

# CMi2i 2021 AGM SEASON REVIEW

UK | FRANCE | GERMANY | NETHERLANDS | SPAIN | ITALY  
SWITZERLAND | BELGIUM | LUXEMBOURG | NORDICS

## About CMi2i

CMi2i provides unique capital markets intelligence and proxy services to issuers and their advisors. The CMi2i team have provided intelligence and advice to over 500 of the largest, most structurally complex companies in the world, and successfully supported numerous corporate transactions and general meetings. As a result, we offer clients an unrivalled combination of skills, experience and methodologies within the proxy solicitation, corporate governance advisory, ESG and investor risk assessment spaces.

We specialise in helping companies win on contentious resolutions, corporate governance issues including 'say-on-pay' and 'say-on-climate', as well as high profile mergers and acquisitions, takeovers, activist campaign defences, capital raising, and other events in which an accurate understanding of the shareholder ownership can make the difference in the outcome.

Uniquely, CMi2i is the only company armed with the proprietary intelligence tools needed to truly accurately identify share and bondholders. We are able to provide near real-time insights and guidance on the evolution of a company's share ownership, whether that change is prompted by a capital event, reputation shift, ESG issue or changing capital market story.

Our team is comprised of individuals from some of the most respected investment banks, activist hedge funds and advisory firms and corporates globally. They provide integrated, multi-disciplinary guidance that puts our intelligence in context, ensuring clients have the best opportunity for success in any scenario.

Learn more at [cmi2i.com](https://cmi2i.com).

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## Introduction

Eighteen months since the Covid-19 pandemic forced a series of European lockdowns, the 2021 AGM season was characterised by a second year of virtual meetings across the continent. Corporate issuers and investors have quickly and efficiently adapted to this "new normal" in order to limit the impact on shareholder participation at meetings.

This year, Environmental and Social (E&S) topics were at the forefront of shareholder engagements. For instance, investors and stakeholder scrutiny around the issues of climate change, human rights, diversity and political activity have significantly increased in the past few months.

With large institutional investors, such as BlackRock, making climate change central to their investment strategy, and the launch of the Net Zero Asset Managers initiative, Say-on-Climate proposals were the dominant environment-related issue of the 2021 Proxy Season. The world's largest asset manager has recently announced it is "expanding the voting choice options" to allow big pension funds and other clients (i.e., those with 40% of \$4.8tn in index equity assets) to directly vote on issues such as climate change. This new policy will also grant them access to third party proxy voting policies – a decision that is highly likely to have a significant impact on shareholder participation and voting.

Continuing on a trend that was present last year, shareholder activism – notably on ESG issues – is growing, with more vocal investor challenging boards and seeking to gather support from other stakeholders.

Governance is and will remain a key topic of the AGM season. However, the activist campaigns of summer 2020, the global race to net zero carbon emissions and the impacts of the on-going pandemic have resulted in a clear shift in investors' expectations and approaches to a more stakeholder-oriented mode.

As a result, corporate issuers have made substantial improvements in a number of areas, including: their reporting, disclosures of systemic risk management, ESG oversight, human capital management and ESG criteria for executive compensation.

This season, following the transposition of the revised European Shareholder Rights Directive (SRDII) in the remaining jurisdictions of Belgium, Germany, and the Nordics, we observed an increased number of remuneration policies. These led to further scrutiny on executive remuneration in those countries.

In this review, CMi2i provides an in-depth analysis of the main European markets including the UK, Germany, France, Benelux, Switzerland, Italy, Spain, and Nordics. We analyse the key trends and controversial topics, whilst comparing findings to the pivotal 2020 season, which marked a new era for the proxy season.

We sincerely hope this report gives you a greater understanding and insights of the ESG trends within the markets covered.

We would like to thank: the issuers Bayer AG, Fresenius Medical Care AG, Wolters Kluwer N.V, DSV A/S; institutional investors BNP Paribas, AXA Investment Managers, Generali Investments, as well as our colleagues, for their contribution and invaluable insights to this 2021 AGM Season Review.

**Nancy Hameni**

Head of Proxy, M&A & Corporate Governance Advisory

## Executive Summary

This document constitutes an in-depth analysis of the 2021 European Proxy Season. For the purpose of this analysis, CMi2i has gathered Annual General Meeting data for the 10 principal European markets: the UK, Germany, France, Netherlands, Switzerland, Italy, Spain, Belgium, Luxembourg and Nordics. This scope of analysis allows us to highlight the key governance trends which shaped the AGM season. In the report, a resolution is considered contested when at least 10% of the shareholders oppose a proposal at the Annual General Meeting.

### Key Figures

Average Quorum	70%
Remuneration (average of resolutions 10% against)	24%
Board of Directors (average of resolutions 10% against)	12%
Capital Proposals (average of resolutions 10% against)	10%
Rejected Resolutions	35
1st Most Contested Country (% of contested resolution)	Switzerland (20%)
2nd Most Contested Country (% of contested resolution)	Belgium (15%)
3rd Most Contested Country (% of contested resolution)	France (14%)

In this review, proposals have been grouped into macro categories to enable market comparisons and Europe-wide assessment. These categories are Remuneration, Board of Directors, Audit Related, Capital Management proposals, Bylaws Amendment, Financial Statements, Dividend, ESG Related and Other Items. Where applicable, and depending on the analysed market specificity, we later present a comprehensive review of the category in the relevant markets.

## 2020 vs 2021 Trends

A year-on-year analysis demonstrates shareholders' continuous scrutiny over management proposals, with a 1% increase on the number of contested resolutions across Europe in 2021.

Shareholder participation levels have increased by 1% as well.

**69% > 70%**

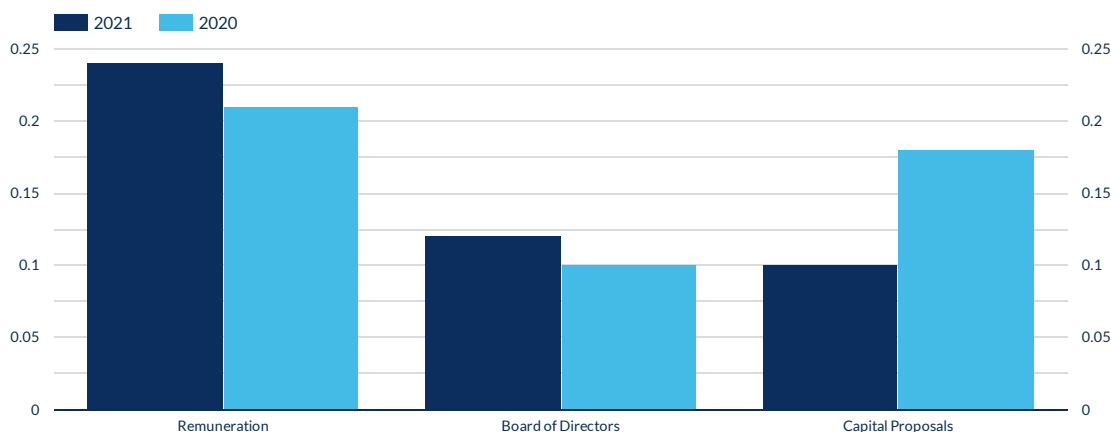
In 2021, the most contested resolutions were Remuneration-related proposals (24% of the resolution put forward has been contested by at least 10% of shareholders). This represents a 3-percentage point increase compared to 2020.

**21% > 24%**

The second most contested resolutions were Board-related proposals. Approximately 12% of the total resolutions put forward by management received at least 10 % shareholders dissent, i.e., a 2-percentage point increase from 2020.

**10% > 12%**

The third most contested resolutions were Capital Management proposals, where 10% of the total resolutions put forward to a vote were contested by shareholders, i.e., an 8-percentage point decrease from 2020.



GRAPH 1 – YEAR-ON-YEAR COMPARISON OF THE THREE MOST CONTESTED CATEGORY

Unsurprisingly, these three categories are the most scrutinized and challenged proposals of the AGM season.

In recent years, remuneration proposals have represented the highest contested resolutions across Europe. This year, with the implementation of the Shareholders Rights Directive (SRDII) in some markets, more issuers have put forward

remuneration resolutions. This has increased stakeholders' scrutiny, notably on executive compensation. Furthermore, the impact of Covid on returns and dividends led many shareholders to raise concerns over top executives pay quantum.

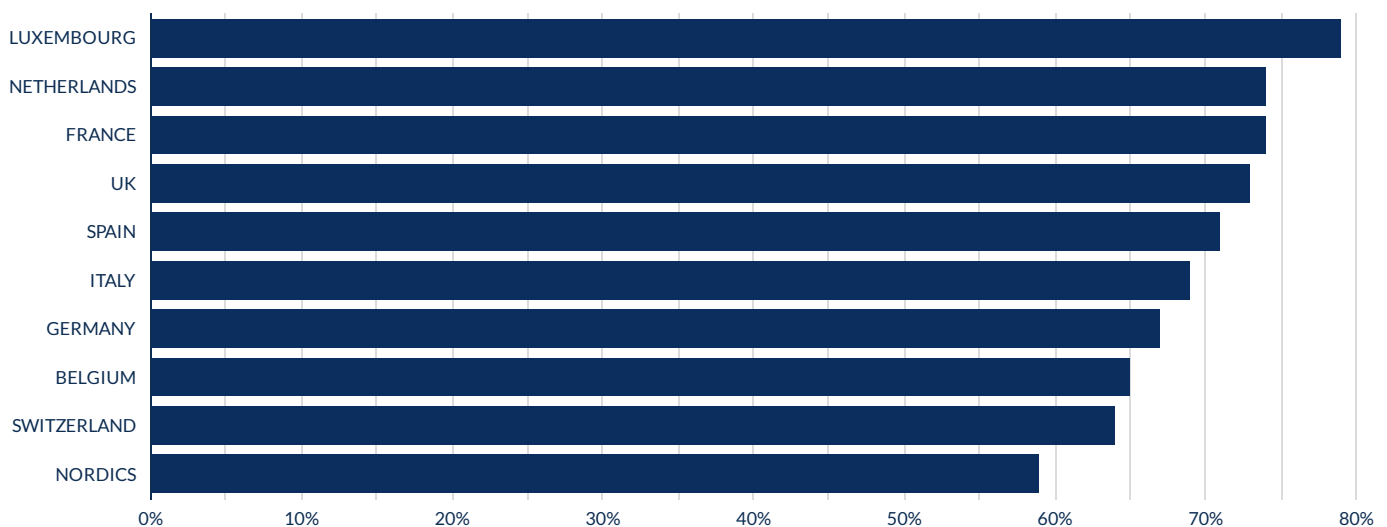
Dissent over board-related proposals dissent has also risen, following the on-going shareholders' scrutiny of boards, their effectiveness and systemic risk management. Annual director re-elections, although not legally mandatory in some countries, are now expected in most markets. The time commitment and external mandates of board members are other highly scrutinised key points, along with directors' independence and experience. Finally, diversity is now playing an increasing role in board assessment with many issuers falling short in the newly introduced 30% minimum requirement. All these elements can be linked to the increase in shareholders dissent on boards.

Negative votes on Capital Management proposals, while remaining the third most contested category overall, saw a consistent decrease year-on-year. This can be linked to the immediate effect of the 2020 pandemic on corporate issuers. In fact, at the beginning of the COVID-19 outbreak, most companies had to put forward special authorisations in order to increase their liquidity. However, in 2021, with markets recovering, fewer issuers were required to put forward special capital authorisations.

## 2021 Quorum

CMI2i has analysed the 2021 average AGM quorums for the markets under review. Despite a second year of non-physical meetings due to Covid restrictions, the average participation level has increased by 1% since 2020: 70% from 69%.

While Luxembourg was the market with the highest level of participation with 79%, the Nordics were at the other end of the spectrum with a 59% quorum. The most significant changes in terms of participation rates are observed in the Netherlands with a 5% quorum increase and the Nordics with a 3% quorum decrease compared to last year.



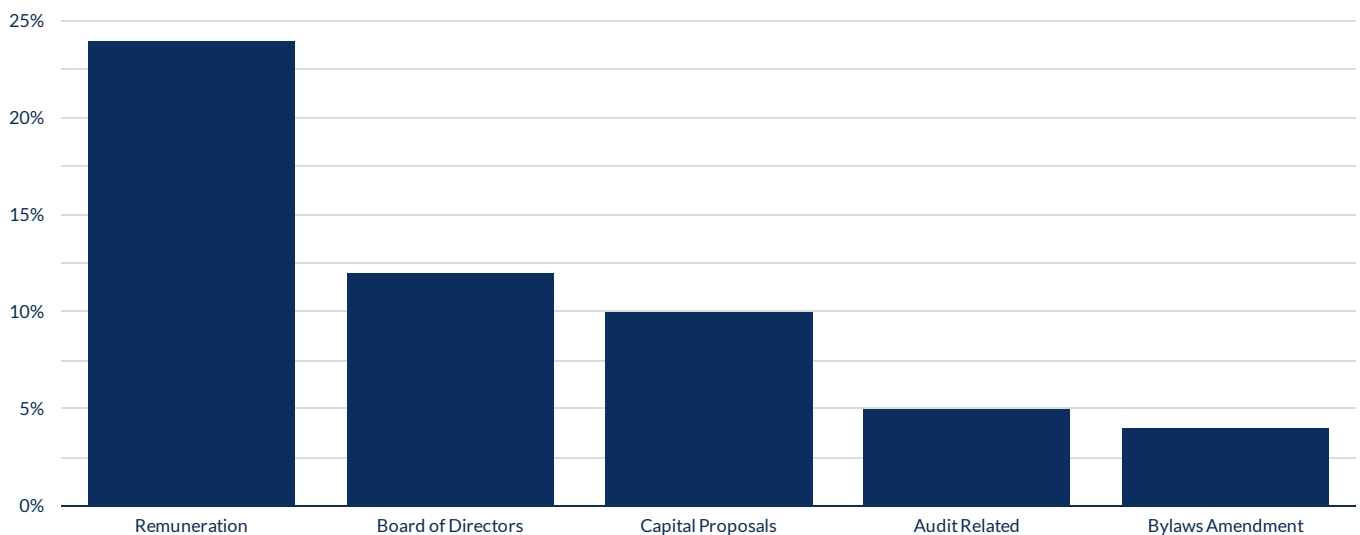
GRAPH 2 - AVERAGE AGM QUORUM PER MARKET

## Contested Items in 2021

### Europe

Considering the macro categories mentioned above, and the average support levels for these proposals, the most contested resolutions in 2021 were remuneration- related proposals, followed by board-of -directors-related resolutions and then capital management authorisations.

In order to establish a comparison across markets, and considering the discrepancies in index sizes, we have considered the average percentage of contested resolutions for each market out of the total of items proposed by management.

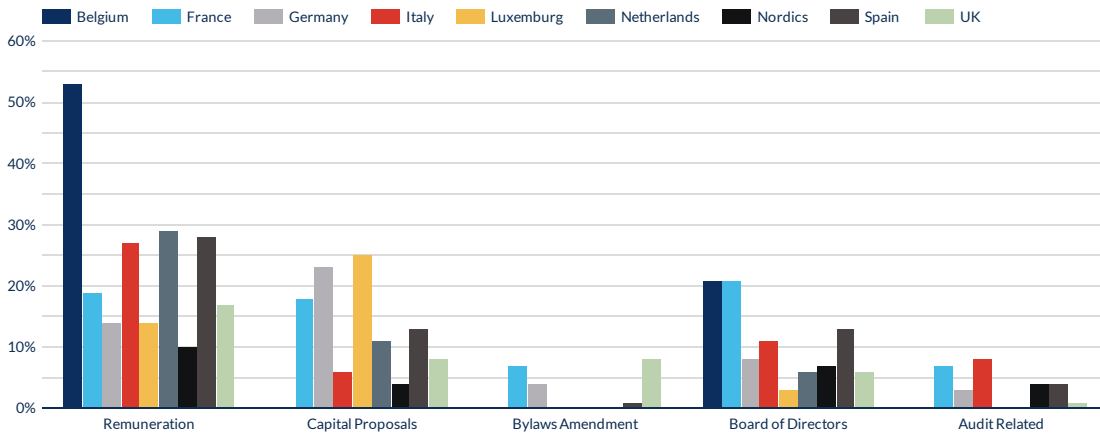


GRAPH 3 - % OF CONTESTED RESOLUTION PER CATEGORY

### Cross Market Comparison

The below graph shows the cross-market breakdown for each macro category. The percentage represents the number of contested resolutions out of the total items proposed by management across markets.





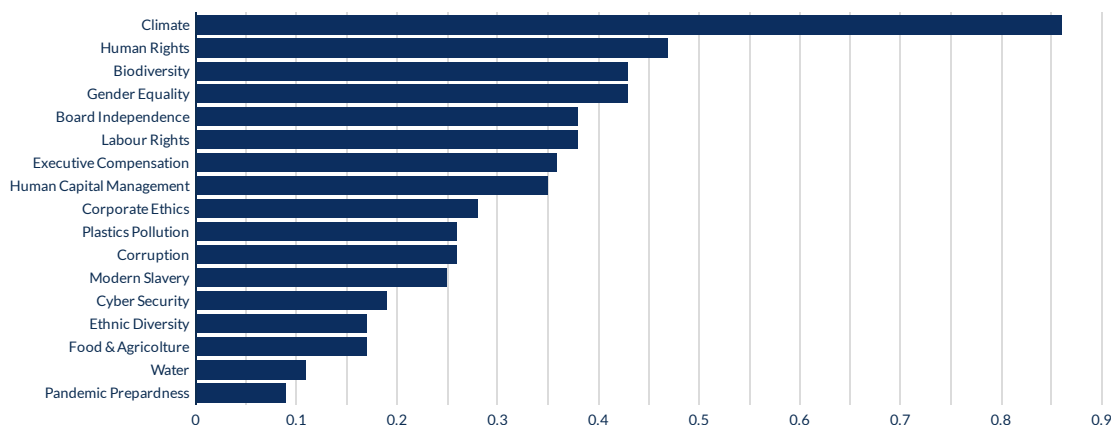
GRAPH 4 – CROSS MARKET COMPARISON

Overall across Europe, Remuneration, Board of Directors and Capital Management proposals remain the most challenged resolutions with the highest shareholder dissent.

## Shift in Engagement Practices

Over the past decade, shareholder engagements revolved primarily around board, effective governance, compensation, and strategy. Most recently, the influence of ESG in reshaping investments and stewardship, coupled with the COVID- 19 pandemic, has created a noticeable shift in stakeholder focus and their engagement priorities. Unsurprisingly, climate change and human capital management were top of shareholder priorities in 2021, followed by diversity.

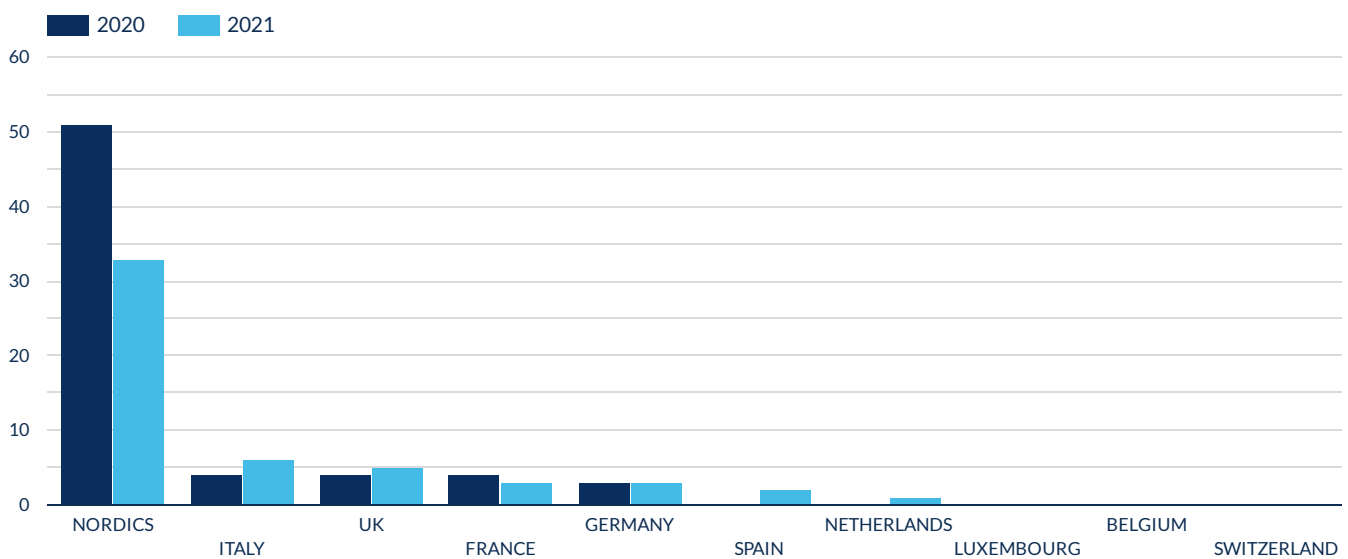
Notably, 2021 marks a surge in Say-on-Climate resolutions across Europe with a 100% increase from 2020 (10 ESG related resolutions have been put forward in 2021 against only five in 2020).



GRAPH 5 – MOST IMPORTANT ENGAGEMENT TOPICS (2021)

## Shareholder Activism

Given the impact of the Covid-19 pandemic, 2020 has been a negative year for shareholder activism in Europe. 2021 produced similar numbers. The activism push which started in 2014 has partially been reduced in the last two years. However, excluding Nordics which will be detailed below, the number of shareholder proposals across other markets analysed has seen a slight increase, with 20 shareholder resolutions proposed in 2021 against only 15 in 2020.



GRAPH 6 – SHAREHOLDER RESOLUTIONS 2020 VS 2021

As mentioned above, climate discussions are now top of engagement priorities, and this is being reflected in the shareholder resolutions filled in 2021. Notably, and discussed further under the Dutch chapter of this report, almost 30% of Royal Dutch shell shareholders supported a climate-related proposal presented by the activist movement “Follow This”. In the United Kingdom, 20% of shareholders supported a resolution around climate change targets at BP Plc, while approximately 14% of shareholders backed a similar proposal filed at Barclays Plc AGM. As shown on the graph, the Nordics have seen an 18% decrease in the number of shareholder proposals. Despite this significant drop, the Nordic market generally sees a higher number of shareholders’ resolutions put forward than in Continental Europe and the UK. This is largely due to a cultural heritage in which shareholder activism is not perceived as an attack on the board but rather seen as a forum for shareholders, small and large alike, to put forward proposals for what is, in their opinion, the best interest of the company. It is worth noting the boards of Nordic issuers themselves, as well as major Nordic investors, may be more supportive of shareholder resolutions than those in Continental Europe, especially well drafted Say-on-Climate and other ESG proposals.

The significant number of shareholder proposals in the Nordic in the past three years may also be attributed to the influx of tax oversight issues and legal proceedings within the banking sector since 2017.

With the effect of the pandemic mitigating, we will likely see the number of shareholder resolutions increase again next year.

Focus on

# UNITED KINGDOM



## Focus on United Kingdom

### At a Glance

Average Quorum UK (FTSE 350)	72.74
Average Quorum FTSE 100	76.52
Average Quorum FTSE 250	71.16
Rejected Resolutions FTSE 100	2
Rejected Resolutions FTSE 250	5
Contested Resolutions (<90%) FTSE 100	85
Contested Resolutions (<80%) FTSE 100	31
Most Contested Resolution Category	<p>FTSE 100 – Director Elections &amp; Remuneration (Number of Resolutions), Remuneration &amp; Bylaw Amendments (Average % Approval)</p> <p>FTSE 250 – M&amp;A &amp; Remuneration (Number of Resolutions &amp; Average % Approval)</p>

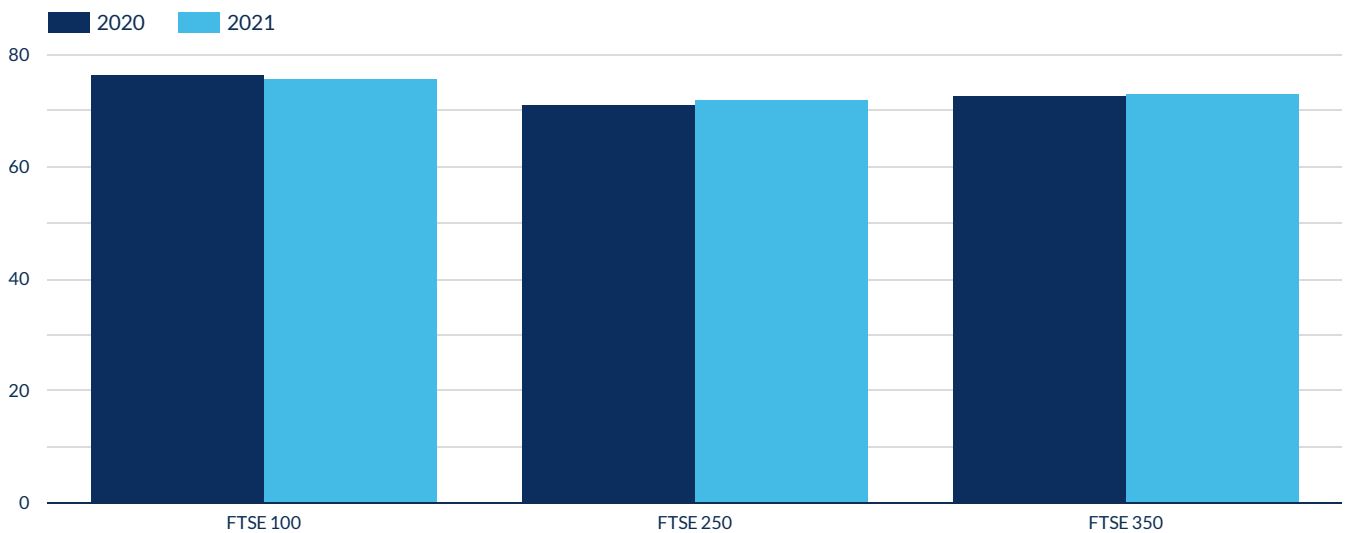
### General Overview & Quorum

CMi2i has reviewed shareholder participation rates (quorum) and AGM format of the UK FTSE 350 index in 2020 and 2021. In comparison to the 2020 season, the 2021 Proxy season observed a shift where there was a large increase of AGMs held in a non-physical format and a significant decrease in meetings held in a closed format. An abundance of caution was clearly still present in most FTSE 350 issuers in 2021 as the majority of issuers decided to continue holding non-physical meetings, despite the gradual easing of lockdown in accordance with the UK government's four step model. Furthermore, the longstanding unpopularity of virtual only meetings in the UK market was echoed in 2021, despite severe challenges presented by the COVID-19 pandemic on AGM arrangements for issuers without Articles to hold such meetings in the UK due to the Corporate Insolvency and Governance Act 2020. Closed meetings or hybrid meetings with physical restrictions were still greatly preferred overall to holding virtual-only meetings, which represented less than 5% of meetings in 2021.

The average quorum of the FTSE 350 issuers increased minimally by less than 0.5% from 72.74 % in 2020 to 73.13 % in 2021.

**72.74% > 73.13%**

Compared with 2020, CMi2i noted only a minimal decrease of less than 1% in the FTSE 100. Only 39.29% of FTSE 100 issuers saw a quorum increase between 2020 to 2021, while an overwhelming majority of 61.71% saw it decrease. In the FTSE 250 we observe the opposite: a small increase of around 1%, and a similar majority of issuers (59.2%) saw a quorum increase as opposed to a decrease. Of the FTSE 350, in comparison to last season, the top 5 quorum increasing issuers were Coats Group PLC (by +18.49 percentage points), HICL Infrastructure Plc (+17.16), Phoenix Group Holdings (+6.98), and BT Group plc (+5.67), and Ashtead Group PLC (+5.54). The top 5 decreases were easyJet PLC (by -30.76 percentage points), Jupiter Fund Management PLC (-17.49), Evraz plc (-10.11), AstraZeneca PLC (-8.25), and Ocado Group PLC (-8.22).



GRAPH 1 – AVERAGE PARTICIPATION OF FTSE INDICES IN 2020 & 2021

## Market Update

In late 2020, the Financial Conduct Authority declared that it would become mandatory for premium listed companies on the LSE to file reports on the levels of compliance between their financial statements, along with the recommendations of the taskforce on Climate-related Financial Disclosures (TCFD). The taskforce was launched in 2015 by the Financial Stability Board. As of 2021, the taskforce is additionally considering extending this requirement to standard listings (apart from investment trusts, shell companies and similar entities). This is indicative of ever-increasing climate change risk consideration (and ESG consideration in general) on the custody chain. In light of TCFD's recommendations, and ahead of the COP26, various FTSE companies and asset managers have called upon the UK government to make disclosure of net-zero transition plans compulsory for large cap companies. The proxy advisor Glass Lewis has highlighted, however, that there are currently more favourable views on Say-on-Climate proposals that are centralised on pure disclosure of material sustainability risk than long-term plans to reduce these risks. Many investors and issuers who are demanding compulsory disclosure in the UK believe that this is not enough, echoing RLAM's view that "in order to enable the necessary actions to support the Paris Agreement, climate disclosure needs to evolve from backward looking reporting to credible net-zero transition plans." So, Say-on-Climate proposals in the UK are not only likely to become more mainstream in terms of frequency, but are likely to also eventually move

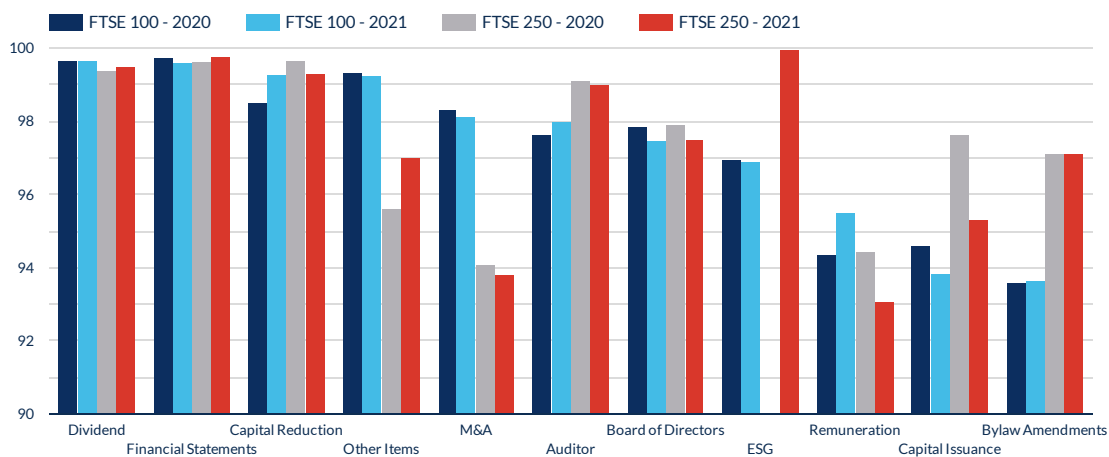
towards becoming more centralised on strategic, concrete path-ways to net zero – though at what pace this will happen remains to be seen.

As mentioned in the introduction of this season's review, the world's largest asset manager amended its proxy voting policy to allow pension funds and other institutional clients to vote directly on agenda items. It sent a letter to stakeholders highlighting the change in October 2021. This comes after years of criticism from clients, notably in the UK, about the lack of ability to vote when using an asset manager. This asset manager is additionally exploring the possibility of allowing other investors to vote in the future, such as ETF / index mutual fund investors, and is currently assessing the legal, operational, and cost-based challenges of doing so.

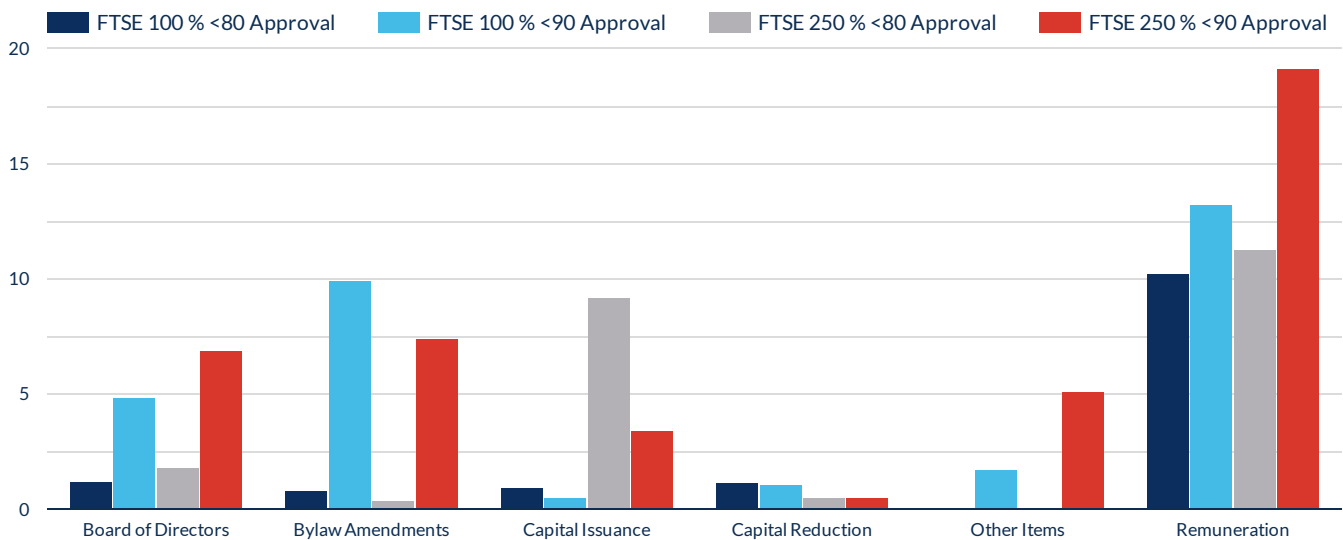
ISS and Glass Lewis have further enhanced their policies relating to board diversity. In 2021, ISS began to flag boards that lacked racial/ethnic diversity in its reports. It also reached the end of its gender diversity grace period for all-male boards to commit to appointing at least one woman. Disclosure on racial/ethnic diversity has been lacking on a global scale overall, though the UK market is an exception with initiatives such as the Parker Review. Glass Lewis has required FTSE 350 companies to have at least 33% women on the board since 2020, as per the Hampton-Alexander Review's criteria. Consequently, from 2021, we expect issuers to provide meaningful disclosure regarding performance against the Parker Review target of having at least one minority ethnic director on their boards.

## Resolution Breakdown

In this review, we have analysed 10 macro categories covering the main proposals presented by issuers across the FTSE 350. Of these, remuneration proposals, article amendment proposals (FTSE 100) and M&A and remuneration (FTSE 250) garnered the least amount of average shareholder support in the 2021 Proxy Season. FTSE 350 ESG proposals proposed by the board saw high levels of support and CMi2i expects these support levels to increase in the 2022 proxy season, and further expects climate concerns to be increasingly linked with executive remuneration. In the FTSE 100, around 20% of issuers, and in the FTSE 250 around 23%, had at least one resolution receive less than 80% approval. In recent years, investors and proxy advisors have updated their voting guidelines and now require board response / acknowledgement from any issuers receiving over 20% dissenting votes. These issuers will subsequently be expected to respond to the voting outcome of these proposals in their upcoming Annual Reports.



GRAPH 2 – AVERAGE SUPPORT BY CATEGORY



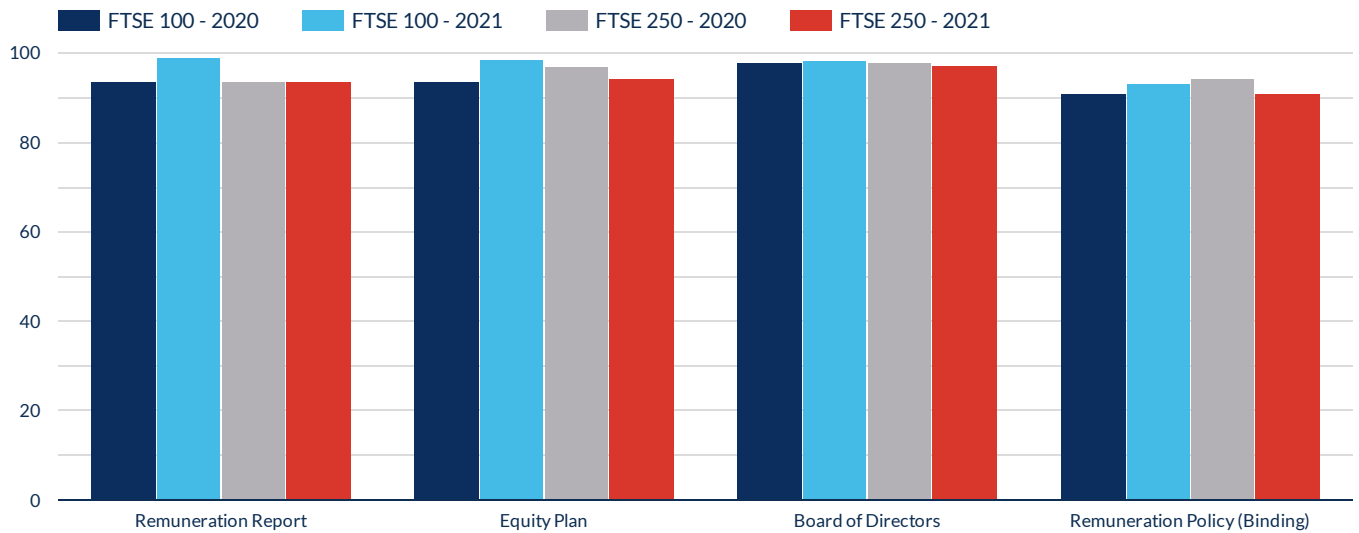
GRAPH 3 – %OF RESOLUTIONS WITH SHAREHOLDER OPPOSITION, SPLIT BY 10% AND 20%

## Key Trends

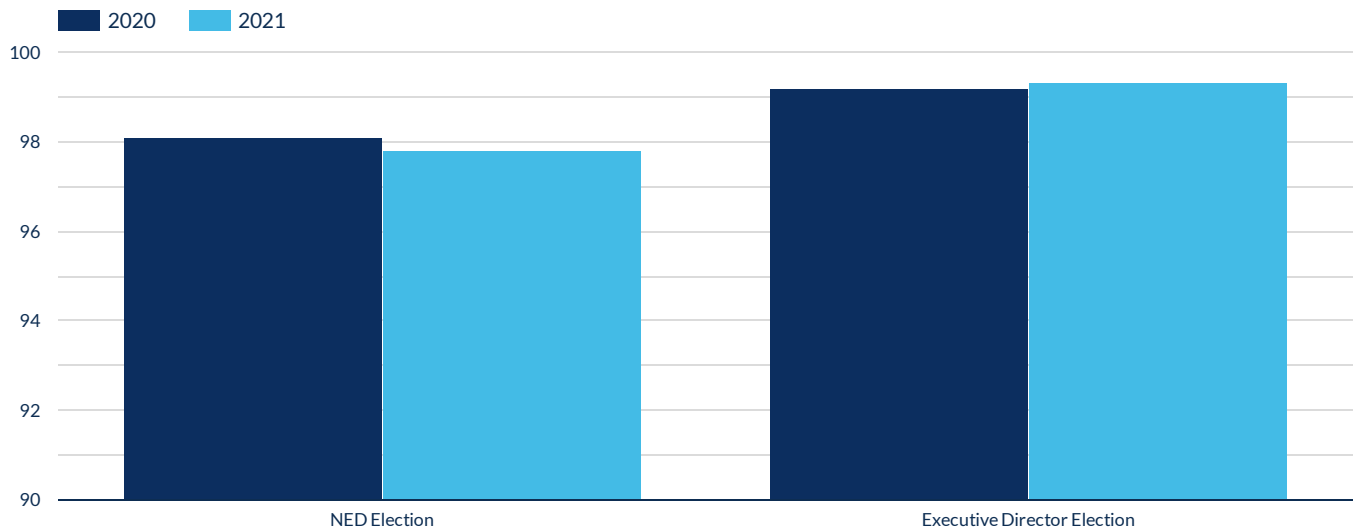
### Focus View: Remuneration & Board Of Directors

In the FTSE 100, average approval for Equity Plans, Remuneration Policies and Remuneration Reports saw a considerable increase (by 5, 2 and 5 percentage points, respectively), and the average approval for FTSE 100 Board Elections also saw a less significant increase (by less than 0.4 percentage points). Intensified shareholder scrutiny was expected on remuneration after the 2020 season, due to increasing questions and concerns regarding excessive pay and quantum in light of the ongoing COVID-19 pandemic. For Board Elections, a return to accountability was expected in 2021 (after the temporary leniency that was shown 2020 from investors on board candidates) in order to support corporate leadership through the initial stages of the pandemic.

Shareholder scrutiny made itself most pronounced in the FTSE 250 and was overall less noticeable in the FTSE 100. Across the FTSE 350, the resolutions that received the least amount of support in the 2021 season were the Remuneration Reports of Informa PLC and Capital & Counties Properties - receiving ca. 32% support each. Shareholders of these companies cited concerns with retrospective amendments to performance conditions and lack of clawback provisions / ESG performance criteria, with additional concerns surrounding committee discretion in the case of Informa. Informa also received the least amount of director election support for one of its board candidates out of all proposed by FTSE 100 companies. Petropavlovsk's shareholders rejected the Remuneration Policy, Report, and LTIP citing similar rationales as Informa's. Petropavlovsk also saw its CEO rejected by shareholders despite positive recommendations from both ISS and Glass Lewis.



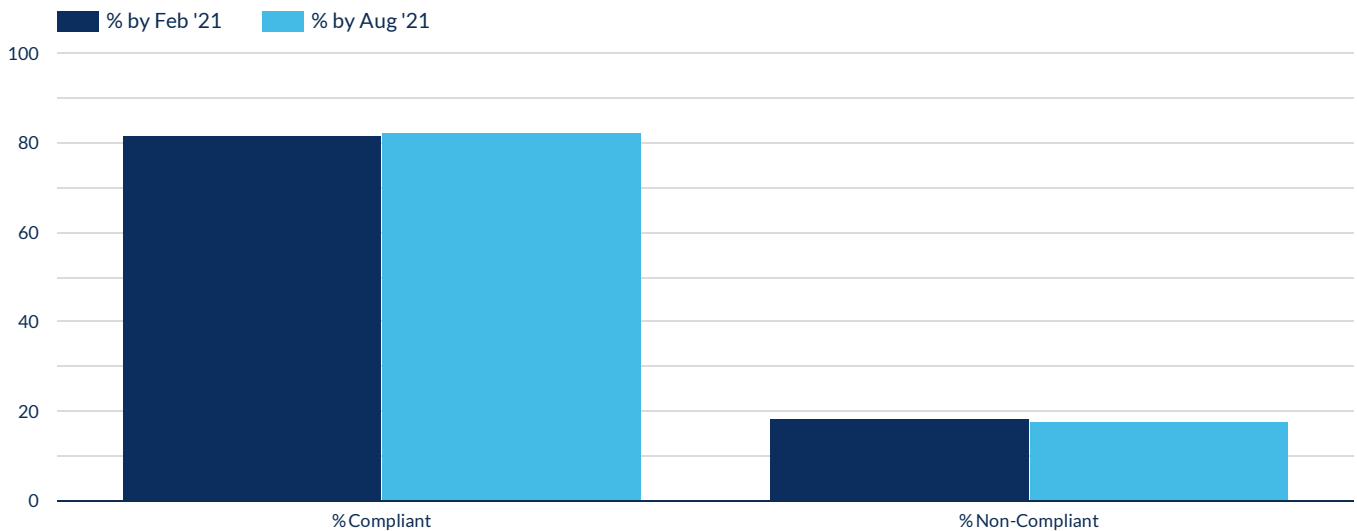
GRAPH 4 – AVERAGE APPROVAL FOR REMUNERATION & BOARD PROPOSALS



GRAPH 5 – AVERAGE APPROVAL FOR BOARD RELATED PROPOSALS - FTSE 100 BREAKDOWN



## Parker Review – FTSE 100



GRAPH 6 – % OF FTSE 100 ISSUERS PARKER REVIEW COMPLIANT VS. NON-COMPLIANT

The Parker Review found that progress made in racial/ethnic diversity on boards was significant enough from January 2020 to March 2021 to indicate there is still time to act to meet the 'One by 2021' target, despite the major business and recruitment challenges faced as a result of the COVID-19 pandemic. The review found progress to be slower however in the executive function, as only 5 ethnic minority directors occupied a CEO position across the FTSE 100 companies that responded to the survey .

CMi2i considered data presented in the latest update of the Parker Review in March 2021 for this season's review and conducted its own in-house research on levels of board diversity by August 2021. By this time, CMi2i found that 82% of issuers studied for this season review were compliant with having at least one ethnic minority director: 18% of issuers were non-compliant.

The changes CMi2i observed from March 2021 to August 2021 on racial/ethnic diversity indicate that FTSE 100 boards were slightly more diverse than they were earlier this year, but that progress in this period had slowed down in comparison to 2020. This is despite the gradual easing of social distancing legislation and other COVID-related restrictions on business and public life that, while in effect, were previously highlighted as extenuating circumstances in the recruitment process.

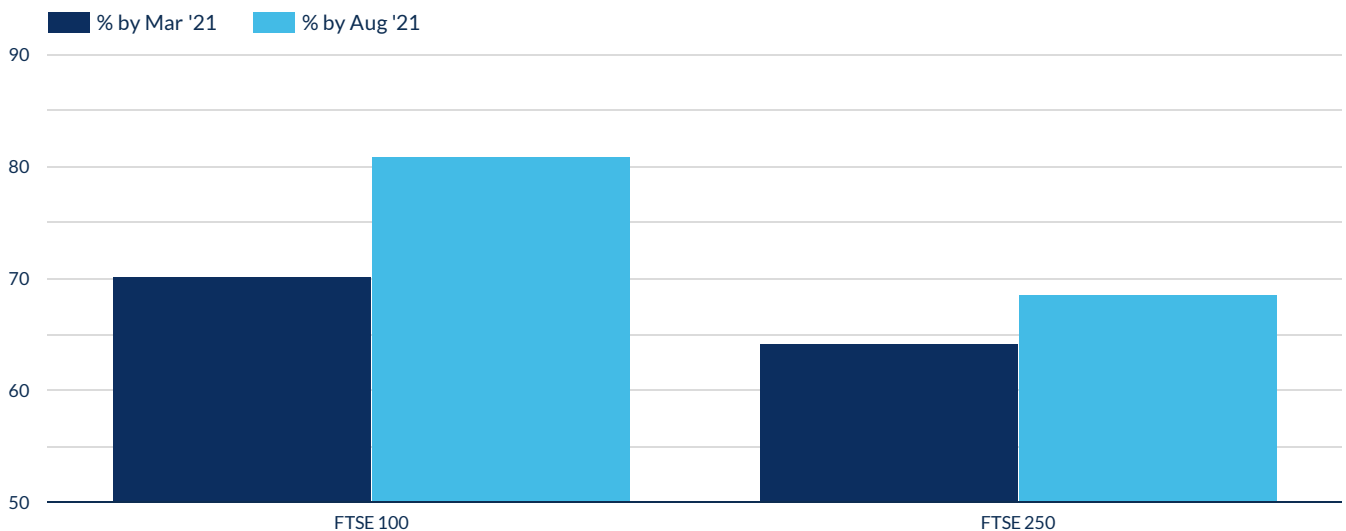
CMi2i looks forward to the Parker Review's assessment of FTSE 250 companies to be published soon after the end of 2021, which is the designated deadline for constituents to respond to the survey. The Parker Review has given these companies by 2024 to appoint at least one ethnic minority director to their boards.

## Hampton-Alexander Review

CMi2i built upon research presented in the latest update of the Hampton-Alexander Review by conducting updated research as of August 2021. In the 2021 Proxy Season alone, 15% more FTSE 100 issuers and 7% more FTSE 250 issuers

had female board representation of 33% or more since the latest data released in the Review's Five-Year Summary Report (February 2021). As of August 2021, the overall average percentage of women on FTSE 100 boards was 38% (an almost 1% increase since 2020) and for FTSE 250 boards is currently 36% (an almost 2% increase). Regional initiatives such as the Hampton Alexander Review and the introduction of specified gender diversity guidelines from the global proxy advisors are successfully increasing the number of women being elected to the board. Most notable however was that the 2021 proxy season saw a significant number of instances where the Hampton-Alexander Review was cited in dissenting board election votes, such as at the AGMs of Balfour Beatty, Evraz, and Ultra Electronics Holdings plc. Prior to this season, this was a rare occurrence.

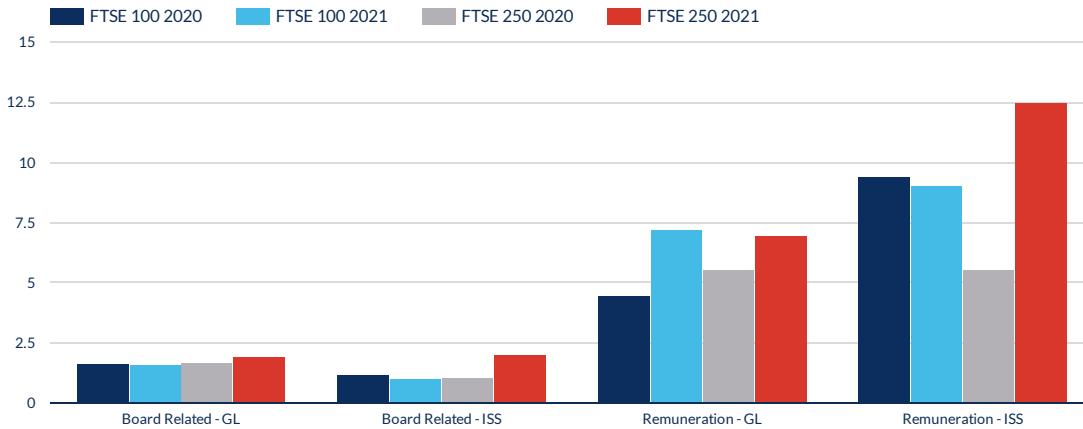
According to the Global Gender Diversity Report published by BoardEx, a technology solution built to unlock the network of global business leaders and decision makers, the UK had the 6th highest percentage of overall female board representation by 2020. BoardEx's characterises the global, gradual increase of overall female representation from 2014 up until the present as the "First Wave of board equality, with a Second Wave, focused on executive gender equality, still – it is hoped – to come". This echoes similar supervisory/executive function discrepancies for racial/ethnic diversity progress that were highlighted by the Parker Review.



GRAPH 7- % OF ISSUERS WITH AT LEAST 1/3 WOMEN ON BOARD

## Proxy Advisors

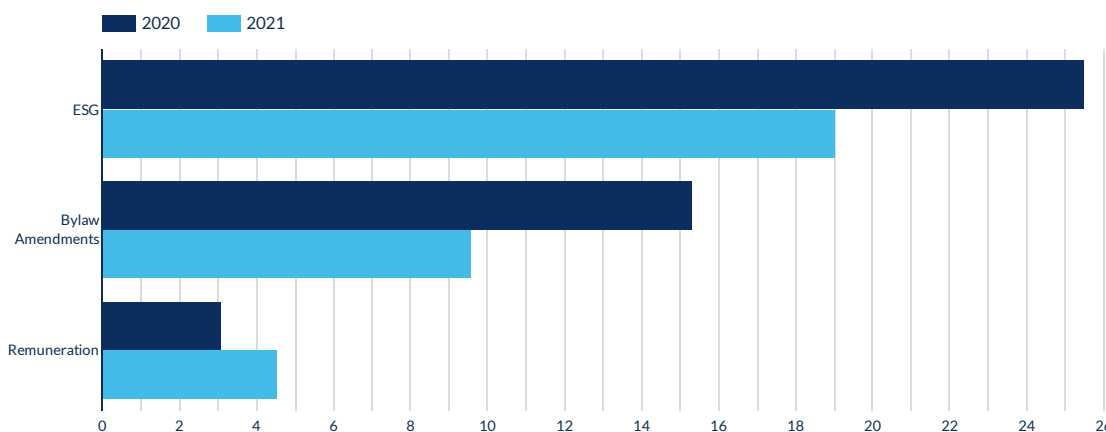
ISS and Glass Lewis are the two leading global providers of proxy research. Between 1 August 2020 and 31 July 2021, 19% of the FTSE 100 issuers analysed received at least one negative recommendation from ISS and 15% from Glass Lewis. Scrutiny on remuneration proposals by proxy advisors remains high, and the increased percentage of negative proposals from both advisors within this category is closely reflective of the drop in remuneration proposal support level in the FTSE 250 between 2020 – 2021, indicating that the proxy advisor influence on remuneration proposal outcomes is strong. However, in the FTSE 100, only Glass Lewis sees a significant increase in negative remuneration recommendations while overall remuneration support levels are increasing. This indicates that ISS's reduction of negative recommendations had a higher influence on the vote for remuneration proposals than those of Glass Lewis.



GRAPH 8 – PROXY ADVISORS, % OF NEGATIVE RECOMMENDATIONS

## Shareholder Proposals

In 2021, 60% of FTSE 100 shareholder resolutions were ESG related and the majority of those were Say-on-Climate proposals. The number of climate-related resolutions put forward by shareholders in FTSE 100 companies increased from 2020 to 2021 by 50%, though the average approval overall for these proposals decreased by around 6 percentage points on average. The Say-on-Climate shareholder proposal put forward in BHP Group's AGM had the highest level of support in both the 2020 and 2021 seasons. However, in comparison to the one put forward in 2020, the support level for 2021 decreased by almost 5 percentage points. The largest decrease was seen in Barclays, where the level of support decreased by almost 10 percentage points in comparison to last season. BP PLC had no Say-on-Climate shareholder proposal put forward in 2020, though subsequently had one such proposal in 2021, which gained an approval of 20.65%.



GRAPH 9 – AVERAGE APPROVAL FOR SHAREHOLDER RESOLUTIONS PER MAIN TYPE



## Investor Insights – AXA Investment Management

Covid-19 pandemic two years on: how has it impacted your voting behaviours and engagements with issuers this season?

We recognized the need for flexibility and prudence in our voting approach during a global crisis, however, our commitment to strong governance remained steadfast. Our votes were not negatively impacted in percentage of holdings voted and general voting trends. In 2021 H1, we voted 4,045 meetings i.e., 96% of our meetings. We engaged with 319 companies, with a notable increase compared to only 217 engagements in 2019. This is due to several factors, notably the pandemic context which spurred an increasing number of engagements around ESG issues and the general response to the pandemic, including the effect on stakeholders and communities.

*"The climate topic is as usual at the forefront of policy and investment discussion. As the recovery takes shape, the question now is whether the world can use this moment to build a less carbon-intensive economic and demand model that could help achieve the temperature goals of the Paris Agreement".*

Governance constituted the second topic engaged on, discussing closely with issuers the treatment of their executive remuneration in the context of an economic slowdown that affected investors and stakeholders. We have also observed that the topic of virtual AGMs, and the future of the AGM in general, are today on the table, with input needed on the practices and lessons learnt from the pandemic. The new AGM will be a space for increased stakeholder participation and shareholder dialogue will increase interactivity and board access.

### **What are the key trends you have observed this year in the UK and other markets?**

The trend of climate activism at those companies that face the biggest challenges in achieving the Paris Agreement's climate ambitions has continued, with the new practice of submitting companies' transition plans to a shareholder vote. Amending remuneration policies in those markets with established say-on-pay practices has been an engagement and voting issue that we have seen as significant and continues to be for the next seasons with more companies amending their policies to introduce time-based pay and amending bonus targets to take into account operational difficulties, a practice that has been met with heavy engagement and significant dissent in some cases.

### **Which resolutions did you challenge the most in 2021? What source of information plays the greatest role in shaping your voting decisions?**

We have opposed two main categories of resolutions in H1 2021. Nearly 36% of our votes against management were on director-related resolutions and remuneration-related proposals, followed by opposition on auditor appointments, a voting behaviour that portrays our policy on these issues, where we look closely to issues as board independence, combined chairmen and CEO positions, excessive number of board mandates, which we determine in our policy at four total board mandates, board oversight of ESG risks, and auditor rotation. The issue of executive pay continues to remain a topic which we oppose regularly depending on the observed practices but is also an issue we hold the board responsible for in case of lack of responsiveness to significant shareholder dissent on remuneration issues. On all these issues, when policy red lines are crossed, we always prefer engaging with investee companies to try and understand the underlying rationale for the decision, but we also send firm signals when those concerns are not addressed.



**Executive remuneration remains on top of the most contested items. From your perspective, what more can be done to secure investors' support?**

Executive remuneration remains the core of our corporate governance engagements. Companies are increasingly reaching out to discuss remuneration policy arrangements, while also discussing how executive remuneration articulates around the general remuneration philosophy and how employees are treated in the context of financial difficulties. While companies often present solid rationales to us behind closed doors, not all remuneration rationales are publicly disclosed.

*"A better job of communicating outcomes and aligning pay to sustainable performance and material ESG issues to both the company and its stakeholder is needed in some cases. Exceptional remuneration arrangements remain a red line, and we ask companies who are shifting their remuneration structures to explain the reason for that shift to shareholders and ensure that structural arrangements are stable in time and do not change with performance fluctuations".*

**ESG remains at the forefront of investors' engagements. Are boards well equipped to have oversight of ESG issues?**

It is natural during these times of intense sustainability regulations and stakeholder expectations for board to integrate ESG issues and opportunities in their oversight. We see ESG issues supervised at many levels, most notably the audit committee and the CSR/ESG committees, while executive responsibility for sustainability issues lies often with executives, Chief Sustainability officer or directly integrated into the top executive's mandate. The board however has a collective fiduciary duty, which requires directors that have ESG risk management as a clear and well-proven skill. Management of ESG risks and managing investors' expectations on the disclosure of these risks will be an engagement and voting policy focus in the future years, and we will also follow with attention upcoming regulatory developments in the EU and other locations with regards to sustainable corporate governance with that regards.

**What can boards do to outline their oversight of ESG issues?**

ESG oversight has to go beyond simple reporting to become a regular point of emphasis in board meetings and specialised committee meetings, and ESG risk management during the year has to be presented to the AGM in a simple form in a risk matrix form like many standards require, so that these risks may be debated in pre-AGM calls and during the AGM itself.

**UK companies faced greater scrutiny over ethnic and gender diversity this year. There were significant improvements made on gender diversity, however over 10% of FTSE 100 companies do not have ethnic minority representation on the board. What are AXA's views on diversity and inclusion? What are your expectations?**

AXA IM has been one of the first asset managers to integrate clear criteria with regards to gender diversity in its voting policy. With the events of recent years, we recognize the need to review our gender diversity policy to include ethnic and racial diversity as a topic. As a French investor, this issue is tackled in a different approach by the legislator and governance standards which naturally impacts the way and pace at which we address these specific topics in a global manner. We do however believe that this is not a reason not to start the conversation with investee companies on the issue, especially that many of them are reaching out to discuss challenges and action plans. In those countries



where the issue has gained maturity and momentum, we will be asking companies to evaluate their diversity and inclusion policies against the best standards and report on their efficiency, not only their existence.

**Investors are calling for all corporate issuers to propose a Say-on-Climate resolution to the shareholders' vote and for more transparency and accountability. Do you share this view? What accountability is sought?**

While we acknowledge that SOC votes are a positive step towards enshrining a place for shareholder dialogue at the AGM concerning one of the most significant risks we are facing as a society not just as shareholders, prior to generalising its use,

*"our view is that the SOC vote first needs to have a specific framework that defines accountability and frequency, at least the frequency of an implementation vote, and the board as a collective body who decides the agenda of the AGM should seek to include a SOC vote where the regulatory environment allows it, as a shareholder friendly practice".*

However, we do acknowledge that the ultimate responsibility of managing the climate risk, and sustainability risks in general, lies collectively with the board.

**With no standardisation of Say-on-Climate, what are the key challenges you experienced when reviewing the proposals? From an asset manager perspective, what would be the benefits and challenges of standardising these proposals?**

There should be a standardisation of the analytical framework through which SOC votes are decided, and we do believe that the analytical framework should include red lines, most importantly on the net zero ambition of companies in the long and medium term. However, we also differentiate between different sectors and companies that are at different stages of their shareholder dialogue on climate issues or who are committing in the future to significant steps to increase their contribution to achieving the goals of the Paris Agreement and the just transition.

*"The challenge of an increased push towards the standardisation of the content of the transition plans and an increased input from our internal analytical frameworks on the proposed plans and our proper engagement is important, and it all starts by robust dialogue with companies over these plans well before the AGM to understand their scope and ways to improve them".*

The SOC should not be a vote where best in class companies showcase their expertise, but where companies in those sectors that are the most impacting the fight against global warming commit to serious and ambitious transition plans. When doing so, it continues to be critical that they rely on science-based elements, and the recent publications from the IEA and IPCC will provide useful referential in this perspective. Finally, as mentioned above, an important element in the analysis will be the governance framework around those resolutions (board oversight, frequency, etc.).



### **How do you envisage the 2022 AGM season? What will be engagement priorities for next year?**

We expect the same trends as previous years, with a new cycle of climate activism that will be pushing the discussion towards short and medium-term performance, social issues in particular, and the topic of the just transition. Companies, depending on the issue and the sector, will need to talk in a more earth-to-earth language on these issues with investors. All companies are faced today with an ESG issue or a challenge of some kind, and ESG specialists participate in governance call almost all the time now. Voting is increasingly integrating ESG risks. In this context, we continue to be committed to evolving our practices and policies over time, with the aim of continuing to integrate thematic issues notably with regards to climate but also social and biodiversity related challenges, but also of providing appropriate levels of transparency with regards to our policies and their outcomes. As part of this, we became signatories of the UK Stewardship code in 2021.

#### **Antoine Najm**

Corporate Governance – Engagement Analyst

Focus on

# FRANCE





## Focus on France

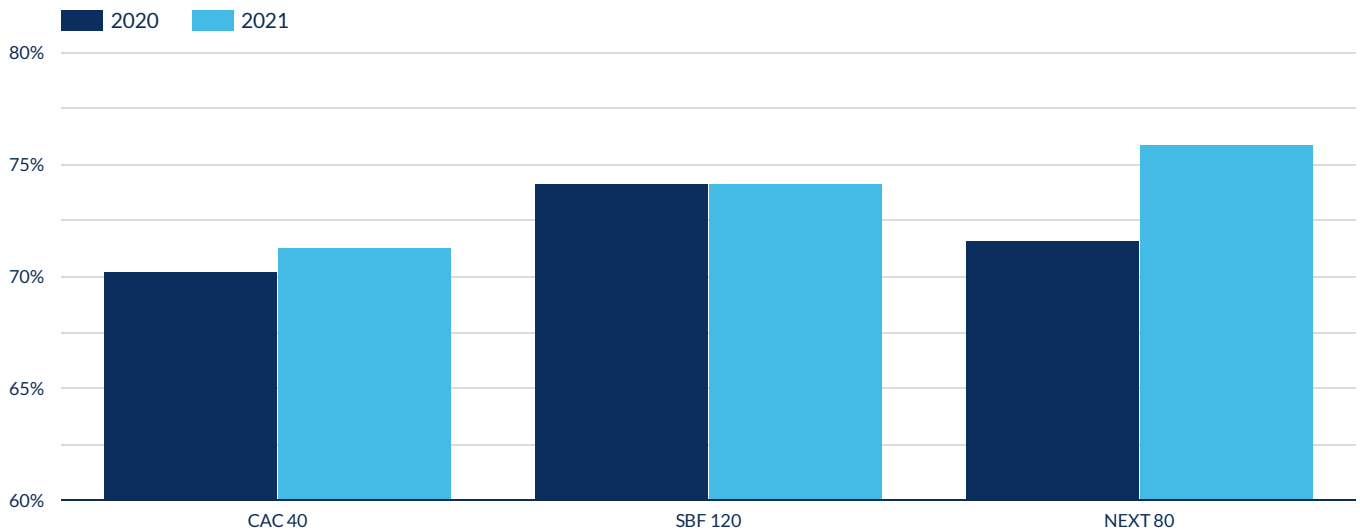
### At a Glance

Average Quorum of SBF 120	74.16
AQ CAC 40	71.32
AQ Next 80	75.92
Rejected Resolutions CAC 40	14
Rejected Resolutions Next 80	8
Contested Resolutions (<90%) CAC 40	169
Contested Resolutions (<80%) Next 80	72
Most Contested Resolution Category	SBF 120 – Executive compensation , Capital Issuance (poison pills, issuance without pre-emptive rights ) and Board elections

### General Overview & Quorum

CMi2i has reviewed the shareholder participation levels (quorum) and the meeting formats of the SBF 120 index (largest qualifying companies in France by full market capitalisation listed on Euronext Stock Exchange) in 2020 and 2021. 2020 marked a pivotal year where the world was significantly impacted by the COVID-19 pandemic and from which corporate issuers had to quickly adapt to virtual shareholders' meetings. With the continuation of the COVID restrictions through 2021, all issuers have opted to hold non-physical / virtual meetings, this year with longer meetings and additional interactive features, thus enabling Q&A session which lasted 20 minutes more than in 2020, as cited by Caroline de La Marniere, President and founder of Institut de Capitalisme Responsable (ICR) .

Despite this second year of virtual GMs, the unpopularity of shareholders for virtual only meetings, the average participation levels at AGMs continues to surge with a +1.11% year on year increase for the CAC 40 and + 4.26% for the Next 80. The average quorum remains however stable across the SBF 120.



GRAPH 1 – AVERAGE PARTICIPATION OF SBF 120 IN 2020 & 2021

Some corporate issuers have seen significant increase in their shareholders' participation where others have suffered from a dip in the number of shares exercised at their meetings. The highest quorum increases in the CAC 40 are Renault with + 8.93, followed by Capgemini and Unibail-Rodamco with +6.77% respectively and Dassault Systemes with +6.31%.

At the other end of the spectrum, the highest quorum decrease year on year are seen at Michelin with -10.16%, followed by Société Générale with - 4.21% and Schneider Electric with -4.07%. At Michelin, where over 9% of the share capital is held by private individual shareholders, the decrease could be a result of lesser participation from the retail investors.

## Market Update

### Gender Equality

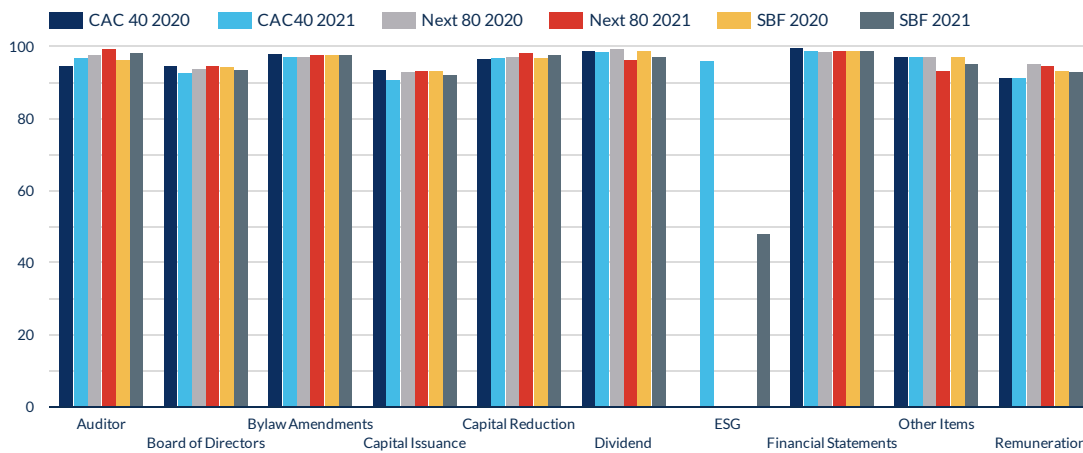
In May 2021, French legislators voted to introduce gender quotes on the Executives Teams and leadership pipelines of companies over 1,000 people, with minimum targets of 30% of either gender by 2027, and 40% by 2030. Boards' gender diversity, which began a decade ago with the Cope Zimmerman law, continues to increase female representation on boards, with France being, at the end of 2020, the leader worldwide with 44% of board positions held women .

### AFEP Position On The Corporate Sustainability Reporting CSRD

In July 2021, the French Association of Large Companies (AFEP), published its position on the EU Directive Proposal "Corporate Sustainability Reporting Directive" (CSRD) revising the Non-Financial Reporting Directive (NFRD) adopted in 2014. The CSRD introduces a new set of requirements to harmonise and standardise sustainability reporting. This

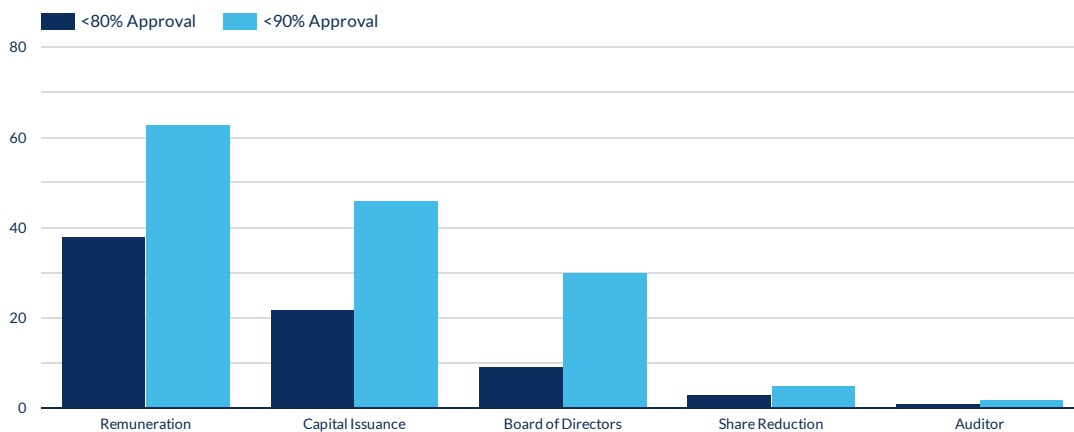
report identifies the difficulties presented by the directive proposal (including on the scope, the systematic publication of forward-looking information, and Due Diligence) and sets AFEP member companies' priorities.

## Resolution Breakdown



GRAPH 2 – AVERAGE SUPPORT BY CATEGORY

In this report, we have reviewed 10 macro categories covering the main resolutions presented by corporate issuers across the SFB 120. In 2021, the proposals which gathered the least amount of shareholders' support were Remuneration, Board of Directors & Capital Issuances. Amongst the CAC, 40 over 57% of issuers and 38 % of the Next 80 had at least one resolution which achieved less than 80% approval. Such high level of dissent requires a "Board acknowledgement" from the concerned issuers. Though not a legal requirement, investors and proxy advisors have formalised this policy into their guidelines and expect that issuers who receive over 20% dissent votes formally acknowledge and respond to the voting results of the concerned proposals ahead of their next AGM.



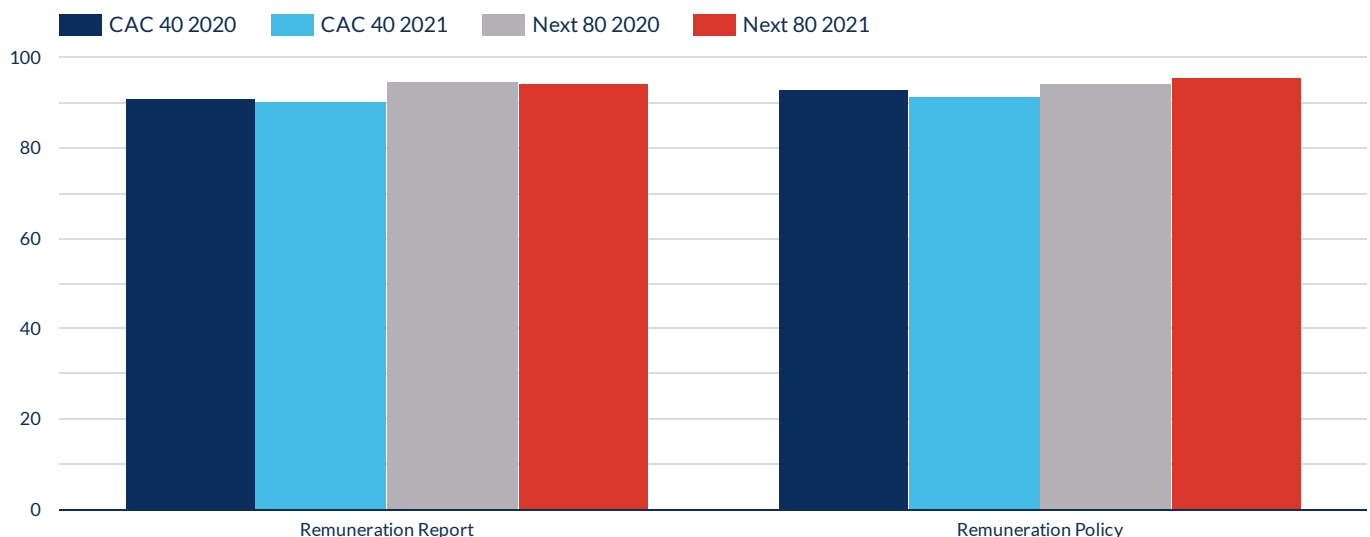
GRAPH 3 – CAC 40 SHAREHOLDER OPPOSITION SLIT BY 10% AND 20%

The graph above illustrates the number of resolutions per categories which received at least 10% and 20% dissent votes from shareholders. Out of the 920 resolutions presented by management in 2021, 18% (169) received less than 90% of shareholder approval, whilst 7% (72) were highly contested and obtained less than 80% approval.

## Key Trends

### Focus View: Remuneration

As shown above, across the CAC 40 and Next 80 indices, remuneration-related proposals were the most controversial resolutions in France in 2021. With the ever-increasing scrutiny of stakeholders over executives' compensation, this trend will most likely continue to be a key feature of the proxy seasons.



GRAPH 4 – SHAREHOLDER APPROVAL – REMUNERATION POLICY VS REMUNERATION REPORT

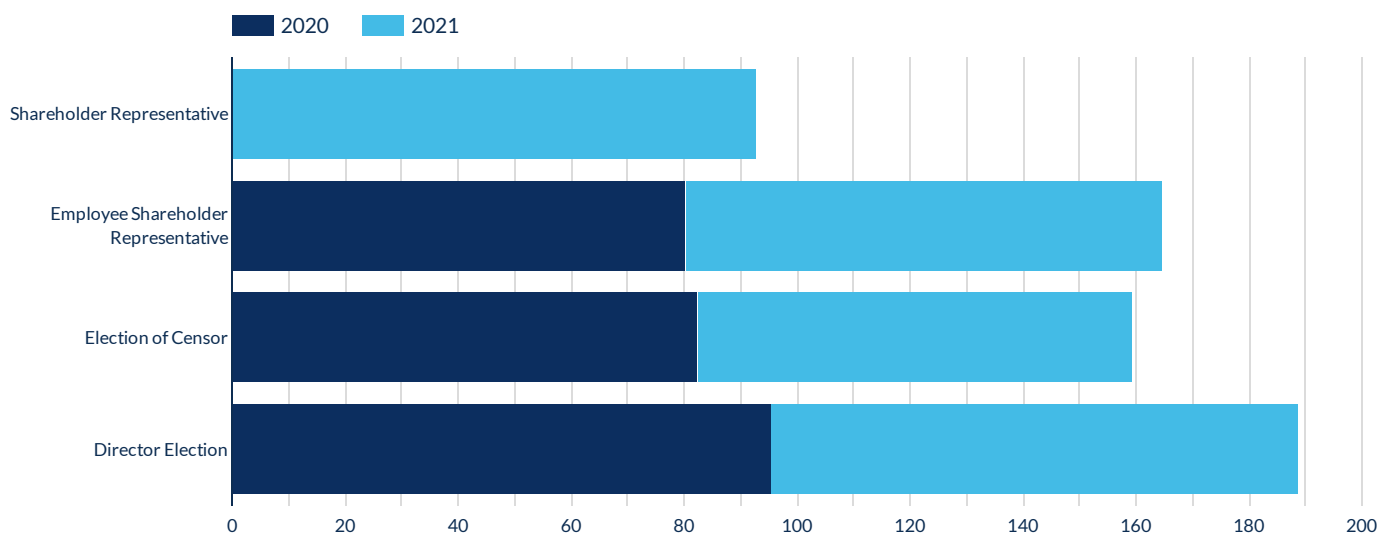
In 2021, shareholder approval rates in the CAC 40 have decreased for both the remuneration policy and remuneration report by - 1.56 % and - 0.41% respectively. The most challenged policies this year were at Thales, with over 40% dissent votes where shareholders raised concerns with the amendment of the CEO/ Chairman policy due to poor use of the board discretion. At Vivendi, the remuneration policy of the chairman of the management board and of members received a high number of negative votes (over 40%), with investors raising concerns over the lack of rationale for the significant pay increase. The remuneration reports of the corporate officers were equally challenged at the Vivendi AGM as shareholders questioned the stringency of the performance criteria attached to the LTIP of the corporate officers, and the pay granted with unachieved targets.

With these results, concerned issuers are formally required to acknowledge and respond to the shareholders' dissent votes. Although not a legal requirement, this soft law is now included in investors' and proxy advisors' guidelines. The absence of the board response prior to the 2022 AGM could be a cause of negative recommendations and/ or votes as the results of a failure respond to shareholder dissent.

In light of the ongoing COVID 19 pandemic, shareholders pay particular attention to quantum, in order to avoid excessive pay and rebound compensation following reductions in executive remuneration in 2020. On Ex-post votes, Veolia and Teleperformance were the post challenged issuers obtaining 60.88% and 61.16% for the approval of the report of their CEO/ Chairman. Investors challenged the retrospective changes to the performance conditions and bonus outcome for Antoine Frerot.

As in past years, CEO compensation continues to be highly scrutinized, which explains a further dip this proxy season on the approval of CEO remuneration policy: -2.01% (from 89.85% in 2020, to 87.84% in 2021). A similar trend occurred with CEO Ex-Post report: -1.93% (from 90.17% in 2020 to 88.24% in 2021).

## Focus View: Board of Directors



GRAPH 5 – CAC 40 AVERAGE APPROVAL RATE FOR DIRECTORS' ELECTIONS

Board election remains a highly scrutinized issue, as investors are looking for candidates who are independent, not over-boarded, and free from any conflict of interest.

In past years, the average approval rate for director elections has remained constant, from 91.19% in 2020 to 77.04% despite the appointment / re-appointment of a censor which, although common France, is facing ever-growing criticism from the investment community.

## Combined CEO/Chairman Roles

A decade ago, the majority of French boards had a dual role of CEO/ Chairman. Over the years, international investors and proxy advisors have raised issues with balance of powers and effectiveness of the board to criticize this common practice. Gradually under increased pressure from stakeholders, issuers were forced to review their board structures, and many have separated the functions of CEO/ Chairman. During this proxy season, five issuers amongst the SBF 120 have separated their CEO, Chairman roles which includes large CAC 40 companies, such as L'Oréal, Bouygues, or

Danone. These decisions were welcomed by shareholders who were actively urging French issuers to split the roles by opposing the re-appointment of CEO/ Chairman in General Meetings. This year, the average approval rate for re-election of CEO / Chairman was 82.7%.

At the time of writing this report, only 10 boards amongst the CAC40 had the dual role in place. 73% of CAC 40 Boards now have split roles. This constitutes a new era in which the combined role of CEO / Chairman is no longer the norm in France.

## Focus View: Say-on-Climate

The idea of a Say-on-Climate (SoC) vote, which was initially a campaign started by the founder of the Children's Investment Fund (TCI) back in 2019, is now global with issuers voluntarily or involuntarily proposing climate resolutions. This year, three Say-on-Climate (SoC) proposals were presented by CAC40 issuers, achieving an average 96.05% support. With stakeholders' increased focus on ESG and climate change, investors welcome proposals to vote on Net Zero transition plans and are calling for this practice to be more widespread.

FIR, the French Sustainable Investment Forums which has some of France's biggest asset managers as members, has launched a Say-on-Climate campaign and written to all SBF 120 issuers in September 2021 demanding for an annual advisory Say-on-Climate vote. This demand may be followed by issuers, which would lead to a surge in SoC proposals in France for the 2022 AGM season, as experienced in other jurisdictions.

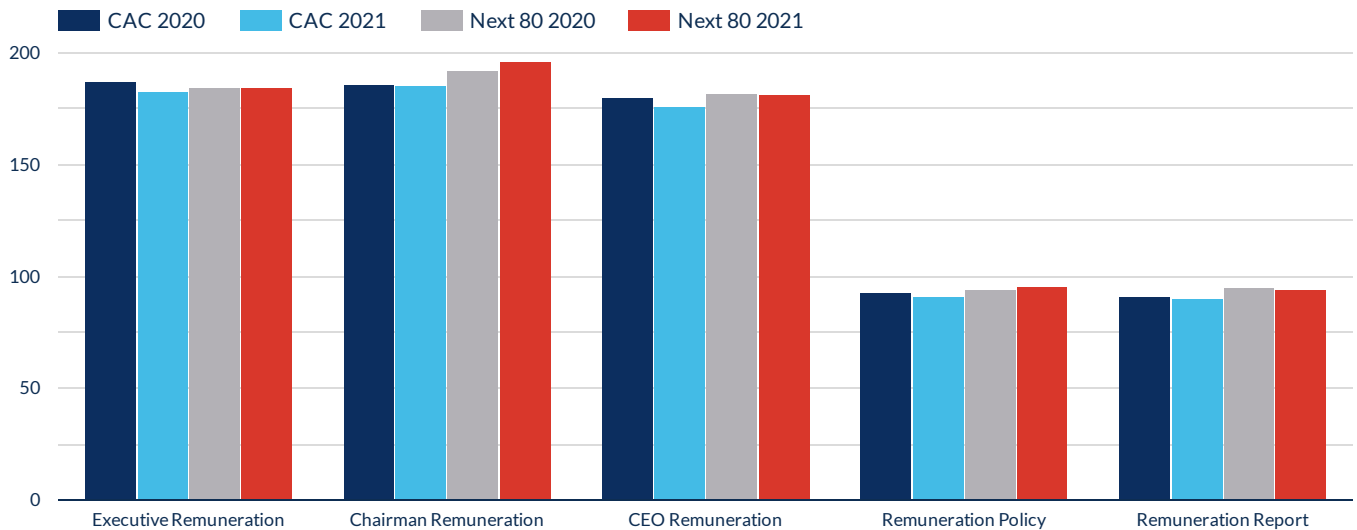
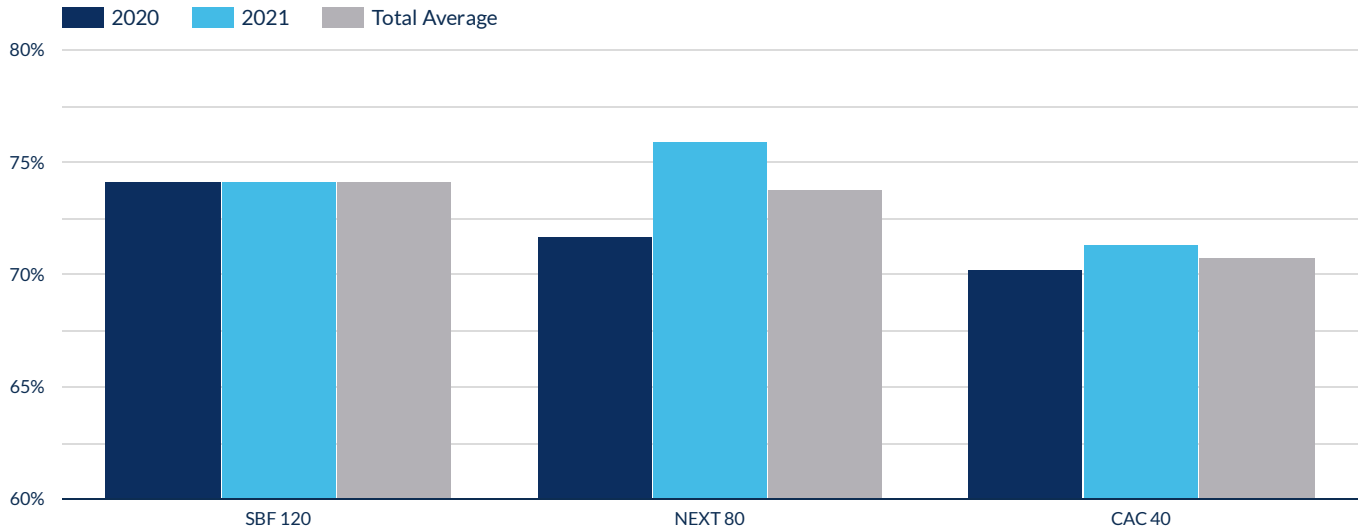
## Rejected Proposals

After remuneration-related resolutions, capital authorizations are the most contested proposals this proxy season. Out of 14 failed resolutions in the CAC40 this year, 12 were capital issuances, of which 83% were poison-pill proposals. Investors and proxy advisors continue to be fervently opposed to antitakeover mechanisms. At Orange SA and Safran SA, all authorizations were rejected by shareholders.

## Proxy Advisors

The main proxy advisors in France are ISS, Glass Lewis, AFG and Proxinvest. In this review, we focus primarily on ISS and Glass Lewis, the two leading global providers of proxy research. Within the period reviewed, 12% of the CAC 40 received at least one negative recommendation from the ISS and 10% from Glass Lewis. Executive remuneration and board elections remain the most challenged from both proxy advisors as mentioned earlier, as well as the capital issuances (poison pills & capital increase without pre-emptive rights). In 2021, resolutions for which ISS and Glass

Lewis issued negative recommendations, the average approval rates were below 75%. This is an indication of proxy advisors' continuous impact on the decision making and voting outcomes of shareholders.



**GRAPHS 6 & 7 – PROXY ADVISORS RECOMMENDATION & VOTING RESULTS**



## Investor Insights – BNP Paribas Investment

### **18 months into the COVID-19 pandemic: how has it impacted your engagements with corporate issuers?**

It had limited impact on our engagement activities. Last year, because of the pandemic, some companies were keen to engage ahead of meetings, whereas this year, things have returned to how they were pre-pandemic. We received many requests for engagement outside and during the proxy season.

This season, the content of the engagements and variety of topics covered were considerably broader than in previous years.

*“There has been an increased emphasis on the social element which has been discussed at length during the engagements. These discussions are aligned with BNPP AM’s global sustainability strategy and its “3Es”: Energy Transition, Environmental Sustainability and Equality & Inclusive Growth”.*

Since the pandemic, the equality element has gained more impact, together with other social considerations such as human capital management, overall risk management of the pandemic and how companies incorporate all of these elements into their long-term vision in the interest of shareholders. We also had more in-depth questions on dividend distributions with regard to specific companies’ situations and the impact the pandemic might have had on their activities. As such, we were more sensitive to dividend distribution. We have a sustainable dividend policy in place, which we applied more strictly given the pandemic. Capital issuance and buyback proposals were also key topics given the current context.

### **In 2020, key areas of concern raised by shareholders on virtual meetings related to “proxy plumbing” and reduced access to the boards. From your perspective, have issuers made sufficient developments to facilitate shareholders’ voting and their interaction with the board?**

Most issuers were more comfortable with virtual meetings this year compared to last year when everything happened suddenly. The voting process was smoother in terms of execution. Additionally, many European governments have adopted regulations in order to allow virtual only meetings. This has its pros and cons but in general at BNPP AM we do not favour-virtual only meetings. We accept them in very specific situations although we consider that general meetings should be an opportunity for exchange between stakeholders and to discuss directly with management and directors, to have live Q&A session and interact; therefore, we would not like to see virtual-only meetings becoming the rule.

However, in some countries, such as Spain, local regulations permit virtual-only meetings in perpetuity. This year, we did not support bylaw amendments allowing the permanent virtual-only option; we usually vote against these proposals when we consider such modifications too vague and not restricted to specific situations. The argument of cost for the AGM itself is not considered to be in the interest of shareholders versus in-person or hybrid meetings.

We would potentially support some hybrid options. In the Netherlands, some companies decided to split their meetings into different parts allowing online voting and live questions with management. We are not against hybrid meetings but are opposed to virtual-only meetings becoming permanent.





### **What are the trends you observed in France in 2021?**

The most important trend we have noticed is changes to remuneration.

A number of companies have amended their approach to executive remuneration, reviewing criteria, resetting targets, or changing the components of remuneration. Practices have differed from one issuer to another. Some have proposed reviewing their remuneration policy by including an item on the agenda whilst others have used their derogation powers and presented changes as part of the remuneration report.

At BNPP AM we are not in favour of the principle of derogation into the remuneration policy although this often occurs. For this reason, we opposed numerous remuneration policies.

We are more flexible regarding the use of boards' discretionary powers; however, the level of transparency is paramount. We require a good rationale, explanation for the changes and details of the new and previous targets. We need to understand the impact in order to assess whether the changes are reasonable.

We see this across Europe with Say-on-Pay proposals where in many companies the derogation principles allowed by SRD II, were too large. Although we do not favour the inclusion of this principle in the policy, if it is included, we would like to see more information around the use and limits of the discretion.

The Say-on-Climate vote in France was not really a trend as it started last year, although it was the most significant addition alongside remuneration.

### **Did you notice any improvements or regressions in term governance of practices?**

Disclosure in France is good, and it is getting even better, mostly in terms of remuneration.

In some countries such Germany and the Nordics, more needs to be done in order to improve disclosure and to adhere fully to SRD II regulation in terms of remuneration. Germany in particular will be in the spotlight next year given the requirement to put forward a Say-on-Pay Ex-post.

We still have issues with small cap companies on basic components such independence classification, although this is quite marginal.

On the positive side, we note a more frequent split of the CEO/ Chairman role, sometimes in response to the demands of external stakeholders; this has now become quite a trend.

The integration of virtual-only meetings into bylaws would be a regressive step within governance.

### **As a global asset manager, what are your voting decisions based on? Which resolutions did you challenge the most in 2021?**

By the end of August, we had voted on approximately 1,800 meetings, 48% in Europe, 28% in North America and remainder mostly in Asia. Among these resolutions, we opposed one third of resolutions. Our opposition was mostly against remuneration proposals (60% of the votes, which is a slight increase from 59% in 2020) and financial operations (approximately 40% of resolutions). Finally, we opposed 36% of resolutions relating to the election of directors.

Among the key features in assessing the election of directors are independence and gender diversity; half of the resolutions that we opposed were for lack of gender diversity.



We also have a specific policy regarding climate change, and if companies are not aligned with our expectations, we oppose financial statements, discharge, or board elections according to relevant legislation.

*"On issues linked to climate change, we are able to support shareholders' proposals and have added our own resolutions to agendas. This year, we did so at the Exxon Mobil and Delta Airlines general meetings, where we supported shareholders' proposals on climate change, which gained 64% and 63% approval respectively, marking an historic turning point".*

**Executive remuneration remains on top of the most contested items. From your perspective, what more can be done to secure BNPP AM support?**

*"Transparency is still an issue. In some countries such as the UK the level of disclosure is generally high, although unfortunately this is not the case in many other jurisdictions".*

Corporate issuers can do better, and we are more likely to support resolutions in instances where more details and information on the various components and targets used have been provided. We would also like to see this level of transparency not only on Say-on-Pay Ex-ante but also on Ex-post in order to better link pay with performance and to assess whether there is a real and actual alignment between them.

Additionally, many companies use relative measures such as Total Shareholder Return ('TSR') and compensate the executive when the target achieved is below the median. We believe issuers should be more challenging with their relative criteria.

Finally, as mentioned earlier, with the SRD II, we are looking for more standardisation of disclosure given that it currently varies from one market to another.

**With no standardisation of Say-on-Climate, how do you assess these proposals?**

As at the end of August 2021, BNPP AM had voted on 19 Say-on-Climate resolutions with 78% support. The proposals are assessed on a case-by-case basis together with our ESG analysts who are specialised by sector. We consider whether the company is transparent on its carbon footprint, whether it has climate strategies with clear targets on CO2 reduction, if it has announced a net zero ambition for 0 for 2050 or alignment with the Paris Agreement pathway.

**Some investors are calling for all corporate issuers to present a climate transition plan resolution to the shareholders' vote and for more transparency and accountability. Are we moving towards a mandatory Say-on-Climate?**

It is an interesting point and a complex question. Say-on-Climate proposals can be viewed in parallel with Say-on-Pay resolutions in the sense that they are results of market development. The challenge would be in the execution. Many issuers are waiting for implementation by regulators and governments in order to see the impact this will have.

*"Crucially, climate considerations will need to become part of the business plan, although in principle, the approval of the business plan is not in the remit of*



*the shareholders. The regulators and legislators will need to decide. It is crucial to have a framework for this and the first step has been to gain more public recognition of the importance of climate change, which I believe has been achieved."*

The answer will also differ as we talk about the "policy" or the implementation of companies' commitments in this area. Regulators also need to determine whether Say-on-Climate should be advisory or compulsory, or even annual or every three years for example, similarly to the remuneration policy in some jurisdictions. The market is based on these questions and should relatively quickly decide based on the legislation. The approach may differ between countries and sectors as the situation is not universal.

#### **What will be your engagement priorities for 2022?**

Engagement related to voting and the "3Es". These three areas will be the focus of our global sustainability engagement efforts, as there is lot more to be done. There are many important topics, although climate change, equality and gender diversity will be at the top of our list.

We will also engage with companies with low ESG scores (mandatory for decile 10 companies in portfolios) with the aim of improving ESG practices of our holdings, which will be mainly driven by our portfolio managers.

#### **Orsolya Gal**

Senior Corporate Governance Analyst

Focus on

# GERMANY



## Focus on Germany

### At a Glance

Average Quorum	66
Rejected Resolutions	0
Contested Resolutions (<90%)	42
Contested Resolutions (<80%)	9
Most Contested Resolution Category	Board of Directors

### General Overview & Quorum

CMi2i has examined the overall participation level (quorum) and meetings format of the DAX 30 index in 2020 and 2021. In light of the Covid restrictions, all meetings were held virtually. The average quorum amongst German issuers have slightly decreased by 1% from 67% in 2020 to 66% in 2021.

The top 5 issuers with the significant decrease in shareholder participation this year were Bayer (-10.59%), Henkel (-10.14%), Delivery Hero (-8.30%), Continental (-7.09%), and E.ON.SE (-4.07%). While the top 5 issuers with the highest quorum increase were Munich RE (10.10%), Heidelberg Cement (5.23%), Daimler (3.93%), Fresenius Medical Care (2.82%), and BMW Group (2.21%).

## Market Update

### SRD II

Following the implementation of the Shareholder Rights Directive II (SRDII) into German Law through an implantation act (ARUGII) in January 2020, German companies are now required to seek shareholder approval of the remuneration policy for the management and supervisory board members at least every four years, or when any changes have been implemented. Previously, the German Stock Corporations Act (AktG) had allowed non-binding advisory "best practice" votes on management board remuneration, although no mandatory requirement existed. In the case that the remuneration policy does not receive the support of a majority of votes cast, companies are required to review the policy and present it at the following annual meeting.

Furthermore, the remuneration report will need approval by shareholders on a yearly basis from 2022 onward.

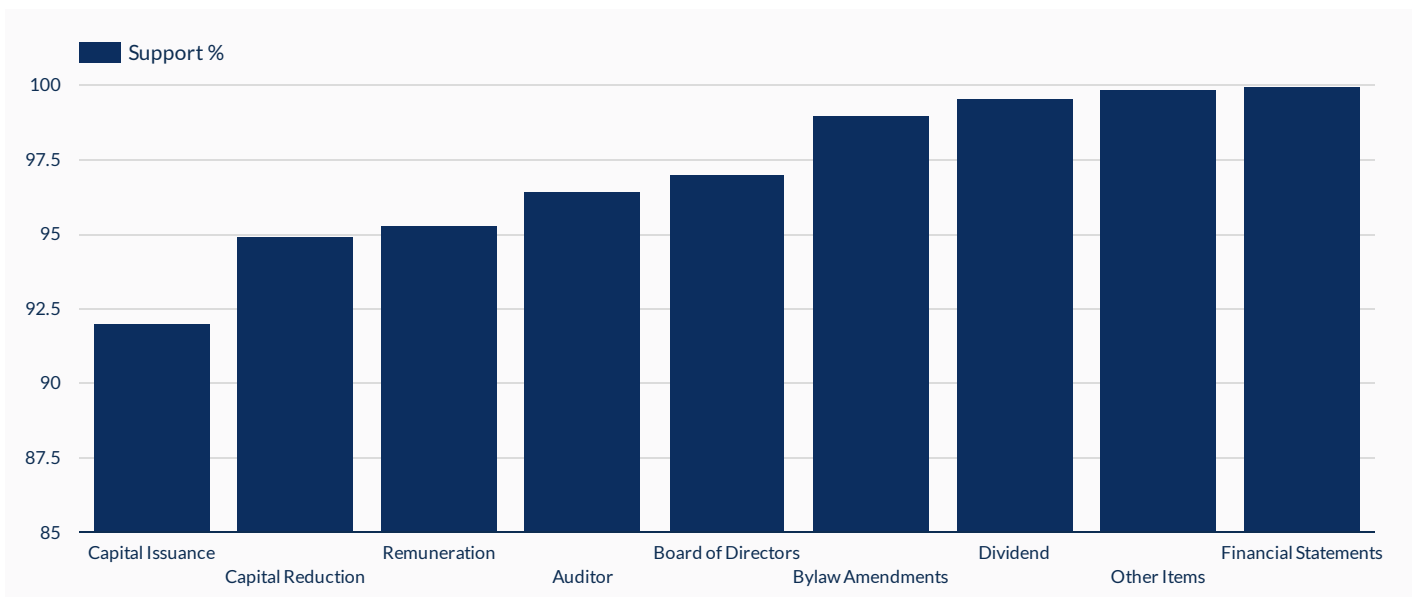
## Virtual Meetings

In September 2021, the German Bundestag extended the rules for the virtual general assembly to mitigate the consequences of COVID-19 pandemic until the end of August 2022. As such, German issuers will be allowed to continue to hold their shareholder meetings virtually.

## Resolution Breakdown

In order to proceed with this analysis, we have categorized the resolutions into 10 macro categories. During the 2021 German proxy season, the average level of support across all categories was approximately 97%. All resolutions presented by management passed. The proposals which received the lowest approval rates on average were capital issuances (92.03%), followed by capital reduction (94.92%) and remuneration proposals (95.29%). An in-depth analysis of these results provides further insights on the challenged items. Indeed, out of the 486 resolutions put forward by management, board-related resolutions (301), notably director elections and discharge, were the most contested items this year obtaining on average 24.33% dissent votes. This was followed by capital management (notably share issuance without pre-emptive rights) with 21.07% opposition and remuneration policies with 27.30% against the proposals.

In recent years, investors and proxy advisors have updated their voting guidelines on shareholder dissent. An issuer receiving over 20% dissent votes is now required to make a formal board acknowledgement of the result. In the 2021 German proxy season, there are seven companies that received at least 20% or under dissent on one or more resolutions. These companies will be expected to acknowledge shareholder dissent ahead of the next AGM.

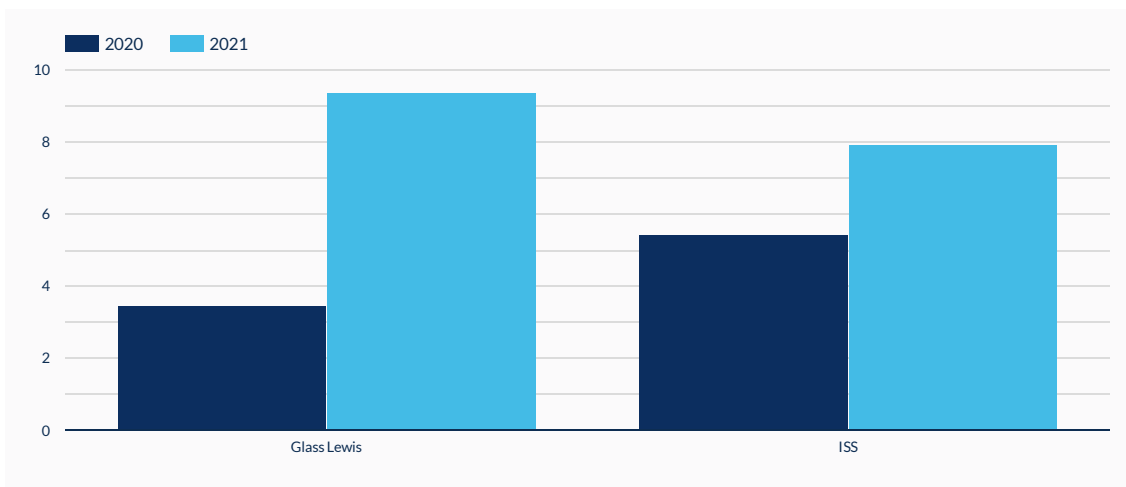


GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

## Key Trends

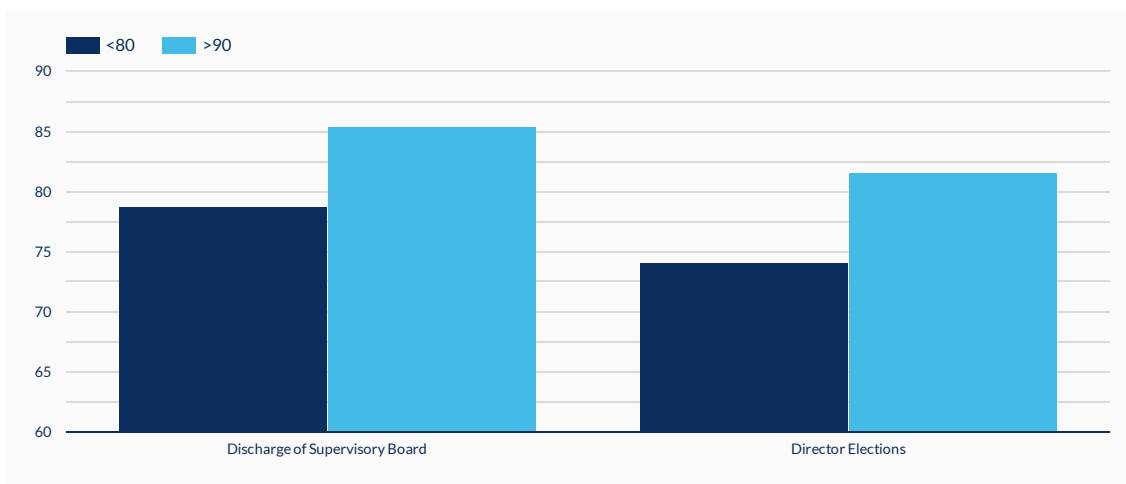
### Focus View : Board of Directors

Board-related proposals were the most contested amongst our DAX 30 sample. Although not rejected, 13 supervisory board members related proposals and 12 discharge of directors' items garnered less than 90% support.

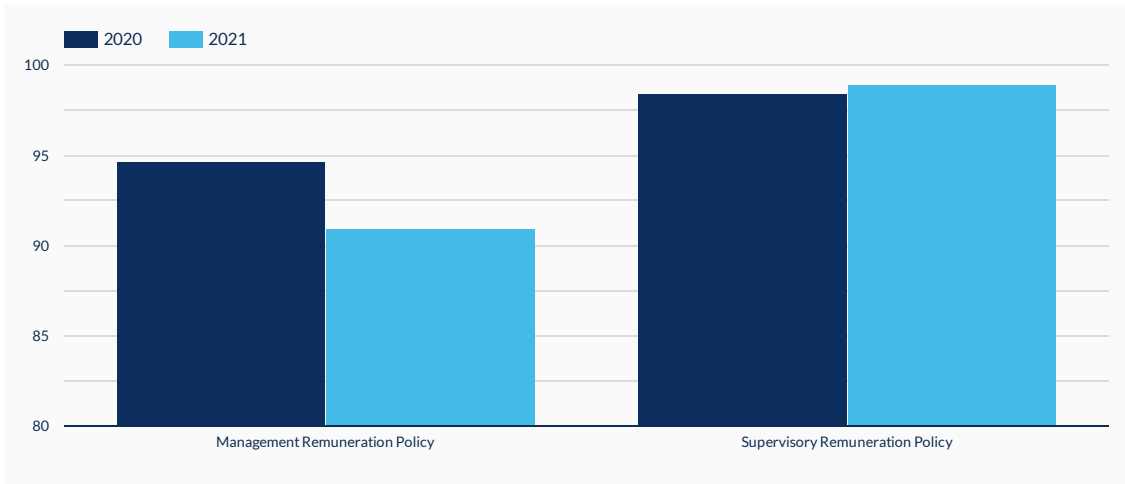


GRAPH 2 – SHAREHOLDER SUPPORT SPILT BY <90% AND <80%

The most challenged board member appointments were at MTU Aero Engines (63.2% support), Siemens (76.5% support), Fresenius Medical Care (76.9% support), while the most controversial discharge proposals of management and supervisory board members were noted at Deutsche Wohnen (78.42% support), MTU Aero Engines (79.03% support), BASF (82.32% support).



GRAPH 3 – DIRECTORS ELECTION <90% SUPPORT

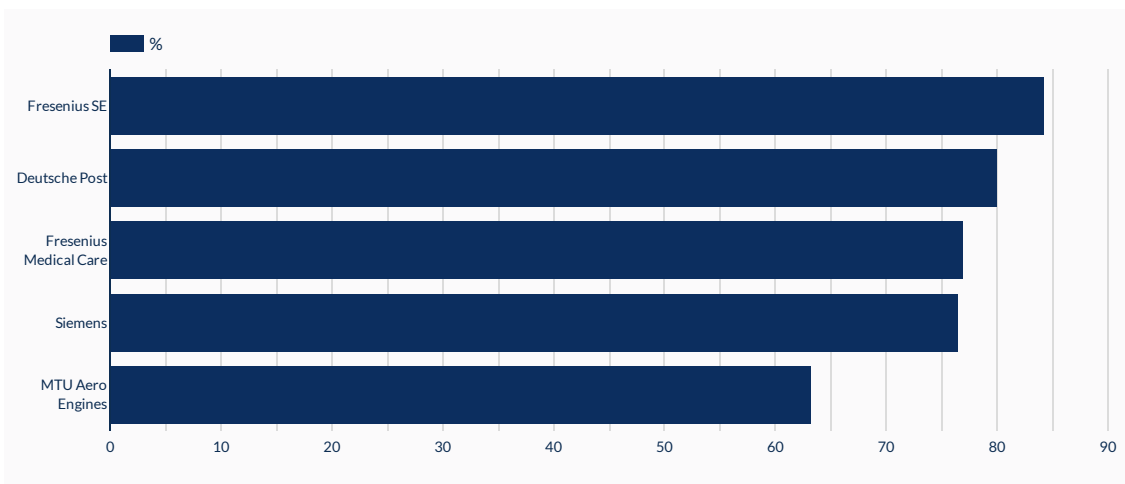


GRAPH 4 – DISCHARGE OF DIRECTORS <90% SUPPORT

### Focus View: Remuneration

2021 marked the first year of remuneration proposals amongst most German issuers. With the exception of a few companies, the remuneration resolutions presented were generally well received by investors (achieving an average of 95.29% support amongst the DAX 30).

The lowest approval rate was seen at Deutsche Telekom AG, where the management remuneration policy obtained a 72.7% approval from investors. This low approval level is mainly a result of shareholder concerns with the scope of the board discretion for the extraordinary bonuses and the modifier under the STI, which fell short of market best practices. As such, the company is expected to address shareholder' dissent ahead of its 2022 AGM.



GRAPH 5 – AVERAGE SUPPORT LEVEL FOR THE SAY-ON-PAY EX-ANTE



## Proxy Advisors

In this proxy season, the leading proxy advisors, ISS and Glass Lewis, have opposed at least one resolution presented by DAX 30 companies. In comparison to the last AGM season, the number of resolutions for which they have issued negative resolutions have significantly increased. ISS recommended against 39 resolutions (7.94%) in 2021 compared to 19 (5.43%) in 2020 i.e., a 2.51% increase; while Glass Lewis recommended against 46 resolutions (9.37%) in 2021 compared to 49 (3.43%) in 2020 i.e. a 5.94% increase. The most challenged resolutions by the proxy agencies were discharge of directors followed by director elections. These items obtained the least level of support (below 90%) which is an indication of proxy advisors' continuous impact on the decision making and voting outcomes of shareholders.

Although influential, the lack of support from the proxy agencies on a proposal does not necessarily lead to a failure or low approval. Volkswagen AG put forth discharge proposals for 30 directors of which all were opposed by both proxy advisors, raising concerns about the lack of transparency around the underlying facts of the "Dieselgate" emissions scandal in 2015. While shareholders continue to bear monetary and reputational costs, many investors supported these resolutions. Ultimately, each of those resolutions passed with an average of 99.49% shareholder support.



## Issuer Insights – BAYER AG

### **2021 marked another year of virtual meetings. What are your experience of virtual AGMs 2 years on?**

In 2020, Bayer was the first company to hold a virtual AGM. Our AGM happened right after the COVID19 law relating to virtual meetings was signed off. I think we executed well on it, but in 2021 the focus was to improve the virtual experience during the AGM. I'm a big supporter of virtual AGMs and I think we should use the pandemic to rethink the setup of a typical German AGM, which in my perspective is an old-fashioned instrument which has been misused in many instances, rather than what it's intended to do: making decisions and having discussions with stakeholders. In comparison to 2020, we heard fewer negative comments this year regarding virtual AGMs, as most companies tried to improve their virtual arrangements since the first year – e.g. with live streaming. I think in 2022 that interactivity will improve further.

### **Most investors are opposed to virtual-only AGMs as they fear it restricts shareholders' rights and interaction with the board. Many are looking to resume standard physical meetings. Do you share the same view?**

I would personally prefer virtual only meetings if permitted. We need to remember what the purpose of an AGM is. Ninety-eight percent of the votes are cast ahead of the meeting. The AGM is primarily a platform for retail shareholders that would not typically have access to management and the board. Large investors have several engagement opportunities throughout the year and don't need an AGM in order to have this access. My intention is not to restrict shareholder rights with COVID, but rather we should use the pandemic to rethink the AGM format. We always talk about innovation and digitalisation, and it seems to always stop at the AGM, why so? It works in many other countries. Why wouldn't it work in Germany?

### **This year with the implementation of SRD II, some German issuers presented a remuneration system for the first time. Having approved your system last year, what were the challenges you have encountered?**

I believe we've done a good job, we had over 94% approval from our shareholders. We've made good changes to our remuneration structure that were well thought through and adaptive to our businesses. In my view, the issue isn't necessarily getting approval for the Remuneration System, the real challenge starts the following year when shareholders see that system at work in practice, with the specific grid or metrics. This is a discrepancy we try to overcome by providing concrete examples of how our remuneration system may work in practice and present these in governance roadshows.

*"Remuneration has become increasingly complex in the last 10 years, especially with the remuneration report and I don't think we are necessarily doing ourselves a favour with this. I would really like to see a return to the basics as many remuneration systems require a lot of time to read through and are difficult to understand".*

In my view, as a stakeholder, the only information you really want to know is what is the final Remuneration of a management and supervisory board member. However, with higher complexity you also get a much higher level of confusion, and personally speaking I'm not so sure if we have necessarily improved the quality of the information provided. In my view, this where the structure vs. practice animosity within remuneration comes from.



### **What are your greatest challenges as an IR professional today?**

One challenge is getting used to the "New Normal". Pre-Covid, an overwhelming amount of time was spent on airplanes and away from home, I believe the pandemic has rebased us in terms of rethinking what is really necessary. Virtual meetings work quite well, especially in terms of maintenance and it aligns with our sustainability strategy.

*"The biggest challenge nevertheless is finding new, fresh investors and active money, which is rarer in an environment that has seen passive funds and ETFs on the rise in the last 5-10 years".*

I often ponder: If ETFs and passive investments are getting more and more important, then will there be a need for IR in the long term? Where are the remaining active funds and how do we approach them if we can't see them physically?

Finally, getting the necessary support every year at the AGM is always a challenge, especially if you take into account the additional pressure of getting the proxy advisors onboard. As we know having one of them not supporting a proposal can make life really difficult in the three months leading up to an AGM, I'm not so sure if that's a good thing. We typically engage with them ahead of the meeting, but I have learnt it is better to approach them on a more regular basis.

### **From your perspective, how has shareholder engagement evolved in recent years?**

At Bayer, we've always had an extensive engagement program. We have constant touch points throughout the year. The challenge in my opinion is timing. Some investors only like to engage at specific times of the year and if approached outside of this time, you won't get anything out of them. Another problem is that many will want to remain neutral by not swinging to one side or the other. When it comes of AGM voting, it is difficult to gauge early where they stand in terms of mindset and intentions.

The number of touch points doesn't make the AGM easier but rather trying to inform stakeholders on a regular basis, and engaging with investors in a way where they would listen if you know your agenda topics. Outside of the AGM period that knowledge isn't there.

There are a lot of companies which aren't doing a great job at listening to stakeholders when they in fact think that they are, and the same applies for when they propose on the agenda where a lot of external advice has gone into it. Companies have to make up their own minds about what they think is right for the company. If Companies start to think in terms of what they need to do in order to secure a vote from ISS and Glass Lewis, I'm not so sure the best results are achieved that way.

### **Considering the proxy advisors influence, wouldn't it be a risk not considering their views and guidelines?**

This goes back to my previous point – just because you do things in a certain way for several years doesn't necessarily mean that they are right.

*"ISS and Glass Lewis are trying to standardize the way governance is done. In my opinion, the moment you decide to do this across the globe with thousands of*



*recommendations for different companies, there might always be a company that is a slightly different from the standard".*

ISS and Glass Lewis aren't flexible enough to consider "different" points rather than standardisation. However, major investors all have their own set of individual opinions. Bayer is not at the moment part of the standardised model, it is pretty much an uphill battle, and many companies won't proceed with what they want to do for that reason, which I don't think is necessarily best for a company.

**On board diversity, the UK research company BoardEx found that German boards have 30% female representation, significantly behind their French and UK counterparts. What prevents Germany from obtaining similar ratios on gender diversity?**

There is a lot of talk about diversity and very little action to try to actively appoint women to senior positions.

*"I don't believe female representation quotas are doing women any favours, as in some cases when a woman is appointed now there is a belief she achieved that position through the quota alone. Another reason that prevents greater female representation is a legacy issue for German corporations and the way they are run. Change will come through the nomination committees".*

**On ESG oversight and accountability, who is accountable and how can an issuer reassure investors that they are well equipped, have sufficient oversight on ESG risks and opportunities?**

In terms of keeping oversight, the ESG committee, the external ESG Council, sponsors in the Management and Supervisory Boards are responsible. The difficult question is that of accountability. I'm a huge fan of accountability, if you think you're doing a good job, you should have no problem with accountability.

The issue is who has enough oversight to make the call if someone did a good job or bad job? For example, if a CEO is the ESG sponsor in the management board and ESG targets are off by 1%, should the CEO then be forced to go? Who is going to make this call?

**Some investors believe it should be the Chairman of the Board and that accountability should cascade down from the top. Do you share this view?**

Based on this system, I would agree. However, if you consider a typical one tier board structure, is a chairman so close to the respective management board itself that he would have a complete knowledge of why decisions have been made on every decision topic? I seriously doubt this. I think it would take more involvement from the Supervisory Board in this case.

**What is your outlook for 2022?**

We are considering presenting a Say on Climate resolution at the 2022 AGM. Discharge of directors will also be a topic. We have not presented capital authorizations for few years, and we recognize the challenges ahead if we do so in 2022; and can we run a virtual AGM with an improved experience for all stakeholders.

**Oliver Maier**, Head of Investor Relations



## Issuer Insights – Fresenius Medical Care AG

### What are the trends you have observed during this AGM season?

The German AGM season saw all events being held virtually due to legislation, which is easier from an issuer perspective as we do not have large numbers of shareholders' questions. There were greater demands for shareholders' interaction and a lot of effort went in to enabling it. We invested into platforms and tools to improve shareholders' experience at the AGM, enabling shareholders to submit video statements. All the available tools were not fully taken advantage of. With the extension of the legislation for another year for the virtual general assembly, it is unclear currently as to what the rules will be, whether next year meetings will virtual or physical.

### Do you have a preference of meeting format?

We do prefer virtual meetings, but one thing we do not find manageable is hybrid meeting as it is technically not yet viable. German law requires that you need prove that every shareholder is connected without interruption through the entire AGM. No service provider is able to give such assurance. 2 years in, it's confirmed not possible. It is legally possible but technically challenging with significant legal risk.

### Can you share some of your greatest challenges as an IR professional today?

As an IRO, it is important to allocate management time to the appropriate investors and profiles and not just by geography. In the past, it was a challenge notably with the travel involved.

*"Today, with virtual meetings, you can be everywhere which renders this aspect much simpler. Also, there has been a shift in engagements with an emphasis on ESG, although the core of these interactions has not drastically changed".*

### On shareholder engagement, has it evolved over the years? Do you engage more regularly with shareholders?

We do regularly engage with our shareholders throughout the year, notably the top investors with whom we can interact additionally on targeted corporate governance roadshows, to continue the on-going dialogue on governance topics and understand their views. It can be more challenging with some shareholders who are not necessarily open for discussion and simply write to provide their feedback post the AGM. We do welcome this feedback and are always available for engagement.

### For the first time this year, German issuers had to present their remuneration systems to shareholder' approval, some of which were highly challenged during the season. From your perspective, can issuers align with investors and market expectations, whilst remaining competitive and attractive?

The simple answer is that it does not work. Fresenius Medical Care is mainly a US business with a German compensation plan. Five out of eight members of our management board are US based. Our C-level compensation is different to those of some US peers. We have achieved 98% approval for our remuneration policy, but it required a lot of work and understanding of investors' needs. We try to meet most of the investors' requirements but as some are opposing to each other, we cannot meet all.



**On board diversity, the UK research company BoardEx found that German boards have 30% female representation, significantly behind their French and UK counterparts. What prevents Germany from obtaining similar ratios on gender diversity?**

Our supervisory board has a 33% female representation, and we have a female lead independent director. All very impressive women. "In my view, the first challenge is to find experienced women that are interested in the task, and many are already sitting on other boards, which in its turn creates over-boarding issues. The second challenge is the compensation level in Germany for supervisory board members". It is a high-profile role and the more you look outside Europe the less attractive it might seem for candidates taking travel to Germany into account. This is an additional challenge to find the right candidate.

**ESG issues and climate change are at the forefront of investors' discussions. From your perspective, how can an issuer reassure investors that ESG is properly integrated?**

The key to ESG is to identify the material areas that pertain to your company. You need to have clear plan, management concepts, policies, KPIs and targets. All of this needs to be linked to management remuneration to make clear that this is a real commitment. My sentiment is that at the moment there is only one topic on investors' minds and that is CO2 emissions.

**Shareholder activism continues to rise with landmark cases this year such as Exxon. What would be the key actions required to avoid a proxy fight? What top tips would you give to handle such a crisis?**

I would say that there are some legal structures, where activism is less likely to be a high risk. However, we are prepared for such eventuality and have an activist investor guideline. My first tip would be to engage with shareholders, listen to their feedback about what needs to be changed from an investment perspective. Activism is not necessarily bad, you may want to embrace the changes, embrace future options. It is not helpful to block activism, if you have receptive management team and shareholders, then you can avoid activism.

**What is your outlook for 2022?**

We have a big transformation program with a new operating model to focus on, which will need to be thoroughly explained to shareholders, so more engagements in the pipeline. Not only for the transformation but to continue the on-going dialogue with investors on ESG, remuneration and other governance topics.

**Dr Dominik Heger**

Head of Investors Relations, Strategic Development & Communications / EVP

Focus on

# NETHERLANDS

## Focus on Netherlands

### At a Glance

Average Quorum (AEX & AMX)	74%
Rejected Resolutions	4
Contested Resolutions (<90%)	45
Contested Resolutions (<80%)	13
Most Contested Resolution Category	Remuneration

### General Overview & Quorum

During the period under review, 312 resolutions were put forward across 21 companies in the AEX. In the Netherlands, 90% of the meetings were held in a virtual format across 2021 proxy season, with the rest being hybrid.

CMi2i has reviewed the shareholders' participation levels (quorum) for both 2020 and 2021 AGM season. Across the two years, the quorum has increased considerably by 4 percentage points.

**70% > 74%**

Out of the cluster of company analysed, only four companies saw a decrease in their quorum levels year-on-year, with the most notable decrease observed in Royal Dutch Shell (-5%). On the other hand, both Signify (+14%) and Just Eat Takeaway (+18%) are worth a mention.

## Regulatory Update

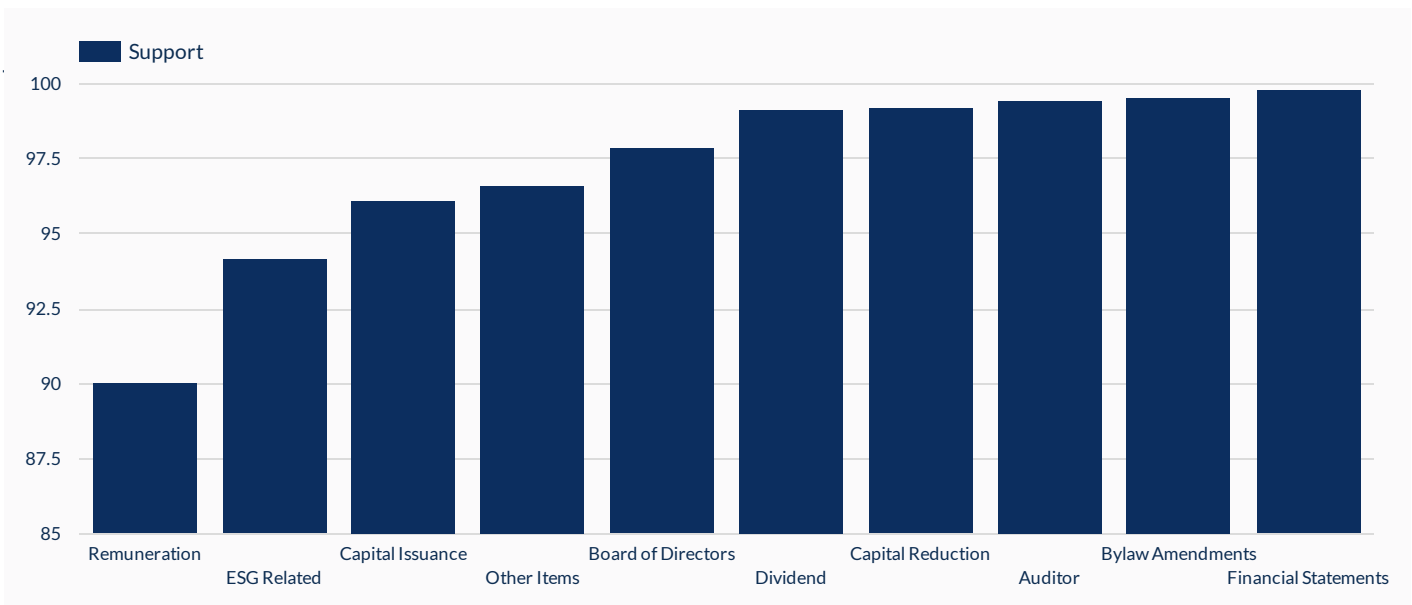
### Gender Diversity

On 28 September, the Senate (Eerste Kamer) of the Dutch Parliament adopted the Act on balance gender diversity at the top of large companies. The Act creates a new statutory framework which aims to improve the gender balance in Dutch listed companies and large companies. This law replaces gender balance rules based on the comply or explain principle and is due to take effect on 1 January 2022.

The law finally arrived after almost 10 years of discussion regarding gender minorities across boards. Dutch issuers have, in fact, lagged behind their European peers in term of female representation for quite a few years.

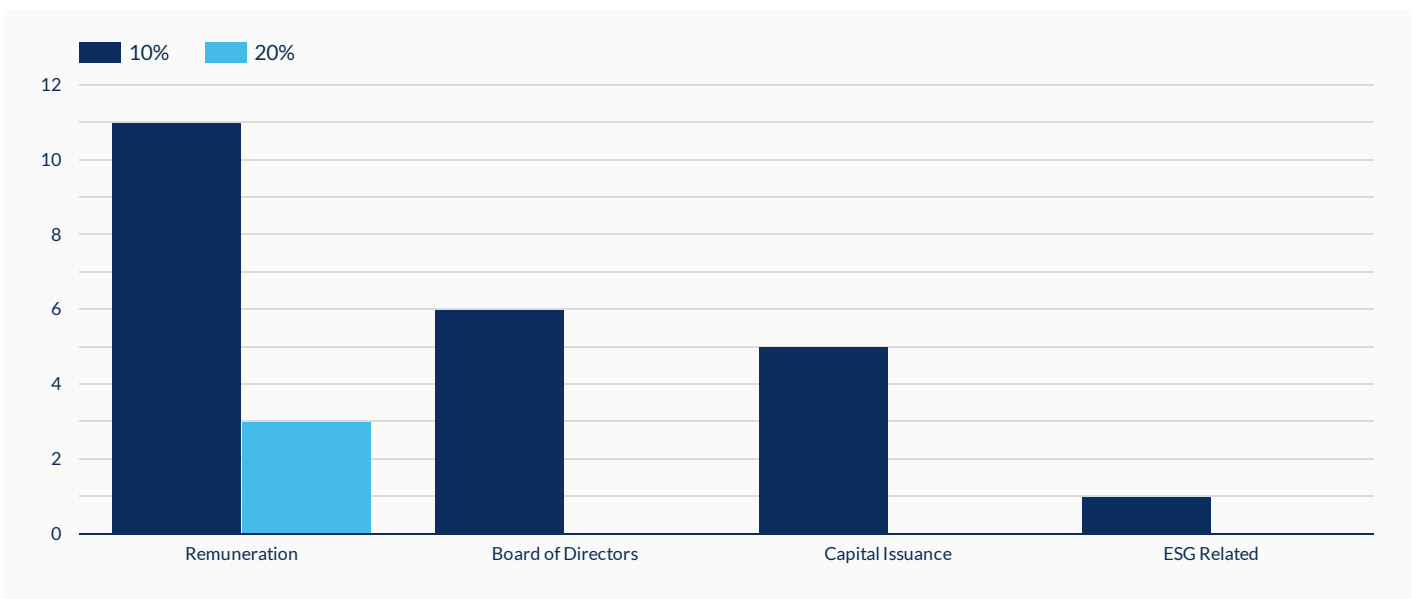


The law stipulates that every new appointment that does not contribute to a more balanced gender ratio on supervisory boards (or number of non-executive directors) is null and void. The nullity of an appointment does not



GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

Out of the 312 resolutions put forward by corporate issuers, 7% (23) were contested by at least 10% of the shareholders, while 1% (3) received at least 20% dissent votes. Two companies received 20% or more opposition on at least a resolution and will be required to address the shareholder dissent ahead of their 2022 AGM (namely Akzo Nobel and BE Semiconductor Industries). The graph below shows the number of contested resolutions, split by the percentage of negative votes.



GRAPH 2 – SHAREHOLDERS OPPOSITION SPLIT BY 10% AND 20%

## Rejected Proposals

Four resolutions across AEX and AMX failed to achieve the required approval of shareholder votes during 2021 AGM.

AkzoNobel and BE Semiconductor Industries, part of the AEX index, received strong opposition from their shareholders on remuneration related proposals: 50.3% of shareholders rejected AkzoNobel's remuneration report, while BE Semiconductor remuneration policy failed to reach the required 75% majority for the second year in a row, with only 54.4% of shareholders being supportive.

Out of the AMX index, Corbion failed a capital increase proposal receiving only 42.6% votes in favour, while Flow Traders did not reach the required 75% majority of the vote for its remuneration policy when it only obtained 67.4% support.

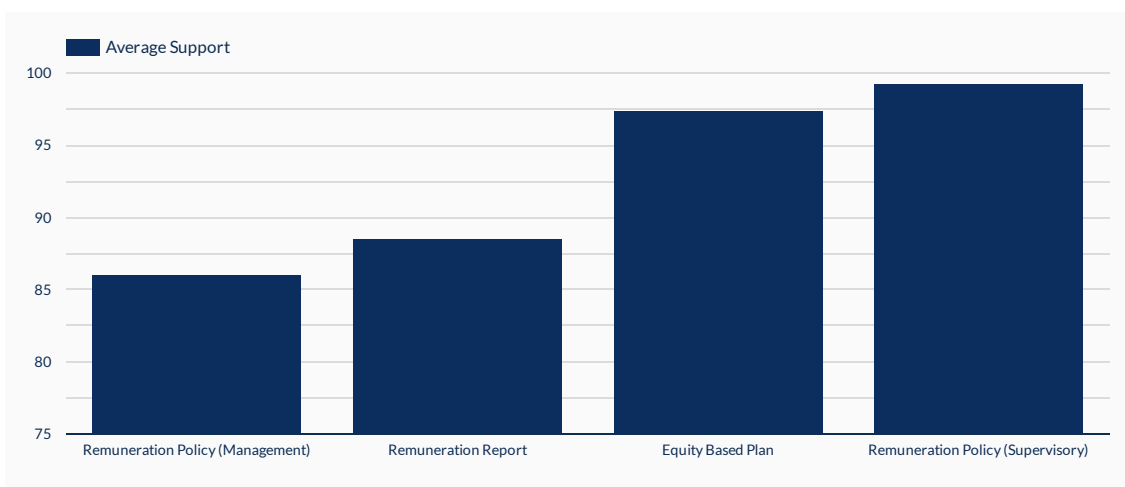
## Key Trends

### Focus on: Remuneration (AEX)

As mentioned earlier in the report, remuneration-related proposals represented the most challenged category across AEX constituting 7% of the total contested resolutions.

Remuneration votes in the Netherlands can be split into four different macro-categories: remuneration policy (management), remuneration policy (supervisory), remuneration report and equity-based plan.

Following the implementation of SRD II into Dutch law, companies in the Netherlands are required to submit their remuneration report for an annual advisory shareholder vote and their remuneration policy for a binding vote at least every four years, or whenever changes are implemented. Unless a Dutch company amends its statutes to stipulate a lower threshold, the remuneration policy must receive the support of at least 75% of votes cast to be approved. The three-quarter threshold can be a challenge to achieve for some issuers.



**GRAPH 3 – AVERAGE SUPPORT LEVEL ACROSS THE 4 REMUNERATION MACRO-CATEGORIES. THE PERCENTAGES REPRESENT THE RATIO BETWEEN THE NUMBER OF CONTESTED PROPOSALS AND THE TOTAL OF PROPOSALS FOR EACH CATEGORY.**

As the graph above shows, Equity-based plans and remuneration policy were not controversial proposals this season in the Netherlands. All the eight contested proposals were split between remuneration policy (management board) votes (3) and remuneration report votes (8).

#### AVG Remuneration Report

**89% > 89%**

#### AVG Remuneration Policy

**90% > 86%**

While remuneration report average support did not change despite AkzoNobel's rejected report, the support level for the management remuneration policy decreased notably by 4 percentage points. As mentioned above, remuneration policy required a 75% approval which can be a challenge for some issuers to achieve. Despite this threshold, some corporate issuers successfully obtained shareholder support for their proposal. After falling short in achieving the required support in 2020, Wolters Kluwer obtained an overwhelming support for the 2021 proposal with 97.14% in favour of the new proposed policy. With the highest approval threshold in Europe, the remuneration policy will continue to be an item of focus for both issuers and stakeholders.

### Focus on: Say-on-Climate (AEX)

ESG-related resolutions represented the second most controversial proposals during 2021 Dutch proxy season.

Two proposals around climate change were put forward by management; one at Royal Dutch Shell (approve the Shell energy transition strategy) and one at Unilever (approve climate transition plan).

This proxy season across Europe, management Say-on-Climate proposals were widely supported by shareholders, which was also the case at Unilever where 99% of shareholders backed the company's climate transition plan. However, at Royal Dutch Shell, a 11% minority of shareholders opposed the Shell energy transition strategy.

Following increasing pressure from its stakeholders, led by the activist movement "Follow This", which for the sixth year in a row proposed a shareholder climate-related proposal at the AGM, Royal Dutch Shell put forward an ESG proposal at this year's AGM. Whilst the company managed to get its own resolution approved (while the shareholder resolution failed with 30% support), shareholders raised reservations with the plan and interim targets. The ongoing pressure from the activist group and stakeholders is increasing year-on-year and might force the company to push its climate goals further.



## Issuer Insights – Wolters Kluwer N.V.

### Could you share some of the greatest challenges you face as an IR Professional today?

Currently, the biggest challenge is getting on top of the ever-evolving ESG movement, understanding ESG data, investors' expectations and how they use this data. Investors all use different approaches while also hearing that the general consensus is in favour of standardisation. This is harder to get a grip of than the financials story, and there's even more now to get on top of with the implementation of SRDII.

### Shareholder engagements are no longer ad hoc exercises ahead of shareholder meetings. From your perspective, how have these engagements evolved over the years?

*"I completely agree with this statement. The way IR teams should approach shareholder engagement is not as a last-minute exercise prior to an AGM. I think you have to plan engagement well in advance and get to know shareholders' way of thinking through long-term dialogue".*

The level of engagement overall is rising – not only on AGM agenda topics, but also on ESG in its own right.

### Investor scrutiny over executive remuneration is ever growing, notably with the COVID-19 pandemic and the impact it has on some sectors. From your perspective, what are the key challenges as a corporate issuer to align with stakeholder expectations?

When you have a very diffuse shareholder base that is geographically widespread, as in our case, it can be difficult to harmonise a large diversity of opinion and types of shareholders with their own guidelines. This makes it harder to get everyone on to the same page. We're also operating on a global market with global competitors, yet the corporate governance / proxy advisory sphere often sees us as a purely Dutch company, which I feel is out of synch with how our business works. Many still apply a local market view when they assess companies, I think this issue will remain a challenge for us going forward.

We're also increasingly becoming a technology company, so attracting human talent and strong leadership within this sector is also something we will need to keep up with.

### Wolters Kluwer's remuneration policy was approved with over 97% of shareholders' votes, after it was rejected last year. Could you share some the actions taken to achieve such a great result? What would be your advice to issuers facing similar challenges?

Significant and very broad efforts on all fronts were made both internally and externally with shareholder and proxy advisor outreach.

*"We worked very hard to synchronise the diversity of opinion on remuneration and act upon investors' suggestions as best as possible. When initiating this ongoing dialogue with stakeholders last year, it was our first major governance roadshow since 2019".*



We went in open-minded and also welcomed the opportunity for us to explain our point of view.

**On E&S issues, and the board's role in ESG oversight, what can boards do to reassure stakeholders they are equipped and have sufficient oversight of ESG risks and opportunities?**

Our supervisory board tracks financial performance but also received reports on ESG performance. On executive board level I would say the most effective course of action would be to add ESG as a performance metric as this will incentivise management to perform well on sustainability. This is something we are currently in the process of implementing.

**Shareholder activism, particularly ESG activism have been growing in recent years, with headlines such as ExxonMobil this season. What are the key actions required in your view to avoid a proxy fight? What are your top tips for crisis management?**

*"Make it a priority to gain a deep understanding of one's shareholder base, wherein you not only try to understand investors' background and vantage points but do so on a regular basis through ongoing dialogue – this will ensure that you can timely anticipate challenges or discrepancies of opinion from all angles".*

There is also value in monitoring different activist types who are actively seeking engagement meetings with you, while pro-actively tailoring a plan as to how you proceed should an activist situation or proxy fight occur. It is absolutely crucial to stay informed at all levels.

**How do you envisage the 2022 AGM season?**

In our case, we will be most likely preparing to facilitate our AGM in a hybrid format as its unclear at the moment whether or not it will be possible to go ahead with a full, physical meeting. If possible and if shareholders prefer, we could have a fully physical meeting or even a fully virtual meeting. When organising for the AGM as an event itself, it's really important to start planning ahead of time.

Ongoing engagement with our stakeholders. Regardless of the 2022 AGM agenda, I foresee that the level and frequency of engagement will remain at a high level. There will also be a large focus on attracting and carefully selecting new investors. We additionally intend to engage with investors in early 2021 on remuneration specifically and provide them with a comprehensive overview on the implications of our remuneration policy that was implemented this year and assess investor opinion on how the policy is functioning in practice. Some clear aspects of our policy that we would focus on for this for is the incorporation of ROIC, the shift to adjusted EPS, and the addition of ESG metrics.

**Meg Geldens**, VP, Investor Relations

Focus on  
**SPAIN**



## Focus on Spain

### At a Glance

Average Quorum	71%
Rejected Resolutions	1
Contested Resolutions (<90%)	54
Contested Resolutions (<80%)	18
Most Contested Resolution Category	Remuneration

### General Overview & Quorum

CMi2i has reviewed the AGM participation level (quorum) and meeting formats of the IBEX 35 across the last two years. In 2020, in view of the COVID-19 outbreak, the Spanish Government declared a state of alarm and a royal decree-law allowed companies to hold virtual general meetings in FY2020. This decree was extended to 2021, which resulted in all AGMs in the IBEX 35 being held virtually.

Despite a second year of virtual AGMs, the average quorum amongst Spanish issuers has slightly increased by 1% from 70% in 2020 to 71% in 2021

**70% > 71%**

Certain companies have seen a significant increase and decrease in shareholders participation in AGM season. The highest decrease in their quorum level year-on-year were seen by Iberdrola (-11%), Fluidra (-6%) and Viscofan (-5%). At the other end of the spectrum, the companies with the highest increase in their quorum were Caixabank (+9%), followed by Solaria and ACS with an 8% increase for both.

### Market Update

Although announced in Spain few years ago, it was only in May 2021 that the Congress of Deputies approved the Spanish Climate Change and Energy Transition Law.

The aim of this law is to meet the Paris Agreement objectives through the decarbonisation of the Spanish economy, promoting ways of adapting to the impact of climate change and of implementing a sustainable development model that generates employment. Planning the energy transition requires reaching a series of objectives that Spain must meet by 2030 (the minimum objectives) and the setting out of a framework so that, by 2050, the country reaches climate neutrality.

The main targets include, among others, cutting the nation's total GHG emissions by at least 23% compared to 1990 levels by 2030, that the share of renewables in the final energy consumption should reach at least 42% by 2030, that the electricity system should produce at least 74% of power using renewable sources by 2030 and that energy efficiency should be improved by at least 39.5%.

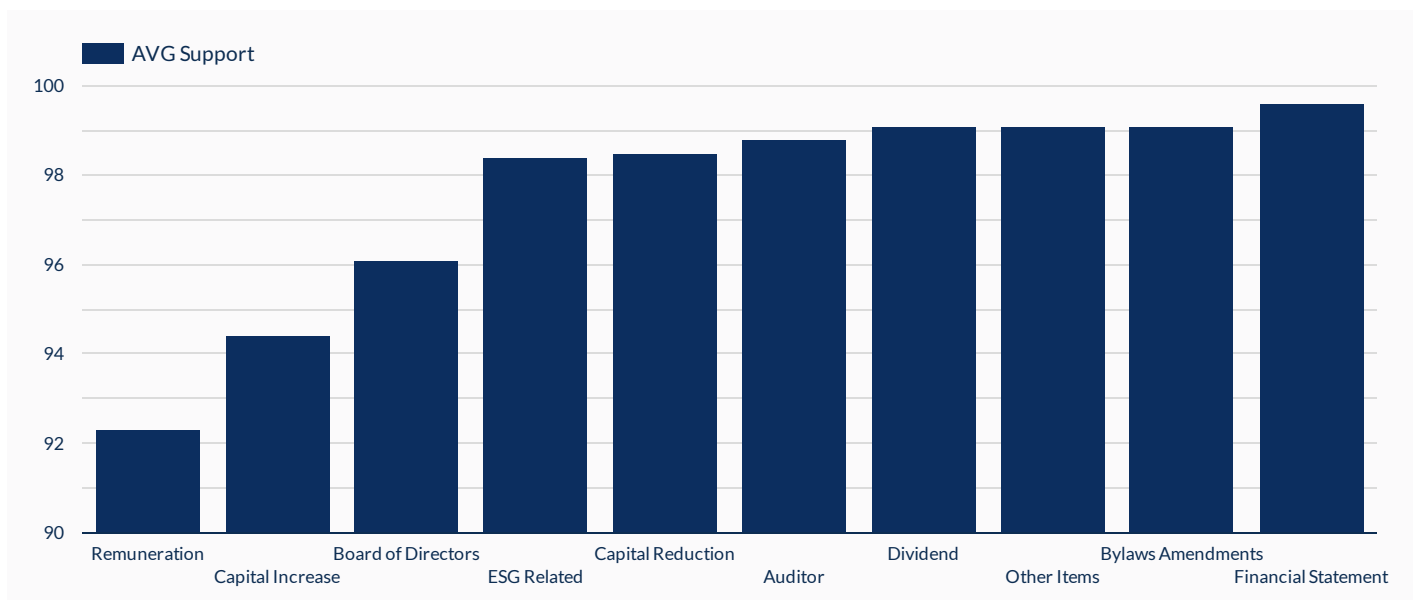
A first revision of the targets is planned for 2023, according to the text of the bill.

Following the adoption of the law, large Spanish companies will be required to calculate the emissions generated by their activity and to disclose their plans to reduce greenhouse gas emissions with targets every five years.

## Resolution Breakdown

In this review, we have analysed 10 macro categories covering the main proposals presented by issuers across the IBEX 35.

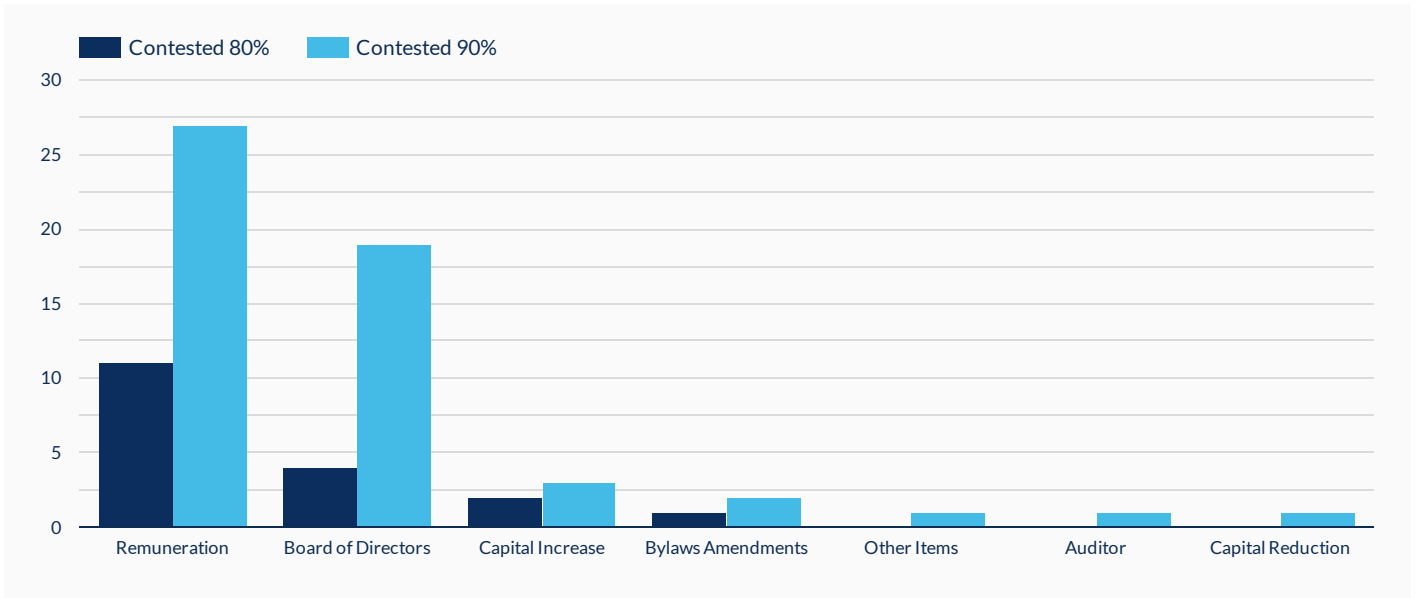
During the 2021 Spanish proxy season, the average level of support across all proposals was approximately 97% of shareholder votes. As per the below graph, remuneration-related resolutions have been the most contested, with 92% shareholders support, followed by capital- increase authorizations (94% support on average) and board-related proposals (96% support on average).



GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

Out of the 652 resolutions put forward by corporate issuers, 8% (54) were contested by at least 10% of the shareholders, while 8% (18) received at least 20% dissent votes. Notably, 10 companies received 20% or more opposition on at least one resolution and will be required to address the shareholder dissent ahead of their 2022 AGM. Some examples of companies which will require a "board response", as per investors and proxy advisors' guidelines given low support rates of the concerned proposals, are Amadeus, ACS, Pharma Mar, Banco de Sabadell and CIE Automotive.





GRAPH 2 – SHAREHOLDERS OPPOSITION SPLIT BY 10% AND 20%

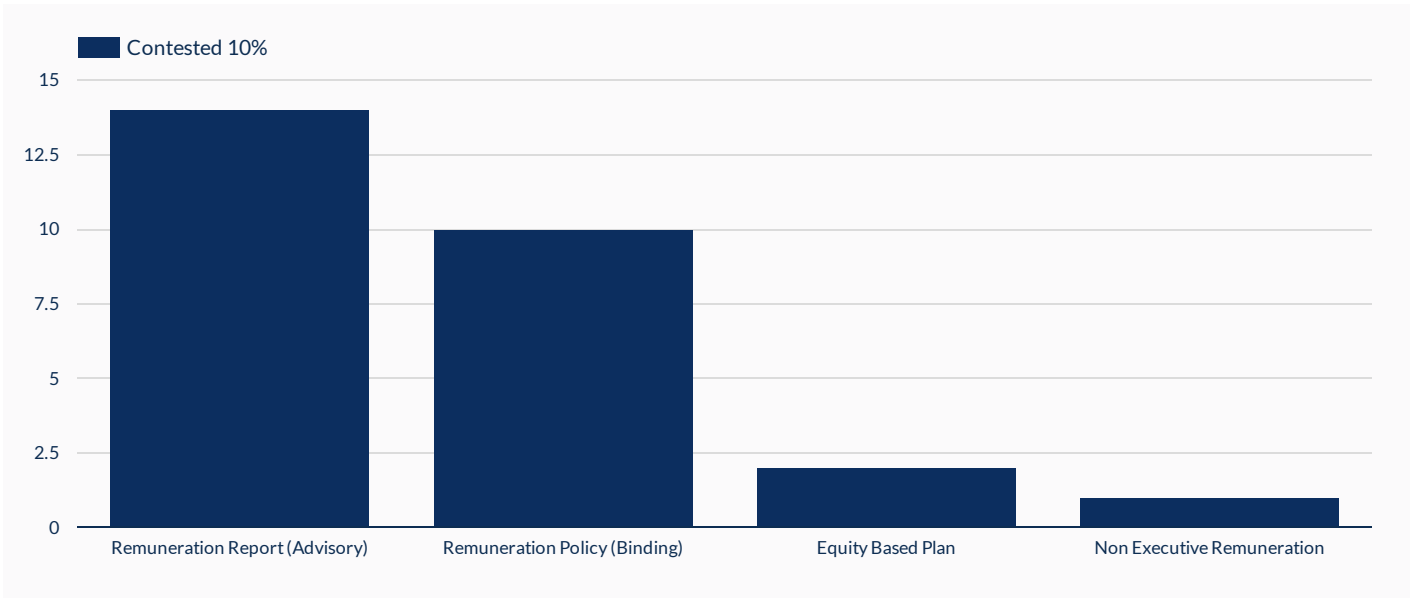
## Key Trends

### Focus View: Remuneration

As showed above, across our IBEX 35 sample, remuneration-related resolutions were the most contested category. Considering the 10% opposition threshold, 50% of the total contested resolutions were linked to compensation matters.

Like other markets, Spanish law requires companies to submit their remuneration report for shareholder approval annually, while a binding remuneration policy proposal needs to be submitted at least once every three years.

In order to better analyse the most contested category of the 2021 Spanish proxy season, CMi2i looked in more detail at four main components of the compensation: remuneration policy (binding), remuneration report (advisory), non-executive remuneration and equity-based plan.



**GRAPH 3 – CONTESTED (AT LEAST 10%) REMUNERATION PROPOSALS SPLIT BY TYPE. THE PERCENTAGES REPRESENT THE RATIO BETWEEN THE NUMBER OF CONTESTED PROPOSALS AND THE TOTAL OF PROPOSALS FOR EACH CATEGORY.**

As the graph above shows, 70% of remuneration report proposals that were put forward were opposed by at least 10% of shareholders. This represents a record across the entirety of Europe and shows that remuneration is still a major issue in Spain. Moreover, more than half of the remuneration policies put forward to a vote also got contested. The increasing issue around Spanish remuneration resolutions can also be observed year-on-year, with average support for both the report and the policy votes decreasing respectively by 2% and 1%.

#### AVG Remuneration Report

91% > 89%

#### AVG Remuneration Policy

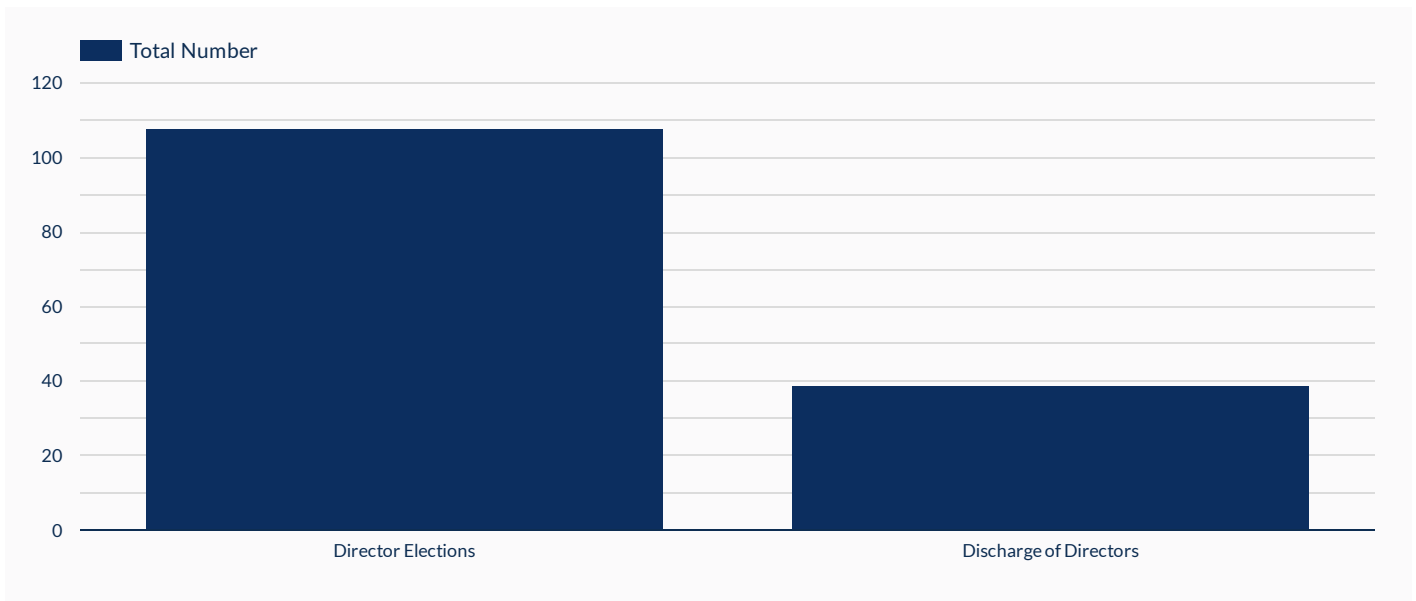
91% > 90%

The only failed resolution across IBEX 35 during the reporting period was Amadeus' remuneration report, which failed to gather the required approval rate and received almost 70% negative votes from its shareholders.

### Focus View: Board Related

Out of a total of 147 board-related resolutions analysed, 13% (19) were opposed by at least 10% of the shareholders. Despite a slight decrease in the number of contested board-related resolutions compared to 2020 (23), board

proposals remain a highly scrutinized topic, especially when it comes to independence of directors, board tenure and gender diversity.



GRAPH 4 – NUMBER OF BOARD RELATED RESOLUTIONS PUT FORWARD SPLIT BY CATEGORY AND AVERAGE SHAREHOLDERS SUPPORT LEVEL.

### Focus View Say on Climate

Four companies within the IBEX 35 have submitted for approval five resolutions linked to climate action: Aena, Ferrovial, Iberdrola and Acciona.

As mentioned in the market update, large companies will be soon required to disclose their plans to reduce greenhouse gas emissions with targets every five years. As of today, only 12% of the IBEX 35 companies decided to put forward a climate related resolution.

On average, the support for ESG-related resolutions was 99%.

Focus on

# ITALY

## Focus on Italy

### At a Glance

Average Quorum	69%
Rejected Resolutions	0
Contested Resolutions (<90%)	35
Contested Resolutions (<80%)	17
Most Contested Resolution Category	Remuneration

### General Overview & Quorum

During the period under review, 277 resolutions were put forward across 34 companies. Italian AGMs were all held with a hybrid, physical-restricted format, given the law issued in April 2020 regarding the Covid pandemic that allowed issuers to convene the Annual General Meeting without the physical attendance of shareholders and solely in the presence of the Designated Representative.

CMi2i reviewed the AGM representation (quorum) of the 34 analysed companies for both 2020 and 2021 AGM season. Generally, we noticed a minor decrease in the quorum level of the FTSE MIB across the two years.

**70% > 69%**

The decrease is linked to a few companies which saw their AGM representation fall substantially compared to 2020. For instance: Mediobanca (-9.9%), Leonardo (-9.7%), Saipem (-7.1%) and Telecom Italia (-6.1%) all saw their quorum level falling by more than 5% on a year-on-year basis. On the other hand, a few companies saw their quorum level increase by more than 5%, including Banca Mediolanum (+10.9%) and BPER Banca (+8.7%).

## Market Update

### New Italian Corporate Governance Code

The latest Italian corporate governance code was released in January 2020. From 2021, companies are required to comply with the code and the disclosure shall be provided in the corporate governance report to be published during 2022.

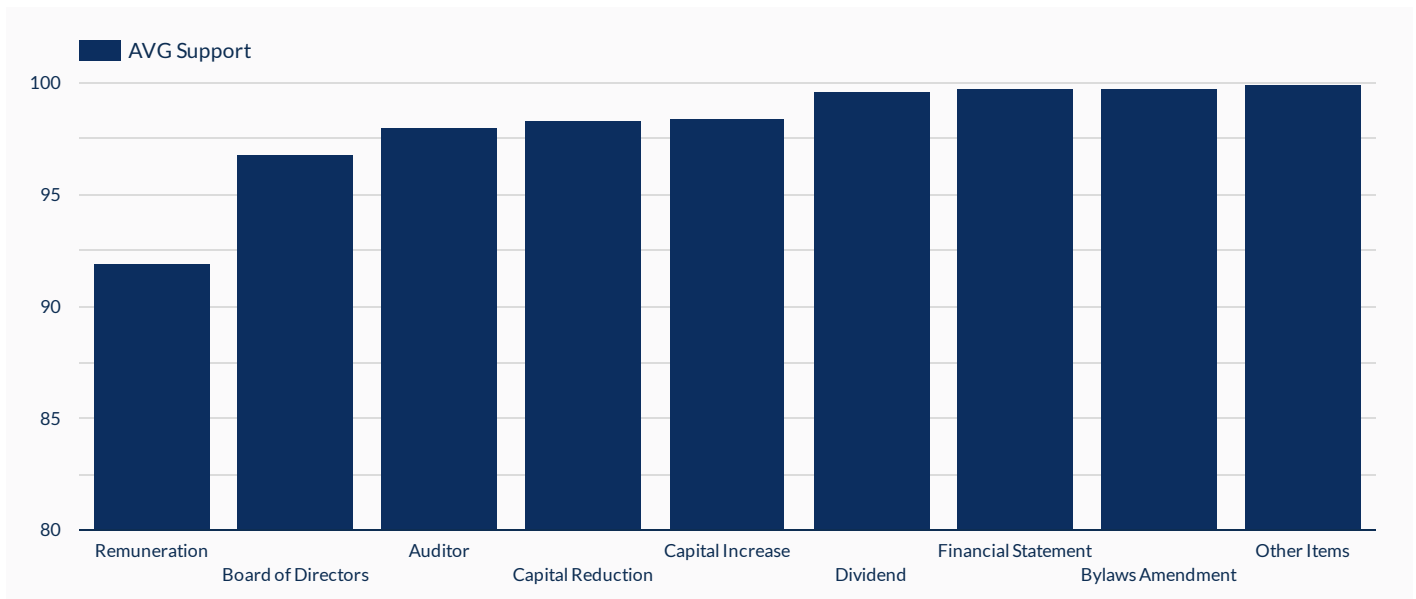
Among all the changes, the most relevant additions were around gender diversity (at least one third of the board to be comprised by the less represented gender), engagement policy (how the company manages dialogue with

shareholders), board independence (at least half of the board to be independent in large companies), board evaluation (to be conducted at least once every three years or at least once a year in large companies), long-term incentives (a predominant part of the plan will need to have an overall vesting and holding period of at least five years), succession plans (which procedures will be followed in case of an early termination of office) and risk management (how to manage risks internally following new code rules).

## Resolution Breakdown

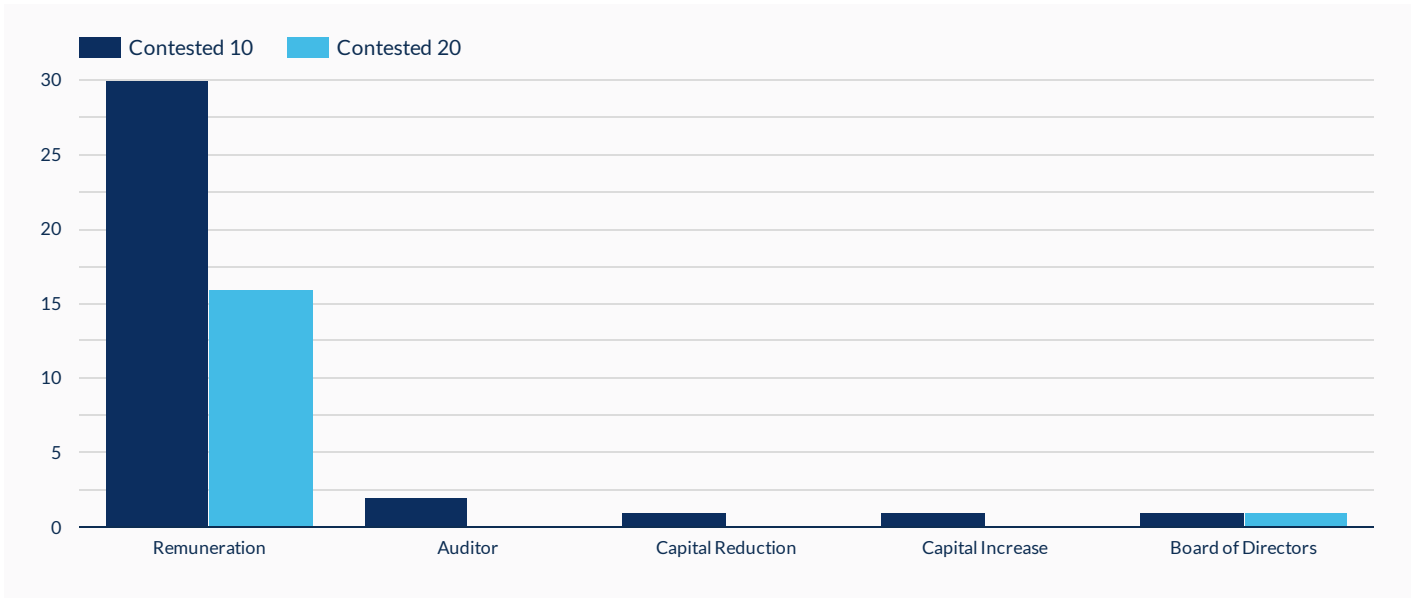
In order to proceed with our analysis, we identified nine macro categories in order to categorize the resolutions. Predominantly, Italian issuers put forward remuneration-related votes (110), followed by dividend proposals (35) and resolutions around the approval of financial statements (33).

During the 2021 Italian proxy season, the average level of support has been approximately 98%. Remuneration-related resolutions represented the most contested category (92% average support), followed by board-related proposals (97% average support) and audit-related resolutions (98% average support).



GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

Out of the total number of resolutions put forward, 13% (35) have been contested by at least 10% of the shareholders while 6% (17) have been contested by at least 20% of the shareholders. Notably, 14 companies received 20% or more opposition on at least one resolution and will be required to address the shareholder dissent ahead of the next AGM.



GRAPH 2 – SHAREHOLDERS OPPOSITION SPLIT BY 10% AND 20%

## Focus View: Remuneration

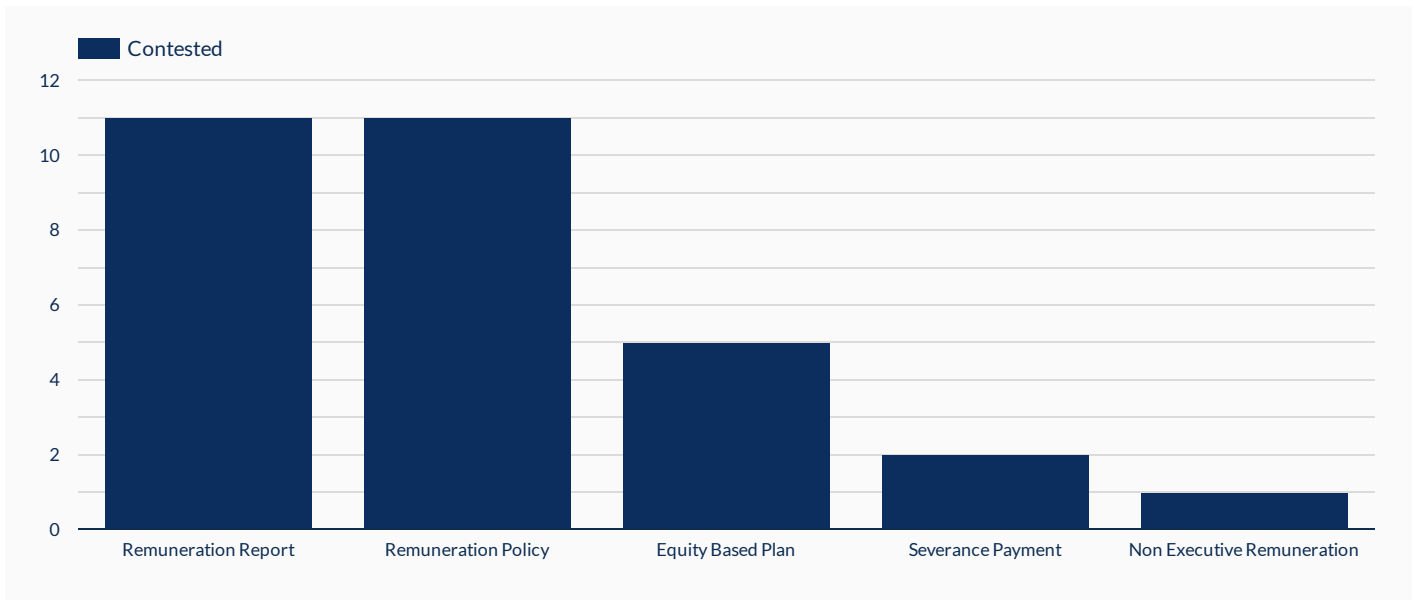
As shown above, across our FTSE MIB sample, remuneration-related resolutions were the most commonly contested category. Considering the 10% opposition threshold, approximately 85% of the total contested resolutions were linked to compensation matters.

In Italy, as disciplined by article 123-ter of the Italian Financial Code (TUF), companies with listed shares shall make a report on the policy regarding remuneration and fees paid available to the public. The report, which needs to be published at least twenty-one days prior to the date of the AGM, is separated into two separate sections: a binding one (the remuneration policy), and an advisory one (the remuneration report).

The first section illustrates the general principles on how executives will be compensated in the following year and the applicable procedures. A shareholders-binding vote on the first section is required at least once every three years, or any time of making amendments to the existing policy.

The second section provides for a detailed disclosure on the compensation paid to each board member, the managing director and the top management. A shareholder advisory vote on this section is mandatory every year.

In order to better analyse the most contested category of the 2021 Italian proxy season, CMi2i decided to split the remuneration general category into five different sub-categories: remuneration policy (first section), remuneration report (second section), non-executive remuneration, equity-based plan and severance payment.



**GRAPH 3 – CONTESTED (AT LEAST 10%) REMUNERATION PROPOSALS SPLIT BY TYPE. THE PERCENTAGES REPRESENT THE RATIO BETWEEN THE NUMBER OF CONTESTED PROPOSALS AND THE TOTAL OF PROPOSALS FOR EACH CATEGORY.**

As the graph above shows, 11 companies received shareholder opposition on either the first or the second section of their remuneration proposals. It is also interesting to note that, despite remuneration still being the major issue at Italian AGMs, shareholder support is slightly increasing. Both the average support on remuneration report and remuneration policy resolutions for 2021 increased by 3 percentage points from 2020.

**AVG Remuneration Report**

**85% > 88%**

**AVG Remuneration Policy**

**88% > 91%**

Equity Based Plan-related proposals were slightly contested (5 out of 31), while non-executive-related remuneration resolutions did not raise main concerns during the 2021 season (one contested resolution out of 11). It is finally worth mentioning that half of the Severance Payment resolutions (two out of four) received some shareholder opposition.





## Investor Insights – Generali Investment

### 2021 Proxy Voting Season: what were the noticeable changes in the Italian market?

During the last proxy voting season, the Italian governance landscape has seen some interesting changes due to the implementation of the Shareholder Rights Directive II (SRD II), amendments made to the Regolamento Emittenti (Issuer Regulations by Consob, the Italian financial markets authority) and the entry into force of the new Corporate Governance Code.

We welcomed these new features, which kept the Italian market aligned to legal requirements and best practices present in other European markets. However, what we believe has really made the Italian market to stand out internationally is the great attention that lately grew among all market players regarding Engagement and related processes. Assogestioni, the association of the Italian investment management industry, is working on the Italian Shareholder-Director eXchange Principles (I-SDX) and, on the other hand, Assonime, the association of Italian joint stock companies, has published the Principles for Listed Companies' Dialogue with Investors. Both associations' effort, jointly with the regulatory developments, is shaping the dialogue between Italian issuers and shareholders creating a clear framework in which this activity can thrive.

### Shareholder engagements are no longer ad hoc exercises ahead of shareholder meetings. From your perspective, why is everybody so interested in Engagement in recent years?

Firstly, we believe it is because of SRD II which "forced" Institutional Investors to publish a policy guiding their efforts in Engagement and to annually report on how they've implemented it. This encouraged many investors to start or increase their active ownership activities.

*"In Italy, many of the investors at the beginning preferred to commence with the dialogue rather than voting and with collective dialogue rather than individual. As a matter of fact, in this market all votes casted are made public within one month from the meetings, making whoever's approaching voting for the first time, understandably more cautious".*

In addition, the resources needed to vote and engage individually could be higher than what funds are willing to dedicate to.

Secondly, the raise of Engagement is clearly and most importantly linked to the success ESG is having as a fundamental matter in investment analysis. Engagement once linked almost exclusively to Proxy Voting or Corporate Governance risks has now developed into a dialogue regarding mainly Environmental and Social topics. Furthermore, it is not only a tool to deep-dive on specific ESG risks with investee companies, it became the most effective way to create an impact. We are now at the dawn of what we call "Impact Engagement". Investors are concretely mitigating the identified risk, shaping Companies' plans and generating value through dialogue.

We are sure that most of Asset Managers will change their paradigm and the funds will eventually start voting and engaging with a clear purpose of create a material impact on issuers and not with a tick-box approach demanded by regulation or market pressure.



## What is Generali Insurance Asset Management Engagement Approach?

We created few years back a dedicated engagement team whose goal is to engage and influence companies which present a combination of high ESG risks, high financial exposure in client's portfolio and high probability of engagement success.

As part of this intuition, we are convinced that the only way to generate impact on listed companies is through Engagement. The challenge here is the demonstration of our additionality, which is cornerstone of the definition of Engagement. This is why *"we have developed an approach we call "Impact Engagement", aiming at generating change and therefore impact at issuer level, maximizing the efficiency our engagement efforts, where often we receive the formal recognition from the company that the observed impact has been generated thanks to our contribution"*. It, as proof of the additionality, testifies that Engagement is successful.

The approach is based on three pillars:

- > Internal preparation: it is focused on very specific topics, coordinating all interactions with the targeted issuer, building in-depth knowledge of the matter
- > Relation with the issuer: we try to create a trust relationship where the issuer exposes its challenges, trying to find solutions with them, sometimes organizing trainings for them
- > Relationship with other investors: only in certain situations, after having defined a clear framework with the issuer, we gather other investors around us to demonstrate interest in topics we tackle

Depending on client needs, we can understand with them how we can apply this methodology to key issuers in their portfolio.

## How efficient is this approach? Could you provide an example of a successful outcome following an "impact engagement"?

For example, we experimented this approach in a significant way engaging with some power producers in Central Eastern Europe.

Our engagement activity led one primary power supplier in Easter Europe to disclose a coal decommissioning plan that will reduce coal capacity from initial 6.2 GW to 0,7 GW by 2040 and net-zero emission by 2050. This company confirmed to us that our engagement played a significant role in raising their awareness about that topic and making the suggested steps.

In addition, another primary power supplier in that region announced a disruptive change in its strategy enabling this issuer to finance its transition. This company has also recognized our input & role as leader of the CA100+ coalition engaging with them on that topic.

**François Humbert**, Active Ownership Lead Manager

Focus on

# SWITZERLAND



## Focus on Switzerland

### At a Glance

Average Quorum	64%
Rejected Resolutions	1
Contested Resolutions (<90%)	95
Contested Resolutions (<80%)	27
Most Contested Resolution Category	Board Related

### General Overview & Quorum

During the period under review, 463 resolutions were put forward across 19 corporate issuers. In the 2021 Swiss proxy season, all the AGMs were held virtually.

CMi2i reviewed the AGM representation (quorum) of the 19 analysed companies for both 2020 and 2021 AGM season. A slight decrease in shareholder participation amongst the SMI 20 across the two years has been noticed.

**65% > 64%**

## Market Update

### Amendments to the Code of Obligation

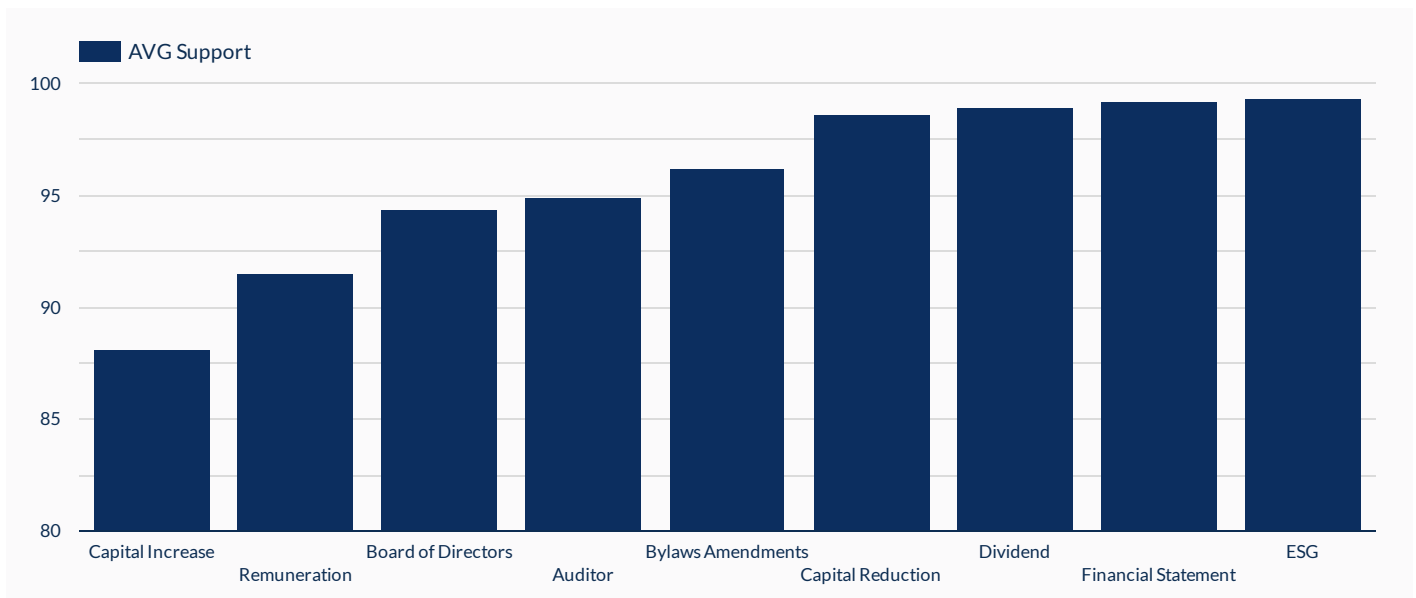
In November 2016, the Swiss Federal Council issued a draft of proposed amendments to the Code of Obligations, which was approved by the Council in June 2020. The new rules will enter into effect in 2022 after a transition period of two years, during which time companies will have to adapt their articles of association.

Some of the main changes implemented are: mandatory advisory vote on the compensation report (currently voluntary), gender equality threshold (30% minimum requirement for the board and 20% for the executive committee), capital increase/decrease (up to 50% over a period of up to five years), interim dividends (subject to shareholders approval), virtual meetings (subject to participant identification and participation), share ownership threshold to add an agenda item (from 10% to 0.5%), share ownership threshold to call an EGM (from 10% to 5%) and communications between board and independent proxy (which will be limited to general trends and may not occur prior three days ahead the AGM).

## Resolution Breakdown

In order to proceed with our analysis, we have analysed nine macro categories covering the main proposals presented by issuers across the SMI 20. Predominantly, Swiss issuers put forward board-related votes (309), followed by remuneration proposals (73) and auditor-related resolutions (22)

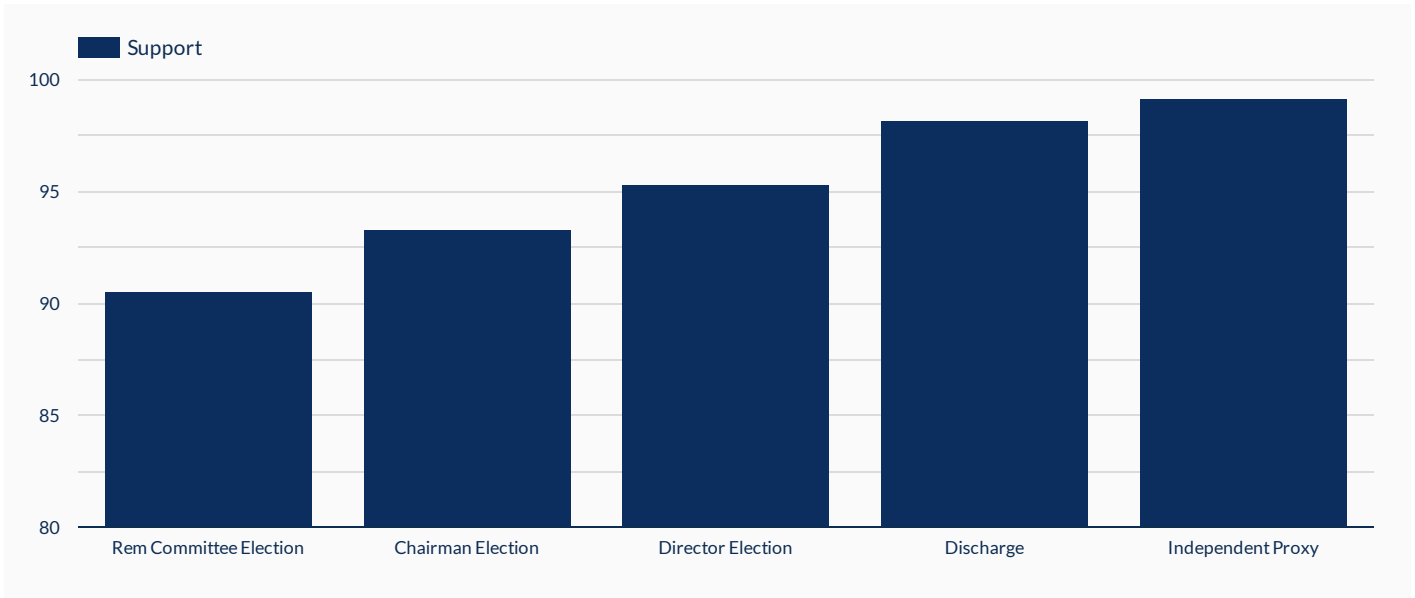
During the 2021 Swiss proxy season, the average level of support was approximately 96%. Capital Increase resolutions represented the most contested category (88% average support) followed by remuneration-related proposals (91% average support) and board-related proposals (94% average support).



GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

## Focus on: Board Related

As mentioned above, board-related resolutions were the most common resolution type, constituting 66% out of the total of the resolutions put forward during the 2021 AGM season. Therefore, we decided to breakdown the category into five different sub-categories: chairman election, director election, remuneration committee election, independent proxy election and discharge votes.

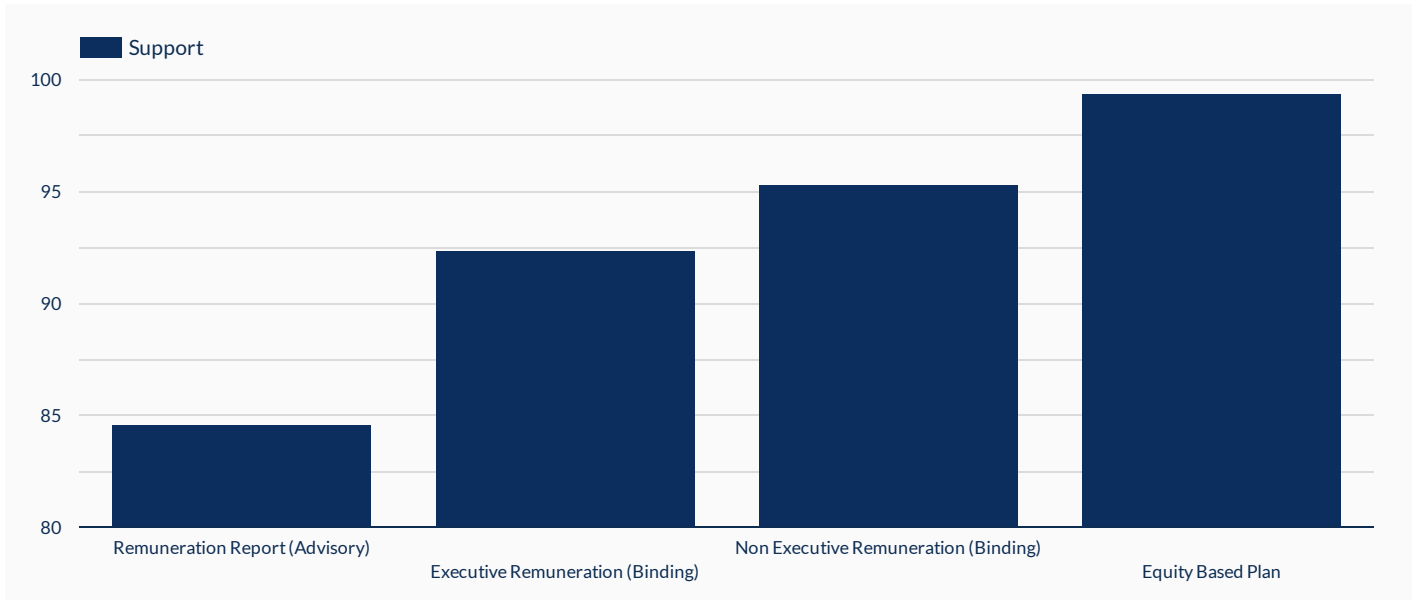


**GRAPH 2 – BOARD RELATED PROPOSALS BREAKDOWN, WITH AVERAGE SUPPORT LEVEL**

As the graph shows, remuneration committee election has been the most contested category among board-related proposals. Out of 76 remuneration committee election, 36 have been opposed by at least 10% of shareholders. This is likely linked to poor remuneration practices; some institutional investors are using the election to express their dissatisfaction over certain pay practices. This negative vote may be in addition to a vote against the remuneration report or executive and/or non-executive compensation.

### Focus on: Remuneration

In Switzerland, issuers are obliged to put forward two different binding votes on remuneration: a vote on executive remuneration and a vote on non-executive remuneration. Moreover, although votes on the remuneration report are not mandatory until 2022, 89% of the issuers presented a remuneration report in order to comply with the Swiss Code of Best Practice for Corporate Governance.



GRAPH 3 – REMUNERATION RELATED PROPOSALS BREAKDOWN, WITH AVERAGE SUPPORT LEVEL

**AVG Remuneration Report**

89% > 85%

**AVG Executive Remuneration**

93% > 92%

**AVG Non-Executive Remuneration**

93% > 95%

It is noted that both remuneration report and executive remuneration votes were more contested than last year, while non-executive remuneration gathered more shareholder support.

The decrease support on remuneration report can be linked to the single failed resolution across the SMI 20 in 2021 presented by Alcon Inc. The issuer remuneration report did not reach the single majority vote required and was supported only 43% the participating shareholder support. Both the mainstream proxy advisors, ISS and Glass Lewis, had issued a negative recommendation over the proposal. Considering their influence on the market, they could have had in impact on the voting result.

Focus on

# BELGIUM





## Focus on Belgium

### At a Glance

Average Quorum	65%
Rejected Resolutions	0
Contested Resolutions (<90%)	51
Contested Resolutions (<80%)	15
Most Contested Resolution Category	Remuneration

### General Overview & Quorum

For this review, CMi2i has examined the overall participation level of the BEL 20 over the last two years.

In light of the Covid restrictions and/or advisories, all of the meetings were held virtually. Despite a second year of virtual AGMs, the average shareholder participation level amongst Belgium issuers have significantly increased by 4% this year compared to 2020.

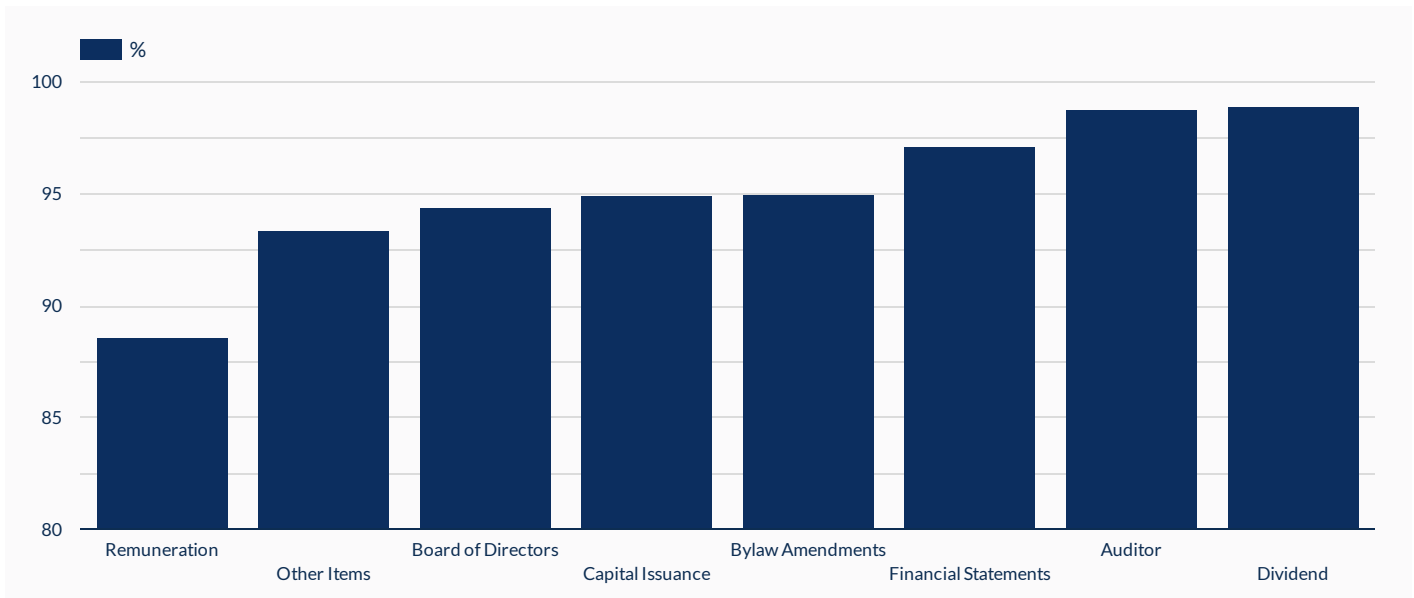
The top five companies that saw the highest decrease in their quorum level this year were Umicore (-14%), Telenet Group (-6%), Group Bruxelles Lambert (-4%), Galapagos (-4%) and Proximus SA (3.01%). On the other hand, the top five companies with the highest increase in their quorum were: arGEN-X (+34%), Cofinimmo (+5.54%), Elia Group (+4%), Ackermans & Van Haaren (+4%), and AB InBev (+3%).

### Market Update

In accordance with the Shareholder Rights Directive II, transposed into Belgian Company Law on April 28, 2020, all Belgium listed companies whose financial year ends on December 31, are required to propose a new remuneration policy commencing with the 2021 annual general meeting. The remuneration policies must be approved at the general meeting and reapproved every four years, or in the event that there are any changes made to the policy.

Further to this, companies will now be expected to comply with additional disclosure and content requirements in their remuneration reports. They will be required to disclose the manner in which the last shareholder vote was handled, how pay corresponds with company performance, and how remuneration granted in the past year complies with the remuneration policy, with a view to reconcile its long-term interests and the average remuneration of employees. Additionally, the pay ratio between the highest remunerated executive and the lowest remunerated employee will be disclosed in the new report.

## Resolution Breakdown



GRAPH 1 – AVERAGE SUPPORT BY CATEGORY

We have categorized the resolutions into 10 macro categories. During the 2021 Belgium proxy season, the average level of support for management proposals was approximately 94%.

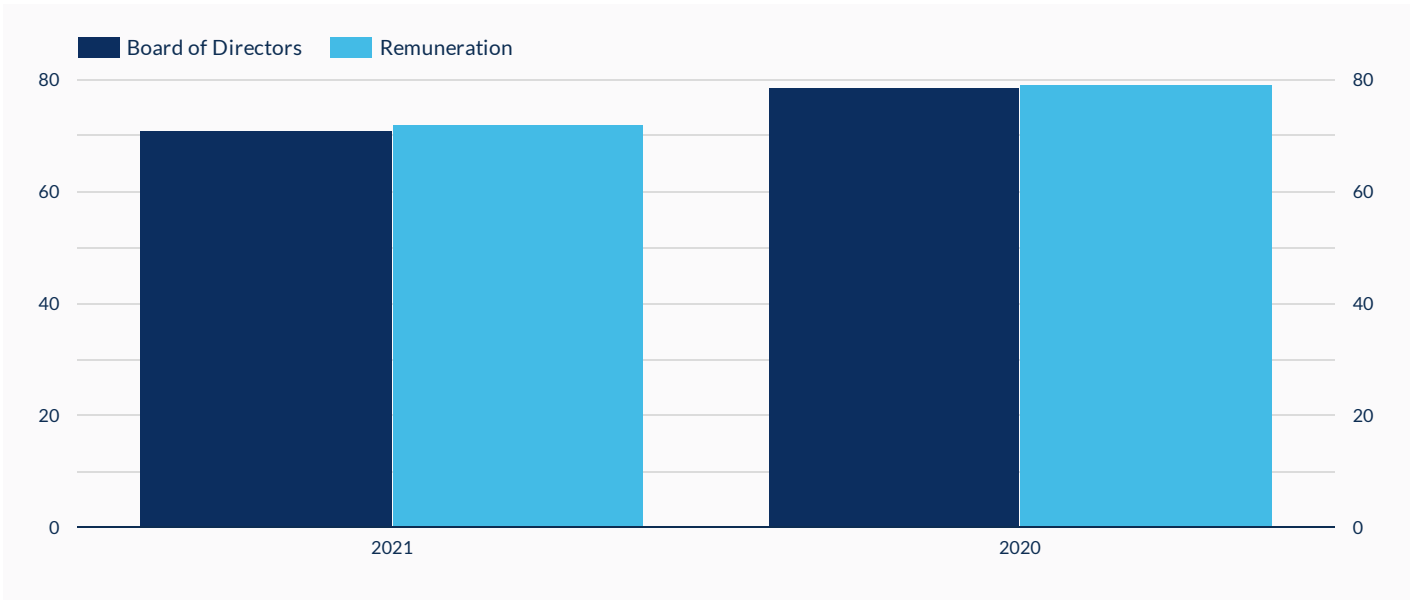
Out of the 222 resolutions put forward, Remuneration resolutions garnered the least amount of shareholder approval, averaging 88% support, followed by Other Items, with the majority pertaining to change of control clauses (93% support), and finally Board Related proposals averaging 94% support.

## Key Trends

### Focus View: Board of Directors

Despite a high approval level for board-related management proposals, certain resolutions remained challenged by investors, where opposition reached over 10% of the votes cast.

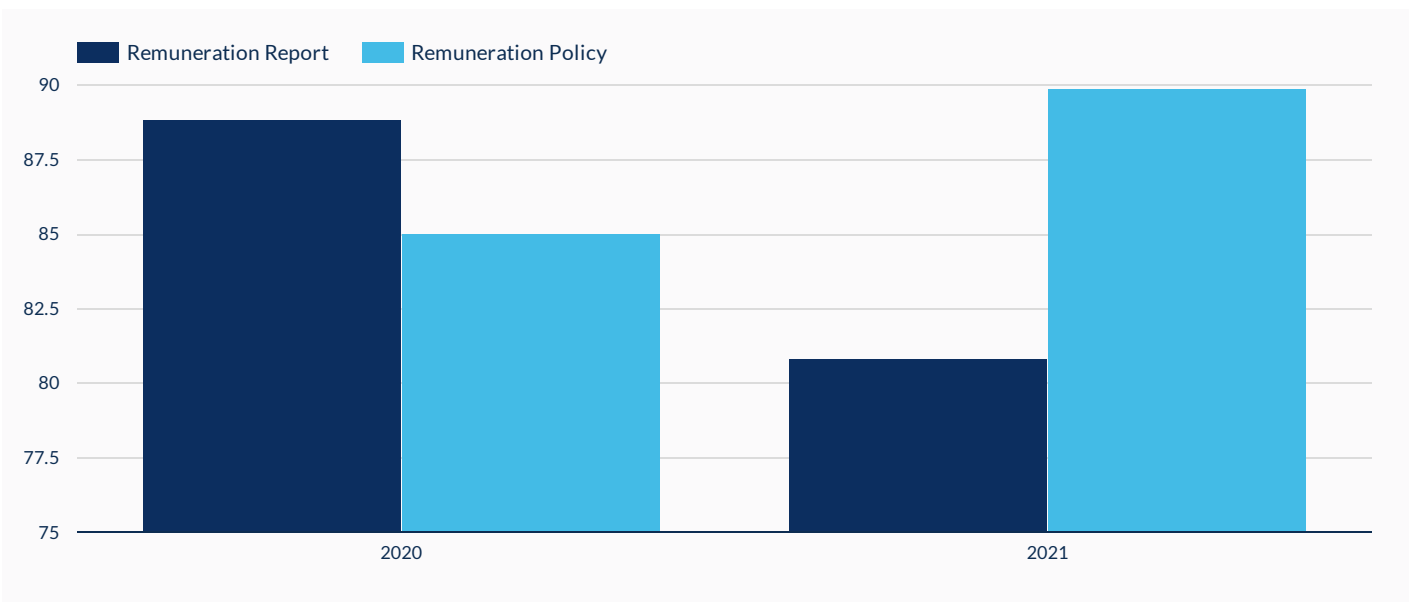
The appointment and/ re-election of directors was increasingly challenged this year, with 25 resolutions garnering less than 90% support. As an example, KBC Groep received only 62% shareholder approval for the proposed election of Philippe Vlerick as director, mainly due to his lack of independence, and his board tenure which exceeds 12 years. Ageas also received low shareholder support in relation to the proposed re-election of Bart De Smet (65% support), again due to his lack of independence. Also, as Bart is a former CEO, some felt that this could affect the balance of authority and responsibility between board and management, and therefore voted against his re-election.



GRAPH 2 – MOST CONTESTED CATEGORIES WITH <90% SUPPORT

### Focus View: Remuneration

While Remuneration garnered on average 89% support across the index, 19 resolutions out of the total remuneration proposals presented reached less than 90% approval. Additionally, amongst the challenged proposals, the remuneration reports were the least supported by shareholders.



GRAPH 3 – AVERAGE SUPPORT - REMUNERATION POLICY VS REMUNERATION REPORT

Although not a legal requirement, soft law on shareholder dissent demands for a board acknowledgement when a proposal fails to achieve 80% support. This year, there was a decrease in the number of resolutions with less than 80% approval (three in 2020 compared in to one in 2021). During the AGM season, arGEN-X only gathered 76.58% support for its remuneration policy due to continued concerns over the company's design of equity-based incentives and a stock option plan. As such, it is expected the company will formally acknowledge this result by the 2022 AGM and to appropriately address such dissent.

Focus on

# LUXEMBOURG



## Focus on Luxembourg

### At a Glance

Average Quorum	79%
Rejected Resolutions	0
Contested Resolutions (<90%)	5
Contested Resolutions (<80%)	0
Most Contested Resolution Category	Remuneration

### General Overview & Quorum

For this review, CMi2i has examined the overall participation level of the LuxX 9 index over the last two years.

In light of the continuous Covid restrictions, all AGMs were held virtually. This year, we note an increase in the average quorum amongst Luxembourg issuers from 76% in 2020 to 79% in 2021: a 3% increase.

Notably, all of the companies saw an increase in their quorum, with the exception of SES SA which had a slight decrease of 0.07% in shareholder participation and Brederode SA whose quorum remained the same this year.

### Market Update

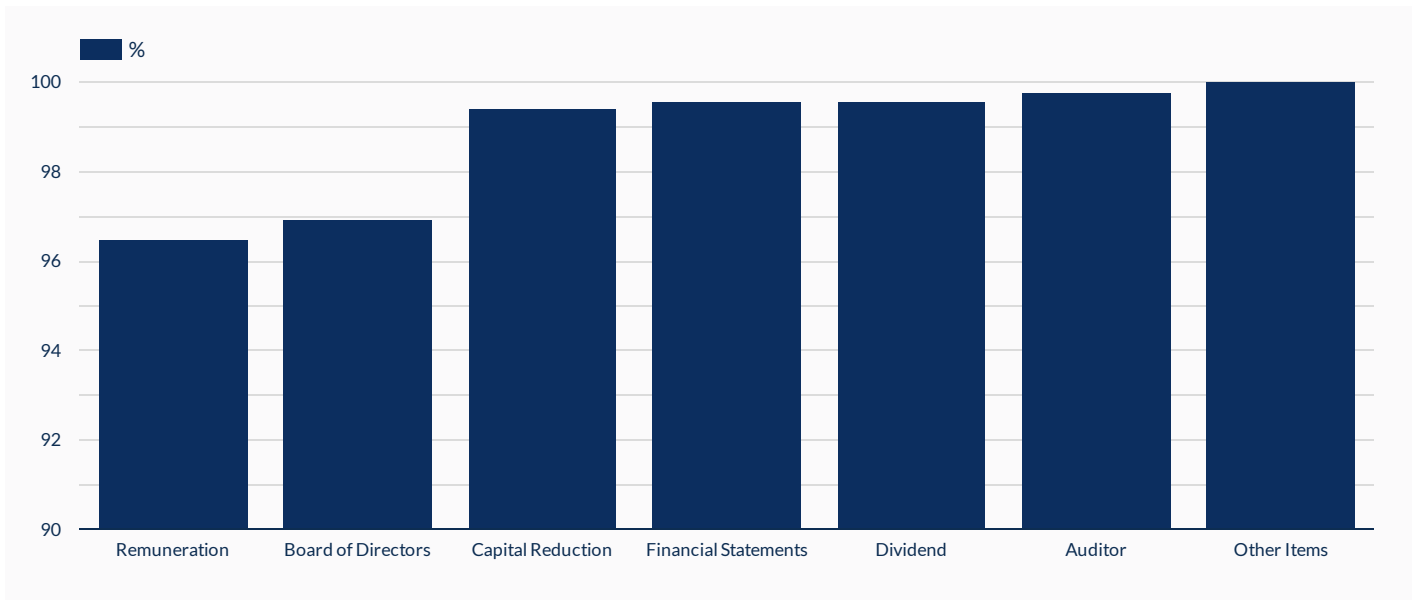
The X Principles of Corporate Governance of the Luxembourg Stock Exchange ("X Principles"), which set the rules and principles of transparency, responsibility and control which Luxembourg issuers should comply, was last revised in 2017.

On 16 December 2020, the Luxembourg regulator, the Commission de Surveillance du Secteur Financier (CSSF) announced the fast-track procedure for ESG disclosures would be required to be made under the EU's Sustainable Finance Disclosures Regulation (SFDR) in 2021.

All Luxembourg-regulated investment funds that limit themselves to including only ESG disclosures in the prospectus updates can benefit from the fast-track procedure, and they should have submitted them, together with a confirmation letter, by 28 February 2021.

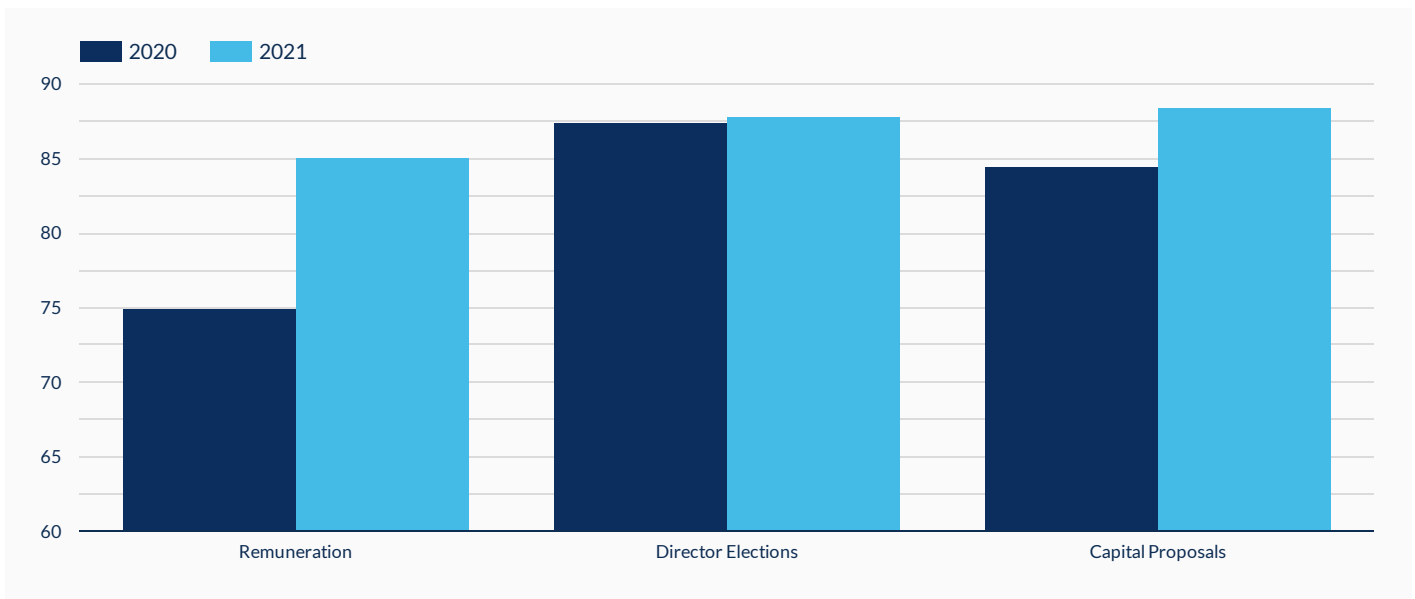
### Resolution Breakdown

In order to proceed with our analysis, we have categorized the resolutions into 10 different macro categories. During the 2021 Luxembourg proxy season, the average level of support was approximately 98%. Only 2% of the items presented received less than <90% support.



**GRAPH 1 – AVERAGE SUPPORT BY CATEGORY**

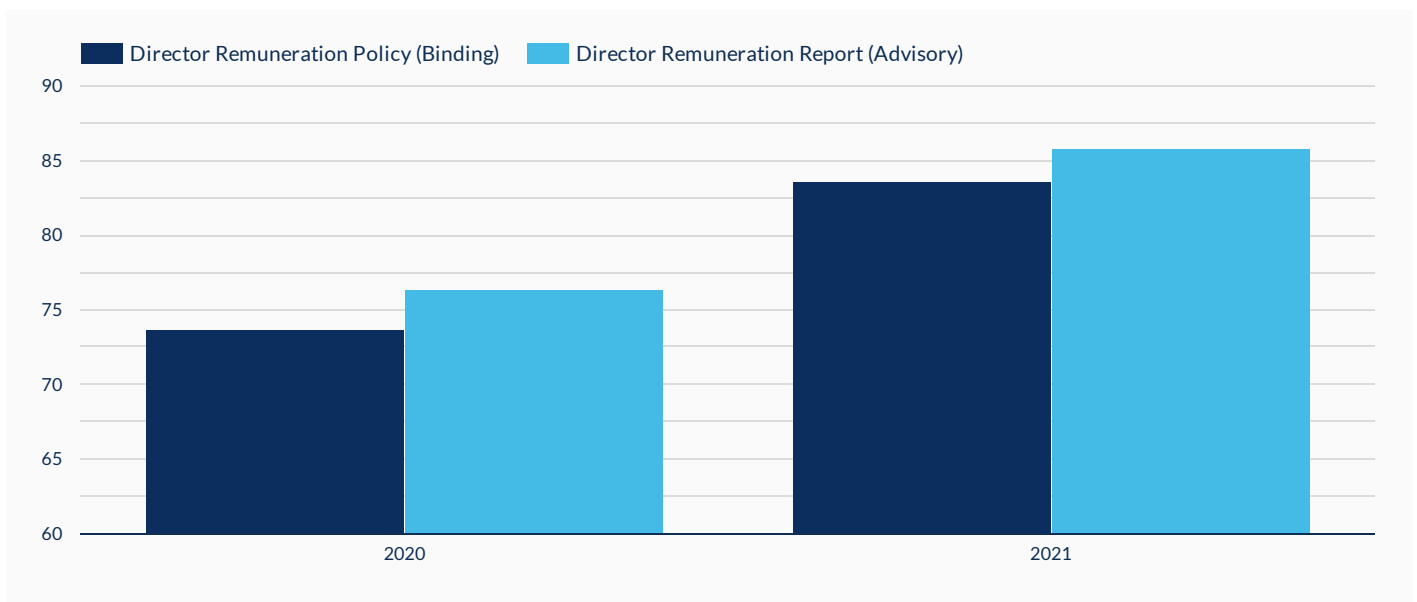
As per the graph above, the 2021 AGM season in Luxembourg was calm, with no major issues or challenged items. Out of the 96 resolutions put forward, only 5 were contested by shareholders. Three of these resolutions were in relation to remuneration, which are described in more detail below under Focus View. The lowest approval for the director election was at RTL Group, where the re-election of non-executive director obtained 88% support from shareholders, due mainly to concerns about board structure. The share repurchase plan proposed by Reinet Investments also received similar support (88%) due to the authorization request being in excess of 10%.



**GRAPH 2 – AVERAGE MOST CONTESTED RESOLUTIONS WITH <90% SUPPORT**

## Focus View: Remuneration

While remuneration in general had a high approval rate of 96% in 2021, there were a few proposals which gathered slightly less support. Namely, SES SA put forth remuneration policy and remuneration report resolutions obtaining 84% average support. Shareholders raised concerns over lack of disclosure, as well as poor pay performance alignment. Investors were slightly less supportive of RTL Group's remuneration report this year (88% average), as they noted the company's lack of disclosure in relation to award levels, and a compensation program which does not sufficiently align with performance.



GRAPH 3 – AVERAGE REMUNERATION PROPOSALS WITH <90% SUPPORT



Focus on

# NORDICS



## Focus on Nordics

### At a Glance

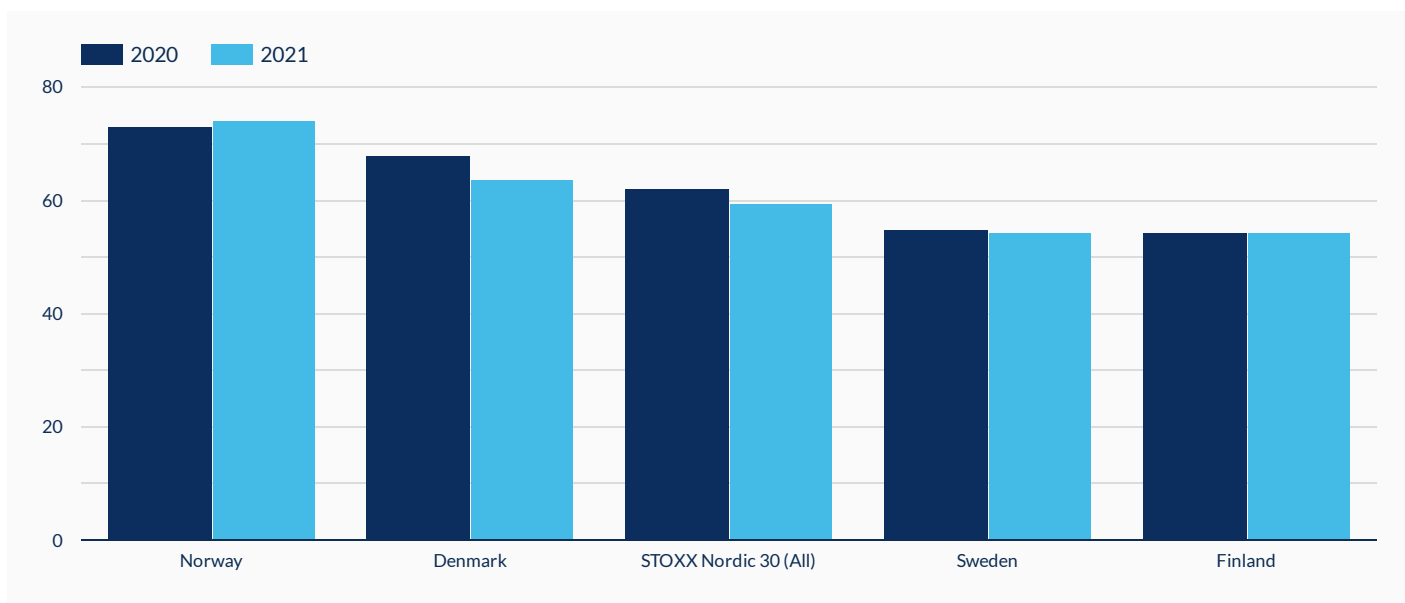
Average Quorum (AQ) Nordics (STOXX Nordic 30)	59.47
AQ Sweden	54.35
AQ Denmark	63.56
AQ Finland	54.40
AQ Norway	74.27
Rejected Resolutions	0
Contested Resolutions (<90%)	38
Contested Resolutions (<80%)	4
Most Contested Resolution Category	Remuneration & Capital Management

### General Overview & Quorum

The STOXX Nordic 30 is the blue-chip index representing the top 30 sector leaders in Scandinavia. Proportional to the sizes of the respective Scandinavian markets that compose the index, 13 of these are listed in Sweden, nine are Danish, six are Finnish and two are Norwegian. CMi2i analysed the AGMs of all companies that compose this index which occurred from 1 Aug 2020 to 31 Jul 2021, though made relevant exclusions per section of this review due to lack of disclosure from certain issuers of both full poll results and overall quorum. 60% of meetings were held virtually, while the remaining were physically restricted hybrid meetings. In the 2021 Proxy Season, the average overall quorum for STOXX Nordic 30 companies decreased by slightly less than 1%: a majority of ca. 58% of issuers saw their quorums decrease and ca. 42% saw an increase. The average overall quorum was 54.35% for Sweden, 63.56% for Denmark, 54.40% for Finland and 74.27% for Norway. The five issuers that saw the largest quorum decreases are Genmab AS (by -29.64 percentage points), Assa Abloy AB (-15.90), Hexagon AB (-7.10), Nokia Corporation (-6.55) and Vesta Wind Systems A/S (-6.55), while Evolution Gaming Group AB (by +16.03 percentage points), Equinor ASA (+3.23), Nordea Bank AB (+2.77), Novo Nordisk A/S (+2.69) and DSV Panalpina (+2.55) saw the largest increases.

#### STOXX Nordic 30 average quorum

**62.00% > 59.43%**



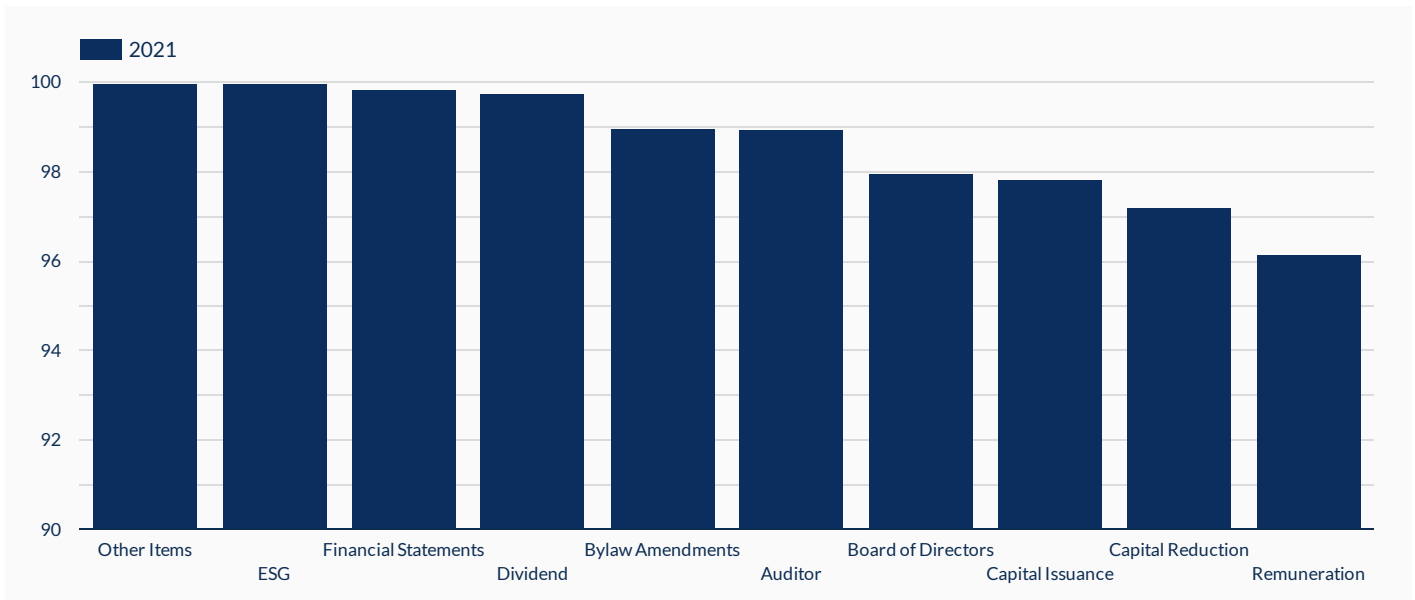
GRAPH 1 - AVERAGE PARTICIPATION LEVELS

## Market Update

The Directive (EU) 2017/828 of the European Parliament, a.k.a. Shareholder Rights Directive II (SRDII) came into effect as of September 2020 and is especially impactful on disclosure practices in the Scandinavian market. As of 2021, Scandinavian issuers face further requirements to disclose full proxy voting poll results for general meetings, and Swedish issuers are now obligated to hold a compulsory advisory vote on the Remuneration Report on an annual basis. Norwegian issuers will be required to amend and align their remuneration policies by October 2021 - January 1, 2022 (depending on what dates of the year their AGMs are usually held, as well as start putting Remuneration Reports to an annual vote by 2022. So far, SRDII has had the least impact on Norway as Norwegian proxy result disclosure practices prior to the directive were already at an advanced level in comparison to other Nordic countries, and the remuneration proposal requirement deadlines have not yet occurred, but it has so far had significant impacts on the remainder of the Scandinavian markets. In 2020, 92.31% of Swedish, 83.33% of Danish and 22.22% of Finnish issuers did not disclose their poll results, but by the 2021 proxy season this figure had reduced drastically to 33.33% for Swedish issuers and all the way down to 0% for Finnish. Denmark was unique as the level of non-disclosure actually went up slightly to 33.33%, due to the fact that Danske Bank A/S opted to not disclose its full AGM poll results this year, though it had done so in 2020.

## Resolution Breakdown

For Nordic countries in the 2021 Proxy Season, Remuneration and Capital Management proposals were the most contested main resolution categories. No resolutions failed, and 12% of issuers had at least one resolution receive less than 80% approval. 52% of issuers had a least one resolution that achieved less than 90%.



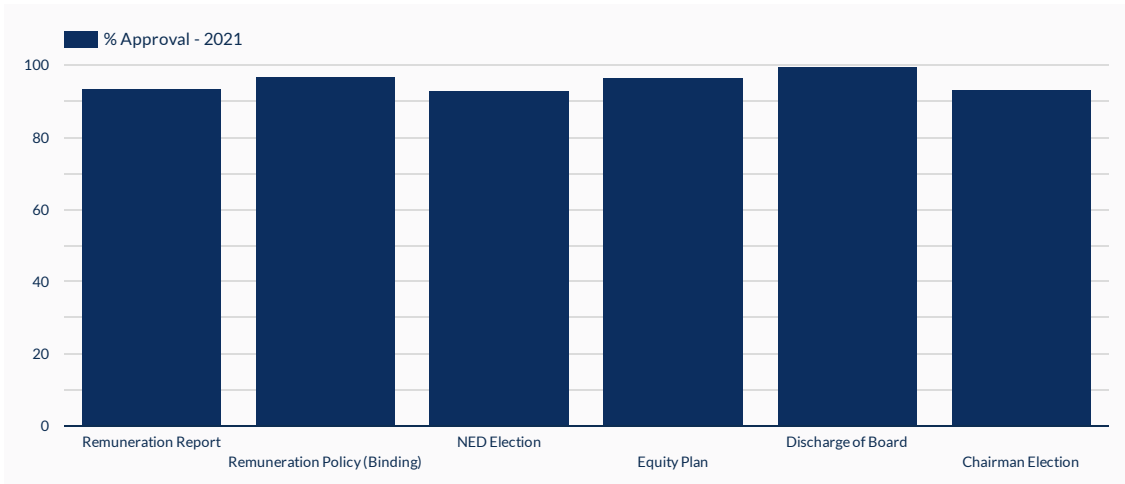
GRAPH 2 – AVERAGE SUPPORT BY CATEGORY IN 2021

## Key Trends

### Focus View: Remuneration & Board of Directors

No board-related proposal received less than 80% support, although 54% of the index constituents studied received less than 90% for at least one of their proposed board candidates. Shareholder concerns raised included non-independence of proposed candidates for key committees and over-boarding. The most contested type of remuneration proposal in the Nordic region in 2021 was Remuneration Reports, and NED Elections were the most contested among board-related proposals. 8% of issuers received less than 80% approval for their remuneration proposals, and 35% received less than 90% approval. This remuneration dissent in Scandinavia is rooted in concerns relating to excessive salary increases in light of the COVID-19 pandemic, severance payments, quantum, bonuses and insufficient disclosure.

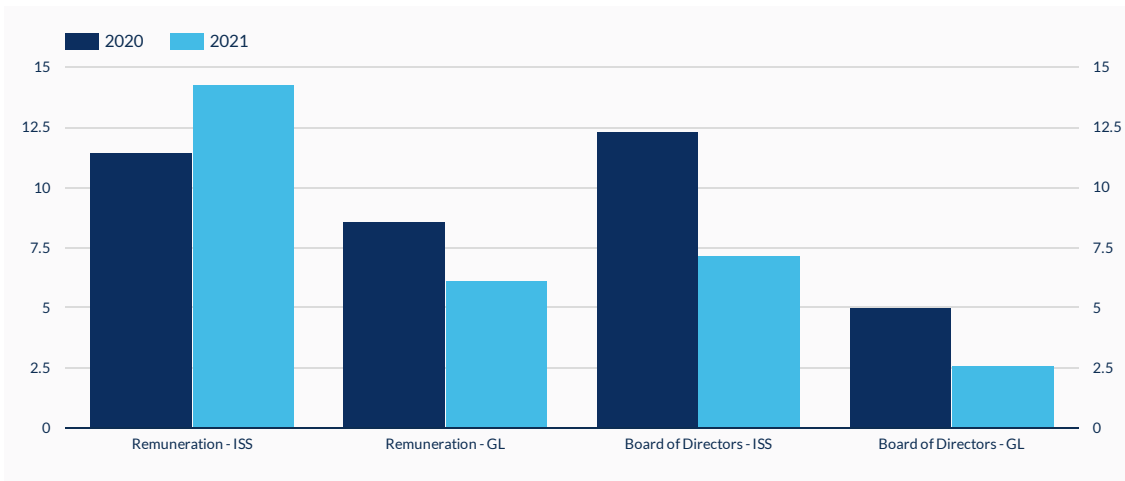
In 2022, issuers will need to continue to work towards aligning their remuneration policies with regulatory requirements and that both remuneration policies and reports offer sufficient levels of disclosure, particularly on performance metrics.



GRAPH 3 – AVERAGE APPROVAL FOR REMUNERATIONS & BOARD PROPOSALS

## Proxy Advisors

The 2021 season saw a drastic decrease in negative recommendations from the main global proxy advisors. Although overall proxy advisor scrutiny on Nordic remuneration proposals remains high from both advisors, the number of negative recommendations from Glass Lewis decreased slightly, while ISS issued more negative recommendations. 67% of issuers received at least one negative recommendation from ISS, and only 30% from Glass Lewis.



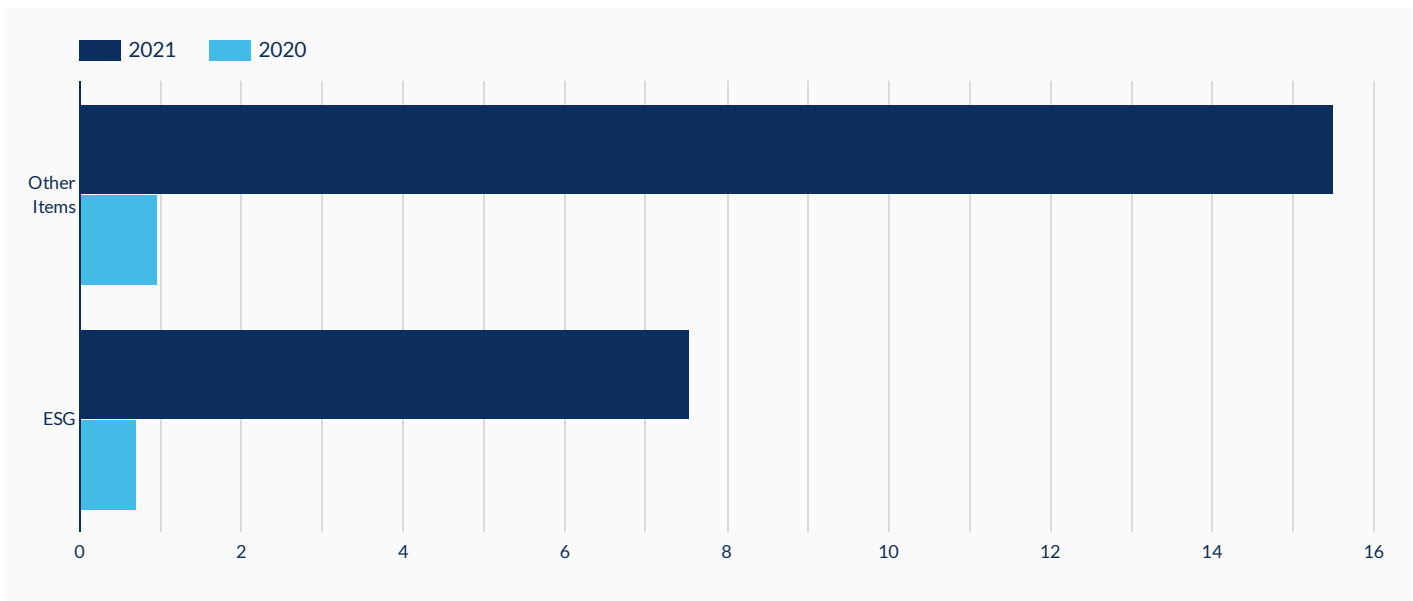
GRAPH 4 – PROXY ADVISORS % OF NEGATIVE RECOMMENDATIONS

## Shareholder Proposals

A total of 33 shareholder proposals were presented in the STOXX Nordic 30 in 2021, and around 60% of were Say-on-Climate proposals. A total of four shareholder proposals were approved. The Say-on-Climate resolution presented by

shareholders at DSV Panalpina's AGM was passed with an overwhelming 99.57% of the votes from shareholders. The proposal was supported by the Board of Directors, and additionally received positive recommendations from both ISS and Glass Lewis. Shareholder proposals in the ESG category saw a large increase in overall average support in 2021, compared to 2020. Proposals in the Other Items category that received high levels of support this season involved topics such as accounting oversight and legal actions against the companies and members of the board. Coloplast's tax-related shareholder proposal was passed with 99.58% support, and the legal-action-related proposals put forward remained numerous in the banking sector, though shareholders supported them with less than 10% of the vote on average (Danske Bank and Swedbank). For many years, such items have been an annual occurrence within the Scandinavian banking sector as it is still recovering from its most recent and public wave of Baltic/Eastern European M&A-related money laundering scandals that began in 2017-2018 with Danske Bank and has since spread to sector peers across the region, and continues to produce record fines from Nordic regulators.

Most recently in response this, as well as ongoing shareholder dissent stemming from the scandals, the five largest Scandinavian companies commenced an AML joint-information sharing pact in early 2021 to further strengthen their defences against money laundering.



GRAPH 5 – SHAREHOLDER PROPOSALS % AVERAGE APPROVAL

## Issuer Insights – DSV A/S

### What are the trends you have noticed this year?

Virtual meetings are a key trend. A lot has changed as the results of the pandemic and many of these changes are here to stay. With virtual engagements, we have more frequent discussions with our shareholders than we did in past as there is less travelling involved. We clearly see that ESG is moving up on the agenda in our discussions with investors – and this includes both the E, the S and the G. As for the AGM format, we hosted a physical event again in 2021 which was also broadcasted, but with no online voting. We are not there yet, there is still a journey ahead, however the occurring changes are pushing that way and in general we are big fans of efficient, digital events.

### With regard to voting on the day of the meeting, are there operational challenges preventing issuers to have this feature?

In Denmark, few companies propose online voting today, so I think the market is not yet very mature. Typically, we in DSV are never first mover when it comes to such processes. Our AGM has historically been only in Danish and attended by Danish retail investors. However with an increasingly international shareholder base and a more diversified board in recent years, we are becoming more international and at some point we will be able to broadcast the AGM for non-Danish viewers. I believe the technology is ready to enable an online event and voting, but we can have concerns that if you have a live event, you release the "internet warriors", a wider audience where there is a challenge of maintaining a good order and ensuring the right level of discussion at the AGM. It is something we are considering with those points in mind.

### What are your greatest challenges as an IR professional today?

I could mention several, but let's focus on virtual versus physical. Traditionally we worked in terms of geographical markets, today with virtual roadshow and conferences, there are no longer borders, our reach is greater, and we engage with more investors from around the world. With this opening comes the challenge of targeting specific markets as most events are international. It is a challenge for which we haven't really found a solution, but we expect that at some point in the future we will go back to a balance between physical roadshows and virtual meetings. I believe it's still important for the investors to feel that they have a real relationship with management. Virtual meetings however do function surprisingly well and this interview is a perfect example.

### How has the implementation of SRDII impacted your role in 2021?

In all honesty, not very much currently. We welcome the ability to have more visibility and knowledge of our shareholders base, although that the day-to-day impact so far in investor relations work is very limited.

### From your perspective, how has shareholder engagement evolved in recent years?

The ESG agenda is increasingly becoming more important and are discussed at length during engagements. Our CEO recently commented in a roadshow that the sustainability movement in his 13 years as an executive has clearly seen the most significant change and the force that it comes with is very dramatic from all stakeholders. It's also becoming more important in the company. 10 years ago, it was a matter of simply complying with mandatory CSR reporting, now management want to be more involved in driving the change. I think this is biggest change in the last few years. It also changes the scope of our stakeholders. In the past, engagements would only be between management, analysts

and fund managers, now we engage with a wider group. Fund managers must feel a similar way, as they now have compliance, governance and various other teams involved.

*"With the growing influence of the proxy advisors, we have also increased our engagements with them from a yearly to more frequent discussions. From my perspective, there is a power shifted away from the fund managers and companies and towards accommodations on corporate governance."*

We just have to navigate in this environment and as issuers we need to know what's coming and how to adapt to it.

**On Executive remuneration, what are the key challenges as a corporate issuer aligning with shareholders and markets' expectations?**

The first challenge is the number of standards and regulations to be compliant with. For instance, in the UK, standard requires management to own shares in the company, whereas this is not market practice in Denmark. We have guidelines and recommendations from the EU and other international organisations and local guidelines at the same time to align with and not just for remuneration but also other areas. Similarly, one investor will ask you to follow a set of guidelines, whilst another will ask you to follow yet other guidelines.

Clearly, we can't make everybody happy, and this is a challenge for us. We would be supportive of global standards, as it is in accounting, but for now I would describe this as an immature market area especially for remuneration.. Soft law can easily become hard rules, hence it is important have one set of regulations.

**ESG issues are at the forefront of investors focus. What can boards do to ensure stakeholders that they are equipped for ESG oversights?**

ESG in several aspects is part of the annual wheel that our Board of Directors follow, so they discuss these topics regularly. We have this year decided to include feedback on ESG in our quarterly IR management report and this will include an overview of ESG ratings and input received from investors. For us, ESG is very much about figuring out what's most important and setting targets that are ambitious and realistic. This format enables us to steer towards these targets, like one would do in finance with setting targets with the right KPIs, and in a uniform way.

*"It's also about making sure sustainability takes a central role as opposed to being side-lined, i.e., that this is the responsibility of a designated committee. We see that ESG is moving more and more towards the top management, and it is becoming a full integrated part of the business".*

It is important for us that ESG is anchored with the executive management which has oversights. We've recently changed the remuneration policy so that our CEO's and CFO's compensation will in part depend on ESG targets. It reflects on our shareholders' feedback and the executive board feels it is highly relevant to be focused on.



**Shareholder activism continues to rise with landmark cases this year such as Exxon. What would be the key actions required to avoid a proxy fight? What top tips you would give to handle such a crisis?**

*"Tip 1,2,3 would be stakeholder management. You must reach out to Proxy Advisors, engage with shareholders directly or through third parties such as CMi2i, and even setting up meetings more informally".*

Investors appreciate the company reaching out to them directly and proactively. When controversial issues arise, we believe it's important to try to mitigate discussions and make sure issues come to the surface internally before the news breaks in public. Ensure to discuss with the relevant parties, as they say, "communication is the key to a successful marriage".

**What is your outlook for 2022?**

More engagements with our shareholders on governance topics ahead of the AGM. Better prepare for stakeholder management. We want to have an open dialogue with our stakeholders, so we identify, and mitigate concerns before any real issues arise.

## Investor Insights - Anonymous

**With the COVID-19 pandemic, issuers had to make several adjustments to hold their AGMs, mostly virtually. How did the switch from the classic, standard physical AGM format to an alternative format impact your voting behaviour, if at all?**

We typically physically attend approximately more than 100 AGMs per year. Of course, we didn't this year due to pandemic, but that 100+ remains a small minority of everything we vote. We aim vote close to well over 3500 AGM/EGMs per year. Not being able to go to AGMs physically was a change for us, but I must say that I am impressed with the adaptiveness of both the regulatory system and the companies in allowing us to postal vote or create other solutions. I

**Did this virtual environment affect your engagements with the corporate issuers which you invest in?**

We did travel less and engage more virtually. Virtual meetings are more efficient and has made it possible to increase engagement and track progress.

**Did you miss aspects of in-person interaction with boards, or were you still able to have that accessibility and interaction without an in-person setting?**

In this instance, I'm a conservative. I like AGMs and tough questions being posed to management. I enjoy watching shareholders that have held their shares for the last 15 years or so, being able to sit down with the board and ask something tricky and be able to see how the CEO and the Chairman reacts to that. In the Nordics we have a very strong ownership culture, and I think the AGM is a part of that, and I want that to stay. The large institutions will always have access. But if you are not in this position, then it is greater challenge to get access, so we consider the small fund and retail investors. The AGM is their opportunity to make their voices heard, and that is a good thing. So, we want the postal voting system, to continue, but not at the expense of the physical AGM. We would call this a Hybrid AGM, and I think there is a large institutional agreement on this format. At first, we had proxy voting and now we have postal voting, and I think postal voting is much better in many cases.

*"Pandora's Box has been opened and I don't think we should close it again. We should work smarter, but it must include the old way, which is the physical AGM".*

**In some jurisdictions such as Spain, the legislation enables companies to amend the bylaws to virtual only meetings, which some issuers have attempted to pass. Based on your previous comments would you be opposing such amendments?**

I believe some issuers used the pandemic as an opportune time for these amendments and did not realise that they were trying to change their bylaws in a way without thought of the further implications of those. In our engagements we ask companies what they mean to do in changing the bylaws. In many instances, companies have said that these are changes that are just for now and that they want to keep the physical AGM. If this is the case, I expect them to make sure that they do in fact keep the physical AGM in the future, and to do so they need to change the bylaws again. We do not support digital-only AGMs.

**As one of the largest institutions in the Nordics, what are the trends that you have observed this year?**

ESG, of course. I think everyone would say the same. And the main takeaway is that it's easier to vote yes than before. Not due a change in our thinking, but purely because the whole field has matured. We now have proposals that can actually pack a punch in the right way, that are coupled with correct metrics, less political, and more numerical. In this case it is a lot easier to support and have dialogue with the company. The metrics do not necessarily need to be perfect, but at least be measurable and impactful. It's not rhetoric that facilitates change. Retrospective changes to Incentive Programs in light of Covid are also more common. We are naturally hesitant of such changes. Some factors that can change our view on it is the reasoning behind and we're mindful of listening to companies, but in general we need transparency and good arguments to support. Transparency on voting rational and to be able to demonstrate outcome from your engagement is also a trend.

**Retrospectively, what were the resolutions you supported the least this year?**

Remuneration. In the US, we vote Against to a significant number. In Europe, our numbers For are much higher. In Northern Europe, STI/LTI is much more tied to requirements in general – which we welcome. Significant amount of time is spent trying to understand the requirements.

**2021, marks a surge in Say-on-Climate proposals from both management and shareholders. How do you review these proposals?**

We take Say on climate resolutions very seriously, so much so that we have a special internal process for reviewing these items. The overall review is overseen by the governance department, and we have climate change experts who assess and process them through our principles filter.

**ESG oversight and accountability, from your perspective who is responsible for oversight?**

*"In my view, it's the Chairman of the board. The buck always stops at the top – and that's the Chairman.*

If we believe companies aren't doing enough, then it's a CEO/Chair issue. A committee is responsible is prepare decision making for the Board. This is a topic which is currently being extensive discusses among all large institutions.

**With shareholder activism on the rise, particularly ESG activism, are you more open to activist proposals now than you have been previously? How do you assess activist proposals?**

It all depends on the proposal. If good, we will support it, if it's bad then we won't and if the proposal is well thought-through and we're asked to co-sign, we might do so. Ultimately it comes down to whether we believe the shareholder proposal to be right for company. And if so, we will be supportive of their proposal.

**What will be your engagement priority for next year?**

Primarily on board work and finding the right candidates as we are a member of several Nomination Committees. We will also focus ESG engagements, specifically on Climate change, board diversity and of course Remuneration.

Head of Corporate Governance,

One of the largest Institutions in the Nordics

## Inhouse Expert – Activism Insights

Shareholder Activism has broadened its remit materially over the last two years. 2021 has seen full year impacts of two important trends. Firstly, more types of shareholders are engaging in public campaigns, not only those dedicated activist HFs but also traditional long only investors. Secondly, the range of demands has expanded, from the purely financial, to incorporate a wide range of ESG considerations, particularly those relating to climate. These proposals are gaining prominent supporters. SoC proposal made by LD Fonde and AKAdemiker Pension at DSV Panalpina received an overwhelming 99.5% support

A key watershed in the "everyone's an activist now" thesis was in early 2019 when Wellington Management, the white-shoe Boston investment management firm, published a letter publicly in opposition to Bristol-Myers Squibb's \$90bn acquisition of Celgene. They owned 8% and they stated, over six weeks before the meeting, via 13-G and 13-D filings, that they would vote against the proposed transaction. They felt that there was too much risk, that their shares were being offered well below asset value, and that more attractive opportunities were available.

In the same year, The Business Roundtable, chaired that year by Jamie Dimon, redefined the purpose of a corporation, in a statement signed by 184 leading CEOs. They declared a fundamental commitment to all stakeholders and a new form of Stakeholder Capitalism was confirmed, where not only the shareholders' interests were paramount, but also employees, customers and the environment and society as a whole. This has since led to a number of majority votes in favour of environmental proposals.

Institutional voting has also consequently now become less influenced by cross-ownership and economic self-interest, with dedicated ESG specialists mandated to have the final decision on such matters, over-ruling portfolio managers who have previously been the sole focus of the stewardship relationship.

*"The implication of these trends is that it is even more important to be able to accurately identify who your shareholders are, who has the voting mandate, and how and whether they are likely to vote. Identifying Activist threats is no longer simply a matter of detecting certain hedge funds, but it is now essential to know how all your shareholders are positioned on a variety of matters, both concerning long term value creation but also current ESG themes".*

**Harry St. John Cooper**, Senior Advisor Shareholder Activism, CMi2i

Ex-partner at Paulson & Co. Inc

## Inhouse Expert – ESG Insights

*"There has been a visible acceleration in attention to ESG factors over the last 12 months, both by corporates and investors, which means that in the competition for capital, a strong non-financial equity story has become increasingly essential".*

2020 was touted as the year that ESG investing went mainstream and interest has continued in 2021 with global sustainable fund assets 19% higher at the end of the first quarter of 2021 (Morningstar) reaching all-time highs for the fourth quarter in a row. Europe accounted for over 79% of these flows, while the U.S. accounted for 11.6%. Flows in the rest of the world clocked in at USD 17 billion for Canada, Australia and New Zealand, Japan, and Asia combined. Product development in the first quarter hit 169 new offerings, including an all-time high of 47 launches in countries outside of Europe and the United States.

According to Bloomberg, global ESG assets are on track to exceed \$53 trillion by 2025, representing more than a third of the \$140.5 trillion in projected total assets under management. In Europe PwC forecasts that ESG funds will experience a more than threefold jump in assets by 2025, increasing their share of the European fund sector from 15 per cent to 57 per cent. Whilst in the US, sustainable investing already comprises 33%.

It is the big investors who are driving the trend. More than three-quarters of 300 investors, including pension funds and insurance companies, surveyed by PwC said they will stop buying conventional funds in favour of ESG products by 2022.

From the asset managers' perspective, the rapid growth in ESG investment demand is a significant incentive to ensure that they too have strong sustainability credentials in the way they apply ESG factors into their investment processes and decisions. Hence, there are now over 4000 global signatories of the UN Principles for Responsible Investment (PRI) representing more than half of the world's institutionally managed funds.

At the same time, the pandemic has placed more attention on social and environmental issues within companies and from investors. As an example, a recent KPMG survey of 500 CEOs in 11 key markets in the Americas, Asia and Europe: 96 percent said their response to the pandemic has shifted their focus to the social component of ESG, an increase from 63 percent in August 2020; 83 percent stated that they re-evaluated their purpose as a result of COVID-19 to better address stakeholder needs, up from 79 percent in August; and 99 percent of CEOs said they have a stronger emotional connection to company purpose since the crisis began, up from 79 percent in August.

And from the investor perspective, as per the PRI's 2021-24 Strategic Plan published earlier this year: 'This strategy begins against the backdrop of the COVID-19 pandemic as well as longer-term environmental emergencies and social equality failures. To help signatories navigate the next three years, we will prioritise two areas within our ESG incorporation work. Firstly, climate mitigation, as the most urgent existential challenge facing society, including focus on net-zero as well as biodiversity. And secondly, human rights, as both an immediate source of protection for individuals from harm and discrimination and as a necessary foundation for lasting social equality, stability and productivity.'

*"In short, there is a significant redirection of capital into sustainable companies, and the pandemic has shifted the parameters and trajectories that companies are now being assessed on".*

**Nic Bennett** – Senior Advisor Strategic Communications, CMi2i

## 2021 Key Takeaways

- > **Virtual shareholders meetings** – with the ongoing restrictions due the pandemic, nearly all meetings across Europe were held virtually, which did not impact shareholder participation. Despite the strong shareholder preference for a return to physical meetings in order for all stakeholders to have access to the board and management, majority of issuers do believe virtual format is the way forward and are making substantial improvements to enhance user/ shareholder experience during AGMs.
- > ESG and particularly E&S topics were the highlights of the 2021 AGM season. From engagements to increased reporting and investment strategies, ESG is at the forefront of the agenda for issuers and shareholders. This season reflected the increasing importance of sustainability and inclusion to investors. The surge of Say-on-Climate proposals have demonstrated the market focus on environment and climate transition. The "S" was also a hot topic of the season, notably human rights and capital management in light of the ongoing impacts of the pandemic.
- > Executive remuneration is, and will remain, one of the key areas of investor scrutiny. This year, remuneration proposals were the most contested resolutions amongst nine out the 10 markets analysed, as investors and stakeholders were vigilant to the quantum granted to the executives and the alignment between pay and a company's performance.
- > The increased level of dissent on directors' elections and discharges, notably in France, Belgium, and Switzerland, reflect investor scrutiny on board composition and effectiveness. Overall, Europe has seen a 2% rise in contested board-related proposals.

## Outlook for 2022

2021 proved to be a challenging year and we expect the same for 2022. In fact, investor pressure is increasing, and new corporate governance trends are rising.

- > Another year of virtual meetings – With the ongoing Covid-19 restrictions and the extensions of legal regulations for virtual AGMs in some jurisdictions, the 2022 season will most likely be predominately held virtually, behind closed doors. With shareholders fervently against virtual only AGMs, there may be an increased level of dissent in by-law amendments for issuers attempting to permanently adopt this format in their articles of associations.
- > Say-on-Climate to remain the dominant environmental topic next proxy season. With the ever-growing importance of sustainability and stakeholder pressure for clear net zero transition plans and targets, we would expect more corporate issuers to voluntarily or involuntarily present a Say-on-Climate proposal to a shareholder vote. Finally, proxy advisors are also increasing the focus on E&S topics. With ISS issuing for the first time a climate policy survey at the end of 2021, this will continue to drive discussion on the topic. Likely, ESG considerations will not be limited to ESG-related proposals, but also influence other resolutions in the future. For example, it is likely that companies will be required to adopt non-financial ESG performance metrics in executive compensation.
- > ESG Activism – as seen in the US this season, the activism movement could move to Europe, pushed by stakeholders, campaigners and ESG funds, with campaigners forcing issuers to draft transition plans.
- > Remuneration will remain a key governance topic next season. Almost two years on from the implementation of SRD II, some markets are still lagging behind their peers in terms of remuneration disclosure and transparency. Dutch issuers will be under the spotlight again, especially given the three-quarter requirement in order for the policy vote to be approved. Other markets in which remuneration practices are not yet in line with global best practices, such as Germany, Italy or Spain, will continue to face increasing investor scrutiny. In relation to ESG, companies who do not already do so, would be required to adopt non-financial ESG performance metrics in their executive compensation.
- > Board Elections & Diversity – With the increasing legalisation across Europe setting gender diversity quotas for the board and a growing market expectation on inclusion and ethnic diversity, board composition is expected to be a continued trend in 2022.

## Methodology

The data used in this review have been gathered from the issuers publicly disclosed results in each market.

With the outbreak of the Covid-19 pandemic and the significant impact it continues to have on the world and financial markets, 2020 marked a pivotal year in proxy season history. As such, this report focused on the last two proxy seasons and assessed the trends in each market for annual general meetings held between 1 August 2019 and 31 July 2021.

The following stock indices have been considered:

- > **UK:** FTSE 350 (introduction), FTSE 100 (analysis)
- > **Germany:** DAX 30
- > **France:** SBF120 (introduction), CAC 40 (analysis)
- > **Netherlands:** AEX & AMX (introduction), AEX (analysis)
- > **Switzerland:** SMI 20
- > **Italy:** FTSE MIB
- > **Spain:** IBEX 35
- > **Belgium:** BEL 20
- > **Luxembourg:** LUXX
- > **Nordics:** STOXX Nordic 30

The indices compositions have been gathered as of 1st May 2021.

In order to avoid potential overlap between markets, we have excluded all companies headquartered outside of the relevant country.



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