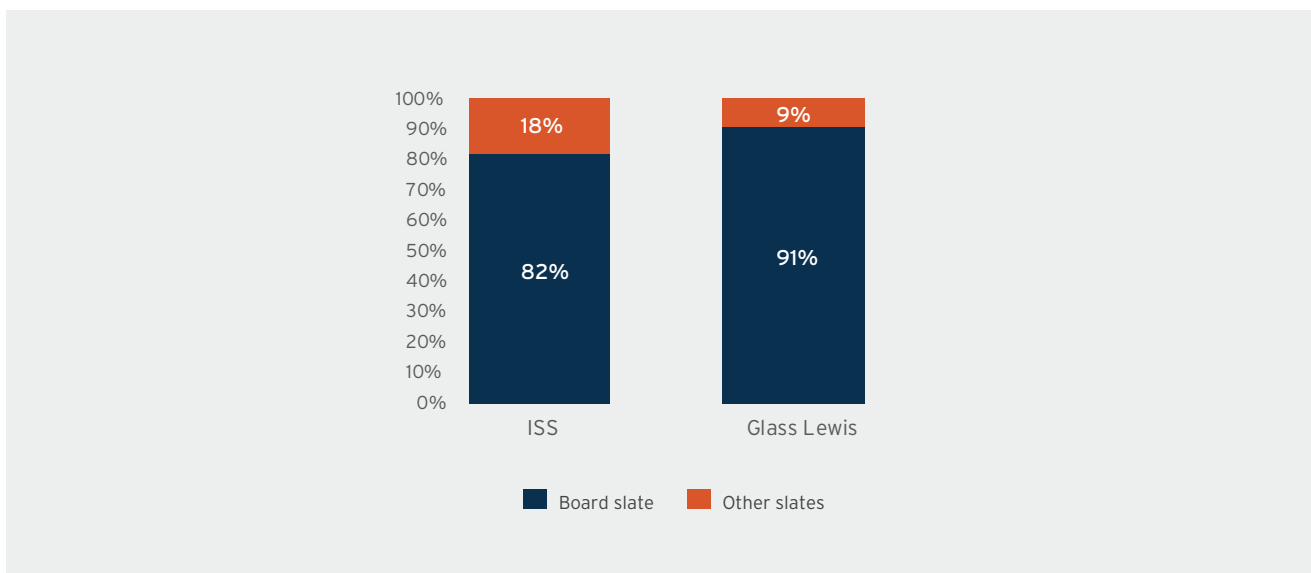
Some listed companies have provided in their articles of association the option for the outgoing board of directors to submit their own list for renewal. Over the last three years, the board of directors of more than 10 companies has made use of this option by submitting their own list.

The following graphs show the voting recommendations from ISS and Glass Lewis as well as the voting results of the 11 FTSE MIB and FTSE Italia Mid Cap companies whose outgoing boards submitted a slate for the board of directors renewal in the last three years.

Graph 10: Voting results in 11 FTSE MIB and FTSE Italia Mid Cap companies whose outgoing boards submitted a slate for the Board of Directors renewal in the last three years.



Graph 11: Voting recommendations from ISS and Glass Lewis in 11 FTSE MIB and FTSE Italia Mid Cap companies whose outgoing boards submitted a slate for the Board of Directors renewal in the last three years.



The Corporate Governance Code, adopted in 2020, provides the possibility for the outgoing board to submit a slate, ensuring the transparency of the process that led to the slate's structure and proposition.

Consequently, Consob¹¹ drew the attention of boards of listed companies as well as their shareholders to a number of aspects that are considered to be relevant for managing the process of the formation and presentation of a list by the board of directors in a more transparent manner:

- 1) Increasing transparency and documentability of the candidate selection process, including by adequately recording the minutes of the Board of Directors' meetings. This would preferably be done by adopting a specific procedure aimed at regulating ex ante the candidate identification process in its various stages and the contribution made by each of the various parties involved.
- 2) Enhancing the role of the independent members of the board of directors in the list formation and presentation process. The nomination committee shall be involved in the process. In order to assign a coordinating role for the entire process to an independent figure, in the absence of a chairman qualified as independent, attention is drawn to the advisability of flanking him with a director who is independent, such as the chairman of the nomination committee or the lead independent director, if any, or several independent directors.
- 3) In application practice, one of the most relevant aspects of the process was the management of the phase of dialogue with shareholders, which generally follows the formulation of guidelines on the optimal quali-quantitative composition and precedes the more specific stages of defining the concrete criteria for selecting directors and screening candidates.

Also, for this phase, attention is drawn to the importance of a transparent and documented process, with concise minutes of meetings with shareholders, which also takes into account any policy for managing dialogue with shareholders adopted in adherence to the Corporate Governance Code.

4) A further relevant profile concerns the conduct of the directors during the meetings in which the composition of the Board of Directors list is voted on. In this regard, Consob draws attention to Article 2391 of the Italian Civil Code, in relation to which it is considered that there is an obligation of transparency of the interests of directors who have declared their willingness to be reappointed, and of reinforced motivation of the decision of the board of directors.

5) Correct and complete information on the list submitted by the Board of Directors and on the manner in which such list was drawn up is an essential requirement to allow the market (investors, proxy advisors) to adequately appreciate it and, ultimately, to encourage shareholders to make their own voting decisions (and, if appropriate, to submit an alternative list of their own).

For these reasons, the attention of companies is drawn to the importance, in the context of the disclosure made on the board list in view of the Shareholders' Meeting, of:

- I. Transparency of the selection process
- II. Disclosure of the majorities with which board resolutions were adopted at different stages of the process

6) It is considered important that shareholders submitting a list declare the absence of any connection with the list presented by the Board of Directors, as well as specifying any significant relations that may exist and the reasons why such relations have not been considered relevant to the existence of a connection.

7) Finally, the fact that directors are elected on the basis of a list of candidates presented by the Board of Directors does not preclude a shareholder from qualifying as a related party.

¹¹ https://www.consob.it/documents/46180/46181/ra_2022_01.pdf/5227143a-07f1-4f8c-8f4e-9c4f0ac7e09f

3.2 Supervisory Provision

The Bank of Italy has issued an update¹² to the Supervisory Provisions on the Corporate Governance of Banks (Circular No. 285/2013) with the aim of promoting appropriate remuneration and incentive mechanisms for the bank's management that can foster competitiveness and good governance.

This update replaced Chapter 2 of Part One, Title IV, of Bank of Italy Circular No. 285/2013, which contains the supervisory provisions on remuneration and incentives in banks and banking groups.

The amendments are aimed at transposing the changes introduced by CRD V (Directive 2019/878/EU) on this matter and the Guidelines of the European Banking Authority implementing the directive (EBA/GL/2021/04).

Remuneration systems are defined in line with corporate objectives and values, including sustainable finance objectives that take into account environmental, social and governance (ESG) factors, and with the bank's long-term strategies and prudent risk management policies. In particular, forms of incentive remuneration, whether based on financial instruments (e.g. stock options) or linked to corporate performance, must be consistent with the reference framework for determining risk appetite (e.g. Risk Appetite Framework - 'RAF') and with the governance and risk management policies; they must also take into account the cost and level of capital and liquidity.

The supervisory provisions introduce a number of changes: one of the most interesting is the introduction of the gender neutrality of remuneration policies in order to pursue complete equality among staff.

The provisions of this paragraph shall not limit the possibility for banks to take measures to promote the pursuit of professional activities by the less represented gender or to avoid or compensate for disadvantages in the professional careers of the less represented gender.

As part of the periodic review referred to in Section II, paragraph 2, the board with the support of the remuneration committee analyses the gender neutrality of the remuneration policies and reviews the gender pay gap and its evolution over time. In this context, banks identify the ratio between the average remuneration of staff of the most represented gender and that of staff of the least represented gender, distinguishing between the most relevant staff and other staff and excluding from the calculation the remuneration of the members of the body with strategic supervision and management functions, for which the ratio is calculated.

Where material differences emerge, banks document the reasons for the gender pay gap and take appropriate corrective action, unless they can demonstrate that the gap is not due to non gender-neutral remuneration policies.

Where material differences emerge, banks document the reasons for the gender pay gap and take appropriate corrective action

¹² <https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/circolari/c285/Circ.285-Aggiornamento-37.pdf>

REJECTED BOARD PROPOSALS

2

AVERAGE QUORUM

71.8%

RESOLUTIONS
WITH OVER 10% OPPOSE

9.7%

COMPANIES
WITH OVER 10% OPPOSE

82.4%

Spain
/ IBEX 35



During the 2022 AGM season, **the average quorum for IBEX 35 companies slightly increased to 71.8%** with respect to 2021 (71.6%) but remains below the levels seen in 2019 (72.3%) and 2018 (72.2%).

Among share issuance, six proposals received more than 10% negative votes (the same number as in 2021). **The ratio has decreased by 12.5 percentage points**, going from 25.0% in 2021 to 12.5% in the 2022 Proxy Season.

Remuneration policy votes were the resolutions with the highest proportion of negative recommendations from proxy advisors in 2022: ISS opposed 35.0% of remuneration policy votes; Glass Lewis 35.0%; and Corporance 60.0%.

Among the 34¹ IBEX 35 companies that are part of this review, **two resolutions were rejected by shareholders**. These were at the AGMs of Indra Sistemas and International Consolidated Airlines Group.

The highest number of contested resolutions this year were related to remuneration, where **32 resolutions received more than 10% opposition**, representing 38.6% of the total resolutions in this category (compared to 46 resolutions in 2021, which represented 48.9%).

94% of the IBEX 35 companies held their meetings using a hybrid model, allowing shareholders to attend and vote in person or remotely.

Among director elections **24 resolutions received more than 10% voting opposition**, representing 12.5% of the total (compared to 18 resolutions in 2021 and 28 in 2020, with ratios of 14.6% and 17.0%, respectively).

This year, three companies in the IBEX 35 submitted 'Say on Climate' resolutions: Aena, Ferrovial, and Repsol. While ISS was supportive of these resolutions, Glass Lewis issued unfavorable recommendations at the General Meeting of both Ferrovial (against recommendation) and Aena (abstention). **All three resolutions were approved by investors at their respective General Meetings receiving over 83% of support.**

¹ ArcelorMittal has been excluded in the rest of the document as their corporate headquarters are located outside of Spain.

1. VOTING IN SPAIN

1.1 Quorum overview

Georgeson has analysed the quorum levels of IBEX 35 companies over the last 5 years. The period taken into consideration for the scope of this analysis is from 1 July 2021 to 30 June 2022.

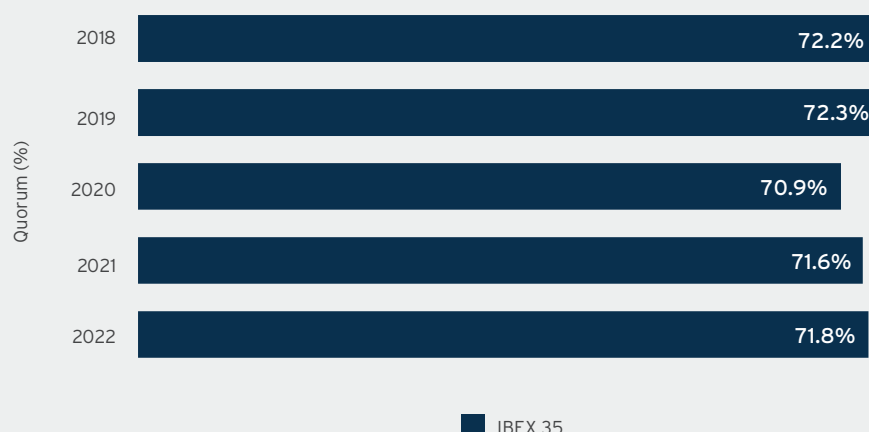
In the 2022 proxy season, the average quorum for IBEX 35 companies slightly increased to 71.8% with respect to 2021 (71.6%) but remains below the 2019 and 2018 quorums.

The three highest quorums among the IBEX 35 companies were recorded by:

- › Acciona Energía (94.1%)²
- › Naturgy Energy Group (90.3%)
- › Industria del Diseño Textil (88.7%)³

Additionally, it should be noted that there have been changes in the composition of the IBEX 35 since last year's proxy season. Almirall, Cie Automotive and Viscofan left the index and were replaced by Acciona Energía, Sacyr and Laboratorios Rovi. The IBEX 35 companies that experienced the greatest increase in their quorum with respect to 2021 are Naturgy Energy Group (+7.90 percentage points)⁴, Iberdrola (+6.30 points), and Ferrovial (+5.98 points).

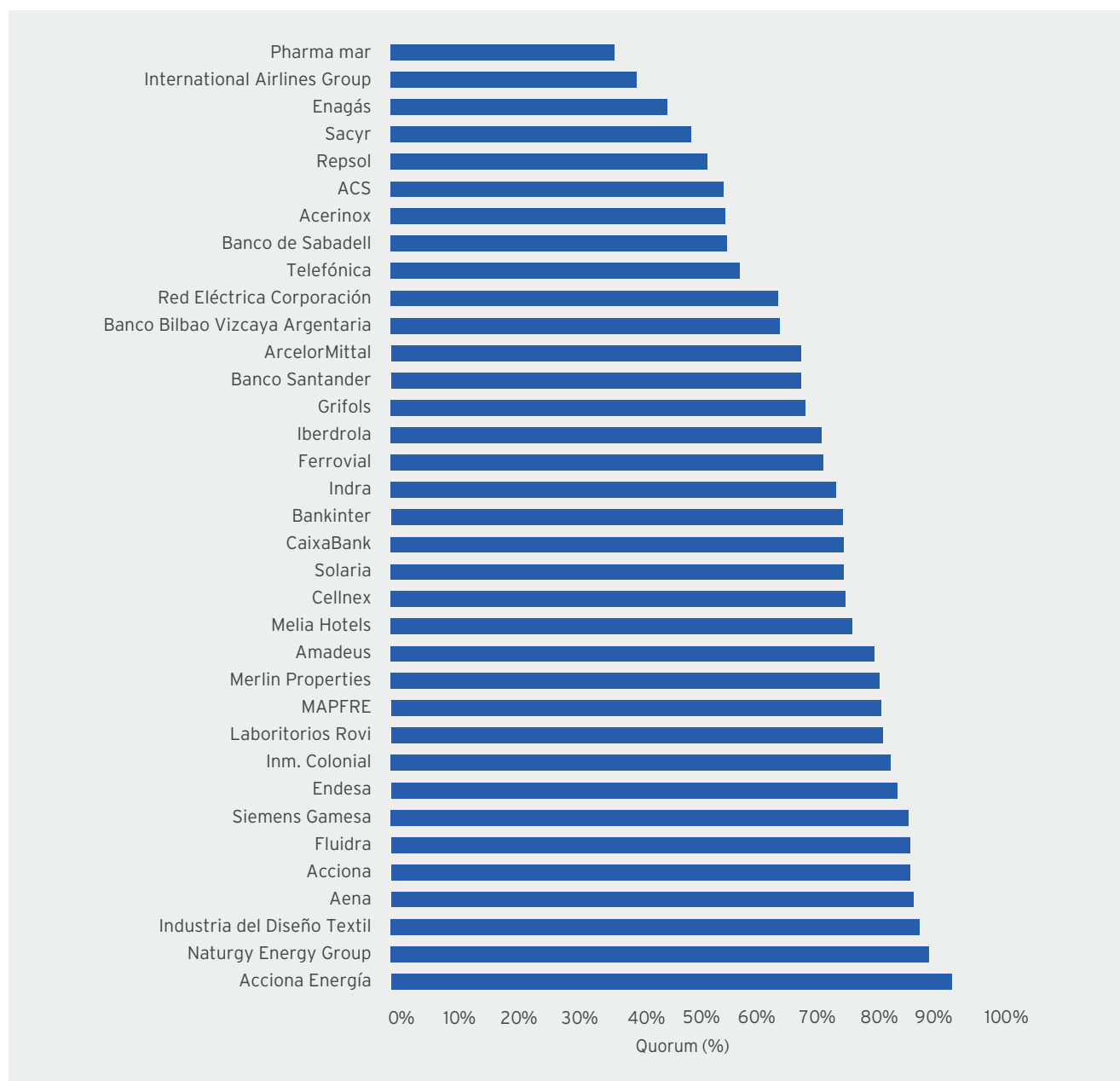
Graph 1: Average AGM quorum levels in the IBEX 35 2018 and 2022.



² Acciona Energía initial public offering took place on 21 June 2021.

³ The AGM taken into consideration for Industria de Diseño Textil is the one celebrated in July 2021.

⁴ This increase is the result of changes in their capital structure after the tender offer launched by IFM (now with 13.39% of the capital of Naturgy).

Graph 2: Quorum levels at IBEX 35 companies during the 2022 reporting period.

1.2 Rejected resolutions

Among the 34⁵ IBEX 35 companies that are part of this review, two resolutions were rejected by shareholders. These were at the AGMs of Indra Sistemas and International Consolidated Airlines Group.

Indra Sistemas

In June 2022, Indra Sistemas failed to approve the re-election of Isabel Torremocha Ferrezuelo as an Independent Director due to the opposition of three significant shareholders: Amber Capital (a significant shareholder since June 2022), SAPA Placencia (a significant shareholder since December 2021) and SEPI⁶ (the company's main shareholder). At the same AGM, Amber Capital, with a 3.24% share capital proposed the dismissal of four independent directors, receiving a 53.06% of support. The stakes built by the three significant aforementioned shareholders during the months prior to the AGM allowed them to effectively remove five independent directors of the company.

International Consolidated Airlines Group

In June 2022, IAG held its General Shareholders' Meeting, where all proposed resolutions were approved with the exception of item 13 of the agenda. While resolution 13 did receive 98.69% support among the votes cast, it did not reach the required two-thirds majority of the issued share capital.

The Board of Directors were seeking authorization to reduce the notice period to call Extraordinary General Meetings to fifteen days. While ISS and Glass Lewis recommended a vote in favour of this item of the agenda, Corporance recommended shareholders vote against it.

1.3 Contested resolutions

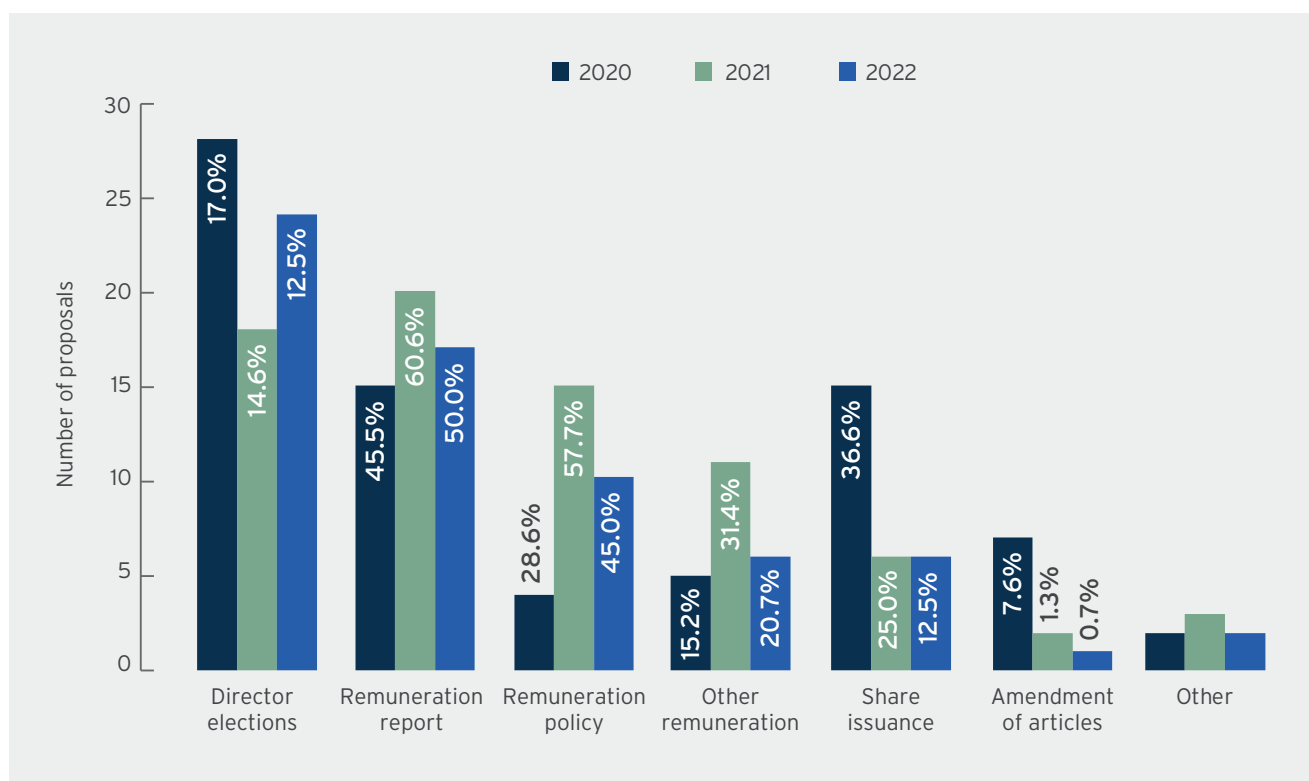
Among our IBEX 35 sample, 28 companies saw at least one management-proposed resolution receive more than 10% shareholder opposition, for a total of 65 resolutions (which represents 10% of total resolutions voted). During 2021, 75 resolutions were contested (12% of total resolutions voted).

In the IBEX 35, the highest number of contested resolutions this year are related to the remuneration of the board and directors, and includes the remuneration report, remuneration policy and other remuneration resolutions. In total, 32 resolutions received more than 10% opposition (representing 39% of total resolutions in this category). This represents a significant decrease from 2021, when 46 resolutions were contested (49% of total resolutions in this category).

⁵ ArcelorMittal has been excluded in the rest of the document as their corporate headquarters are located outside of Spain.

⁶ SEPI, State Industrial Participation Company, is the Spanish state owned holding company.

Graph 3: Number of resolutions which received voting opposition of more than 10% in the IBEX 35 (by resolution type). The percentages represent the ratio between the number of proposals that received more than 10% opposition and the total number of proposals in each category.



1.3.1 Remuneration

Spanish law⁷ requires companies to submit their remuneration report for non-binding shareholder approval on an annual basis, in addition to a binding remuneration policy proposal at least every three years.

This year, IBEX 35 companies saw a decrease in opposition to the following remuneration items:

- › Remuneration Report: 17 resolutions received more than 10% opposition (50% of total resolutions). This is the highest ratio of contested resolutions this year with respect to its total. In 2021, 20 resolutions were contested (61% of total resolutions).
- › Remuneration Policy: 9 resolutions received more than 10% opposition (45% of total resolutions). In 2021, 15 resolutions were contested (58% of total resolutions).
- › Other remuneration resolutions: 6 resolutions received more than 10% opposition (21% of total resolutions). In 2021, 11 resolutions were contested (31% of total resolutions).

In general terms, institutional investors' concerns on remuneration items during this 2022 proxy season are in line with what we have been observing over the last few years. These recurring concerns are:

- › the misalignment of pay and performance,
- › a lack of disclosure and transparency,
- › elevated severance payments,
- › a lack of information in relation to the malus and clawback clauses, or
- › the misuse of discretionary power by the board.

The companies with the lowest levels of support on remuneration items were the following:

- › Telefónica (53.28% in favour of the remuneration report).
- › Red Eléctrica Corporación (59.76% in favour of the remuneration report)⁸.
- › Cellnex (56.14% in favour of the remuneration policy / 88.34% in favour of the remuneration report).

1.3.2 Director elections

This year, 24 resolutions related to board elections received more than 10% voting opposition, representing 13% of all board election votes. This ratio represents a decrease compared with previous years, where the proportion of negative votes was 15% in 2021 (18 resolutions) and 17% (28 resolutions) in 2020.

The main motivations behind negative votes from shareholders continue to be related to the lack of independence of the board or gender diversity, the misalignment of the remuneration structure with market expectations, or even the lack of response to a high level of opposition at previous AGMs.

The companies with the lowest levels of support were the following:

- › Indra Sistemas (six resolutions: one management resolution rejected with a support level of 47.64% and five shareholder resolutions with a support level of around 53%).⁹
- › Fluidra (two resolutions with support levels of 65.27% and 66.33%, respectively).
- › Inmobiliaria Colonial (one resolution with a support level of 67.64%).

In general terms, institutional investors' concerns on remuneration items during this 2022 proxy season are in line with what we have been observing over the last few years.

⁷ Article 529 novodecies – Point 1 of Spanish Companies Law: Real Decreto Legislativo 1/2010, de 2 de julio (last update: 4 December 2014)

⁸ This low level of support is mostly explained by the vote of SEPI (Sociedad Estatal de Participaciones Industriales), a significant state shareholder of Red Eléctrica (20% ISC). According to its internal policy, SEPI always abstains from voting on remuneration-related items.

⁹ On the 22 of June 2022, Indra Sistemas failed to approve at its AGM the re-election of Isabel Torremocha Ferrezuelo as Independent Director. Also, shareholder proposal (from SAPA) for the appointment of Jokin Aperribay Bedialauneta as Proprietary Director received a 53.61% support. At the same AGM, shareholder proposals (from Amber) calling for the dismissal of four independent directors received 53.06% of support. The lack of support in the re-election of this independent director, the appointment of the Proprietary Director and the dismissal of the other four independent directors respond to the coordinated action of three significant shareholders of the company.

1.3.3 Share issuance

According to Spanish Companies Law¹⁰, Spanish companies may seek shareholder approval to issue new shares for a maximum period of five years. Shareholders can delegate the authority to the board to increase the company's share capital without prior consultation of the general meeting of shareholders. The total increase cannot exceed 50% of the company's share capital at the moment the resolution is approved.

This year, at IBEX 35 AGMs, 6 proposals relating to share issuance received more than 10% negative votes, the same number of proposals as last year. Interestingly, we've seen the ratio of contested resolutions for share issuance proposals decrease substantially over the last three years. In 2020, 37% of share issuance resolutions were contested, this figure dropped to 25% in 2021 and it fell further to 13% in 2022.

This could be partly due to the fact that Spanish companies increasingly meet international best practices in this regard. In the majority of cases, companies are setting their limits at 50% for capital increases with pre-emptive rights and at 10% for capital increases without pre-emptive rights.

The resolutions with the lowest levels of support in the IBEX 35 index were¹¹:

- Fluidra (two resolutions with a support level of 60.57% and 62.98%).
- Solaria (one resolution with a support level of 70.17%).

This year, at IBEX 35 AGMs,
6 proposals relating to share
issuance received more than
10% negative votes

¹⁰ Article 297 - Point 1a and 1b of Spanish Companies Law.

¹¹ Fluidra and Solaria proposed a capital increase without pre-emptive rights up to 20% of the share capital.

2. PROXY ADVISORS

Many institutional investors rely on proxy advisory firms, such as ISS, Glass Lewis, and Corporance (Proxinvest), for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor often has an adverse impact on the vote outcome of a given resolution.

2.1 ISS

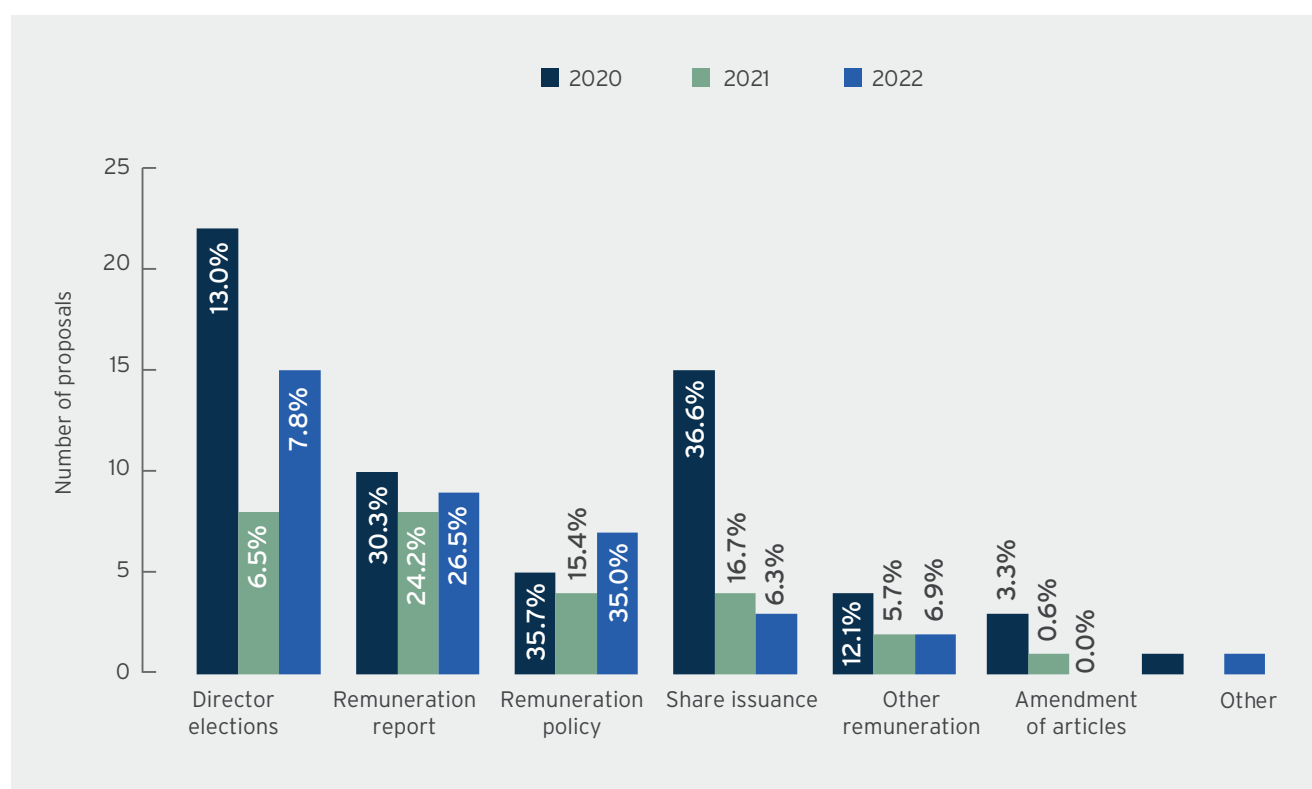
Institutional Shareholder Services¹² (ISS) is a leading provider of corporate governance and responsible investment solutions for asset owners, asset managers, hedge funds and asset service providers.

During the reporting period, the total number of resolutions where ISS recommended its clients vote against or abstain amounts to 37, compared to 27 in 2021, in the IBEX 35.

The category that received the highest proportion of negative recommendations from ISS is related to remuneration policy approvals, where the ratio of resolutions with unfavourable recommendations reached 35% (7 out of 20 total resolutions).

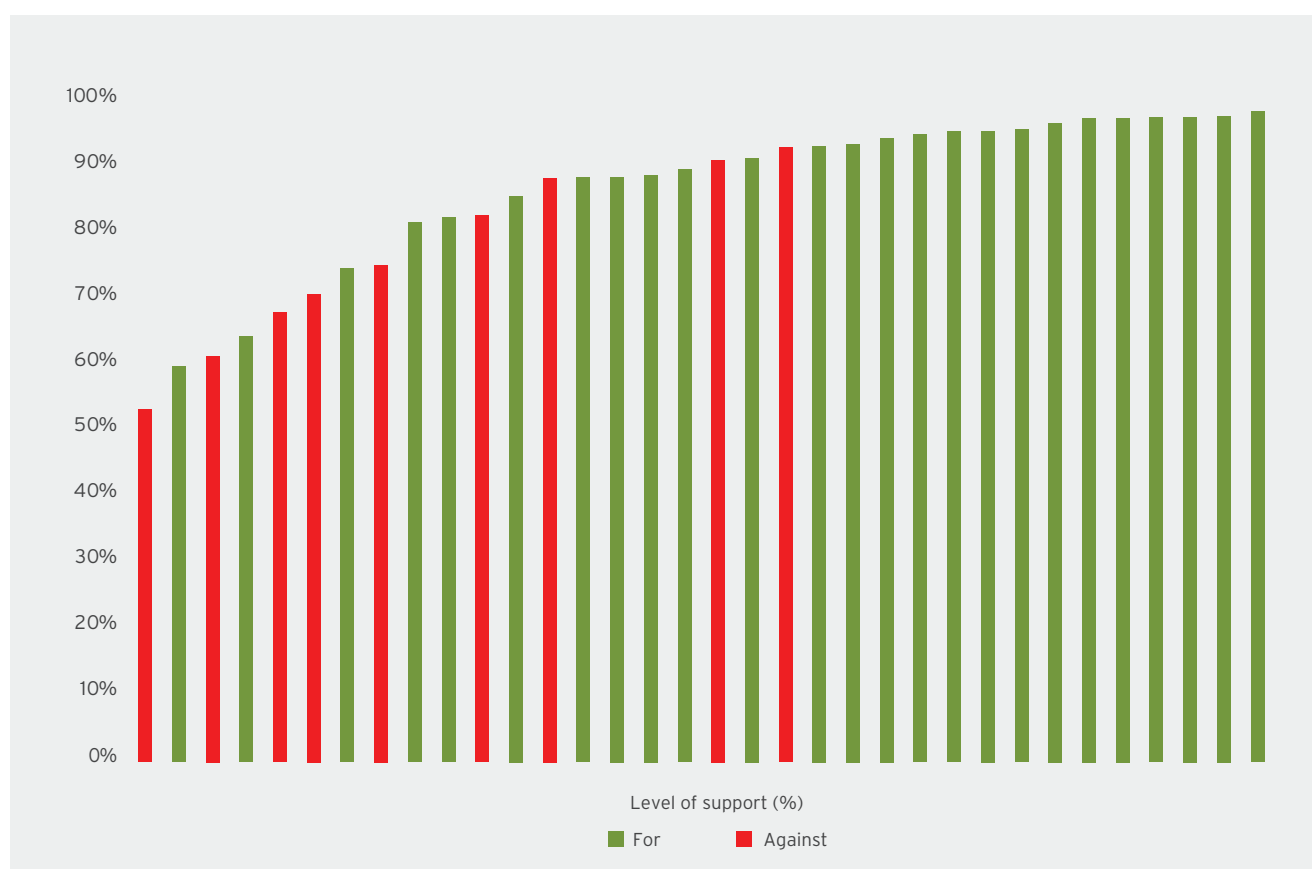
Regarding the remuneration report, 9 out of 34 total resolutions received an unfavourable recommendation from this proxy advisor (26%), slightly higher than last year (24%).

Graph 4: Overview of negative recommendations by ISS at IBEX 35 AGMs over the past three years. The percentages atop the bars represent the ratio between the number of proposals that received a negative ISS recommendation and the total number of proposals in each category. Excludes ArcelorMittal.



¹² <http://www.issgovernance.com/about/about-iss/>

Graph 5: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by ISS vote recommendation. Excludes ArcelorMittal.



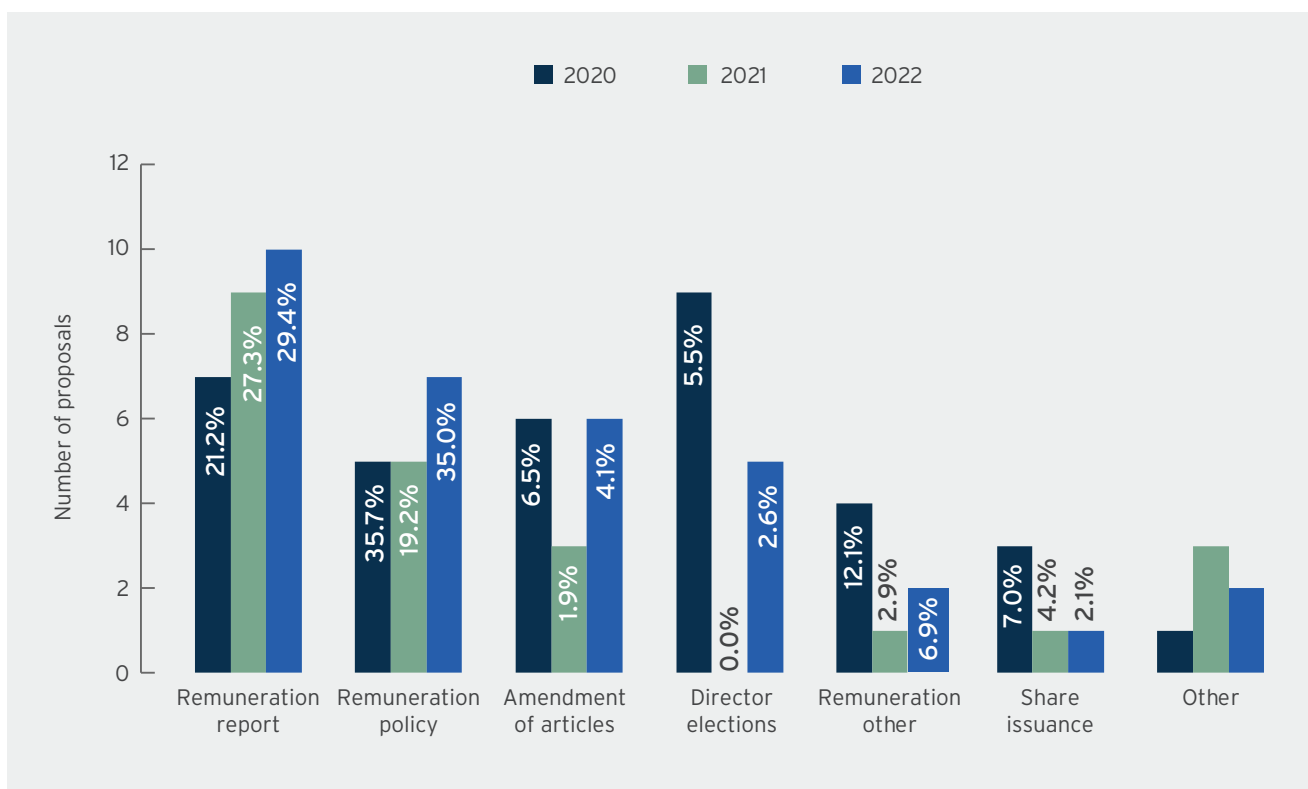
2.2 Glass Lewis

Glass Lewis¹³ is a leading provider of governance services that supports engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

During the reporting period, the total number of resolutions where Glass Lewis recommended its clients vote against or abstain amounted to 33, compared to 22 in 2021.

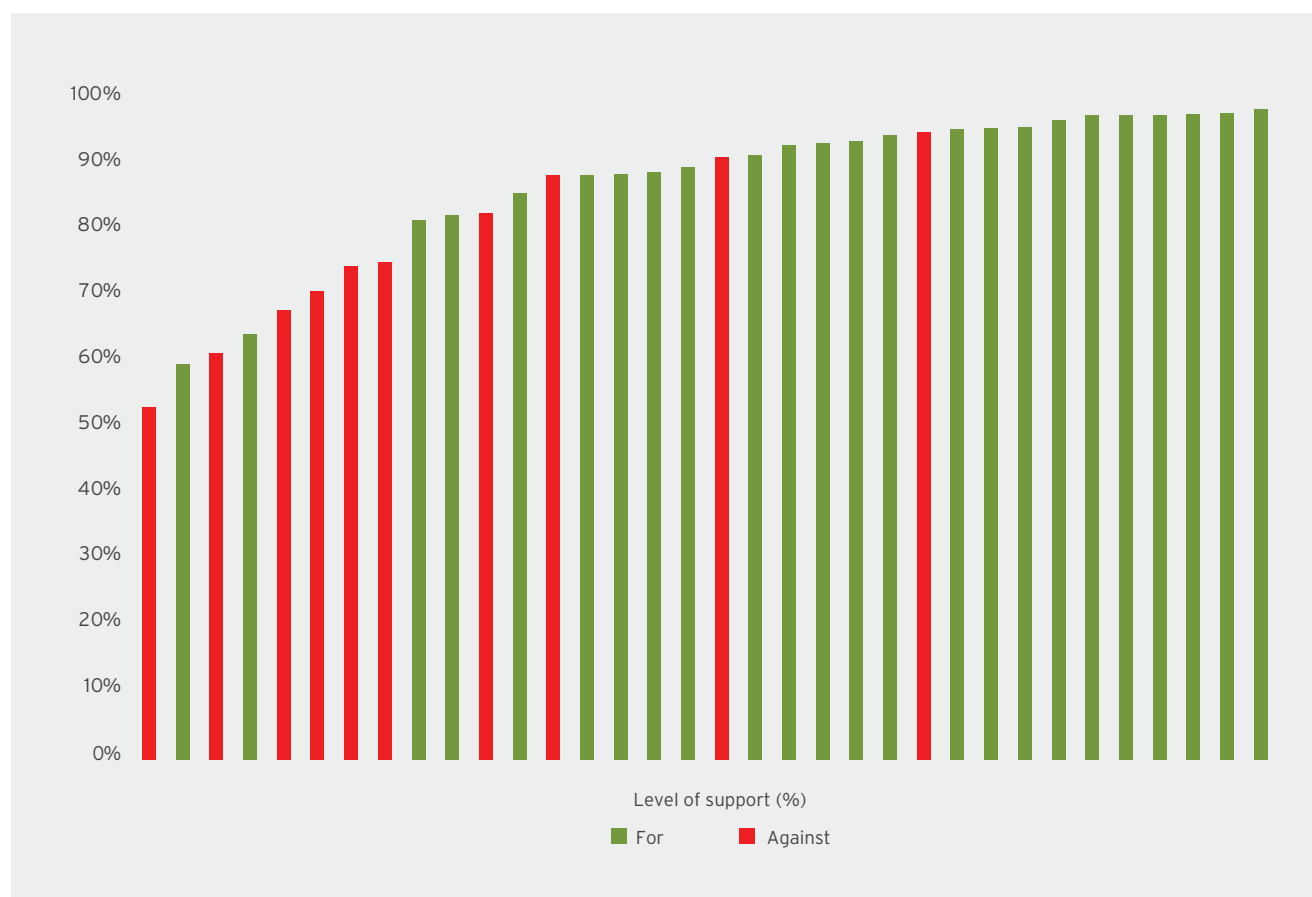
The highest proportion of resolutions with unfavourable recommendations are related to the remuneration policy, receiving 7 negative recommendations out of the total 20 (35%). Regarding the remuneration report, 10 out of 34 total resolutions received an unfavourable recommendation from this proxy advisor (29%).

Graph 6: Overview of the number of negative recommendations by Glass Lewis at IBEX 35 AGMs over the past three years. The percentages atop the bars represent the ratio between the number of proposals that received a negative Glass Lewis recommendation and the total number of proposals in each category. Excludes ArcelorMittal.



¹³ <http://www.glasslewis.com/about-glass-lewis/>

Graph 7: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by Glass Lewis vote recommendation. Excludes ArcelorMittal.



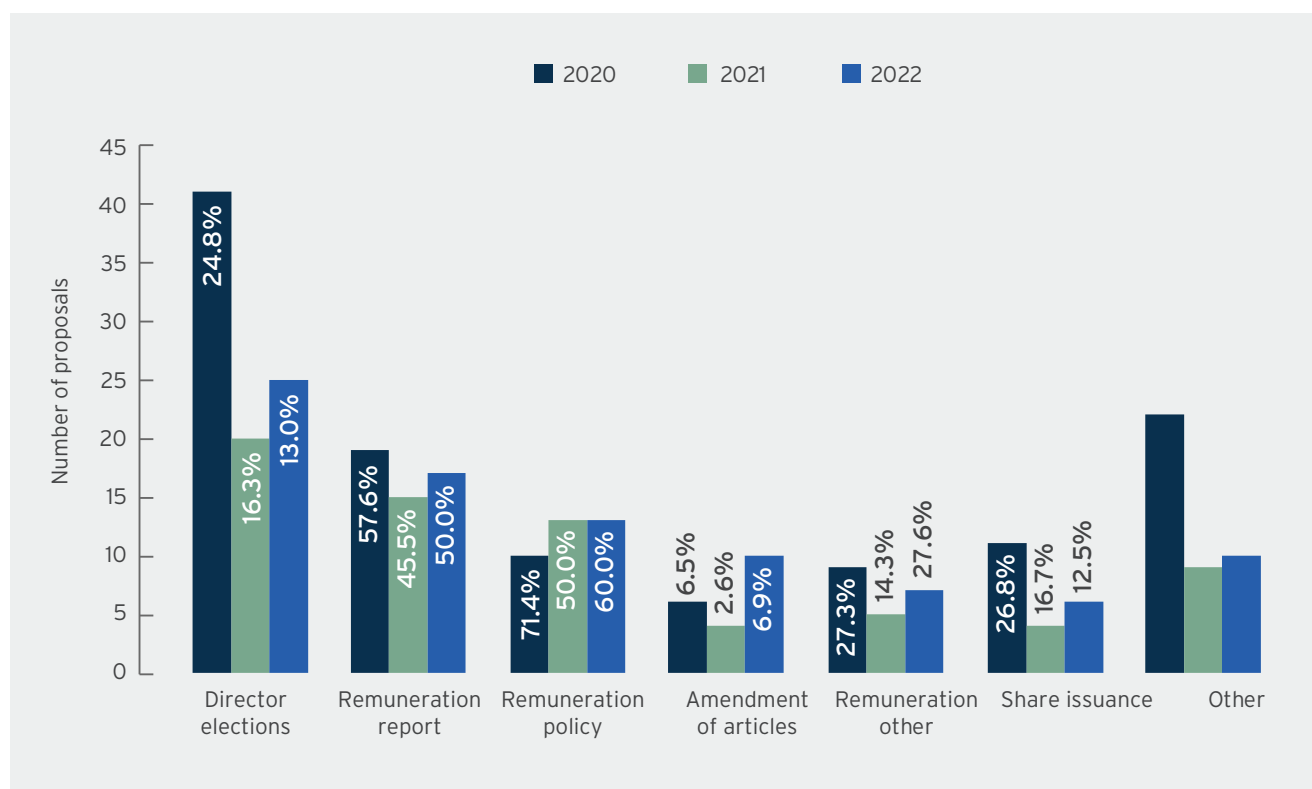
2.3 Corporance (Proxinvest)

Corporance¹⁴ is a partner for Spain and Portugal of the international network of proxy advisors led by Proxinvest (formerly ECGS), an alliance formed by independent local leaders who have been advising global institutional investors on corporate governance matters, responsible investment, design of engagement policies and voting recommendations at General Shareholders Meeting.¹⁵

For the reporting period, the subject with the highest proportion of negative recommendations was related to remuneration policy (12 out of 20), where 60% of that category received an against or abstain recommendation from Corporance.

Regarding the remuneration report, 13 companies received a favourable recommendation from Corporance¹⁶.

Graph 8: Overview of the number of negative recommendations by CORPORANCE / Proxinvest at IBEX 35 AGMs over the past three years. The percentages atop the bars represent the ratio between the number of proposals that received a negative CORPORANCE / Proxinvest recommendation and the total number of proposals in each category. Excludes ArcelorMittal.

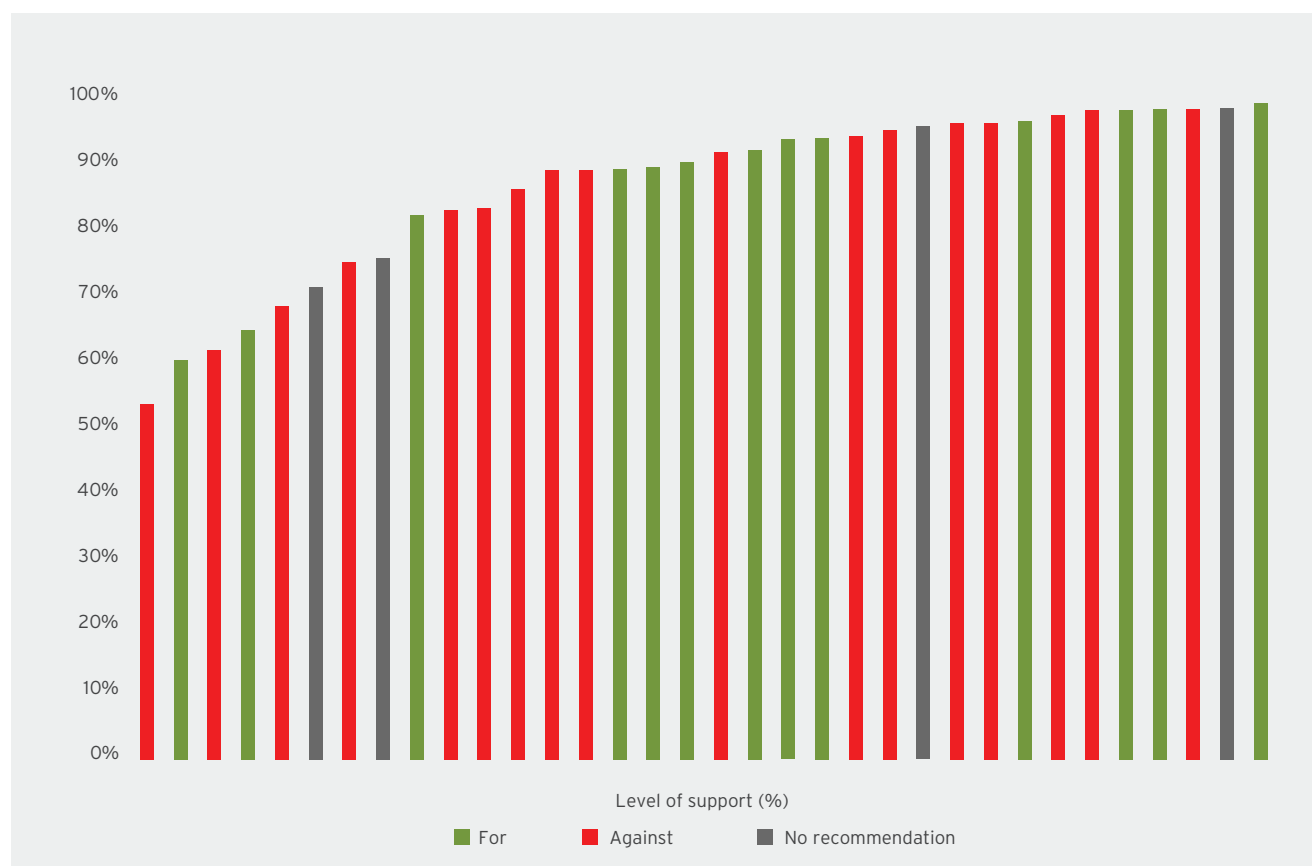


¹⁴ <https://www.corporance.es/>

¹⁵ In 2021, Proxinvest replaces ECGS (Expert Corporate Governance Services) as coordinator of the alliance formed by DSW (Germany), Proxinvest (France), Frontis (Italy), Ethos (Switzerland) and Corporance (Spain).

¹⁶ Four of the companies included in this analysis haven't received a voting recommendation from this proxy advisor.

Graph 9: Vote in favour of the Remuneration Report among IBEX 35 companies (ordered by level of support), and colour coded by CORPORANCE / Proxinvest vote recommendation. Excludes ArcelorMittal.



3. CORPORATE GOVERNANCE DEVELOPMENTS

3.1 Public consultation on the Code of Best Practices for Institutional Investors, Asset Managers and Proxy Advisors regarding their duties with respect to assets allocated or services rendered

Under the Activities Plan of the CNMV for 2022 in corporate governance issues, was the working stream regarding the submission of a Code of Best Practices for Institutional Investors. After several months of receiving the advice and consideration of a Consultative Group, the CNMV submitted on 24 June a Draft Code of Best Practices¹⁷. This Draft will be open for interested parties to send their comments until 16 September 2022.

The aim of this Code is to achieve greater shareholder involvement in the life of the companies in which they invest.

It is worth mentioning that the Code will have a voluntary character in Spain. For those entities that have voluntarily decided to adhere to the Code, they will have a transitional period of three years from the approval of the Code, during which they will be able to apply the “comply or explain” principle in their annual report and select which principles they comply with and which they do not. However, it is considered that principle 6, regarding the conflict of interest management policy, should be applied from the beginning by all entities, as it is inherent to the operations of any investor or manager.

In addition, it is important to point out that the entities that decide to take advantage of the transitional period must show a public commitment to apply all the principles at the end of the three years. In this sense, they should publish a plan and a specific adaptation timeframe, explaining the level of annual progress in each of the three fiscal years.

3.2 Circular 2/2022 of the National Securities Market Commission (CNMV), approving the forms for notification of significant shareholdings, issuer transactions on own shares and market makers

On May 26 2022, the CNMV published a Circular¹⁸ with the models for notification of significant shareholdings, issuer transactions on own shares, and market makers, in order to adjust them to certain regulatory changes that have taken place in Spain in 2021.

Amongst the amendments done, was the inclusion of information on shares with double voting rights, introduced by Law 5/2021. In addition, other changes have been included, such as the repeal of models II, III and VI, as they have become inapplicable as a result of legislative amendments or the renumbering of models IV and V without including any additional modification in their content.

¹⁷ https://www.cnmv.es/DocPortal/DocFaseConsulta/CNMV/CP_Codigo_buenas_practicas.pdf (in Spanish)

¹⁸ <https://boe.es/boe/dias/2022/06/08/pdfs/BOE-A-2022-9384.pdf> (in Spanish)

3.3 Circular 3/2021 of the National Securities Market Commission (CNMV), amending the templates used for the Annual Corporate Governance Report and the Annual Report on the Remuneration of Directors

As anticipated in last year's edition, the approval of the Spanish Law 5/2021, of 12 April, made necessary the modification of the templates of the Annual Corporate Governance Report (ACGR) and the Annual Report on the Remuneration of Directors (ARRD), to include certain additional information required under such Law.

The Circular 3/2021¹⁹, submitted in September 28, modifies the Circular 4/2013, of 12 June (regarding the ARRD) and the Circular 5/2013, of 12 June (regarding the ACGR).

The reporting of these documents under the new templates, by the public companies, entered into force in December 2021.

The most relevant changes for both reports include:

Annual Corporate Governance Report:

- › Section A.1 of the report has been amended to include the necessary information on whether companies have contemplated the "Loyalty shares" figure in their by-laws. In this case, it has been included the additional voting rights assigned to these loyalty shares.
- › New information regarding related party transactions.
- › Amendment in Section C.1.11 to include information on the positions held by directors in other entities, whether listed or not and the new obligation for companies to report on any other remunerated activities of the directors.
- › The repealing of the obligation for entities other than listed companies that issue securities traded on stock markets, to prepare a corporate governance report.

Annual Report on the Remuneration of Directors:

- › Amendment on Section B.1 for reporting on any deviations on the application of the remuneration policy, and any exceptions that have been applied in regard to the remuneration policy, arising from exceptional circumstances.
- › Amendment on Section B.3 to explain how the remuneration accrued and vested in the year contributes to the long-term and sustainable performance of the company.
- › A new section has been included with comparisons between the annual amounts accrued and the annual variations experienced over the last 5 years in i) the remuneration of each of the directors, ii) the company's results and iii) the average remuneration on a full-time equivalent basis for non-directors' employees.

Section A.1 of the report has been amended to include the necessary information on whether companies have contemplated the "Loyalty shares" figure in their by-laws.

¹⁹ https://www.boe.es/diario_boe/txt.php?lang=es&id=BOE-A-2021-16391 (in Spanish)

ABOUT GEORGESON

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic consulting services, including solicitation strategy, investor identification, corporate governance analysis, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide. For more information, visit www.georgeson.com

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