D.F. KING

GENERAL MEETING SEASON REVIEW

ESG: A YEAR OF HEALTHY PUSHBACK IN A TIME OF CRISIS

NOVEMBER 2022

UK & EUROPE EDITION

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D.F. King Ltd (DFK) works alongside Orient Capital to support the qualitative shareholder ownership and voting analysis. Its proxy solicitation, corporate governance-led intelligence and support, activist defence, market intelligence and shareholder interaction gives you the confidence to engage with your stakeholders when you need to most.

That's what the DFK Standard from D. F. King Ltd is all about. Our knowledge base extends to supporting more than 800 meeting campaigns each year globally. With intrinsically varying requirements for each listed issuer we work with, this has helped us forge a path to become one of the industry's most expert-led teams to listed companies in multiple markets.

Together with Orient Capital, we work on numerous sophisticated analytical and shareholder support campaigns by providing our clients with combined solutions that have consistently delivered successful results.

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EXECUTIVE SUMMARY

As we look back at 2022 and contemplate the ESG landscape for 2023, one may be tempted to believe that the ESG movement has plateaued, at least momentarily.

For one, numerous criticisms of so-called "green washing" by institutional investors has created a good amount of dissent from issuers and certain large pension funds, complaining about the methods/metrics used in the ESG industry. In addition, despite a general improvement in issuer attentiveness to investor concerns and expectations on AGM items, investors' relentless drive for greater disclosure, transparency and explanations often outstrips companies' ability to comply with these growing demands, especially concerning remuneration. We are somewhat surprised that investor support appears to have hit a ceiling where the growth in annual investor support on key topics has either stalled or declined.

The discomfort created by this situation in issuer/investor relations has occurred at a critical moment due to Russia's war on Ukraine. This unforeseen war has created a series of concrete and critical challenges for companies, their boards and their shareholders and stakeholders. Indeed, companies' boards who spent more than a year coping with the Pandemic now face multiple, potential systemic risks, including an existential one – nuclear conflict in Europe.

If generally in the UK and Europe there has been a confirmation of the stakeholder model, the ESG movement that drove the evolution from a shareholder to a stakeholder one has experienced real growing pains in 2022. Criticisms and accusations about the merits and metrics of sustainable investment came in flourishes from companies, state governments and pension funds. There were many questions due to "outsized claims to investors, unmanageable demands on companies" in the wake of the green washing scandal at certain investment houses and the "greenium" that investors pay for ESG funds. More and more, complaints have been made concerning the reliability, comparability, and transparency of ESG ratings. Moreover, the generalisation of say on climate resolutions that had been expected after 2021 did not materialise this year. While the number of such resolutions did grow in the UK and France, their adoption was not broad based and almost non-existent in other European markets. While those company-sponsored environmental proposals received 98% support on average, the 12 shareholder sponsored ones received 15% support on average. For example, BlackRock modified its policy to oppose any ESG resolutions perceived as too restrictive.

Despite these growing pains, sustainable investment is here to stay and companies generally agree that ESG is both a necessary response to the climate crisis and their compliance serves as a meaningful manner to maintain their social license, or as the French say, their "raison d'être".

2022 also bore witness to continuously growing demands from investors for improved general transparency from issuers. No specific subject illustrates this trend better than remuneration (policy and report). The need for investors and proxy advisors to evaluate the alignment between them and companies continues to grow. Investors are now less inclined to support remuneration topics that lack transparency around metrics, targets, pay-outs and design. Also, after the liberties taken by many boards in how remuneration policies were interpreted during the Pandemic, investors have become more diligent in their evaluation of remuneration report items and more willing to balk at the quantum of certain remuneration packages.

Investor conviction around "pay for performance" is clear in the voting results. Key areas of remuneration, such as remuneration policy and report items for corporate officers appear to have hit a ceiling and are now retreating away from the 90% threshold.

Perhaps to the shock and sadness of all, the 2022 AGM season occurred after the Russian invasion of Ukraine. The fallout of the war is widespread and appears to have impacted so many facets of companies. Boards may now cope with multiple types of systemic risk all at once: Pandemic, Inflation, Conflict, Climate and Society ("PICCS"); a cocktail that creates a great deal of uncertainty.

In the end, the 2022 AGM season was another bruising campaign where issuers and investors lobbied hard to find common ground on key ESG topics. Both sides continue to improve but may need to reassess their scopes and methods to continue to progress in the interest of shareholders and stakeholders alike.

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AN OVERVIEW OF THE **UK AND EUROPE**

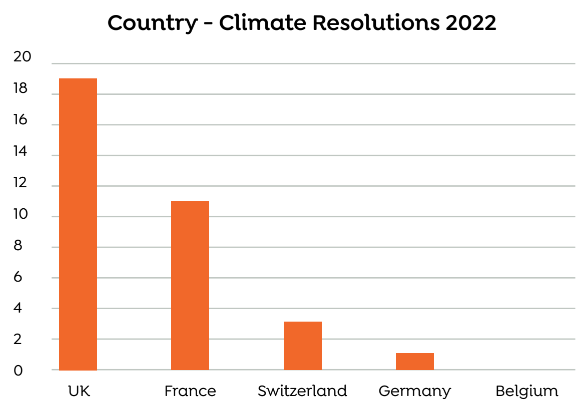
ESG: a year of heightened scrutiny

There has been a flurry of negative headlines throughout the year on the ESG industry, questioning the validity, desirability and effectiveness of private sector initiatives and investor engagement in this space. High profile accusations of green-washing by certain investment funds (such as DWS in Germany) have fuelled the critique that it may be more focused on marketing than generating profitable returns to attract increased fees ("greenium") and more clients (younger investors having a clear preference for impact investing above and beyond profit). Other critics have focused on the extra-financial ratings space, flagging disjointed and inconsistent frameworks and/or methodologies that provide very different ESG performance measurements based on the agency. How can you improve something that cannot be coherently measured? Finally, to explore one last point of contention, many, particularly in the United States, have questioned the alignment between the desires of the beneficial owners of listed companies (i.e., the individual retail investor) seeking reliable and long-term returns to prepare for retirement and the actions of so-called "elitist" large asset managers with their own agenda's that may not be solely focused on maximising the return for their clients. The absence of a clear connection to ESG investing and investment returns can lead to a politicisation of the ESG debate, as it clearly has done in the US this year.

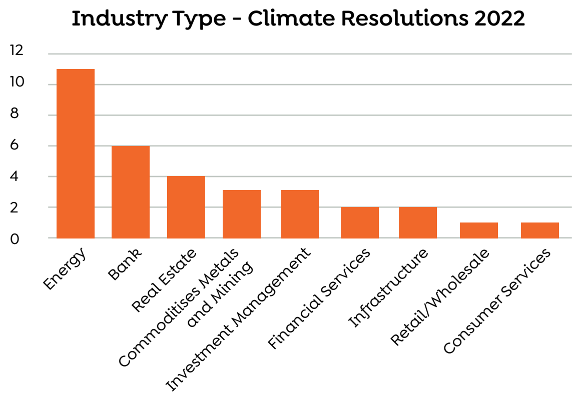
What does all this mean for the industry? Importantly, scrutiny is healthy. Whether acronyms change (there is a push to drop the use of the term 'ESG'), ESG is here to stay. Individuals want it (younger generations at the very least, and this segment is only growing in size with time), and society needs it (or an alternative solution that is not currently being presented). The negative noise and attention will hopefully nourish continued efforts to improve the quality, comparability, methodology and reliability of ESG disclosures, metrics and analysis, both from an issuer perspective but also importantly from an investor engagement perspective. Regulation is already being rolled out to facilitate this process, primarily across Continental Europe, and nascent industries such as the extra-financial rating space are naturally gaining in maturity and effectiveness over time.

Say On Climate proposals

Last year we wrote in our General Meeting Season Review about the emergence throughout Europe in particular of a new type of climate specific resolution – the Say on Climate. We questioned whether the initiative had the potential to become a compulsory (or recommended) feature of tomorrow's AGM agendas, and many were expecting 2022 to be the 'make or break' moment for this movement. Whilst we are seeing inflationary pressures increasing numbers for most facets of our daily lives, the spread of climate related items across AGM agendas remains somewhat contained and very country and industry dependent.



The UK's FTSE 100 saw 19 climate specific resolutions submitted to shareholder votes at AGMs, followed at a distance by France's SBF120 (11 items). Countries such as Belgium (BEL20) completely avoided the trend, and Germany (DAX + MDAX) only witnessed one misguided and somewhat unique shareholder attempt on the topic (Enkraft's unsuccessful challenge to RWE is discussed in more detail in our dedicated German Market Chapter).

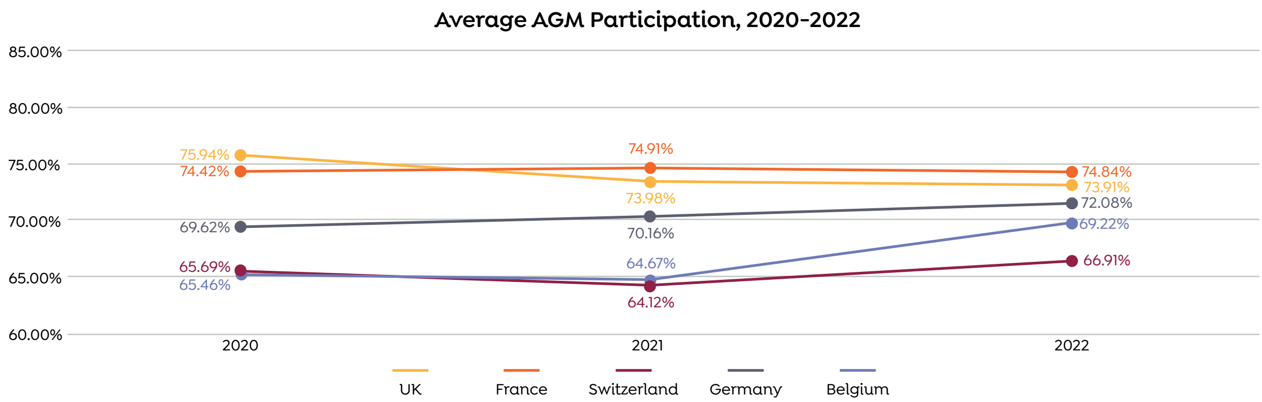


From an industry perspective, it is clear that the distribution of Say On Climate type resolutions is very narrowly targeted, both on high greenhouse gas emitting sectors such as energy, mining, industrials, etc… on the one hand, and on the other hand, focused on issuers that finance or enable such companies like the banking or financial services industries for example. The sectorial composition of the FTSE 100 likely goes a long way in explaining the number of climate related proposals in the UK.

Finally, it is worth noting that the average approval rate for a management submitted climate resolution across all markets and industries is a robust 87%, including abstentions while shareholder submitted proposals are much less successful averaging only 12.21% support. As such, whilst there are clearly variations depending on markets and industries, and it is vital that companies be in a position to present their climate strategy during engagement with their shareholders (and wider stakeholders), the pertinence of preparing a shareholder vote on the topic remains debatable. For example, we have seen many companies weave their specific ESG throughout their AGM to demonstrate how the strategy permeates the wider strategy and the board's decision-making process.

AGM participation levels

France retains its crown as the market with the highest participation levels for the second year running and continues to be followed in close second by the United Kingdom, with both around 74%. Interestingly, these two markets are also the only ones that have seen decreases in year-on-year voting levels (albeit very marginally). In Switzerland, Germany and Belgium, quorums have increased year-on-year and surpass 2020 levels. Particularly impressive is the case of Belgium where participation has increased 4.55% on average in a year and is now much more aligned with its geographic neighbours. Switzerland continues to lag slightly behind other core markets, and this may be the result of legacy share blocking concerns in the market.



MARKET EXPERT INTERVIEW
JEN SISSON

EMEA HEAD OF STEWARDSHIP, GOLDMAN SACHS ASSET MANAGEMENT

What advice would you give a UK listed company trying to secure and/or maximise shareholder support for its annual general meeting? What different processes should be put in place and when?

Firstly, I would advise companies to make sure their reporting is as detailed and transparent as it can be. It is important to explain the rationale behind proposals. In particular for new or unusual proposals we need to be able to understand the "what" and the "why". What do you expect to do with this decision? How is this going to work in practice? What are the key inputs and expected outputs? As a general rule it is helpful to give as much information as possible.

Secondly, with regards to outreach, when you are requesting a meeting it is important to bring the specific issues forward that you want to discuss. Having a specific agenda is very helpful. You also need to be mindful of timing. It can be difficult to have these discussions before materials are out and investors also need sufficient time to reflect ahead of the voting cut-off date. In essence, the more clarity you can provide around what you want to talk about, the better. If you have good reporting in the first place, that should clearly also be helpful.

Are there any particular company representatives you want to be engaging with on these topics?

There is no 'one size fits all' answer here, what matters is having the relevant people in the meeting. Whoever is best placed to talk to the issues on the agenda is the best person to talk to. If the question is around a "Say on climate" vote and there's a head of sustainability, then that would be a logical choice, for instance. It could also be the company secretary or the head of HR for example. When possible, we appreciate board level conversations, but we are also conscious that everyone is really busy.

What were the most common causes for opposition you encountered this year in the UK market?

Thematically there are a few key issues, for example remuneration, board composition and "Say on Climate".

With regards to board composition, our Proxy voting policy sets out our expectations on board diversity and when boards do not meet those expectations, we seek to vote against directors. In the UK we expect companies to meet the requirements of the Hampton-Alexander and Parker reviews.

On ESG shareholder proposals and "Say on climate", we have to look at those on a case-by-case basis. When evaluating shareholder proposals, we seek to assess the purpose and impact of each proposal in light of the long term overall benefit to shareholders, and we may take into consideration a range of factors, such as the company's current level of publicly available disclosure, if the company has implemented or formally committed to the implementation of a reporting program based on the SASB materiality standards or a similar standard and whether the proposal is likely to enhance or protect shareholder value.

All votes are fundamentally different, so there isn't necessarily a single common cause for us voting against which we would choose to emphasise.

"There is no 'one size fits all' answer here, what matters is having the relevant people in the meeting."

Do you have any examples (anonymous or otherwise) that you can share with us on how engagement with a company led to positive change?

We have many engagements throughout the year and we've had good examples of success engaging on different topics. We have been engaging with companies on climate disclosures, and we have seen improvement on a number of companies that are now reporting on emissions that they weren't before and similarly on target setting and on board diversity. There are also instances where we have had several engagements over a number of years and been able to grapple with issues and develop an understanding with a company.

For instance, as presented in our 2021 Stewardship report, our Global Stewardship Team met with a German industrial company's Investor Relations team because the company was not disclosing its scope 3 emissions. After encouraging greater disclosure of their emissions breakdown, the company, later that year, began disclosing scope 3 data alongside reduction targets for 2030 approved by the Science Based Targets initiative (SBTi).

Further, recognizing the importance of reducing emissions across their value chain, the company announced its aim to reduce all emissions under its direct control by 2040 and indirect emissions by 2050.

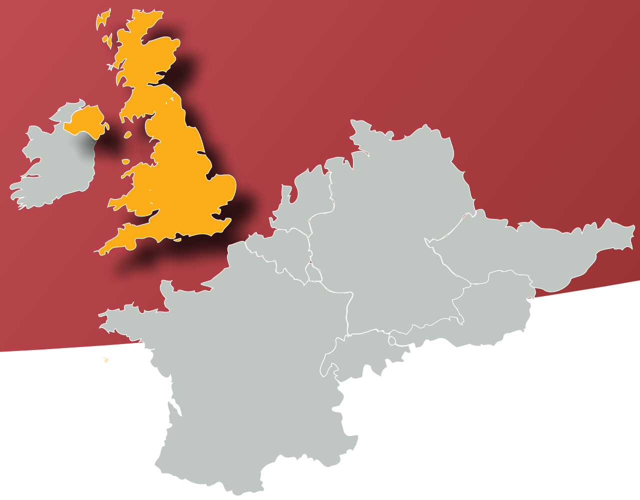
What additional trends, if any, have you observed in the UK annual general meeting season this year and what do you expect for 2023?

We are seeing an increase focus on "Say on climate". It has been a major theme this year and it is something we take very seriously and consider each proposal on a case-by-case basis. It is important that companies are clear on what they intend to interpret that vote as meaning. Is it just a one off or does the company intend to submit it regularly? On ESG proposals, the challenge is in the detail. Being as clear and transparent as possible is critical if these are going to be successful initiatives. Circumstances can be very different based on the company and industry.

It is also likely that there'll be quite a focus on executive remuneration next year, given it will be a "policy year" in line with the three-year cycle.

Jen leads the Global Stewardship Team in EMEA, where she drives our engagement, proxy voting and industry collaboration efforts across the EMEA region. She joined Goldman Sachs Asset Management from the UK Financial Reporting Council ("FRC"), where she worked for four years, most recently as deputy director of stakeholder engagement and corporate affairs, following a year as chief of staff. She was responsible for coordinating the FRC's outreach with the global investment community, listed company leadership teams and board members across all areas of the regulator's scope. Jen led policy outreach on ESG, audit and reporting matters including the creation of the 2020 UK Stewardship Code and the 2018 UK Corporate Governance Code. Prior to working at the FRC, Jen was part of PwC's global investor engagement team, where she was responsible for research and engagement with the investment community on a broad range of accounting, reporting, regulatory, governance and ESG issues. She also acted as part of the secretariat for the Corporate Reporting Users Forum (CRUF). Jen holds a BA in Business Accounting and Finance from the University of Newcastle Upon Tyne and a Masters in Sustainability Leadership from the University of Cambridge. She also holds the CFA UK Investment Management Certificate.

A SPOTLIGHT ON:
THE UNITED KINGDOM



Overview

In last year's General Meeting Season Review we had described 2021 as a return to normalcy for the UK market, having come to terms with the most destabilising effects of the pandemic and (some) of the uncertainty generated by Brexit. Subsequently, topics such as climate change and diversity had rekindled in intensity and were expected to carry over into 2022. Leading proxy advisors ISS and Glass Lewis had announced increased expectations on this front in their 2022 voting policy updates.

Glass Lewis now recommends against governance committee chairs (or equivalents) for FTSE 100 companies that fail to provide explicit disclosure on the board's role in overseeing material environmental and social issues. ISS has provided detailed expectations on what constitutes an appropriate climate transition action plan and signalled enhanced scrutiny for issuers on the current Climate Action 100+ Focus Group list. Of note, and as discussed in more depth in our cross market overview chapter, the FTSE 100, with its financial sector and natural resource companies, leads the way in terms of climate related resolutions at this year's AGMs with 19 such proposals.

Both ISS and Glass Lewis have aligned their ethnic diversity expectations with the Parker Review targets, sanctioning FTSE 100 companies that do not yet have at least one director from an ethnic minority on their board. Based on the latest Parker Review update published 16 March 2022, 94 FTSE 100 companies had met the target with most of the remaining issuers actively recruiting or having mitigating circumstances (such as an imminent delisting). 55% of FTSE 250 companies had met the target, three years ahead of schedule (2024 deadline), causing optimism for an even wider roll-out of these ambitions.

The inevitable engagement topics for the year were unexpectedly supplemented by Russia's shock invasion of Ukraine and the subsequent crises Russia's war has created related to the access to/cost of energy, strong inflation and ultimately the real possibility of a recession. Topics at the forefront during the pandemic began to resurface such as social acceptability of executive pay quantum, financial stability of companies, and questions around trade-offs between different ESG dimensions (reducing greenhouse gas emissions vs energy sovereignty, etc...).

The inevitable engagement topics for the year were unexpectedly supplemented by Russia's shock invasion of Ukraine.

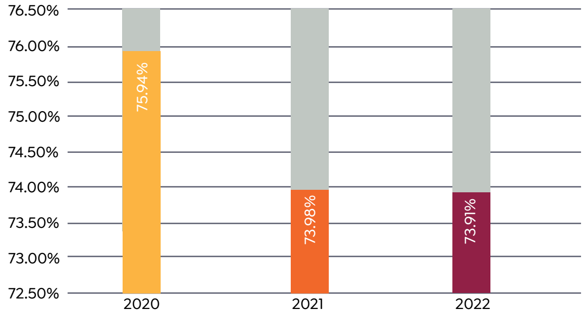
AGM participation rates marginally drop year-on-year and remain below pre-pandemic levels

Average attendance rates in the UK market (FTSE 100) dropped substantially in 2021, falling from 75.94% in 2020 to 73.98% in 2021 (below 2019 pre-pandemic levels of 74.30%). In 2022 they remain stable year-on-year with a marginal drop to 73.91%. Interestingly, we had previously flagged major settlement changes in the Irish market (where many of its companies are also listed in the UK) as a driver for this drop following the implementation of Euroclear's solution which replaced that created by CREST before Brexit. Quorums at Irish meetings had consequently plummeted in 2021 vis-à-vis previous years, thus impacting overall UK quorum results. However, whilst still not entirely resolved, Irish quorum levels improved to much healthier levels in 2022 relative to 2021. In several cases, quorums have even returned to pre-migration to Euroclear levels. This suggests there is a deeper underlying cause for decreased FTSE 100 participation rates, as even fixing some of last year's voting chain issues could not generate increased voting overall.

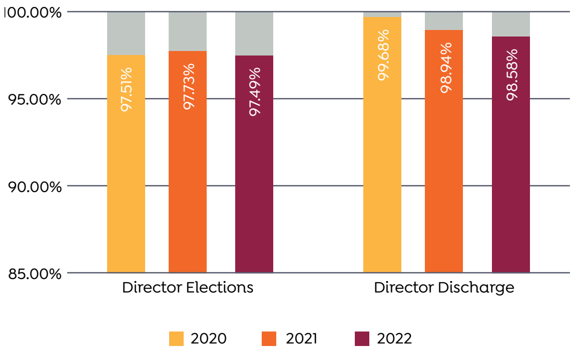
Board of Directors

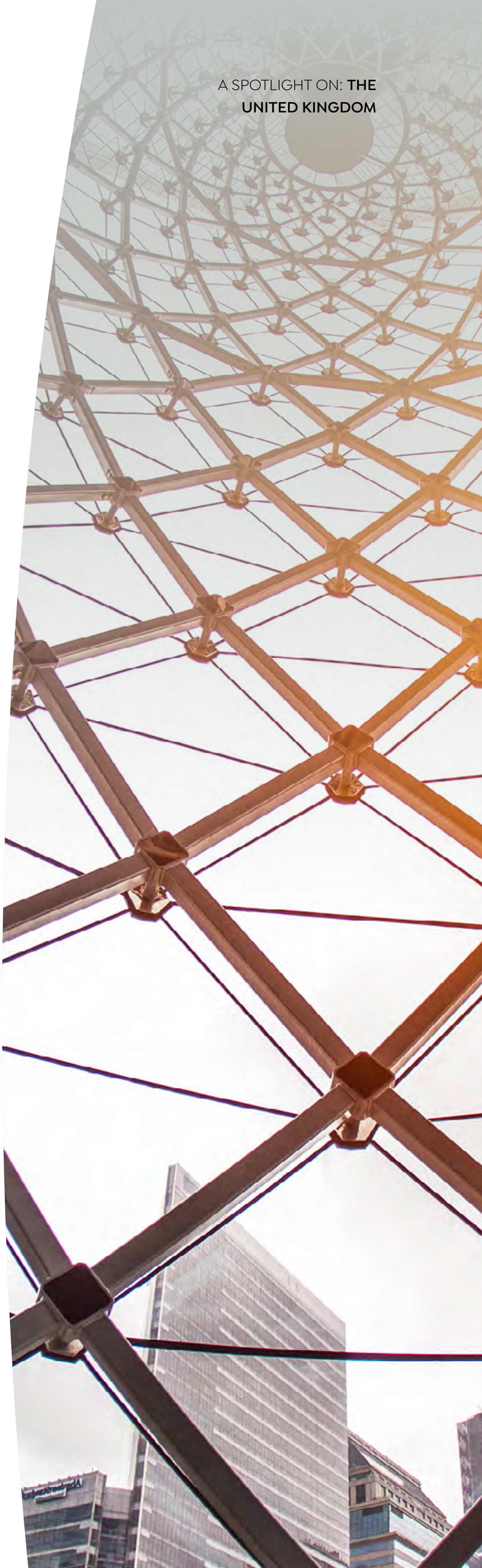
Board of directors related proposals remain largely in line with 2021, with only very marginal dips for director elections (-0.24%) and discharge votes (-0.36%). Examining the two most contested director elections this year provides some insight into the challenges faced by issuers on this subject. Burberry's proposed election of Antoine de Saint-Affrique to their Board of Directors only secured 64.37% support (including abstentions) despite a favourable recommendation from leading proxy advisor ISS. Indeed, rival proxy advisor Glass Lewis had recommended against the nominee on the basis of his additional external roles, principally as CEO of Danone. These other roles were deemed to violate Principle H of the UK Code, namely the ability of directors to devote sufficient time to their mandates. Hikma Pharmaceuticals Plc's proposed re-election of Patrick Butler to the Board of Directors only secured 68.14% support and illustrates another topical theme: board diversity. As Chairman of the Nomination Committee, M. Butler was held to account for the lack of gender diversity at board level. The Board was not comprised of at least 33 percent of under represented gender identities.

Average AGM attendance, 2020-2022



Board of Directors sub-categories 2020-2022



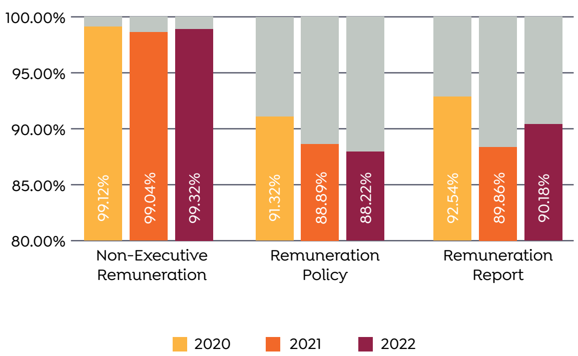


Remuneration

Support for remuneration related proposals at FTSE 100 companies has been surprisingly consistent year-on-year, with only mild fluctuations in averages per sub-category. Of note, average approvals for remuneration report votes are now back over the symbolic 90% mark. Nonetheless, not all companies hover around this stellar support rate with Informa plc, for example, suffering the biggest UK shareholder revolt on pay in more than a decade. Only 28% of shareholders supported the rejected remuneration report due to insufficiently challenging performance metrics for the annual bonus (the stringency had been reduced during the pandemic). No other remuneration reports were rejected. As highlighted later in the Public Register section of this chapter, 10 remuneration reports received under 80% support.

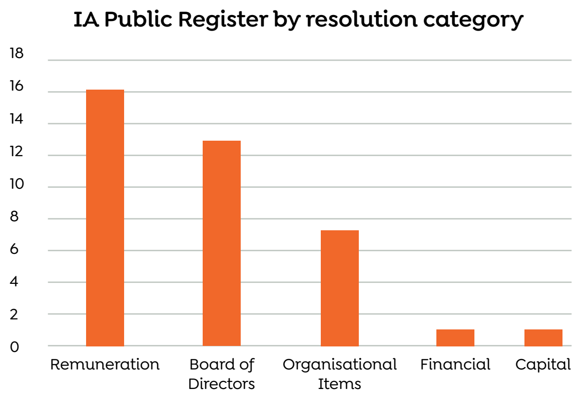
Of the 29 remuneration policies submitted for shareholder approval, RS Group suffered the most dissent only securing 56.99% of the vote (including abstentions). This was due to a proposed one-off LTIP that could reach 750% of base salary, in addition to the normal LTIP capped at 250% of base salary. Whilst the company provided a rationale for their Journey to Greatness Award ("J2G"), it was overshadowed by the sheer size of the quantum. To give an additional example, GSK plc approved the second most contested remuneration policy of the year with 61.53% of the vote. Opposition primarily stemmed from a planned increase in bonus opportunity from 200% to 300% of base salary, effectively the highest in the FTSE 10 at the time and in the context of strategic changes (demerger) that will reduce the market cap. Next year, 2023, will be a 'policy year' with a much larger number of companies presenting binding remuneration policies in compliance with the UK Corporate Governance Code's three-year cycle.

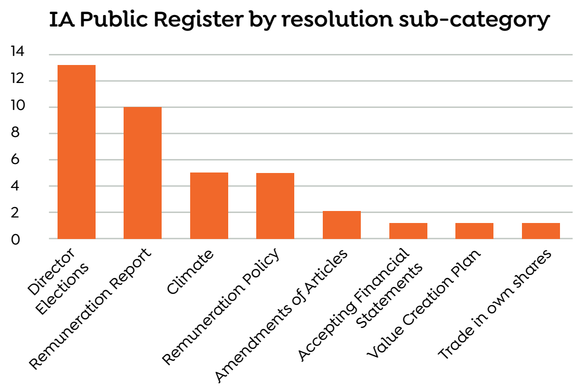
Remuneration sub-categories 2020-2022



Investment Association (IA) Public Register

So far in 2022, 27 FTSE 100 companies have found their way onto the IA's public register. A total of 38 resolutions failed to receive the required 80% support or were withdrawn for inclusion. As detailed below, these resolutions predominantly centred around board elections and remuneration reports.





MARKET EXPERT INTERVIEW
CLOTILDE L'ANGEVIN

HEAD OF INVESTOR RELATIONS AND FINANCIAL, CRÉDIT AGRICOLE S.A.

What advice would you give a French listed company trying to secure and/or maximise shareholder support for its annual general meeting? What different processes should be put in place and when?

What is important first and foremost is dialogue in order to establish a relationship based on trust, transparency and availability. Furthermore, it is also important to have a healthy flow of information therefore regularity is key. These exchanges guide our thinking in terms of strategy and also guide our shareholders. Credit Agricole's track record in this respect is very strong. For a number of years now we have been organising corporate governance roadshows that enable access and exchange of views, as well as collecting feedback from all parties concerned. It is important to share views and necessary to be transparent and articulate when doing so. In previous years these processes have helped us enhance the quantitative and qualitative components of our executive variable compensation. These conversations have also helped us explain our rationale for the long-term component of variable remuneration for instance, connecting performance with our long-term strategy and business model in the context of our mutual group specificities.

During the COVID-19 crisis it was essential to demonstrate how we were weathering the storm. Since then, ESG topics have continued to grow in importance with increasing interest from investors to have discussions. We have been able to present our ESG action plan including how we assist our clients in transitioning to a low carbon economy, and more social aspects such as inclusive integrative workforce models and strengthening social cohesion.

ESG has come under increased scrutiny in 2022 with high profile accusations of green-washing and criticisms of uncorrelated extra-financial agency ratings for instance. Do you believe private sector (on the one hand) and regulatory (on the other hand) initiatives are moving in the right direction on this topic and what in your view are the biggest hurdles/challenges to overcome?

We are well aware of the increased scrutiny with regards to ESG issues, pushing for more progressive (and relevant) solutions. Actors in the market are impacted by ESG issues differently, for example:

- Fixed income investors are relatively more interested in the impact of ESG issues on the solidity of our signature when issuing debt
- Equity shareholders are increasingly interested in ESG issues, in particular due to customers demanding ESG dimensions in their investments

Beyond those factors, shareholders are realising the positive ESG impacts on profitability and sustainability in the medium and long-term. As a result, we can see a rise in ESG interest from all market participants. This is felt first-hand in all aspects of investor relations and financial communication.

Green-washing is still clearly an issue and highlights a need for more comparative and quantitative disclosure but a shift in the right direction is underway. Nowadays, we are moving away from "communication", and more towards "disclosure", and regulations are requesting more tangible information. The change is forcing future action. In the banking sector for instance, banks are now disclosing comparable "green asset ratios".

Nonetheless, there are still hurdles, such as access to comparative information, and relevance. Shareholders want KPIs and explanations. We have strived for instance, at Credit Agricole, to be transparent with markets since 2011 on our greenhouse gas emissions, with a methodology approved by academic experts. But there is still currently a lack of market compatible disclosure, direct KPI links and shifts from intension to action. There is a need for more information as well as more relevant comparative factors.

Some frameworks aren't fully adapted to certain sectors. For example, at a macro level, the net-zero alliance is a framework for the private sector that cannot directly be applied or relevant to banks as bank emissions are overwhelmingly indirect. Focus there needs to be elsewhere. Indeed, stakeholders expect banks to focus on helping the transition to a low carbon economy on a macroeconomic scale. Incentivisation is key, in order to help the economy transition by accompanying customers to do so. At Credit Agricole, we have strong ESG ambitions for 2025 and beyond, including climate ambitions of course, but also other dimensions such as access to health care (another key societal issue).

The combined use of long-term and short-term initiatives will help the economy transition. The challenge for us is to contribute to this and this can be achieved by preserving medium term profitability whilst maintaining a long-term view (guided by our "raison d'être", our company purpose which gives us direction).

Executive remuneration policies or ex ante Say On Pay resolutions have been met with increased dissent from investors in 2022 (averaging 88.61% for the SBF120, -1.29% vs 2021). What is your experience discussing this topic with investors? Are investors clear on their expectations? What are the biggest challenges for issuers in perfecting their proposals on this topic? Is a certain amount of dissent inevitable?

This is not just a topic for Credit Agricole as we can see this trend everywhere since COVID-19. During COVID-19, there was increased scrutiny on remunerations because decision-making processes became much more complex. Furthermore, COVID-19 impacted the general view on remunerations, adding a requirement for moderate transition in pay quantum. What shareholders wanted from us was enhanced disclosure around the different criteria used for our executive variable compensation. In reaction, over the past 3 years, we have strengthened the financial criteria in our remuneration framework, shifting its weight to 60% and enhanced the quantifiable dimension of non-financial performance, though we recognise we need to continue our progress. Shareholders continue to demand more transparent and more quantitative remuneration criteria.

Some elements of our pay structure are very specific to Credit Agricole nevertheless. For example, our long-term remuneration scheme is adapted to our mutual structure. Naturally it is highly unlikely for such proposals to obtain 100% support. Nonetheless Credit Agricole continues to enact changes in order to answer shareholder demands.

The importance of ESG in our strategy is also reflected in the increased scrutiny of director competency in this field. This is why the more recently elected Credit Agricole corporate officers have high ESG competences (and strong ESG biases). Going forward, it is important to be very clear for markets on how ESG competencies and results translate into remuneration policies.

What additional trends, if any, have you observed in the French annual general meeting season this year and what do you expect for 2023?

Firstly, the link between strategy, remuneration and board composition has become increasingly strong since COVID-19. COVID-19 created a leeway for adjustment regarding strategy and financial stance. We had to adapt quickly and demonstrate the financial strength of banks and how we were supporting the economy. We have had to become increasingly articulate on these topics.

Secondly, ESG has also become increasingly present at AGM events. More NGOs participate in AGMs, potentially polarising discussions. But Credit Agricole knows the importance of discussions with all stakeholders and regularly engages with NGOs (not just in the build up to the AGM). Similarly, engaging regularly with ESG extra-financial rating agencies is important.

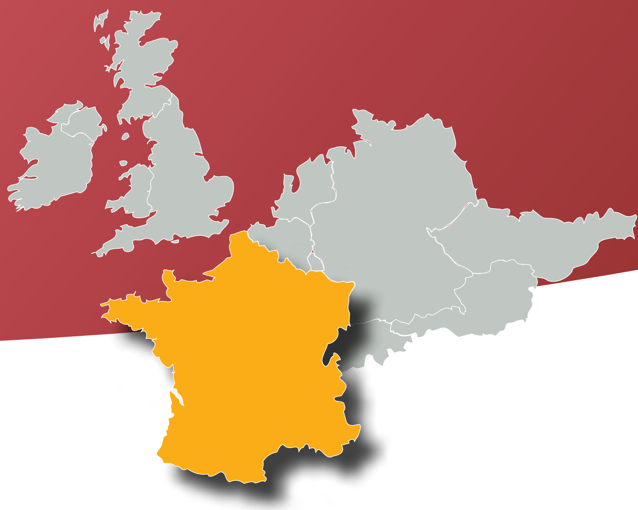
Finally, after COVID-19, the hybrid AGM format has become the standard, meaning wider audiences and increased attendance. For Credit Agricole this is a welcome result of the pandemic as the company's goal is to access the largest possible audience (restricted previously by location limitations). Larger audiences mean enhanced dialogue as well as high transparency and responsibility (for customers and society). The importance of supporting stakeholders and wider society has been at the heart of Credit Agricole's strategy for many years.

> *"after COVID-19, the hybrid AGM format has become the standard"*

Clotilde L'Angevin began her career in 2003 at France's national institute of statistics and economic research (INSEE). She joined the Treasury Department in 2005 as assistant to the Economic and Monetary Union office manager. She then became a technical adviser on macro-economics and economic forecasts to the French Prime Minister François Fillon. In 2009 she joined the Finance Ministry as Head of the International Assessment and Forecasts office, before being appointed Secretary General of the Club de Paris and Head of the International Debt office at the General Directorate of the Treasury. She became Director of Strategy of Credit Agricole S.A. in 2015.

Clotilde L'Angevin graduated from Ecole Polytechnique in 2001 and Ecole nationale de la statistique et de l'administration économique in 2002. She obtained a Masters in Economics from the London School of Economics in 2003.

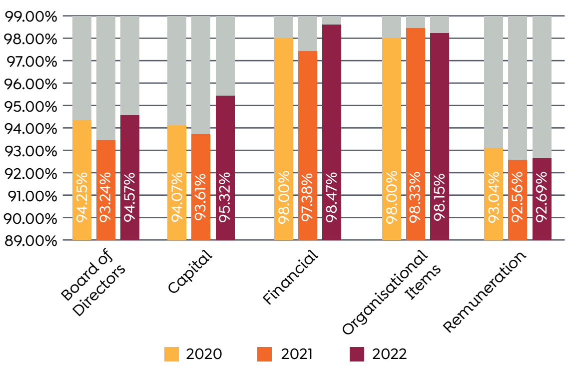
A SPOTLIGHT ON:
FRANCE



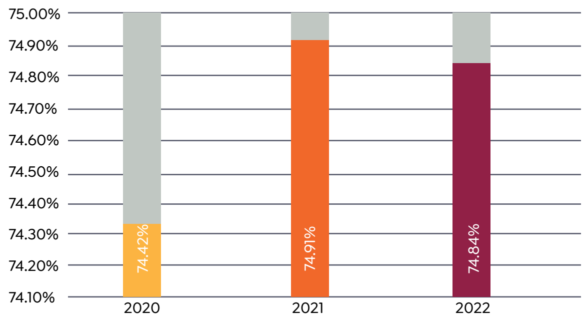
Overview

The 2022 AGM Season in France was not impacted by any profound regulatory changes perhaps in light of the presidential election taking place at the heart of the season. Of note, the Rixain law aiming to accelerate the participation of women in economic and professional life came into effect. Companies with over 1,000 employees for the last three years will need to declare the deviations between gender representation at the highest management levels. These numbers should now have been published (September 2022 deadline) and will feature on governmental websites from next March. As discussed in greater detail in our cross-market overview chapter, 2022 has also seen an uplift in the number of Say on Climate proposals presented by French issuers, though the practice remains very industry dependent. 11 such items were identified in our research including proposals by TotalEnergies, Carrefour, Engie, Amundi, Carmila, EDF, Elis, Getlink, Icade, Mercialys and Nexity. The average approval rate of 88.79% (including abstentions) does demonstrate mixed feelings from certain investors on the concept with question marks remaining about the purpose of such proposals. In fact, at the request of the AMF (French Financial Markets Authority), the HCJP (Legal High Committee for Financial Markets of Paris) is currently examining the practice, with the publication of a report imminent. It is hoped it will recommend a more uniform and clearer framework for the practice. Overall, approval rates have continued to progress across all major resolution categories (sometimes significantly) with the exception of organisational items which is expectedly very volatile given the wide range of topics it may include (capturing all amendments to articles of association, Say on Climate proposals, etc...).

Average approval rates per category



Average AGM attendance, 2020-2022



Whilst average SBF120 participation for 2022 has marginally dropped (-0.07%), the market can still retain its Gallic pride in the fact France continues to lead other neighbouring markets in this respect for the second year running. As such it felt appropriate in this year's General Meeting Review to do a slightly deeper dive into French AGM participation rates.

Whilst average SBF120 participation for 2022 has marginally dropped (-0.07%), the market can still retain its Gallic pride in the fact France continues to lead other neighbouring markets in this respect for the second year running.

SBF120 (Top 5 and Bottom 5 by quorum)

Company	Index	2022
SES SA	SBF120	95.27%
Jcdecaux SA	SBF120	94.92%
OVH	SBF120	93.04%
ALD	SBF120	92.78%
Sartorius Stedim	SBF120	92.71%

Company	Index	2022
VALNEVA	SBF120	34.34%
ORPEA	SBF120	36.41%
SOLUTIONS 30 SE	SBF120	37.94%
CGG	SBF120	40.45%
ATOS	SBF120	49.45%

There is high variability between the participation rates for the top SBF120 companies that surpass the 90% threshold and the lower end of the spectrum that falls below 50%.

CAC40 (Top 5 and Bottom 5 by quorum)

Company	Index	2022
Hermes	CAC40	86.88%
THALES	CAC40	86.31%
LVMH	CAC40	86.13%
KERING	CAC40	85.59%
WORLDLINE	CAC40	80.67%

Company	Index	2022
Société Générale	CAC40	54.83%
Air Liquide	CAC40	55.60%
MICHELIN	CAC40	55.81%
RENAULT	CAC40	61.02%
URW	CAC40	62.99%

Whilst still ranging from 54.83% to 86.88%, the CAC40 has less extreme outliers than the SBF120. The strength of the 4 best performances cannot be simply explained by the importance of large anchor shareholders as several of the lower 5 performances in the index have either state, family or other anchor shareholders.

SBF120 (Top 5 and Bottom 5 by year-on-year quorum changes)

Company	Index	2022	2021	Change
VALLOUREC	SBF120	69.62%	42.40%	+27.22%
IPSOS	SBF120	80.97%	69.10%	+11.87%
RENAULT	CAC40	61.02%	50.88%	+10.14%
MICHELIN	CAC40	55.81%	46.64%	+9.17%
Maisons Du Monde	SBF120	86.79%	78.05%	+8.74%

Quorums can vary significantly year-on-year due to changes in the shareholder structure.

Company	Index	2022	2021	Change
ORPEA	SBF120	36.41%	69.09%	-32.68%
Sopra Steria	SBF120	80.04%	99.95%	-19.92%
ATOS	SBF120	49.45%	66.98%	-17.53%
TechnipFMC	SBF120	55.03%	72.37%	-17.34%
VALNEVA	SBF120	34.34%	51.36%	-17.02%

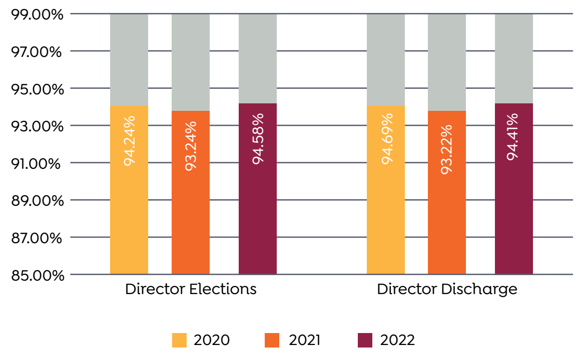
In France and elsewhere, companies that witness unusual hedge fund activity due to corporate actions or related rumours may find a significant negative impact on their AGM participation rates. In the case of long positions, these are generally held in derivative form via prime brokers and consequently not voted. In the case of short interests, hedge funds may be relying on shares borrowed from traditionally voting institutional investors.

Board of Directors

Average approval rates for both board elections (+1.33%) and discharge votes (+1.19%) have significantly increased year-on-year, signalling market improvements in areas such as overboarding, board independence and wider ESG considerations for which these votes can serve as lightning rods. Another contributing factor may be the reduction in number of dual Chair/CEO roles, a French specificity that regularly draws criticism from international investors with independence and conflict of interest concerns. Antoine Frérot for example, Veolia's previous chairman and chief executive officer, who held the role since 2009 stepped down as CEO in June, with chief operating officer Estelle Brachlianoff succeeding him in the role. Benoît Potier, to name another, who served as Chairman and Chief Executive Officer of Air Liquide from 2006 to 2022 has also stepped down as CEO, now only holding the office of Chairman of the Board of Directors of Air Liquide since 1 June 2022.

Despite improvements, certain re-elections inevitably continue to create dissent. The lowest approval rate for a director election barring shareholder proposals and employee representatives was the re-election of Edward A. Gilhuly at Legrand that scraped by with only 56.66% support due to repeated low attendance rates over the past three years. Another example is the re-election of Célia Cornu as a non-voting member at Elior Group which only generated 59.52% support. Indeed, the French specificity of non-voting board members (or “censeurs”) continues to draw criticism from international investors and proxy advisors that fairly ask the question along the lines of ‘if it is important for you as a company to have that individual’s skillset at board level, then why not make them a full-time board member or an external consultant?’. Issuers often defend the practice on the grounds that it can prove a beneficial transitionary role for future board membership. While the practice is not appreciated generally, when the choice of a “censeur” is presented as transitionary, companies meet with less resistance.

Board of Directors sub-categories 2020-2022



Remuneration

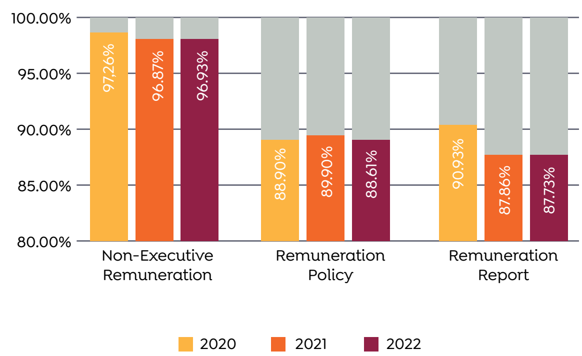
Whilst the overall remuneration category is stable year-on-year (+0.13%), there is a clear deterioration of the average approval rate for executive remuneration policies (or Ex Ante Say on Pay resolutions). This can be explained in part by the tightening of key voting policies on the topic such as ISS’ Continental European 2022 guidelines, which demand greater transparency, proper long termism for incentive plans and importantly, better safeguards against unfettered board of director discretion on pay outcomes. It can also potentially be explained by increases to pay packages that had been delayed due to the sensitivity of the pandemic backdrop.

Ipsos saw the advisory remuneration policy for their Deputy CEOs fail (among 4 other remuneration related resolutions that we shall further discuss shortly) due to insufficient transparency (partly the result of being remunerated via working contracts) and not providing a rationale for repeated pay increases to one of the executives. The resolution only gathered 49.34% support from shareholders.

Another case of high-profile dissent on this topic, though importantly getting just over 50% to secure approval, was Orange’s remuneration policy for its corporate officers, including their new CEO Christel Heydemann. Interestingly, opposition on the topic had little to do with the structure of the new CEO’s pay, and more to do with the exceptional payment to be made to the departing Chair (previously Chair/CEO), Mr. Stéphane Richard in recognition to his service to the company and his efforts during the transition of power. It is worth noting before the day of the AGM, Mr. Richard announced that he would voluntarily refuse the payment.

Whilst the average approval rates for remuneration reports (or Ex Post Say on Pay’s) remained fairly flat (-0.12%) this by no means implies the landscape was monotonous and uneventful. Ipsos saw 4 of these items fail (all for different executives, 3 of which were advisory votes) and Dutch-incorporated but multi-listed (including Paris) Stellantis made the front pages when shareholders rejected the advisory vote on Carlos Tavares’ compensation (only 43.09% support). Phitrust, an investment group that frequently engages on ESG topics, valued the package granted to Mr. Tavares for 2021 at the eye watering amount of €66 million based on IFRS fair value, in line with AMF & AFEP-MEDEF methodologies. As the Dutch code does not make ex post remuneration votes binding, Stellantis’ CEO was paid his compensation despite a de facto rejection by its investors, creating a clear misalignment between the board and its minority investors.

Remuneration sub-categories 2020-2022



MARKET EXPERT INTERVIEW
ANTJE STOBBE

HEAD OF STEWARDSHIP, ALLIANZ GLOBAL INVESTORS

What is AllianzGI's stance towards integrating sustainability and climate related elements into their voting policy and what are implications for Germany?

AllianzGI is voting consistently on climate-related resolutions and developed voting guidelines on say on climate resolutions. However, I do not expect to see a big uptick of say on climate resolutions in Germany in the near future. We believe that there would need to be a clarification of German stock corporation law first to know how these resolutions could be factored into AGM agendas. For now, investors would have to express concerns on climate plans and issuers progress towards net zero through directors' discharge items or director elections.

What advice would you give a German listed company trying to secure and/or maximise shareholder support for its annual general meeting? What different processes should be put in place and when?

We encourage boards to have direct conversations with their investors. In this regard, we have already seen improvements in Germany. It is important that conversations do not happen just right before the AGM season. Companies should reach out way before the season, ideally in Q4. This would allow investors to provide input and advice. This is particularly important with respect to say on pay, or board elections.

ESG has come under increased scrutiny in 2022 with high profile accusations of green-washing and criticisms of uncorrelated extra-financial agency ratings for instance. Do you believe private sector (on the one hand) and regulatory (on the other hand) initiatives are moving in the right direction on this topic and what in your view are the biggest hurdles/challenges to overcome?

A number of sustainability-related pieces of regulation have been introduced, for example SFDR and MiFID II, and asset managers have been working on implementing these rules. A challenge from an investor perspective is that we need data and information from the companies we invest in. With company specific disclosure regulation (CSRD) only due to come in 2023, there is still a gap. We would encourage companies to improve their sustainability disclosure to allow for a more comprehensive assessment, for example on their transition pathways towards net zero. This also relates to Principle Adverse Impact indicators, where for example the reporting on gender pay gap is still poor. Also here, we would like to see a higher level of consistency and disclosure on this topic.

The incorporation of FüPoG II in the Kodex for the year ahead indicates a tightening of rules around gender representation at management level. Given the relatively low level of female representation in Germany at Board and management level compared to some of their neighbouring markets, do you believe the regulator is leading issuers in this regard, or does the change come primarily from investors, or issuers themselves?

There has been progress at supervisory board level, but German companies are still lagging behind with respect to female representation on management boards and on management levels below the board. We will see the effects of the new regulation kicking in only over time as certain companies have to consider female candidates when making decisions about new appointments to the management board. As an investor, we look very closely at female leadership representation, and it is a key engagement topic with companies for us. The excuse from companies that there is a lack of qualified female candidates has been around for some time, but we do not believe that this is a sound argument. Companies need to build a pipeline of talent from below management level in order to have the right candidates in place.

The Kodex also appears to move in language from a shareholder focussed model to a stakeholder focussed one. Would you say this is more representative of this market model where for example there are employee representatives on Boards, or do you see issuers having to adapt significantly to the changes or is this more of a continuous movement?

Generally speaking, with the adoption of various EU regulations on sustainability, the topic has become more integrated over time. There has been a broadening of the perspective on different stakeholders, but I would thus not attribute this to the Code. For us as an investor, environment and social aspects have been a centrepiece of our engagement with companies for a long time, thus incorporating the view of different stakeholders. This goes hand in hand with more of our clients being interested in us engaging with companies on their climate transition pathways, for example. These two factors have been drivers of engagement on the subject.

"voting on remuneration reports has been on the agenda in Germany this year for the first time."

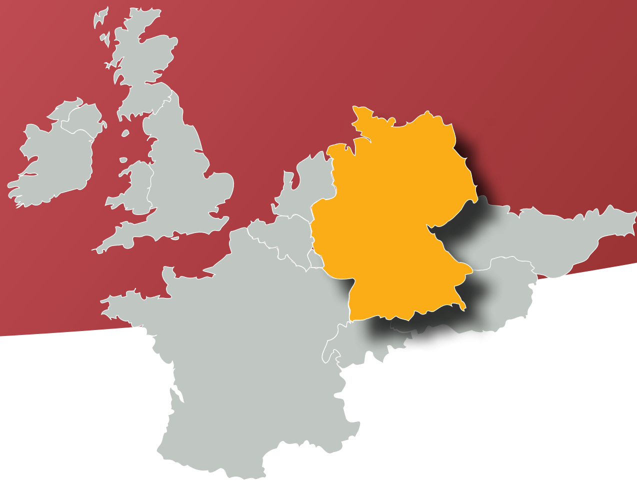
What trends, if any, have you observed in the German annual general meeting season this year and what do you expect for 2023?

There are two points to make here. Firstly, Say on Climate resolutions. Even if these do not materialise in the German market, their prevalence in other European countries such as France or the UK change the tone of conversation with companies in Germany. As we are discussing transition strategies with companies in France, it is only natural that we will bring up this topic with peer companies in Germany. Secondly, voting on remuneration reports has been on the agenda in Germany this year for the first time. This is an area where we still expect more transparency from companies. While some companies have reported transparently on targets and achievements as well as the link between performance and pay-out, there are still some companies who have not been so transparent and where improvements need to be made. In case of a poor vote turn-out we would expect companies to improve their disclosure in 2023.

Antje Stobbe is Head of Stewardship and in this capacity leading Allianz Global Investors' engagement and proxy voting activities globally. Antje is a member of the DVFA commission Governance & Stewardship and the BVI working group on Corporate Governance. She also serves as Deputy Chair of the Corporate Governance Council of the Conference Board. She joined Allianz Global Investors in 2019 as a Senior ESG analyst with a focus on corporate governance and proxy voting for European companies.

Previously, Antje was Head of Stakeholder Management in the Investor Relations team of Deutsche Bank leading corporate governance dialogue with the Bank's top investors and serving as the key IR contact for Deutsche Bank's ESG investors. Before joining the IR team in 2013, Antje was Head of Sectors, Technology & Resources at Deutsche Bank Research in Frankfurt, and a member of Deutsche Bank's Environmental Steering Committee and Climate Change Advisory Board. For more than 15 years she served as a team leader and senior economic research analyst focusing on European and German industry research, innovation and digitalization. Antje gained a PhD from Friedrich Schiller University Jena and graduated in economics (Georg-August University Göttingen, University of California, Los Angeles).

A SPOTLIGHT ON: **GERMANY**



Overview

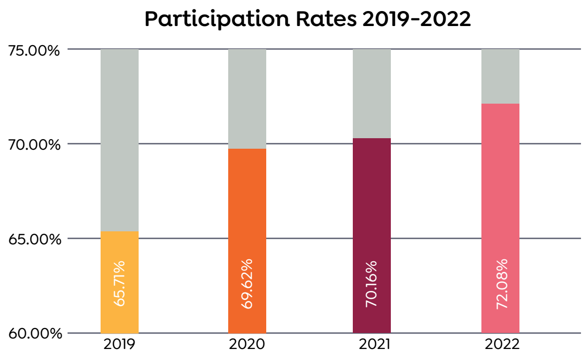
2022 was significant in the newly expanded DAX 40 and MDAX markets as the second year in which a compulsory but (but non-binding) vote on remuneration reports was required from issuers as part of the implementation of ARUG II. With 85 of 90 companies proposing such resolutions this is the first year where we can really examine their success or failure at a market wide level. New entrants to the expanded top index might reasonably suppose their arrival at the top table of the German market would be accompanied by a higher level of shareholder scrutiny and accountability.

In 2021, while we augured the introduction of management quotas for female representation under FüPoG II, these were only formally introduced after that proxy season. As such, we will not see their effects on the market until 2023. Nevertheless, Germany still lags behind their Anglo-French counterparts in this regard. With the demise of Wirecard still firmly in the minds of issuers, investors and authorities alike, changes to law (FISG, the Act for the Strengthening of the Integrity of the Financial Markets) and the German Corporate Governance Code have been implemented to ensure greater audit scrutiny and hopefully avoid a repeat scenario.

Finally, it is worth acknowledging the impact of the Russian invasion in Ukraine on the German market with its particular reliance on imported Russian gas supplies to power its economy. Pre-conflict, Germany was essentially fully energy dependent to the Russian Federation. Along with its long-standing policy to exit nuclear power, 55% of the natural gas used annually was imported from Russia, as well as 54% of the nation's coal, and 34% of all mineral oils. As such, the far-reaching impact of sanctions against Russia on the German economy versus the impact on all its European neighbours cannot be understated, as demonstrated by the nationalisation of Uniper. Just as the new Kodex wording calls for greater responsibility from issuers beyond the agent/principal to stakeholders and society and the existence of a corporate environment where greater climate awareness and reporting has been the direction of travel for some years, this tension with potentially contradictory goals between climate and geopolitics creates a significant new challenge for the market.

Participation rates remain resilient, significantly higher than pre pandemic

Participation rates in Germany rose again in 2022 for the third successive year in a row, rising to 72.08%, a full 6.37% higher than pre pandemic attendance rates. The country is just behind the United Kingdom and France. While there may be underlying factors impacting the figures, be it the enlarged composition of indices or increases in numbers of high participation companies over low participation ones, three years of continuous quorum growth seem to demonstrate that there has been a significant upwards trend in participation. The lowest quorum figure for a DAX 40 company was Deutsche Bank with 42.94%, and the lowest in the MDAX was Aroundtown at 36.98%. AGMs continued to be held virtually, which has increased the accessibility of these meetings to investors. The broadcast of these meetings may not have the same allure as the traditional German AGM sausage banquet, but welcomes investors from further afield to observe and participate where they may not have been able to do so in pre pandemic years. As issuers begin to consider switching back to more traditional 'in person' formats for AGMs in 2023, it will be interesting to see what proportion do shun the virtual or hybrid model, and whether this will have a depressing effect on quorum rates for those issuers meetings in the year ahead.



All Categories Overview

Following three years of continuous improvement, average approval rates for board of directors related items stalled in 2022 with an average rate of 94.91% falling almost a full percent, down 0.92%, below their 2021 peak. The trend was led by a dip in director discharge rates of 1% and compounded by a decrease in support for elections of 0.71%. It would be simplistic to conclude that the downturn in support for discharge items must be a consequence of the expansion from a DAX 30 to a DAX 40 and the increased scrutiny that comes with it. To the contrary, the downward spike is led by a handful of outliers drawing down the average, all of whom were members of the DAX 30 prior to expansion: namely Mercedes, MTU Aero, Bayer and BMW all of whom achieved sub-par support levels between 74.13 – 80.50% on shareholder votes on ratification or discharge items. In the MDAX, particular outliers were Varta whose bundled supervisory board discharge item received only 75.33% support. International best practice prefers a specific item per board member. For directors elections, the election of Erich Sixt at Sixt was the most contested item to negatively affect the average. His immediate shift from CEO to chairman garnered an index wide low approval rate of 56.22%, reflecting the ongoing importance of independence as a subject of investor and advisory agency scrutiny, alongside other traditional areas of focus such as overboarding, attendance rates and adequate scrutiny of and accountability for management.

Overall though, support levels on discharge remain robust and slightly above 2019 levels by 0.53% with most issuers achieving rates in the mid to high nineties, and a number scoring over 99% across both the DAX 40 and MDAX.

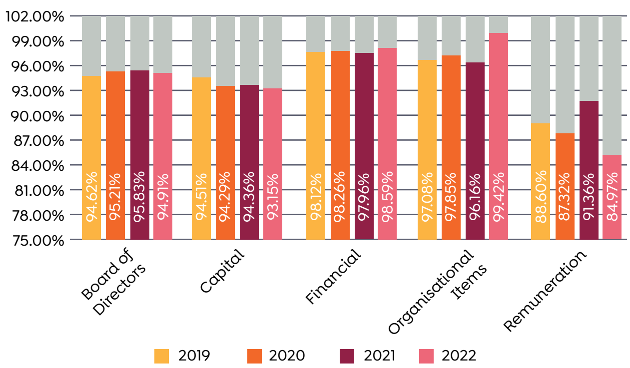
Support levels for financial items rallied marginally across all sub-categories, driven by increased support for auditor appointments up 0.95% at 97.60%; dividends increasing by 0.45% at 99.58% and acceptance of financial statements, up 0.77% to 99.85%. A year since the dust settled on the damaging Wirecard audit drama the increased support for auditors comes as no great surprise. We anticipate the newly implemented FISG regulations tightening audit stringency and oversight to further reinforce support in this area in the year ahead. Equally in an increasingly post pandemic world a degree of relaxation on companies issuing dividends and around acceptance of financial statements where there was perhaps more scrutiny at the height of the pandemic is to be expected. Vigilance may tighten in 2023 however as company boards will have to cope with several major risks, potentially at the same time – Pandemic, Inflation, Conflict, Climate and Society, or the so-called “PICCS”.

Approval rates for remuneration items as a whole at 84.97% have decreased significantly from the exceptional one year high of 91.36% driven by mandatory remuneration system (aka remuneration policy) votes in 2021 and returned to a more consistent downward trend in evidence since 2019. For a major economy, German remuneration report support is comparatively lower than its peers in the United Kingdom and France. The non-controversial question of non-executive remuneration continued to garner widespread support, with an increase to 99% average support from the previous high of 98.24% in 2021. However, for more meaningful compensation subjects such as the binding executive remuneration policy and employee incentive plan proposals, these received significantly less support, decreasing by 2.31% and 2.32% respectively. Only one issuer failed to receive majority support for their system, Befesa SA (26.22%), with ISS highlighting several concerns, notably the company’s break from long-standing international best practice towards a less performance based LTI plan (30 percent RSUs), the TSR performance metric allowing for below median performance payouts and proposed policy allowing for specific discretionary grants outside the remuneration policy framework.

While the trend for remuneration items (policies and reports) seems to be one of decoupling of direction between boards and shareholders however, this is something of a false flag as 2022 marked the first year in which almost all companies (85 of the 90 surveyed) submitted a non-binding remuneration report vote to their shareholders. These ex post proposals are typically the most controversial, and as such an increase in the quantity of items has a statistical impact on the overall average for the remuneration category.

Rhetorically, the real challenge for German supervisory boards may yet arise later if they were to face the rejection of a non-binding remuneration report and decide not to heed their shareholders’ position. Would they be willing to pay their corporate officers when their shareholders do not believe that they are worthy of such compensation?

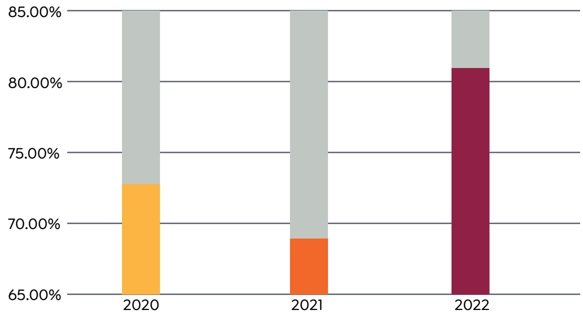
Average approval rates per category



Remuneration Reports

After only seven issuers tested the water with their remuneration reports in 2021 across the DAX 40 and MDAX, 2022 was always going to be the year where the impact of the Kodex change demanding a mandatory non-binding vote could be fully assessed across Germany. Across the two indices average approval rate for the remuneration report was 81.49%, with DAX 40 companies commanding a slightly higher support level of 83.01% which marks a significant increase in support from the 68.70% average in 2021. While a relative and important improvement, in absolute support terms, such results should encourage Deutschland AG to aspire to better results when compared to the support levels in the UK and France. The average success levels this year indicate issuers learned from the initial missteps of those early adopters of the code's requirement, and demonstrates a positive step in transparency and provision of shareholder oversight and accountability on issuers' application of their remuneration policies. We can reasonably expect that as issuers get to grips with the expectations of investors around disclosure and transparency on these items, support levels should further increase as they have in other countries where governance codes were revised many years before the Kodex was. The principal causes for negative recommendations or votes against such resolutions centred around a lack of transparency on performance metrics for LTIPs and STIPs, misapplication of the remuneration policy by way of excessive one-off payments to executives or golden handshakes, or payments to CEOs or key executives which were notably higher than similar payments to peers. Simply put, the solution to poor scores is greater remuneration transparency, stricter interpretation of remuneration systems and explaining remuneration changes in relation to the desired outcomes that these changes hope to accomplish. In the DAX 40 two companies, Bayer and HelloFresh, failed to pass their remuneration report and nine issuers secured less than 80% support. This demonstrates that there is meaningful progress to be made in this area and that investors will continue to hold companies to account on their remuneration report over the coming years.

Remuneration Report 2020-2022



If 2022 was the year of the remuneration report, 2023 may be the year of directorial accountability, where we may see greater turbulence in areas like board elections and discharge to reflect compliance or failure to comply by issuers with the new requirements of the Kodex and more widely international best practice, particularly around gender balance, an area where the DAX lags behind other markets both at board and management levels. Germany thus far has been fairly insulated from climate resolutions faced by many of their Pan European peers, with only RWE challenged in this regard by Enkraft in relation to the spinoff of their coal lignite business, a limp challenge garnering only 2.44% support. While it is possible the lack of support was driven by large investors like BlackRock shying away from 'prescriptive' shareholder proposals, or by geopolitical events, it seems most likely that the proposal was the wrong one for the company, given it did little to assure shareholder value and failed to adequately address concerns around the ability of RWE to apply such a proposal in the regulatory framework required for such a divestment. Despite wider international concerns remated to the conflict in Ukraine, the number of climate resolutions could also rise in 2023 as it has done in other markets, particularly the UK and Switzerland where we have seen increasing numbers of say on climate resolutions affecting issuers across finance and industry. Given the importance of industry in the German economy, with the generational challenges that the current energy crisis is causing, it would be hard to imagine a situation where investors would not want to clearly understand how companies are addressing these new risks and how these unforeseen obstacles impact their road to carbon neutrality in the short to medium term.

MARKET EXPERT INTERVIEW
XAVIER MICHEL

GROUP CORPORATE SECRETARY, UCB SA/NV

What advice would you give a Belgian listed company trying to secure and/or maximise shareholder support for its annual general meeting? What different processes should be put in place and when?

I would advise Belgian listed companies to have regular dialogues with their top investors on ESG matters. We have decided to organise ESG roadshows twice a year, one around the November period and another one a few weeks before our AGM and after the publication of our Annual Integrated Report. We call the second one a "Pre-AGM roadshow" and there is more focus on the themes that will be up on the agenda of the upcoming AGM. The November roadshow allows us to have a broader discussion on ESG matters, at a time when investors are not under the pressure of the AGM season. It also allows us to test some ideas and gather feedback from our investors on questions that could end up on the agenda of our next AGM, giving the flexibility to our Board to incorporate the feedback of our shareholders before actually deciding on the final agenda of our AGM. These roadshows are generally a great opportunity for us to understand our investors' expectations, voting policies, as well as overall new trends. It is also a way to create a more personal relationship with the members of the stewardship teams of our shareholders. This is important both on an ongoing basis as well as when a dialogue is needed ahead of the AGM. To ensure a continued trustful dialogue with your investors, you need to be as transparent as possible on the way you take investors feedback into consideration and how you acted upon this feedback. This can be done during your live engagement as well as in your annual report.

ESG has come under increased scrutiny in 2022 with high profile accusations of green-washing and criticisms of uncorrelated extra-financial agency ratings for instance. Do you believe private sector (on the one hand) and regulatory (on the other hand) initiatives are moving in the right direction on this topic and what in your view are the biggest hurdles/challenges to overcome?

Extra-financial agency ratings are following their own logic and methodology and may not always be fully comprehensive. A good rating may potentially not give a complete picture of the reality but remains a good indicator. At the end of the day, rating agencies are using public data published by issuers. So, the quality of an agency rating will also largely depend on the quality and completeness of the information published by issuers. The issuers have therefore a critical role to play and their share of responsibility in disclosing relevant, true and meaningful information on Sustainability matters. Companies must be mindful about disclosures, communicate honestly and effectively. If they make any Sustainability claim, it should be based on real, measurable, and non-misleading information and they should communicate transparently about it. It is a question of transparency, credibility, reputation and ultimately of trust and liability. I think regulators have also a role to play in ensuring that issuers are adequately disclosing relevant information on ESG matters. In this respect, the EU Taxonomy or the upcoming CSRD together with the European Sustainability Reporting Standard should help improving the quality of information disclosed by issuers while, at the same time, ensuring an ambitious level playing field for disclosure and quality and more reliable information on sustainability. Regulation is also likely to extend to unfair commercial practices and consumer protection. All in all, this should improve the quality and reliability of sustainability information and ratings and reduce the risk of green washing.

UCB received over 95% support for its remuneration report in 2022 (95.67% to be specific) which is over 10% higher than the BEL20 average of 84.32%. What is your experience discussing this topic with investors? Are investors clear on their expectations? What are the biggest challenges for issuers in perfecting their proposals on the topic of executive remuneration? Is a certain amount of dissent inevitable?

There is generally a lot of scrutiny from investors on the executive remuneration topic. It is therefore important to proactively engage with your shareholders but also proxy advisors to ensure a mutual understanding. The main investor's concern is usually to obtain as much transparency as possible on the KPI's and metrics that are used for measuring performance and determining the final remuneration, especially at executive level, both ex ante (in the remuneration policy) and ex post (in the remuneration report). If we understand that they need some information to decide how they will vote on the remuneration report, the main challenge that we have here as issuers is that we are usually using targets or KPI's that are confidential and very sensitive from a commercial or competition perspective. We therefore need to find the right balance on what can or cannot be disclosed. It is especially true for financial targets. Many issuers are now starting to introduce non-financial ESG targets and KPI's in the remuneration of their Executives. It is generally easier to communicate on these targets that are less sensitive and confidential. However, it is not easy sometimes to define these non-financial targets and investors are increasingly demanding on having very precise and measurable targets. There is *"there is increasing investor scrutiny and demand on the non-financial criteria for measuring executive pay and performance."*

also a requirement to be transparent on the benchmark used which may not always correspond to the benchmark used by some investors or proxy advisors. This may also create some tensions or misunderstanding. It is therefore important to explain the relevance of your benchmark and of your peer group to your shareholders and proxy advisors.

Investors are not always clear on their expectation, and it seems indeed difficult to please everyone. When engaging with investors, some are sticking to their strict voting policies and do not show any flexibility or understanding for the specificities or the reality of a particular issuer.

We have also always found it very useful to discuss or test ideas on this topic with the proxy advisors. Their feedback generally provides a good sense of the main trends and of investor expectations in this matter.

What trends have you observed in the Belgian annual general meeting season this year and what do you expect for 2023?

Topics like Board independence, Board diversity, overboarding and Say-on-pay remain the classic points of attention at the AGM. I do not think "Say-on-Climate" has been a prominent theme for Belgian issuers in 2022. However, there is increasing investor scrutiny and demand on the non-financial criteria for measuring executive pay and performance. For the next season, I think the same topics will come back on the agenda, but we see a trend of stricter rules for assessing the independence of directors or over-boarding criteria, and a broader scope for diversity (of gender, skills, ethnicity,...). The Board oversight of E and S matters is becoming a point of attention. Investors are requesting issuers to disclose their governance around these matters. Absent any disclosure or in case of insufficient disclosure, they may vote against the appointment or renewal of Board members as a sanction. The same applies to the level of Board oversight on Cybersecurity risk. As a general trend, voting against the appointment or renewal of a board member or their discharge of liability, seems to become a classic sanction when shareholders are in disagreement with matters that are not directly put up for vote at the AGM (e.g., lack of disclosure from an ESG perspective).

Do you have any comments on the strengths/weaknesses of Belgian corporate governance practices vs the rest of continental Europe? What do Belgian issuers do better or worse?

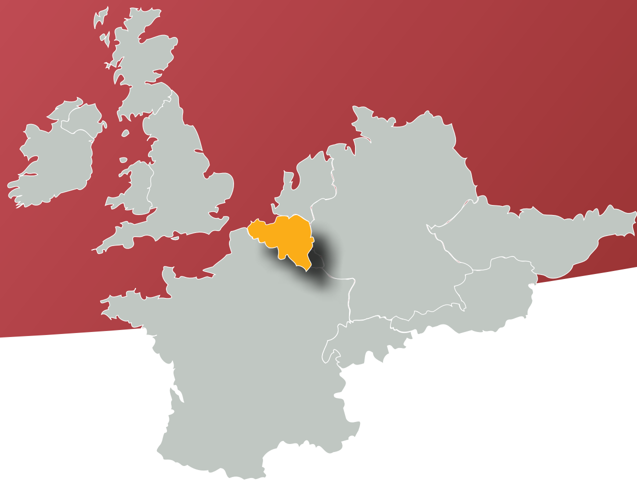
I think Corporate governance practices are pretty much aligned with the rest of continental Europe. We generally see more discrepancies with the US or UK requirements or best practices. I think Belgian issuers were still lagging a bit behind on the "say-on-pay" and the Remuneration report, having introduced the new disclosure standards only a couple of years ago. Belgian issuers are doing quite well in terms of gender diversity at board level, but this is probably due to the mandatory quota rules that were already introduced in Belgium several years ago. This is less the case at executive level, where there is still clearly room for improvements. Many Belgian issuers started introducing sustainability criteria in the executive pay and we are probably in the average of continental Europe. Election and independence of directors remains a point of attention for many issuers, given the number of Belgian issuers that still have family or reference shareholders.

Xavier Michel joined UCB SA/NV, a Belgian listed Biopharma group, in June 2013 as Group Corporate Secretary. He is also heading the Corporate Governance as well as the Corporate & Financial Law Practice and is part of the Global Legal Leadership Team of the UCB group. He is also Insider Trading Compliance Officer.

Xavier Michel graduated from the University of Brussels (ULB) where he studied law and has an LL.M. in International Business Law from the University of London (1994). He has a broad experience in Corporate Governance, ESG, corporate law, M&A, capital markets and financial law.

He started his carrier as attorney-at-law in the Brussels office of Baker&McKenzie (1994-2000) and then moved for different positions as in-house counsel in the banking & financial sector in Belgium from 2000 until 2013.

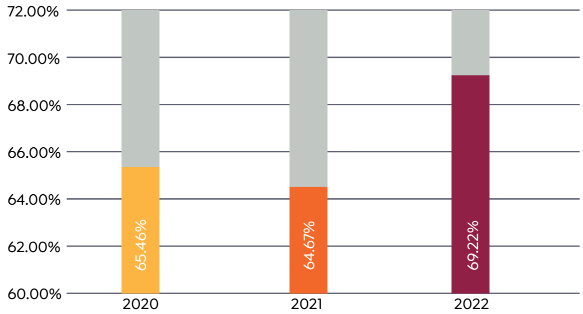
A SPOTLIGHT ON: **BELGIUM**



AGM Participation

Investor voting at BEL20 companies has shot through the roof this year reaching 69.22% on average (+4.55% vs 2021 or +3.76% vs 2020). The composition of the BEL20 index changes each year, introducing its own variability to these averages. Argenx for instance was not in our sample last year and drives up the average through its impressive 83.50% quorum in 2022. Nonetheless, we believe this jump in participation is still representative of an underlying trend with a significant number of companies seeing year-on-year improvements including but not limited to Cofinimo (+7.37% reaching 53.41% in 2022), Elia Group (+5.75% to reach 66.50% in 2022), Solvay (+3.80% to 66.93%), Proximus (+3.64% to 76.03%) and Galapagos (+3.56% to 67.23%).

Average AGM attendance, 2020-2022



Board of directors

Board of director-related resolutions have received significantly improved support (+1.72%) this year at BEL20 companies averaging 95.04% vs 93.32% in 2021. This improvement applies to both sub-categories with director elections averaging 93.28% (+1.31%) and discharge votes averaging 97.72% (+1.49%). Also, an average higher than 95% means that overall, support for Belgian boards is robust and growing. Given increased investor scrutiny on topics such as board independence and overboarding, these excellent results demonstrate that companies are taking these requirements seriously despite the more challenging Belgian context of many issuers still having family or reference shareholders. As emphasised in our Belgium market expert interview with UCB's Xavier Michel, voting against board renewals or their discharge of liabilities is also a frequent sanction for more diverse matters upon which shareholders do not get a specific vote. As such increased support for this category can be seen as a positive indicator of the health of the Belgian corporate governance landscape as a whole. Having said that, it is noteworthy that over a third of BEL20 companies (7 companies out of the 19 for which data could be gathered) received less than 80% support for one or more director elections in 2022 when accounting for abstentions. This dissent was primarily due to a lack of board independence at those companies but also included one case of insufficient gender diversity at board level, one of overboarding and one of excessive term length.

Board of Directors

	2020	2021	2022	Change (2022 vs 2021)
Director Elections	91.85%	91.97%	93.28%	**1.31%**
Director Discharge	96.63%	96.23%	97.72%	**1.49%**

Remuneration

Average approval rates for remuneration related proposals improved year-on-year to 86.89% (+1.30%). This is an unsurprising recovery given the turbulence on this topic in 2021 and it is worth noting that these levels of support remain below 2020 averages. It is also noteworthy that whilst remuneration report approvals jumped by a whopping +3.94% to 84.32% and non-executive remuneration related proposals increased by a staggering +5.12% to the stellar 98.43%, support for executive remuneration policies continued to drop to 83.03% on average (-4.72% vs 2021 and -6.43% vs 2020). This noticeable decline is not unique to Belgium and one need only look as far as neighbouring France to see a similar phenomenon albeit less pronounced: - 1.29% to 88.61% for the SBF120 support on average. Heightened opposition on this topic is no surprise given key proxy advisor ISS' changes to their Continental European Voting Policy and their announced desire to see more transparency and stricter safeguards against unfettered board discretion. Other frequent challenges for Belgian issuers include their pushing for continued catch up increases in executive pay quantum previously delayed due to pandemic sensitivities, difficulties in integrating the appropriate and meaningful quantitative ESG criteria in their variable remunerations structures, the lack of clear caps on variable pay components and insufficiently long term horizons on incentive plans.

The most contested remuneration report was presented by argenx SE which only narrowly secured approval with 51.87% votes in favour. Key proxy advisor ISS criticised the report for insufficient disclosure (thresholds, targets, actuals and payouts) for the STIP, the payment of stock-options to non-executive directors, insufficient response to historic dissent and insufficient disclosure around the setting of LTIP quantum levels despite exceeding peers. Umicore (63.48%), Galapagos (64.63%), Proximus (75.30%), Ackermans & van Haaren (76.17%) and AB InBev (79.90%) also all fell below the 80% support threshold on their remuneration reports.

For Belgian companies, where anchor shareholders are more prevalent, such scores point potentially to a misalignment with the majority of their minority investors. While these companies still approve their remuneration reports, the level of dissention points to an important disconnect on this meaningful subject with their institutional investors at some level – whether disclosure, policy design, or magnitude. Such potential erosion of support from minority investors usually is avoidable.

Remuneration

	2020	2021	2022	Change (2022 vs 2021)
Non-Executive Remuneration	96.32%	93.31%	98.43%	**5.12%**
Remuneration Policy	89.46%	87.75%	83.03%	**-4.72%**
Remuneration Report	86.02%	80.38%	84.32%	**3.94%**

Capital

Capital related items continue to enjoy increased support levels (+1.09% year-on-year, averaging 95.72% in 2022), a trend that has been visible in Belgium several years now. As we observed last year, no individual capital related item received below 80% support in the market which continues to demonstrate a growing and solid understanding of investor expectations when it comes to dilution thresholds, discounts and potential dilution of minority investors.

Increased support for this category (board of director related) can be seen as positive indicator of the health of the Belgian corporate governance landscape as a whole.

MARKET EXPERT INTERVIEW
VINCENT KAUFMANN

CEO OF ETHOS FOUNDATION AND ETHOS SERVICES

What advice would you give a Swiss listed company trying to secure and/or maximise shareholder support for its annual general meeting? What different processes should be put in place and when?

It is key for the issuers to be proactive and to get in touch with investors well in advance, preferably whilst preparing the agenda for the next AGM and the next annual report. In my opinion September/October is the key period to get feedback on the previous AGM from shareholders and proxy advisors. Larger companies are increasingly doing this but mid or small cap companies seem to be more reactive. These smaller companies need to consider international governance practices and by doing this they could anticipate potential issues given that most of their investors are international. The three key messages are anticipation, engagement with key investors, and getting feedback early. The Chair of the various committees which makes up the board needs to be involved in anticipating potential issues that investors will have. Nowadays, committees play a key role in preparing and anticipating investors' expectations. Particularly regarding the board's succession plan, remuneration and increasingly, environmental and social issues. The processes put in place by issuers should be centred around discussions with a broad shareholder base and gaining an understanding on international best practices regarding governance. The Swiss code of best practice for corporate governance dates back to 2000 and is now outdated so needs a review. For example, on the question of what makes an independent board member, the only requirement of the code in Switzerland is that they are not a former executive of the company, which is not sufficient.

ESG has come under increased scrutiny in 2022 with high profile accusations of green-washing and criticisms of uncorrelated extra-financial agency ratings for instance. Do you believe private sector (on the one hand) and regulatory (on the other hand) initiatives are moving in the right direction on this topic and what in your view are the biggest hurdles/challenges to overcome?

We have to move to ESG 2.0. ESG integration should now just be a normal part of the investment process. It's not just about being sustainable, but also being a good asset manager; considering all indicators of an issuer's success. The impression of greenwashing comes from investors only integrating sustainability related risks (to the issuer), but ESG and the impact of the company on the wider environment and society are two sides of the same coin. Investors must move on to consider double materiality – what is the impact of the company on society? If you integrate that side, some highly rated companies would certainly have a lower ESG rating. There is a large expectation gap between what the investors claim and what society and our client pension funds expect. A real step forward would be the standardisation of ESG reporting with the rigour that goes into reporting financial statements also applying to ESG reporting. However, I don't think we can standardise opinion on the sustainability rating of an issuer. The opinions of what is important varies between different ratings agencies. For example, Tesla may have a negative ESG rating for an investor who has a strong weighting on governance but when also considering their product the ratings may be better. The private sector can produce a consistent standard of ESG reporting, however only the regulator can make sure it is followed by bringing in rules to enforce it, like listing requirements. The regulator pushing investors to report is a positive step, but in order to report, you need good, consistent information and disclosures. The EU is right to impose CSDR on issuers and SFDR on investors, but Regulators need to be careful that the phrase "don't put the cart before the horses" doesn't apply to them. The impetus needs to come from the investors and issuers.

Your public comments on UBS' management proposed climate roadmap clearly demonstrate you felt they didn't go far enough or that the scheme was not sufficiently comprehensive. Where does that stand against shareholder led climate resolutions and where did they go wrong that another issuer might succeed in garnering your support on say on climate?

First of all, we commended the step made by UBS to voluntarily submit their Climate Strategy to a consultative vote of the shareholders. I am sure that this step prevented further pressure from shareholders like we saw at the AGM of Credit Suisse, where a climate resolution on their financing of fossil assets was submitted by Ethos and other investors. UBS also has exposure to fossil assets but on a smaller scale in comparison to Credit Suisse, and they proactively requested feedback from investors. Banks are normally less reactive so it was good to have this constant discussion.

This approach from UBS saw off a more proactive intervention by activists, but the pathway to net zero for UBS remains unclear. Ethos have been really pushing in this area, setting out requirements on how to vote on say on climate resolutions. For us, UBS' financing policy on coal is currently lagging behind the market, and on oil and gas they should be more restrictive regarding non-conventional oil and gas.

"In terms of ethnic diversity, Switzerland is very poor"

It should be an easy fix for them because they have comparably little exposure in this area. With regards to asset management, we felt they had a good target on sustainable investment strategies but such strategies represent 25% of their total assets under management. Their standard portfolios could have better coverage on CO^2 targets. Some of our clients believed Ethos were being too tough, but aiming for net zero isn't enough, we need clear and concrete targets accompanied by precise measures to reach them. We have published clear criteria on say on climate resolutions in the past years and will adhere to this policy. If you simply vote 'for' the item, the discussion ends.

With Credit Suisse there has definitely been a more robust approach from our side. We have been in discussion with them for many years. Their new policy on coal financing, published in November 2021, was a step forward whereby no new client would be accepted with more than 5% exposure to the coal industry (on the financing side). The bank however refused to further strengthen its financing policy. Given its high exposure to fossil assets, we decided together with ShareAction, who is running similar engagement in the UK, to increase pressure with a shareholder resolution. In Switzerland, the only way to submit a resolution is to request an amendment to the articles of association. We therefore asked the company to put in its articles of association an obligation to disclose how it intends to reduce its fossil assets exposure. Credit Suisse offered a climate report, but when there are three different heads of sustainability in one year, such an agreement with one is not enough. We weren't asking for change on day one, or day two, but we needed to see tangible movement in the right direction. Between the submission of our resolution and the publication of the agenda, we had a lot of discussion with the bank which agreed to include further restrictions on Arctic drilling and oil sands. Credit Suisse will be submitting its next climate report to an advisory vote in 2023 but we felt this approach was insufficient and maintained our shareholder resolution which received 19.35% support - a good result, especially when you consider we didn't have the support of ISS, Glass Lewis, BlackRock or the Qatari shareholders. It shows what the majority of the minority shareholders are thinking, and that we are willing to escalate. We are still involved in discussions, however the need for proactivity (from the issuer) is still there.

On diversity on Boards, we note that your guidelines stipulate that re-election of the chairman of the nomination committee cannot be approved if the board includes less than 20% women without satisfactory explanation. As the market moves towards greater female representation on Boards following the entry in to force on 1 January 2021 of the gender quota for boards from the Swiss code of obligations, how are you finding issuers respond to this challenge in a market which has historically been low in female representation?

In essence, not too bad! Pressure from international investors means large cap companies are already aiming for 30% female representation on Boards by 2026. Furthermore, they also have ten years from 2021 to achieve 20% female representation in management. Also, this is on a comply or explain basis, which we think it is a good thing. As an advisory agency, we believe our stance on opposing the nomination committee chair is pushing the market in the right direction. We opposed around 38 board members this year in companies where diversity was insufficient. We also made exceptions when we received written confirmation from the Board that diversity will be reinforced by the next AGM. For example, one issuer had one female director standing down and three new directors being appointed. They explained that they were looking for industry specific experience at this stage of their development and couldn't find a suitable female candidate. They acknowledged appointing a female director was at the forefront of their succession planning, and that there would be two outgoing directors in the next year with easier to replace competencies like legal and accounting experience. Their stated priority in the next year will be to seek a female replacement. This information can be from a roadshow but really gives the issuer the ability to gauge the views of the investors. The key for issuers is being proactive, feeling pressure from investors and being forward looking.

Mid and small cap Swiss boards, often with major shareholders or older boards are traditionally in favour of board discretion and make no commitment, or make statements like 'we will respect the quota in due time', or 'we cannot remove this person/expand the board'. This is not a commitment and is not convincing for us. What we want to see is how issuers are moving in the right direction and where we see a proactive board we are willing to make an exception and recommend a vote in favour. As with all the topics we have discussed, direction of travel is needed.In terms of ethnic diversity, Switzerland is not at the forefront. Surely an international company has to represent international best practice, with Switzerland lagging behind countries like France and the UK. Going back to the first question on advice for Swiss issuers, it is important that international practices are followed to reflect the ownership being international.

What additional trends, if any, have you observed in the Swiss annual general meeting season this year and what do you expect for 2023?

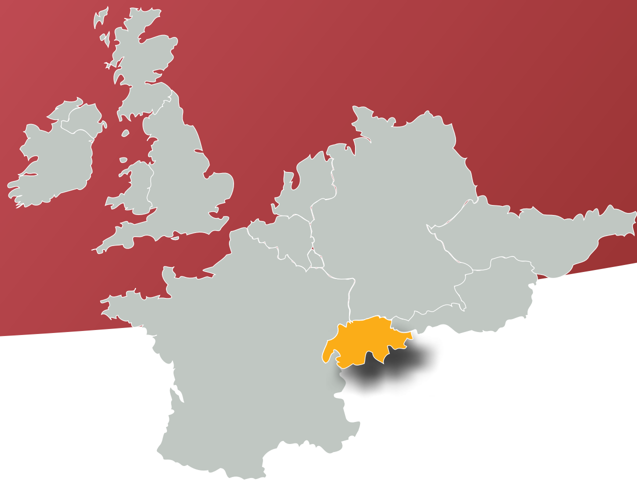
ESG and compensation are definitely high on the list where we expect issuers to set challenging environmental targets, but we are not proscriptive on this. If ESG targets are introduced as performance criteria such criteria has to be reported, measurable, verified and challenging. Some companies introduce ESG criteria without properly reporting on them which is not satisfactory. If it's part of variable pay, we need to be as critical in assessing ESG criteria as we would be for financial measures, and the targets must be equally stretching. Otherwise, we prefer no ESG criteria. Some Swiss issuers like Givaudan, Abb, or Holcim have introduced CO^2 reduction targets in their LTIP. We can now assess how challenging the targets are. If payout starts for a small CO^2 reduction which is not compatible with a 1.5° pathway, we consider that we are in a "pay for failure" mode. It's the same discussion on TSR awards below median. ESG targets are a good trend, but they need to be positive.

Do you have any comments on the strengths/weaknesses of Swiss corporate governance practices vs the rest of Europe? What do Swiss issuers do better or worse?

We've talked about some of the negatives but overall there are some significant positives like the ordinance against excessive compensation. We have almost caught up with France on the number of agenda items. From 2024 there will be a mandatory sustainability report which will have to be submitted to shareholder approval. Swiss companies are progressing quickly. This is a good thing as the current code of best practice in corporate governance is rather poor compared to international best practice. Mid and small cap companies, often family owned, seem to fly under the radar and sometimes use the Swiss code as a defence saying they respect best practice. If they want to enlarge their investor base with international investors, these companies need to communicate better and look at international best practices.

Vincent Kaufmann has been the CEO of Ethos Foundation and of Ethos Services since June 2015. Vincent Kaufmann joined Ethos in 2004 as a Corporate Governance Analyst, later becoming a Senior and Deputy Head Corporate Governance. He has been a member of Ethos Services' management in charge of investment since 2011 and deputy CEO since 2013. Since 2014, he has been a member of the board of directors of the proxy voting consultant Proxinvest (Paris) and, since June 2019, of the board of Swiss Sustainable Finance. Vincent Kaufmann, a Swiss certified Expert for Accounting and Controlling since 2009, holds a Master's degree in Business Economics of the University of Geneva (2004).

A SPOTLIGHT ON: **SWITZERLAND**

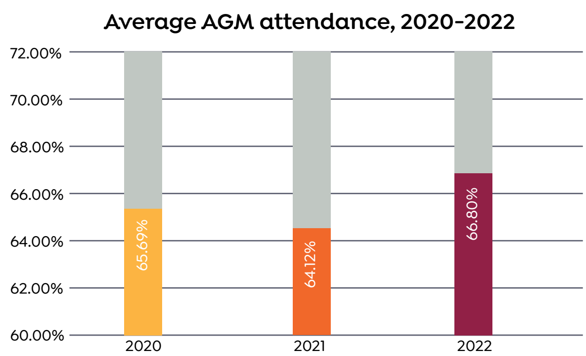


Introduction

In 2022 we have seen stability in shareholder participation and support across almost all sectors in comparison to previous years. Resolutions concerning climate change have also appeared for two issuers on the ballot papers of investors. As we enter the post-pandemic world, issuers now have the choice of how they hold their meetings to best accommodate their investor base, with the in-person meeting making a comeback where previously only virtual meetings were permitted.

AGM Attendance

2022 being the first time since the COVID-19 pandemic where issuers had the option to revert back to traditional in person meetings, some companies relishing the opportunity to welcome back investors in person, there has been a significant increase in attendance rates to 66.80%, 2.68% up on 2021 levels, and above pre pandemic levels, albeit only by 1.5% on 2019. The spectrum of attendance span from 37.08% for Zur Rose Group (virtual) to 93.20% at EMS-Chemie's (in person) meeting, with the SMIM outperforming the SMI by 1 point with 67.19% average attendance versus 66.19%.



Climate Resolutions

As part of Switzerland's impressive progress on governance, in many areas, and following Nestles' voluntary say on climate proposal in 2021, climate resolutions dominated the AGMs of the two major banks in Switzerland: Credit Suisse and UBS. Credit Suisse were the focus of a shareholder resolution that garnered 18.52% support from investors as well as the proxy advisory agency, Ethos, whilst a further 4.27% abstained such that almost a quarter of all participating shareholders failed to support management on this item. While the shareholder resolution was ultimately unsuccessful, the result is a victory of sorts and the consequence of the shareholder proposal at this year's Credit Suisse AGM will be a management supported say on climate resolution at the AGM in 2023. Despite negative recommendations from both ISS and Glass Lewis, UBS passed their management proposed say on climate resolution with a support level of 77.74%.

Background to the Climate Resolutions

The say on climate shareholder proposal at Credit Suisse's AGM, which was the first of its kind in Switzerland, was a collaboration between ShareAction, Ethos Foundation and a group of eleven investors from across the globe. Despite two years of engagement with Credit Suisse, activist investors were dissatisfied with Credit Suisse's alignment with the Paris Agreement which aims to limit global warming to 1.5 degrees Celsius. Across the banking sector, there has been an increase in say on climate resolutions as activists turn their attentions from more obvious contributors to the climate crisis such as the industrial and mining sectors, to those responsible for financing these sectors. Equally, while UK banks Barclays and NatWest had say on climate resolutions passed at their AGMs in 2022, and France's Crédit Agricole SA has a defined corporate purpose that focuses on carbon neutrality, UBS's management proposed say on climate resolution also marked a first – the first resolution of its kind to be proposed by a financial institution without the prior public intervention of activist shareholders.

Remuneration

Levels of support for remuneration remained both strong and steady as the average approval rate rose only 0.04% to an average of 90.71% in 2022. The most notable increase was the 0.80% rise in the approval rates for the remuneration report. However, there was a decrease in both the approval rates for Non-Executive Remuneration and Remuneration Policy with 94.67% and 92.19%. The general foundations of these types of resolutions still remain excellent and these rates continued to be higher than 2020 levels. Of particular interest within this trend is the disparity between the SMI, which as a more significant index comprised of larger companies attracts significantly more international investment, and the SMIM in terms of support levels for the remuneration report. SMI issuers averaged 90.27% investor support for their reports while constituents of the SMIM managed only 82%. This is symptomatic of the structure of many small to mid-cap Swiss companies, where controlling stakes owned by major shareholders, be they management or family investors, provide real comfort in the probable passage of resolutions despite significant minority shareholder opposition. As such, controlling stakes from affiliated investors give boards more licence to make discretionary payments or freedom to report without providing overly detailed KPIs and incentive targets. While perhaps not exemplary corporate governance, it does recognise the other considerations that boards take into account when deciding on remuneration topics.

Remuneration

	2020	2021	2022	Change (2022 vs 2021)
Non-Executive Remuneration	94.56%	95.09%	94.67%	**-0.42%**
Remuneration Policy	91.09%	92.84%	92.19%	**-0.65%**
Remuneration Report	89.39%	84.89%	85.69%	**0.80%**

Board of Directors

2022 marked the year in which Swiss corporate law reform came into force with its attendant expectations around gender representation progressing towards 30% at the board of directors level and 20% at management level. It is interesting then that the approval rates for director elections rose by 0.70% to 94.26% in 2022 while the market as a whole still trails the regulator's 2025 goals, with 17% female representation on executive boards and 26.9% at director level in the SMI at end of year 2021. As the first year in which these recommendations come in to force, Swiss companies are beneficiaries of some leeway from the major proxy advisory agencies in this respect but we can expect to see a tightening of expectations in the years to come as advisory agencies and investors equally begin to seek greater alignment between Swiss companies and international best practice expectations.

This was evident at the AGM of Lindt & Sprüngli AG where there is only 17% female representation on the board of directors. Dr Rudolf K. Sprüngli received only 74.70% approval for his election to the nomination committee with investors citing a lack of diversity on the Board alongside concerns around Board independence.

One serious outlier for the upward trend on board support more generally was Swatch Group where the results for the directors' elections/re-elections averaged 76.08% and the remuneration committee averaged 71.02%. This was a reaction against ongoing poor corporate governance from Swatch Group.

2022 marked the year in which Swiss corporate law reform came in to force

The approval rates for director discharge suffered a dramatic decrease of 3.32% to 94.96% in 2022. This large drop in approval rates is partially due to the poor results at Credit Suisse. In their case only 35.88% of shareholders voted for the discharge of the members of the Board of Directors and the Executive Board for the 2020 financial year and 77.51% for the Discharge of the members of the Board of Directors and the Executive Board for the 2021 financial year due to significant performance concerns, as well as significant economic and reputational risks around recent investigations and scandals, including Archegos' collapse, the financing of Greensill Capital, and the resignation of outgoing Chairman António Horta-Osório.

Board of Directors

	2020	2021	2022	Change (2022 vs 2021)
Director Elections	94.92%	93.56%	94.26%	**0.70%**
Director Discharge	98.30%	98.27%	94.96%	**-3.32%**

Capital

In 2022, there was a decline of 3.16% to 93.02% in approval rates to resolutions related to capital issuances. The decrease in support for capital issuances with pre-emptive rights was due to the failure by Tecan Group to acquire the necessary two-thirds majority, gaining only 53.32% shareholder support for their capital issuance proposal. The low support level was almost wholly driven by the excessive level of cumulative capital issuances without pre-emption rights, which in conjunction with existing historic allowances totalled a potential 14.2% of issued share capital and garnered an against recommendation from ISS who typically believe 10% capital allowance excluding pre-emption is more than sufficient for unforeseen contingencies. The number of resolutions concerning capital issuances across the market remained stable.

Financial

Support levels on financial items remained both consistent and robust at 98.05%, the same support level as in 2021, demonstrating shareholder alignment with management in this area.

The approval rates for director discharge suffered a dramatic decrease of 3.32% to 94.96% in 2022.

MARKET EXPERT INTERVIEW
DARREN NOVAK

MANAGING DIRECTOR
HEAD OF EMEA SHAREHOLDER ENGAGEMENT
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What trends have you witnessed in activism this calendar year, in terms of volume of activist campaigns, types of activists, types of campaigns, success of campaigns, etc...?

There are a few trends. We have witnessed significant volatility. There is this misperception that with significant volatility activists will stay on the sidelines when in reality, the truth is the exact opposite. It isn't necessarily the best time to be running highly public campaigns, but it's actually a great time to be selecting targets. We see attractive valuations across Europe but particularly across the UK where there seems to be a tremendous appetite for activism. We see good companies that are significantly undervalued.

There has been a lot of activity substantially behind the scenes. We are seeing the usual classic activist funds but we are also seeing mid and small cap US funds increasingly parachuting over to Europe and getting more and more comfortable on the Continent when that hasn't always been the case previously. There is also an increasing interest from more traditional long-only institutions using the tools of activism to address long-term undervaluation.

Regarding the main themes, it is all about cash at the moment. Activists aren't looking at marginal companies but rather at well-run companies generating solid cash-flow, that are undervalued and where you could exercise a material buy-back. Activists aren't looking for companies that are over levered but companies which are experiencing significant under valuation. They don't want to be catching a falling knife. The suggestion to buy back shares can become an existential threat for many European companies that are going through difficult times and who have otherwise been trying to pivot in terms of their strategy. An important factor is strategic optionality as well as capital allocation. Activists are pushing companies to ensure they are prepared on the M&A front, even if transactions at present may or may not be feasible.

Is this essentially a signal to the market that things should be put on pause for two years and that it makes no sense to be strategic right now?

It is not a pause, but companies need to be more front-footed. In fact it is a great time to get prepared. Having these funds come in and executing a big buy back is a significant disruption for the longer term strategic plans of these companies. For many of these companies, there isn't necessarily a clear story of them being great allocators of capital. As we go forward, companies' cost of capital is increasing and making that argument from the activist's perspective is even easier. Many shareholders are happy to take the buy back where margins may be thinner for the foreseeable future.

We've seen in a few friendly M&As over the summer that the index community tendered in with the long position investors and didn't wait to see if the deal would happen. Do you think that this might be a reflection that getting paid for an index fund is like a buy back in a certain way?

Certainty on return is important especially as fund outflows at large institutional investors are requiring them to be more near-term focused. Accordingly, shareholders are happy to take the buy-back if the margins in M&A would be thinner. In terms of M&A, we are seeing that there can be a disconnect between where shareholders are at in terms of valuation and the board's view. If a board looks at value from a year prior, this can be considered irrelevant by shareholders. Therefore, when there is a premium on the table, shareholders are often willing to take it even if it comes off as quite opportunistic.

What is your advice to listed companies in dealing with an activist threat? Is it different from previous years?

Companies need to be prepared on tactics and substance. With focus on capital allocation, your story needs to be clear and resonate with shareholders and unfortunately the regime of less disclosure in Europe doesn't benefit companies in this case as it provides activists with the opportunity to study companies individually and construct their own narrative. It is important that investors fully understand.

Sometimes, companies believe that the activists will ask to lever up but they are not asking for that – they are asking for cash returns to shareholders at the expense of growth capex and M&A strategies. The traditional activist is focusing on cash right now and not on the ESG front either. Cash and capital allocation and the best use of capital. ESG, except perhaps in the energy space where it can be used as a break up argument, is not a priority, cash and capital allocation is the traditional activists' priority.

"ESG themes are used to hammer credibility but they are not the main priority"

So ESG is a very secondary theme currently, not a specific winning theme strategy from an activist perspective?

While certain activists have used ESG as the foundation for a break up thesis, generally it's not the reason why they are going to show up. ESG themes are used to hammer credibility but they are not the main priority, not the foundation of the thesis. They are used as arguments and tools in the background. Relative outperformance will trump all ESG considerations. It's all about relative performance at the end of the day.

Mr. Darren Novak is a Managing Director at J.P. Morgan's Mergers & Acquisitions Group and heads the EMEA Shareholder Engagement and M&A Capital Markets practice.

Prior to joining J.P. Morgan, Darren was a member of the Mergers & Acquisitions Group of UBS Investment Bank where he led UBS's activist defence efforts globally. Prior to joining UBS Investment Bank, Darren co-led the Activist Situations Team at Houlihan Lokey. He has advised in many of the leading situations since 2010, including campaigns with respect to Bayer, BHP, CRH, CSX, Darden, Kirin, MetroPCS and NXP. Prior to Houlihan Lokey, Darren was an M&A attorney for a dozen years, most recently as a partner at Davies Ward specialising in contested situations, and before that as a Senior Associate in the M&A department of Simpson Thacher.

Darren received a JD and MBA from the University of Toronto. He graduated with distinction with a Bachelor of Commerce (Finance) from the University of Alberta.

KEY TAKEAWAYS FOR 2023

The outlook for 2023 is unclear mainly because of the pall that Russia's war in Ukraine has placed on the economy, markets, companies, shareholders and of course, stakeholders. The thick fog on the horizon comes at a time when the gains in shareholder support on key AGM items such as director elections or remuneration have either stagnated or slowed. As European and UK issuers begin their preparations for next year's AGM season, a renewed focus on transparency is warranted. While not a new idea, companies should continue to increase the transparency they give to the markets on the most sensitive AGM subjects to remove the alignment deficit that has appeared. Simply put, without clear explanations and justifications around strategy, financial and extra-financial performance criteria, including targets and payouts, the signs of shareholder resistance that appeared in 2022 may metamorphose into a shareholder revolt in 2023. It is in the interest of companies to facilitate its shareholders' ability to comprehend the key themes and decisions of their governance and wider ESG strategy.

Getting AGM transparency right in 2023 would help issuers illustrate why and how their current boards remain fit-for-purpose at a time where they need to address diverse, important and sometimes contradictory challenges related to the remains of the Pandemic, inflation, climate, conflict and societal pressures.

D.F. King's experience collaborating with hundreds of UK and European issuers leaves us convinced that boards will once again rise up to the challenge of the times. Even more than in past years, those companies that know how to demonstrate to their stakeholders and their investors that they are aligned with their interests, accountable to them and striving to become more inclusive of their expectations all while maintaining sustainable profitability will master the best the 2023 AGM season.

Looking ahead to 2023, outlined are key takeaways to focus on to secure shareholder support:

Alignment with shareholder and stakeholder interests

Demonstrate an understanding of investor concerns on key recurring AGM topics:

- Development of your ESG strategy and its focus
- Evolution of board composition
- Clear, transparent and challenging remuneration reports and policies
- Honest evaluation on diversity progress at board level and beyond

Accountability to shareholders and stakeholders

- Engage early and regularly on key topics/concerns
- Become more transparent on key reporting metrics, including performance criteria targets and outcomes
- Address and cure any resolution votes with results below 80% support
- Identify and resolve potential activist risks
- Explain how ESG strategy will progress to 2030 and provide a path to Net Zero in 2050

Sustainable value creation

- Efforts to improve alignment, become more accountable and foster inclusion do not diminish the expectation that a company's strategy will create sustainable value
- Companies that focus on the ESG narrative but fail to marry it with its actual performance will face sanction from investors and activists
- Profitability still matters

Inclusion

- Explain your inclusion strategy from the board on down
- Listen and understand investor expectations in your progression
- Highlight any specific sectoral, geographical or legal challenges that may impact progress

Methodology

The data used in this General Meeting Season Review is built on the voting results published by issuers in each market.

D.F. King and Orient Capital looked at three years of vote results for each company to find trends throughout each market and across markets. All voteable management proposals were assigned categories (board of directors, financial, remuneration, organisational items, and capital authorisations) and underpinning subcategories.

The analysis identifies trends within each category and compared and contrasted approval rates across categories, paying particular attention to items that received low approval rates to investigate the causes. Finally, participation rates were taken directly from issuer disclosure or calculated by summing the number of For, Against and Abstain votes for each item at a meeting, taking the maximum of those sums from the meeting, and then dividing that sum by the number of voting rights at that company as of the meeting date.

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