LIGHTHOUSE

OCTOBER 2020 | EMEA EDITION

MORROWSODALI

THE 2020 EUROPEAN AGM SEASON

Taking stock of the shareholder sentiment and looking forward to 2021

IN THIS ISSUE INTERVIEWS WITH

- La Banque Postale Asset Management
- DWS Investment
- Union Investment
- Generali Insurance Asset Management SGR
- Eurizon Capital SGR
- Santander Asset Management
- State Street Global Advisors

FOREWORD

Welcome to the second EMEA-focused publication of *Lighthouse* for 2020. In the spring edition, presented in April,[1] we explored the corporate perspective on ongoing ESG trends as well as initial implications from the Covid-19 pandemic. With the 2020 proxy season now past, despite the many changes brought about by the pandemic, we find that the outcomes were generally unsurprising, as stakeholders provided a remarkable level of stability (at least in terms of voting results in Europe) in an otherwise very uncertain environment. To better understand the sentiment behind these results we invited influential institutional investors from major European markets to provide their view on the 2020 proxy season and major takeaways for 2021, and we are very pleased to present those views here to complement our analysis of country-specific market trends.

Very few AGMs took place with physical shareholder participation in 2020. Nevertheless, whereas our colleagues in the U.S. identified a notable drop in the retail vote, European vote participation levels at AGMs remained unaffected overall by the Covid-19 pandemic.[2] Investors not only voted, they also supported company proposals more regularly than in previous years, even when they affected their interests directly.

As noted by Morrow Sodali Strategic Advisory Board member David Heleniak in our *Leadership Series* conversation on M&A and Activism trends during and post-crisis, traditional activism related to M&A was down globally. Dividends were cut and share buyback programs halted without much opposition. Conversely, capital authorisations beyond the ordinary limits were passed with significant majorities, even against the backdrop of a higher number of negative proxy advisor recommendations in some markets. As David put it, "in a crisis, maintaining capital is not always a bad thing."[3] We find this reflected in investors' attitudes across European AGM results in 2020.

Traditional activism may have decreased, and shareholder proposals historically have not been as common in Europe as in other regions. Still, indications of the importance of ESG, which drives a different type of shareholder activism in markets outside EMEA, can be seen in European voting trends. Female directors received greater support on average than male, and investors called for ESG criteria to be included in executive remuneration. They also sought direct accountability of individual board members or committees on ESG related risk management, which is also reflected in ISS' proposed benchmark policy updates for 2021.

Board accountability and – yes – discretion will be put to another test in remuneration decisions for 2020. In an interview with our Australian colleagues, Pru Bennett, former Head of BlackRock's APAC stewardship team, emphasised that "the starting point for short term incentives for 2020 is most likely going to be zero."[4] Our interviewees in Europe express similarly cautious views. The timely implementation of the EU shareholder rights directive in most EU countries, discussed at length in our 2019 EMEA *Lighthouse* edition,[5] will provide a greater level of transparency on companies' remuneration decisions. This year's European remuneration votes already show a growing discrepancy between investors allowing leeway on policy proposals, yet reviewing remuneration report proposals with significant scrutiny. The importance of board engagement with major institutional investors cannot be overstated in this context, a sentiment echoed by all our investor interview partners.

I personally want to thank all the contributing investors for their meaningful additions to this issue of *Lighthouse*. We hope you find it helpful in anticipating risks as well as in helping mitigate certain factors in preparation for proxy season 2021.

Harry van Dyke
Executive Vice Chairman

1. Morrow Sodali Lighthouse EMEA Edition April 2020, https://morrowsodali.com/insights/lighthouse-emea-edition-1
2. Morrow Sodali Lighthouse US Edition September 2020, https://morrowsodali.com/insights/lighthouse-us-edition-2
3. Morrow Sodali Leadership Series, https://morrowsodali.com/insights/morrow-sodali-leadership-series-the-future-of-m-a-and-activism
4. Morrow Sodali Lighthouse AUSTRALIA Edition May 2020, https://morrowsodali.com/insights/lighthouse-australian-edition-getting-back-to-business-key-issues-driving-investors-and-how-to-engage
5. Morrow Sodali Lighthouse EMEA Edition September 2019, https://morrowsodali.com/insights/lighthouse-emea-edition

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EXECUTIVE SUMMARY

QUORUM

The 2020 proxy season in Europe was marked by several changes to the issuer-investor landscape driven by the Covid-19 pandemic and resulting regulatory and investor pressures. One of these changes was the call by governments to restrict physical access at general meetings and, where possible, allow for virtual participation amongst shareholders to voice their concerns and exercise their voting rights. One may have expected to see lower turnout levels as a result of this with the limitations largely affecting retail shareholders. However, participation at AGMs this season across Europe was largely in line with what has been witnessed in 2019. This highlights that, at least this year, the impact of the physical meeting restrictions on shareholder voting was relatively low with investors continuing to cast their votes electronically.

In fact, some companies saw greater participation levels this year, signalling that some shareholders value and exercise their voting rights and voice even more during uncertain times.

Two of Europe's hardest hit countries by Covid-19, the United Kingdom and Italy, continued to show similar participation levels this year in comparison to 2019, roughly **75%** and **69%** respectively, further illustrating the widespread adoption of virtual engagement and electronic voting in an environment where physical contact between companies and shareholders were banned.

Forced to carry out their AGMs behind closed doors with little disruption to their participation levels, some issuers took the opportunity this season to table resolutions allowing for hybrid meetings in future, comprising a physical and virtual component. Whilst article amendments to facilitate online AGM participation were comfortably approved in Germany, in the United Kingdom, one company's shareholders were of the view the company could and possibly would use the permission to hold 'virtual' meetings only with no shareholders present, suggesting they were of the understanding the Board had plans to do away with physical meetings. The resolution failed to secure shareholder support for approval, reminding issuers that crisis-related limitations in shareholder rights are only tolerated in the short-term.

> "...the impact of the physical meeting restrictions on shareholder voting was relatively low with investors continuing to cast their votes electronically."

Some issuers were also perceived as avoiding shareholder scrutiny for their AGM when meetings did not comprise a virtual component, preventing investors from having the opportunity to ask questions in real time. With retail investors increasingly weary of potential limitations on their shareholder rights, issuers with strong retail shareholdings will need to be increasingly aware of the voice of this shareholder group especially as we expect hybrid meetings to continue in 2021.

BOARD

Overall, shareholder support for board-related items across European markets, specifically board elections, did not significantly change in 2020. This is perhaps unsurprising as investors had voiced support for their portfolio companies to navigate the business and economic environments presented by the pandemic as best they could, and therefore did not cause disruption to board make-ups in their stewardship activities this season. On average, our European markets registered similar levels of board elections support this year as to last year.

However, certain meaningful trends can be spotted from our analysis.

Generally, there is evidence in some markets that female board nominees received higher average support levels than male candidates. For instance in Spain, female board candidates received average support of **97.81%** while male nominees received **91.85%**. Additionally, **86%** of board elections that secured relatively high levels of controversy (at least **20%** of dissent votes) put male nominees in the spotlight, well above the distribution of genders in board elections (**40%** female, **60%** males). Similarly, in Switzerland, average levels of opposition to male candidates increased year on year and were higher than those cast towards female candidates.

When looking at specific shareholder groups, an issuer's free float base cast more opposing votes towards board elections than those cast by significant and controlling stakes. In Switzerland, **85%** of the controversy items (at least **20%** of dissent votes) comprised board elections. We note several of these items received the vital supporting votes of controlling shareholders, crucial to approve these items, as majority of the negative votes had been cast by the free float. Germany recorded a similar trend, as the free float votes were less supportive on average. We expect dissent towards board elections to continue to be driven by non-strategic shareholders in the 2021 season.

> "...there is evidence in some markets that female board nominees received higher average support levels than male candidates."

With regards to proxy advisor guidance, ISS cited insufficient board independence (impacting non-independent nominees) and the combination of leadership roles under a single nominee (CEO and board chairperson) as the main reasons to vote against board nominees this season.

In comparison to 2019, the number of negative voting recommendations issued by ISS on board elections dropped, mainly in France and Spain. We note the investment community echoed this leniency with the number of concerning elections in the UK (receiving more than **20%** of dissent) decreasing by **40%** across the FTSE All Share index.

In Italy, director elections take place through the *voto di lista* mechanism. Director elections, carried out every three years, require shareholders to support one of many director lists presented to the free float. Normally proxy advisors and investors tend to support the list presented by *Assogestioni*, the Italian association of asset managers. During the proxy season under review, the adherence levels of investors and proxy advisers to master director lists i.e. slates submitted by outgoing boards, in absence of a reference shareholder, continued to be high due to their typically well-structured selection processes and deep engagement processes with minority shareholders.

Adding to the pressures for gender diversity and independence at board level, issuers across the continent and beyond will come under increasing demands to meet the expectations of investors regarding social, ethical and racial diversity at board level in the 2020 financial year and years ahead. Top institutional investors have called on their portfolio companies to articulate their risks, goals and strategies related to racial and ethnic diversity and are of the view that senior management and boards should understand and manage the risk of a lack of racial and ethnic diversity and inclusion within their organisations. One particular investment manager has announced plans to target the UK largest 100 companies with all-white director composition and vote against these boards from 2022 unless they diversify.

REMUNERATION

While the overall support on compensation-related items has remained stable, during the season and following the effects of the global crisis caused by the pandemic, remuneration items were significantly scrutinized. Indeed, some investors and regulators had asked issuers to preserve cash and urged executives to "share the pain" of the financial hardship experienced by their organisations and wider stakeholders.

With the gradual implementation of the Shareholder Rights Directive (SRD II), some European member states have incorporated new remuneration items, changing the landscape of shareholders' meetings in this regard.

Remuneration Report

On the remuneration report, globally but mainly in markets where the remuneration report has been tabled for the first time, the elements of greatest attention for investors have been:

- Pay for performance
- Quantum
- Disclosure of variable incentive targets

On average, all markets registered higher dissent levels on items tackling the remuneration report over those items which addressed the implementation of a new remuneration policy. In general this is due to the higher level of specificity of the former, which annually discloses accurate details on amounts paid to executives for the previous financial year and related performance outcomes. In contrast, the remuneration policy is a forward-looking paper that states the general guidelines to be deployed during its future validity period.

Remuneration Policy

The United Kingdom continues its reign within our select group of European countries, being the market that received the highest level of support for new remuneration policies this season (**94.2%**). We note nearly half of FTSE100 companies tabled a new remuneration policy during the 2020 season and received necessary shareholder support for implementation with only two falling prey to negative ISS recommendations. In Germany, we saw average remuneration policy approval reach a record high in 2020 whilst in Switzerland compensation-related votes raised little discussion and outcomes compared to those of last year. In Italy and France the level of average support increased slightly from 2019, possibly due to a reduction in the number negative recommendations from key proxy advisors. In Spain, on the contrary, there is a slight increase in dissent votes compared to 2019 (**87.05%** vs **87.23%**).

OUTLOOK 2021

Within the context of the pandemic, investors' increasing interest in the social aspects of compensation has emerged. During our engagement activity this season, we observed investors' expectation that executive remuneration should be reflective of the pay and conditions in the wider workforce. Remuneration Committees should be even more mindful of the wider employee context through this period and the quantum salary assessments of top managers should be based on the use of mechanisms such as the pay ratio rather than simple salary benchmarks.

Among other elements, those of particular attention include:

- In line with SRD II, few remuneration policies included derogation clauses, which enable the board to deviate from their policy in exceptional circumstances. The use of the derogation in 2021 must find a strong rationale and be inserted in the broad corporate context.

- In agreement with ICGN's viewpoint, our engagement with investors reveals the importance of incorporating sustainability-related performance factors or ESG metrics into executive remuneration. Specifically, metrics that the executive team can be held accountable for and directly influence. It is expected that executives look beyond the current crisis and anticipate its aftermath when non-Covid related ESG factors, climate risk in particular, will require urgent attention.

> "...the importance of incorporating sustainability-related performance factors or ESG metrics into executive remuneration."

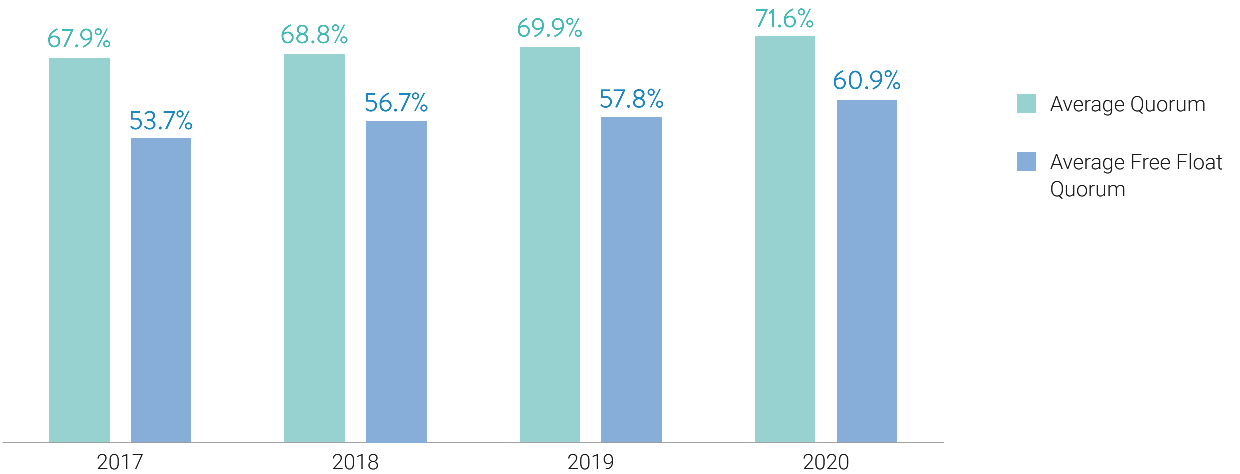
FRANCE

QUORUM

The long-term tendency of increasing quorum was confirmed by the 2020 season. However, this was not the case for all companies. The most impacted sectors (such as aeronautic, automotive and real estate) had lower quorums while the safer companies increased their quorums.

This is due to a switch to safer companies by index funds and major asset managers, which vote most of their investments. On the other hand, smaller investors, which have more appetite for risk, tend to vote only their major holdings.

QUORUM EVOLUTION (CAC40 and NEXT20*)

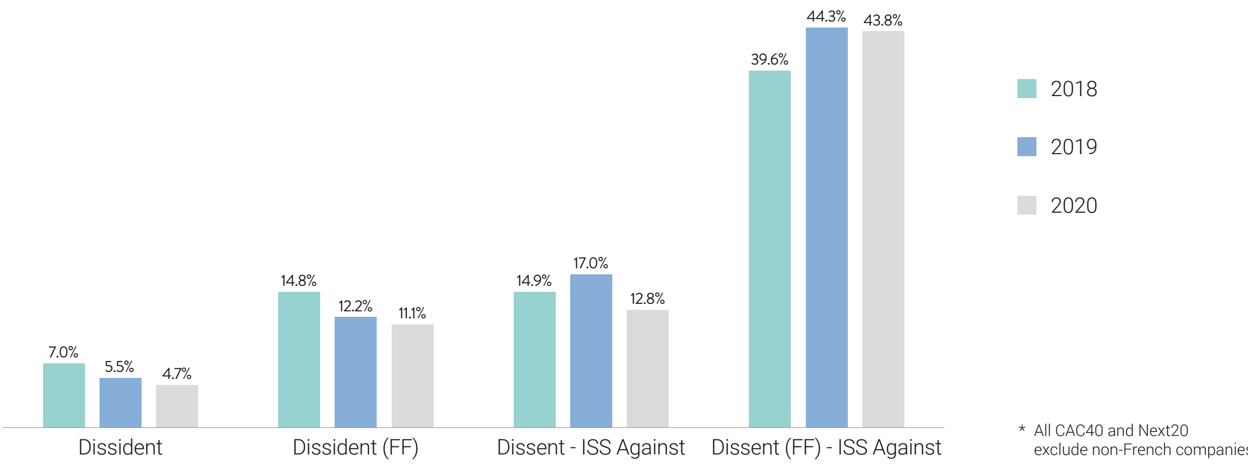


BOARD

On 141 resolutions, only 16 received a negative recommendation from ISS (down from 41 in 2018 and 19 in 2018). 11 of these 16 resolutions were at Credit Agricole, Hermes and LVMH AGMs for a lack of independancy of their Board.

In addition, we noted that Mr. Sébastien Bazin of Accor was the only Chairman and CEO to be reelected in 2020, received **13%** contestation overall and **33.9%** contestation from the free float.

DIRECTORS ELECTION WITHIN THE CAC 40*

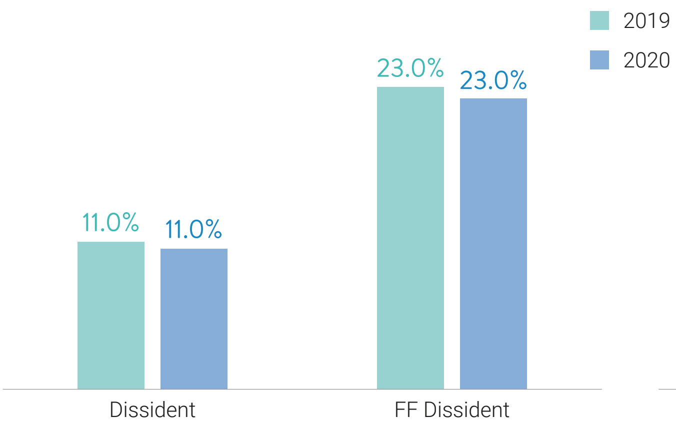


* All CAC40 and Next20 exclude non-French companies

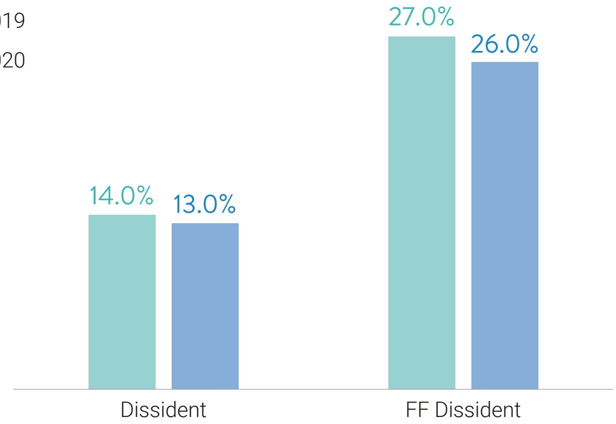
REMUNERATION

The level of support increased slightly from 2019 in consideration of a reduction in the negative recommendations from the Proxy Advisors.

REMUNERATION POLICY (EX-ANTE)



SAY ON PAY (EX-POST)



On the 36 French companies of the CAC 40 which had their AGM in 2020, 7 received more than **50%** of dissent from the free float for their Remuneration policy (ex-ante) and 10 for the Say on Pay (ex-post). All of these companies have a controling shareholder and are more reluctant to align remuneration structure with market expectations.

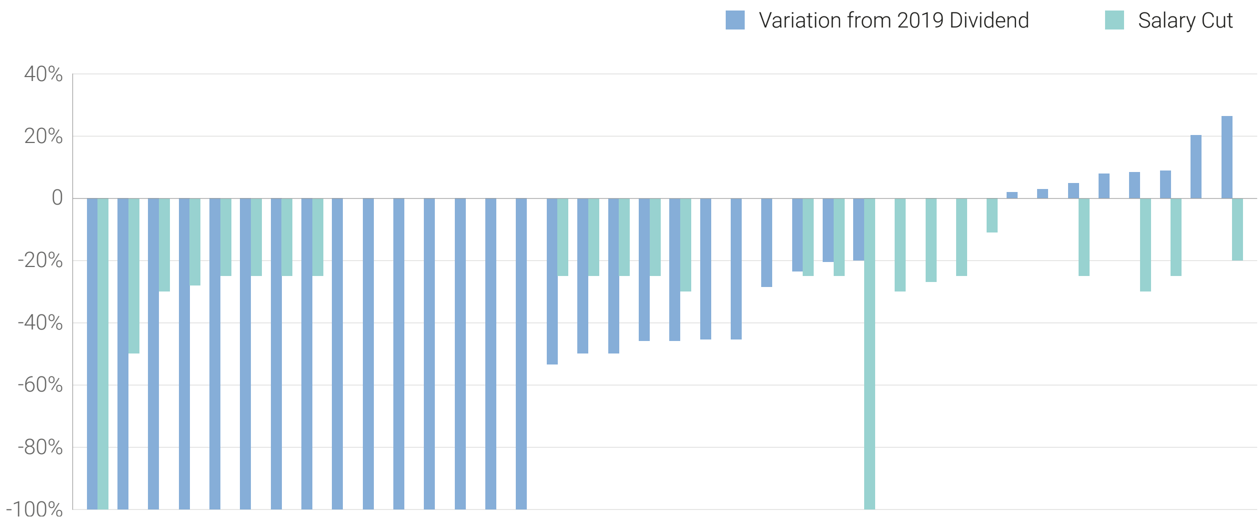
However, the Say on Pay of Olivier Baudincourt, who left Sanofi on August 31st failed with only **42%** of support. The pension scheme granted was the main reason for this negative vote in addition to a lack of disclosure of the level of achievement of each criteria.

Remuneration is still a high concern for investors. We note that only 7 of 36 ex-ante resolutions and 8 of 36 ex-post resolutions received favourable recommendations from ISS without flagging a concern.

Investors pointed out:

- The number of shares granted which could be an opportunity of increasing the long-term remuneration
- A lack of disclosure of remuneration structure and insufficient level of information of performance condition achievement
- Discretionary power of the board
- Pension scheme
  (presence requirement or detail of the contribution)
- Severance agreement (risk of pay for failure)
- Lack of correlation between pay and performance, and concerns regarding the challenging features of performance criteria
- The choice of non-financial KPIs or incentive plans is appreciated by the financial community, as long as they reflect the strategic priorities of the company and are adequately balanced with financial criteria.

DIVIDEND AND CUT SALARY



On March 29, 2020 the AFEP Medef (top 110 French companies) recommended its members to cut their dividend by **20%** compared to the previous year and to cut the remuneration of the executives directors by **25%** during the time of partial unemployment. The French government also recommended to moderate dividends and remuneration during the Covid-19 crisis. This has been followed by media and French investors which were not in favour of any dividend increase. Therefore, some companies, such L'Oreal reduced both dividend and remuneration although they did not receive any help from the French state and did not use the partial unemployment option. Regarding the cut in remuneration, the period and the universe differs for each company.

According to public data:

- Atos cut the fixed salary for two months
- Michelin cut the variable remuneration of 2019
- URW cut fixed + variable remuneration during unemployment period
- Peugeot reduced long term remuneration
- Hermes cancelled the increase planned for 2020

Those communications have been made during the AGM season. We expect companies to give more details on the exact period and universe for their 2021 AGM. Investors, Proxy Advisors and French Government will analyse these efforts considering the result of the companies, Covid-19 impact on activity and use of partial unemployment.

PAY RATIO

The SRD II Directive introduces a link between executive compensation and employee compensation. The PACTE Law amended the French Commercial Code to introduce several new requirements, including:

- a comparison between executive compensation, presented on an individual basis, and the mean compensation of employees.

- a comparison between executive compensation, and the median compensation of employees in the company.

Although few investors have a maximum remuneration cap in their policy, they did not comment on these ratios. However, they will look at the development through the year. These ratios are also not very relevant as the universe of employees is very different from the holding of worldwide employees through French employees (as recommended by Afep-Medef). In 2019 disparities within the CAC40 + Next20 were significant from 20 (29 median compensation) to 268 (320 median) and the average pay equity ratio was 57.1 (77.5 median).

AGMs 2020: INVESTOR INSIGHTS Q&A

Benoit Humeau,
SRI Analyst
La Banque Postale Asset Management

The past AGM season was the first one where the SRDII has been applied. Do you consider that the companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?
SRDII is a very positive step, which will hopefully improve engagement and corporate governance. Substantial efforts have already been made by companies over the last years to increase transparency, mainly on remuneration and board composition. There is an intensification of dialogue with companies. However, we regret that there are still some oddities, such as the lack of disclosure of voting results in Sweden and Denmark.

We also expect a lot from SRDII regarding the voting chain. It is unfortunately still hard to know if our votes are recorded at the General Meeting. But everybody seems to be aware of this aberration, and we are confident that custodians in particular will play a positive role and be more transparent about this issue.

Concerning LBPAM, SRDII has been a serious driver for strengthening our engagement processes and improving our communication about it.

Do you have specific views on what "good" non-financial performance criteria look like and how they should affect executive remuneration? (e.g., quantifiable, in line with company reporting, STI vs LTI/multiplier/malus)
Executive remuneration should be based on diverse criteria that reflect the performance of companies, financial and non-financial, short-term and long-term. It is especially important for companies which face high environmental and social risks. For example, we cannot understand the absence of carbon-related criteria for carbon-intensive companies (energy, utilities, materials, automakers). We trust directors to select the most relevant non-financial criteria, and we barely challenge their selection yet.

However, we ask them to introduce E&S criteria for short-term bonus and for long-term plans, and to give them a significant weight. Below a weighting of 20%, it raises questions as to whether sustainability is really considered as something important by the board of directors and by the company. Moreover, as well as financial criteria, we recommend companies to mix both internal and external indicators. Finally, it seems essential that these non-financial indicators are audited by an independent third-party.

The analysis of investor voting behavior and voting recommendations of proxy advisors do not seem to show different significant trends in the 2020 season. Do you expect Board should address the consequences of the Covid-19 pandemic (if so, what are you looking for in particular) and do you think it will have an impact on the next year's AGMs (i.e in 2021 might include decisions showing the appropriateness of executive pay in relation to the overall economic and social situation)?
The moderation of executive remuneration was already a key voting principle for LBPAM before the pandemic. We defined a reference cap of 240 times the national median salary. Why 240 times? Because there are around 240 working days per year, and this cap means we think executive remuneration becomes unreasonable when a CEO can earn in one day more than a "standard employee" can in one year in the same country.

The Covid-19 pandemic reinforces the need for moderation. Investors cannot ignore what happens in our societies – the increase in unemployment, the rise of inequalities. Executive remuneration bears an important symbolic weight in this context.

It is good news that many executives accepted a reduction of their remuneration in 2020. It will be interesting to see how this further develops in 2021. We can expect that boards will make use of their discretionary power to adjust remuneration, given the fact that initial quantitative criteria are often not relevant anymore. We will have to make sure that this discretion is clearly explained.

More generally, we expect directors to spend more time on social issues which affect their business, and be receptive to investor concerns about it. Many companies implemented very serious measures to protect their employees' health during the pandemic; we hope this trend will continue.

Decision on capital distribution, including dividends as well as share buybacks by companies that may face liquidity difficulties, was under great scrutiny in the last season. Do you think that capital allocation decisions should be made in a long-term strategic context, reflecting the company's own financial position, operating performance and business model?
Which circumstances may allow companies greater flexibility from your point of view?

It is up to the management board and the directors to assess the fair amount of the dividend, based on the company's own financial position and on its operating performance. It should also take into account the visibility they have over their company's activity.

LBPAM wrote to more than 80 companies in the beginning of April 2020, to let them know that, as long-term shareholders, we would accept and even encourage a decrease in capital distribution in the context of high uncertainties.

This position is driven by two reasons. First, as responsible investors, we feel that we must contribute to the common effort, similarly to other economic players (employees, suppliers, governments). Second, we are convinced that limiting cash return to shareholders on the short-term will have positive impacts in the long-term and that it will help us to overcome the crisis by preserving companies' resources.

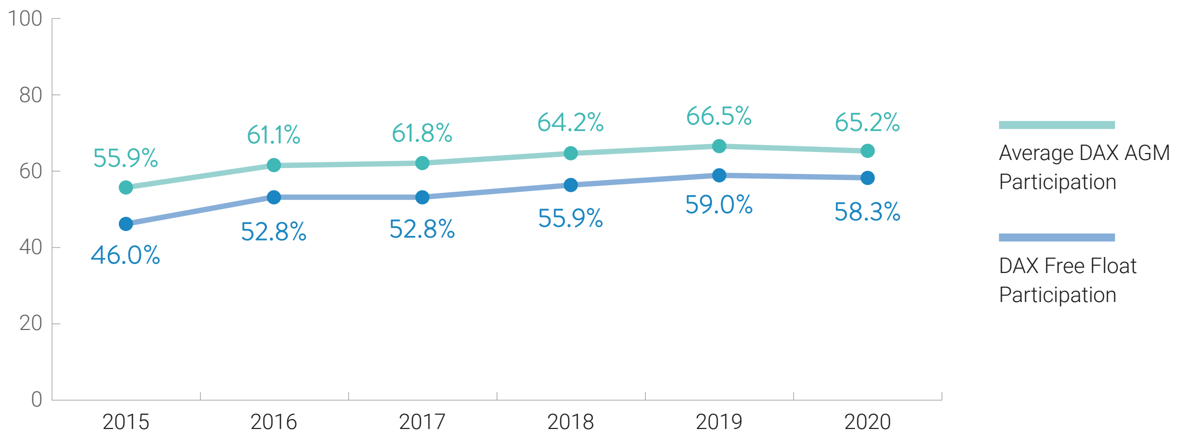
For example, the payment of a dividend seemed relevant for companies having some visibility over their business, like retailers or the digital industry. In other sectors, however, we voted against a substantial number of dividend and share buyback resolutions based on this principle.

GERMANY

Looking at high level results of the 2020 AGM season, not much seems to have changed. In a year when hardly anything went as planned, it transpires that, in the end, DAX issuers did not have to fear their AGM results. Participation remained broadly in line with 2019 levels, average approval rates actually increased somewhat (even when discounting the vote impact of strategic investors), not a single management proposal failed, and only one would have if only free float investors had their say (compared to five in 2019) – all indicative of investor and proxy advisor leniency in a year of major shifts; from the (for some still surprising) arrival of SRDII and significant announcements on the workstreams of the EU Climate Action Plan, to Covid-19 and digital only AGMs. But where 2020 may have seemed calm, several 2021 topics already linger.

100% of executive remuneration policies proposed in 2020 included ESG-related performance criteria

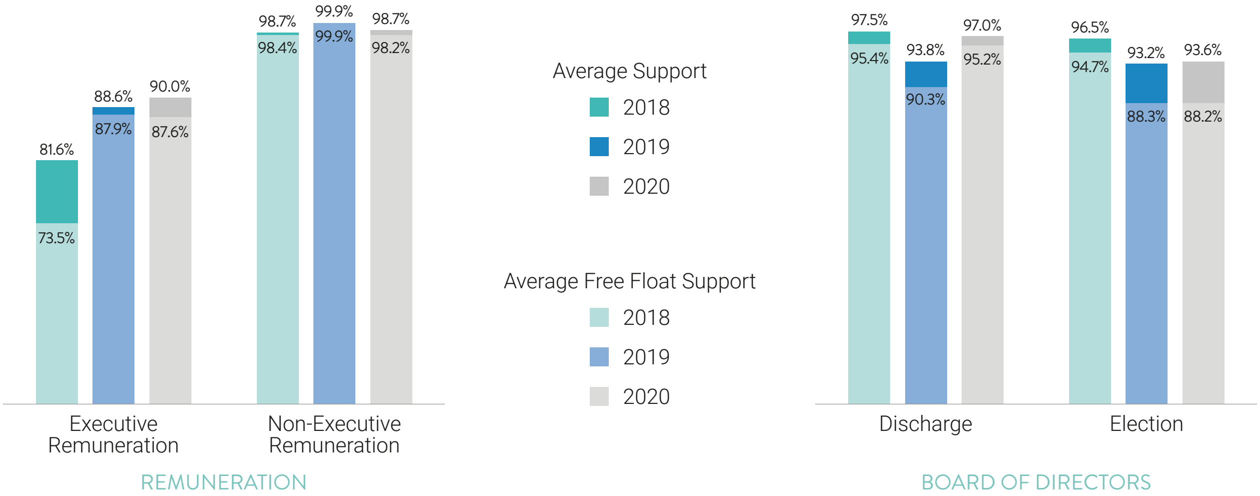
AVERAGE AGM PARTICIPATION, DAX 2015-2020



REMUNERATION

Average remuneration policy approval reached a record high in 2020, not just because of the higher number of typically less controversial non-executive pay policies. All executive remuneration policy proposals caught up with frequent structural investor requirements, such as clawbacks or ESG-related performance criteria. ISS, and with one exception GL as well, recommended in favour of all executive pay policies. Nevertheless, almost all proxy advisor analyses of DAX proposals referred to insufficient transparency on nature and stretch of performance criteria and targets, including their relevance for company strategy. Expectations on remuneration reports will increase significantly in 2021. Companies with upcoming elections of remuneration committee members may take this into consideration, even if they do not intend to propose a vote on an SRDII-aligned remuneration report.

AVERAGE AGM APPROVAL, DAX 2018-2020: REMUNERATION AND BOARD RELATED PROPOSALS



BOARD

In the public domain, Wirecard is mostly discussed in the realms of politics and regulatory oversight. However, issuers should be prepared that international institutional investors will expect reassurance regarding the effectiveness of the German two-tier Board structure in the context of management oversight and independent representation of minority shareholder interests. Companies planning their engagement for Q3/4 2020 should consider that only senior Supervisory Board members can credibly speak to that. If they don't, international investors may feel justified in increasing their pressure to reduce standard Board terms below the four years expected by ISS for 2021 or revise their overboarding limits further to allow Supervisory Board members additional capacity for engagement.

4 years

is the new upper limit for election terms of Supervisory Board members from 2021

OUTLOOK 2021

Initial Covid-19-related short-term measures were supported by investors as a management prerogative, even when stakeholder groups were greatly impacted. However, since then proxy advisors and investors have already lined up several expectations for the FY2020 reporting year that go beyond a cut in Management Board base salaries. Re-evaluations of issuers' materiality assessments, consideration of major stakeholders in executive pay decisions as well as the capacity to efficiently support supply chains and clients through the pandemic will be monitored more closely in 2021.

Article amendments to facilitate online AGM participation were comfortably approved. However, IVOX Glass Lewis, backed by major German institutional investors, regularly raised concerns over the possibility that issuers could extend the limitations on shareholder rights beyond the crisis.

Capital authorisations were treated with unusual flexibility, with even proxy advisors supporting well-justified increases above their standard authorisation limits. Going forward, capital authorisations will be assessed in the context of a company's crisis management. Paying a dividend now and asking for capital increases next year may be considered controversial. "Vorratsbeschlüsse" will require additional explanation among the international investor community.

AGMs 2020: INVESTOR INSIGHTS Q&A

Hendrik Schmidt, *Senior Corporate Governance Lead for Germany, Austria, Switzerland, UK and Ireland, Corporate Governance Center,* DWS

What were the key issues you observed from this year's AGM season in Germany?

In the uprunning of the SRDII implementation, remuneration was an issue, but more on the preparational side than in the AGM itself, as in Germany the systems will have to be put up for vote only in 2021. Besides that, director elections were the most important issues. Within here, accountability regarding sustainability and board composition itself were key topics. But we acknowledge and appreciate that there is increased transparency on nomination processes. For example, companies provide more often a competence matrix and relevant details about qualification. However, there are still quite some of proposed candidates which failed to fulfil our independence requirements or still carry too many mandates.

> "... we will consider how we can exercise better judgement of sustainability performance of companies and its directors."
> **Hendrik Schmidt**

According to our analysis, Board accountability is a major focus on many institutional investors. We see that in the effect of, for example, remuneration concerns directly affecting the elections of remuneration committee members, the demand for ESG responsibility being directly associated with individual Directors or a committee, or the increasing focus on the role and independence of the Board Chair.

What is your view on this development of increasing individual Director accountability?

We address accountability in an escalating way. First, we look at the discharge item and here we expect a trend towards individual discharge. Even though, en-block discharge is still legally allowed, providing an individual vote needs to be reconsidered as in the future, we will take the individual performance more into account. In cases where we observe failure of individual directors, this will also be reflected in elections.

Does it affect your perspective on the frequency of Director elections?

I do not think, we will see more frequent elections. We hear the demand by international investors as well as ISS, but we do not intend to implement shorter terms from our perspective – our views are aligned with legal framework, as the legal regime in Germany allows a maximum term of five years. In addition, it could contradict the long-term perspective of the board. Dual board structure is different, due to our clear separation of powers, where non-executive directors have more of a controlling function, which may be better exercised if we are not longing for annual re-election. In our view, companies can choose to elect their directors for three to five-year term.

What were the most significant changes in engagement priorities during the Covid-19 pandemic? What are your engagement priorities for next year?

We only just started the review process, and we will have a closer look into remuneration topics. We must review whether our expectations are clearly defined, precise, and sufficient. Going forward there will be a vote on the remuneration report and as far as I can see, we are likely to extend our views in this section.

Regarding directors and board composition, we will revisit our diversity policy and will have a look at our current guidelines with the aim to strengthen more diverse boards. Of course, the 2020 AGM season has shown that the treatment of shareholder rights will also affect the discharge in the future. Last but not least, we will consider how we can exercise better judgement of sustainability performance of companies and its directors.

When judging sustainability performance, what do you expect from companies?

For quite some time, we require Boards to have a director or committee dedicated to sustainability. Norm violations of companies as flagged in ratings may become a more severe issue in engaging with the directors and in director related agenda items. We will continue to critically evaluate agendas that propose equity issuance at the same time as share buy backs as they are intuitively opposing instruments of a company's finance strategy. Stronger alignment with strategy in all areas are important.

What is your view on what "good" non-financial performance criteria look like and how should they affect executive remuneration?

First, I prefer the term extra-financial compared to non-financial as it otherwise indicates that there is no economic impact – which is not the case in the long-term. We expect companies to align long-term incentives with relevant and material sustainability aspects of their corporate strategy. As there is no "one size fits all"-solution for the integration of extra-financial KPIs, there are e.g. sector-specific ESG-priorities or targets deriving from or associated with the Sustainable Development Goals (SDGs) by the United Nations. If companies commit to those initiatives, this commitment has to be reflected meaningfully and accordingly.

How should the role of board evolve to address the impact and consequences of the Covid-19 pandemic and social unrest (e.g the appropriateness of executive pay and the ratio of director to employee pay in relation to the overall economic and social situation as well as racial and ethnic diversity). If so, what are you looking for in particular?

We clearly expect Boards to assess also the consequences of the Covid-19-crisis on a more social level, i.e. the well-being of employees, supply-chain risks and appropriateness of rewards for executives vs. job cuts for the work-force. Diversity will gain even more traction and we expect Boards to be transparent about their activities, i.e. in nomination processes. We furthermore observe that excessive remuneration systems for executives bear room for discussions about social cohesion and that investors will have to act responsibly.

As a result of the Covid-19 pandemic, a number of AGMs were held as a hybrid meeting (physical and virtual component). What impact, if any, do you think this has on minority shareholder rights and what are your views on moving to a hybrid or fully virtual meeting going forward? (should a company's Articles of Association request to do so)?

Although we acknowledge the need for a rather short-term solution in the beginning for the crisis to provide a coherent legal framework that allows for AGMs without physical attendance, we criticize that shareholder rights were heavily impacted and diminished (i.e. right to ask questions or file shareholder resolutions). This was acceptable as an immediate response to the crisis but going forward, shareholder rights have to be fully reinstated in any future format of AGMs. This discussion needs to be conducted between companies and investors.

> "We clearly expect Boards to assess also the consequences of the Covid-19-crisis on a more social level, i.e. the well-being of employees, supply-chain risks and appropriateness of rewards for executives vs. job cuts for the work-force."
> **Hendrik Schmidt**

AGMs 2020: INVESTOR INSIGHTS Q&A

Janne Werning,
Head of ESG Capital Markets and Stewardship,
Union Investment

What were the key issues you observed from this year's AGM season in Germany?

The Covid-19 pandemic did not spare the AGM season in Germany. In April, the Federal Government allowed companies to hold purely virtual shareholder meetings in order to protect the health of everybody involved. Instead of general debates and speeches, this year shareholders have to cope with simple video transmissions and live streams. These digital general meetings restricted the shareholders right to ask questions, speak and bring actions against the validity of the resolutions. The central role of the shareholders as a corrective for management board and supervisory board activities was in our view profoundly weakened. Virtual general meetings in this form are a blow to shareholder democracy. For Union Investment and many other shareholders, these digital formats can only be a supplement in the post-Corona world but will never be a full replacement.

What were the most significant changes in engagement priorities during the Covid-19 pandemic?

We saw that trends that have been there before Corona, intensified due to the pandemic. Of course, Corona raised questions regarding crisis management, stability of the business model, and the general strategy of the company. However, our engagement priorities continue to focus on the sustainability of the business model and the way in which the company copes with climate change, for example, rising CO2-prices. These issues were pressuring even before Corona, but are even stronger now.

As you rightly mentioned, all AGMs were held virtually. What impact do you think this has on minority shareholder rights and what are your views on moving to a hybrid or fully virtual meeting going forward?

We clearly oppose the fully virtual meeting idea going forward. Digital AGMs can only supplement the physical meeting. We are in the 21st century; AGMs must be supplemented by virtual transmissions. A company that has done a good job in the past does not have to fear the general debate and dodge the questions of its shareholders. Management and supervisory boards should be willing to face the owners of the company once a year. This holds true for minority shareholders just as well. In our view, shareholder democracy needs the process of opinion forming within the AGM. We consider it as vital for a healthy relationship between company and shareholders. Moreover, shareholders do not only cast their vote, but use the AGM framework to enter into a close engagement. These are crucial instruments of shareholder democracy and companies should not distance themselves from shareholders.

When judging sustainability performance, what do you expect from companies?

It is less about what we expect, but what the financial market expects from companies. We see a huge shift in investor attention and investments to a more disciplined and rigorous approach to evaluate ESG criteria. ESG performance plays a pivotal role in our investment decision-making. Companies failing to meet investor expectations on environmental, social and governance factors clearly risk losing access to capital markets.

What is your view on what "good" non-financial performance criteria look like and how should they affect executive remuneration?

To meet our expectations, companies should build a strong connection between financial and non-financial performance. Companies should pursue a robust approach to analyzing risks and opportunities from climate change and incorporate those into executive remuneration in order to build confidence and trust on investors' side. Ultimately, those criteria always depend on both the individual company and its sector. For example, within the energy sector of course CO2 emission reduction is a key issue, whereas in the IT sector social factors like data security are way more important. That being said, we see a growing demand for a sustainability accounting standard that also helps defining those KPIs that deliver consistent, comparable, reliable, and assurable information relevant to enterprise value creation and ultimately sustainable development. This demand comes from the investors' side, but also from policymakers and regulators. In this regard, well renowned bodies such as the International Integrated Reporting Council, the CDP, the Climate Disclosure Standards Board, the Global Reporting Initiative, and the Sustainability Accounting Standards Board announced an idea of what is needed to make progress toward comprehensive corporate reporting. We believe that this absolutely leads in the right direction.

According to our analysis, Board accountability is a major focus of many institutional investors. We see that in the effect of, for example, remuneration concerns directly affecting the elections of remuneration committee members, the demand for ESG responsibility being directly associated with individual Directors or a committee, or the increasing focus on the role and independence of the Board Chair. What is your view on this development of increasing individual Director accountability?

Most importantly, we believe that board accountability is fundamental to strong corporate governance. Increasing regulation, the perception of business in society, and of course the effects of climate change, have significant impact on companies' business models. Thus, as the financial market continues to organize around those questions, the board's accountability on these topics will increase. Individual directors will need to understand how the company's strategy is linked to sustainability. And let me be frank here, ESG issues that used to be of secondary importance to board members and were misunderstood as philanthropy are now key factors in the assessment. Those questions will affect the company's bottom line and present significant changes and risks to the business. Thus, every investor expects the board to understand, measure, and report it.

How do you reflect insufficient ESG targets in compensation policies in your AGM vote decision?

We are transparent and absolutely clear on that: Union Investment supports all actions that will sustainably increase the value of a company in the long term and votes against any actions that go against this objective. On ESG targets, we expect the incorporation of materially significant ESG performance indicators ('key sustainability indicators', e.g. environmental or social factors) into long-term remuneration. In case we find insufficient ESG targets in compensation polices it will lead to a vote against from our side.

What's your perspective on the frequency of Director elections?

The election process is fundamental for board accountability. As a responsible investor, it is important to us to critically and constructively accompany the companies we cover. To fulfill this responsibility, it is important to be able to exert influence. Therefore, a regular election of the board members and directors is important for us with regard to our ability to react to developments and to express our satisfaction or dissatisfaction with the work of the board members and directors. In Germany, a tenure of 5 years is still common. We consider this as being clearly too long and strongly demand shorter tenures.

What are your engagement priorities for next year?

One of our engagement priorities in the next year is to identify those companies that are in the process of sustainable change, that are ready for a transformation towards more sustainability, that want to change and are able to do so. As an active and sustainable investor, it is important to find and support these companies, and in the best case identify them before the market has discovered the potential in the transformation story. This requires on the one hand classic fundamental research skills, but on the other hand also intensive dialogue with companies. Furthermore, one of our core beliefs proved to be true during the Covid-19-pandemic: Companies that are characterized by good corporate governance and show a well-developed management of social and environmental issues prove to have a crisis-resistant business model. Having said that, corporate governance issues (such as board effectiveness, remuneration, diversity), human rights (e.g. in the supply chain) and environmental issues (climate change mitigation and adaptation) will remain high on our agenda.

ITALY

QUORUM

The *Cura Italia* Decree, published in March 2020, included measures to help Italian public companies deal with the impact of Covid-19 during the 2020 AGM season, in particular:

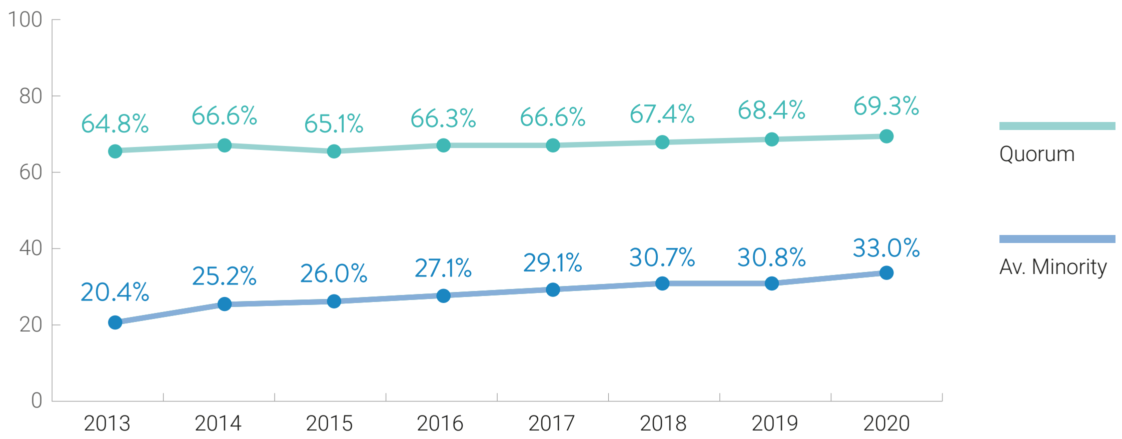
- Companies were allowed to convene their AGMs to approve the financial statements within 180 days of the end of the financial year;
- But the right to attend the Shareholders' Meeting and to exercise voting rights could only take place through the Designated Representative.

As expected, AGMs without physical participation of shareholders did not have an impact on the quorum which shows the growth in the participation of minority shareholders (**+2.2%** in 2020), continuing the trend of previous seasons.

The slight increase of overall quorum (**69.3%**, **+0.9%** in 2020) reveals an increasing weight of the minority shareholders in the ownership structures of FTSE MIB companies.

In fact, the differential in ownership between reference shareholders and minority shareholders has drastically reduced in 2020, with minorities accounting for approximately **48%** at FTSE MIB AGMs, on average.

AVERAGE AGM QUORUM AND MINORITY INVESTOR PARTICIPATION



REMUNERATION

The first year of SRDII application (binding Policy vote - advisory Report vote) took place in a particular context, which led companies to move unevenly and with great difficulty considering:

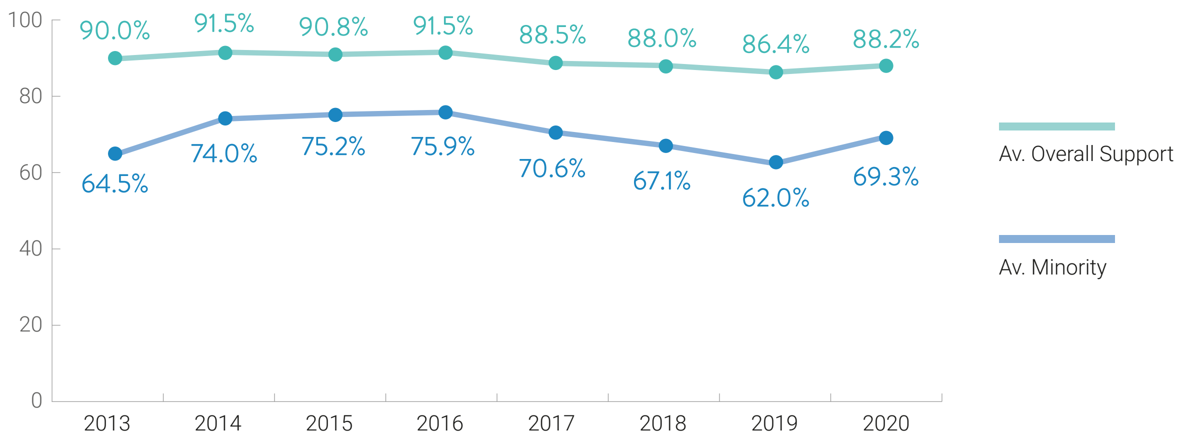
- The Covid-19 emergency;
- The absence of secondary legislation on remuneration reporting; and
- The absence of a final European Commission standard on the remuneration report.

8 cases

companies received a majority of minority investor votes against the remuneration policy and the remuneration report simultaneously.

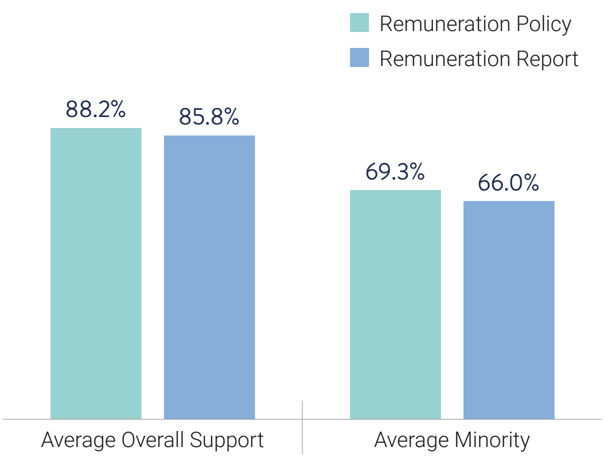
The overall and minority approval on remuneration policies has increased in 2020 (**+7%**) in contrast to the trend of recent years, reaching the support level of 2017.

AVERAGE APPROVAL OF REMUNERATION POLICY PROPOSALS



The rationale for the change in last year's trend should be read as an improvement in the remuneration practices of Italian companies, but at the same time as a greater focus on the remuneration reports that were submitted to the shareholders' vote for the first time. In fact, an analysis of the remuneration report vote reveals a lower level of approval than the remuneration policy.

AVERAGE APPROVAL BY TYPE OF REMUNERATION ITEM



Additionally, 9 companies' remuneration policies and 12 companies' remuneration reports obtained less than **50%** support from their minority shareholders – a result that, in the absence of a reference shareholder, would have led to the rejection of the remuneration policy or report.

Apart from a few cases, these companies are characterized by the presence of a significant majority shareholder (with **45.8%** SC on average) and are less inclined to engage with the market.

Interestingly, in 8 cases, companies received a majority of minority investor votes against the remuneration policy and the remuneration report simultaneously.

The pressure from institutional investors has manifested itself where significant salary increases have been observed in the current year, with a multiplier effect on the overall bonus opportunity. Other main issues leading to shareholder dissent include:

- Discretionary bonus (entry bonus, guaranteed bonus, one-off payments etc.)
- Excessive severance payments
- Potential excessive pay-out
- Lack of an adequate disclosure
- Missing disclosure on long-term incentive plan (LTIP) targets

The number of negative proxy advisor recommendations on remuneration issues is slightly lower than in 2019, due to the significant increase in the number of items and the simultaneous interlocutory approach of proxy advisors with issuer companies given the first year of SRDII application.

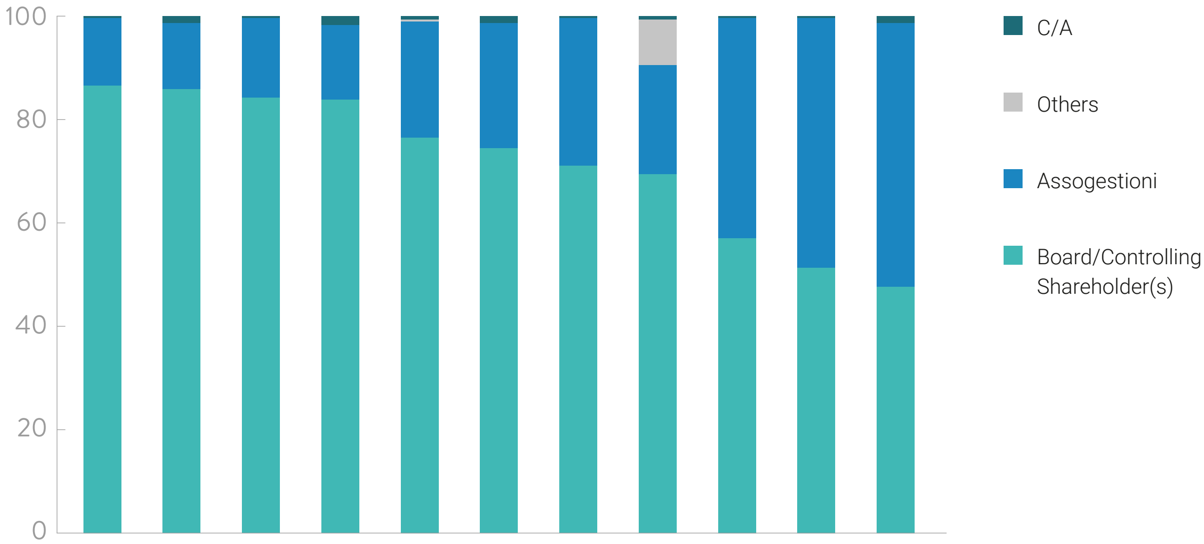
BOARD

11 FTSE MIB issuers renewed their Board of Directors during the 2020 proxy season and in two cases the outgoing Board of Directors had presented its own list.

The companies which presented lists of the outgoing Board are characterized by the absence of a reference shareholder, a structured selection process, and availability for engagement with minority shareholders which has been widely recognized by receiving support from investors and favourable recommendations from proxy advisors.

In a single case, the list submitted by the reference shareholder was second to Assogestioni for votes received at the AGM.

BOARD ELECTIONS 2020



OUTLOOK 2021

In consideration of the impact of Covid-19, board decisions on potential compensation plan adjustments will be analysed and addressed by shareholders in 2021. Therefore Boards will be encouraged to provide disclosure to shareholders of their activities and their respective rationale.

In discussion with investors we noticed an increased interest in social issues, emerging also through the use of remuneration related measures such as the pay ratio and a growing focus on pay quantum.

When considering discretionary compensation Boards should be aware of the potential negative perception by the financial community, especially for those companies that have suffered a significant impact from the pandemic crisis and consequently had to reduce their workforce.

Next year will also be characterized by significant Board renewals under the new Corporate Governance Code, that will be applied for the first time with a significant impact on:

- **Board of Directors slate,** and
- **Chairman independence**

AGMs 2020: INVESTOR INSIGHTS Q&A

Livio Gentilucci,
Head of Investments Stewardship,
Generali Insurance Asset Management SGR

Do you consider that companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?

Yes, I do. During the last proxy season I've noticed that global issuers have made a continuous effort to improve the disclosure on different topics. Above all, thanks to the pressure from institutional investors and the implementation of SRD II in European Countries, investee companies have reached a higher degree of transparency on executive compensation frameworks and practices. However, I still see a lot of work has to be done. Particularly in regard of the disclosure of long-term incentives KPIs, which are still in many cases opaque. I believe next year we will have a better picture on top executive remuneration, as many important European markets were this year at their first vote on say-on-pay and on policy. Issuers from these countries, as well as others, have done an incredible effort, but their disclosure and policy have still to fully appreciate the magnitude and importance of best practice principles.

Do you think Directors' performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors?

Absolutely, Generali Investments has been evaluating positively the presence of ESG metrics in executive compensation for many years now. I believe the raising of these KPIs in remuneration practices to be an expected and needed development. Investee companies have been committing themselves to reduce gas emission, enhance employees safety and fight climate change for years, but without a direct link to performance criteria these are most likely to be downgraded to "minor level" priorities in the business strategy. Executives that are evaluated on ESG criteria have their "skin in the game" and they will make ESG matters a top priority.

As a responsible investor, Generali Investments is deeply committed to promoting sustainability in investee issuers through proxy voting and engagement. What are the most significant engagement trends that have emerged during the last years?

With the rise of the climate change challenge, we have seen engagement being promoted as one major lever to fight against climate change. Indeed, to appear "good" the temptation is to simply exclude carbon intensive companies from our portfolio, but addressing climate change is much more than that. Climate change is systemic. This is why, as investor in the real economy, it is our responsibility to engage companies in our portfolio. We want really to impact companies we invest in. In addition, biodiversity is gaining traction as a consequence of the pandemic, and we see the same "institutions" being created for this topic like for climate (IPCC, TCFD, SBT...) which is a very good sign.

What are your principles when performing engagement?

- **Focus:** we focus on "risky companies" we have a significant exposure on and a real probability to influence. Our engagement committee makes the final decision in terms of selection and escalation.
- **Coordination:** for each strategic engagement, we onboard all internal stakeholders: ESG analysts, Voting, Credit analysts, Portfolio managers.
- **Expertise:** this approach enables us to gather the right level of expertise, to prepare detailed engagement case and realistic expectations.
- **Partnership:** all the above enables us to create a true partnership with our engaged investees, fostering a trust relationship where we can help each other in a win-win deal.

What are your engagement priorities for next year?

Unsurprisingly, climate change represents half of our engagement effort, and it will remain, maybe even increase in the future. In addition, we are committed to engage companies on social issues as this topic is quickly increasing awareness among the market operators. Governance (including the minority lists in Italy), corruption and other environmental issues including biodiversity will be also themes to touch.

AGMs 2020: INVESTOR INSIGHTS Q&A

Cristina Ungureanu,
Head of Corporate Governance,
Eurizon Capital SGR

Do you consider that the companies, overall, have made an effort to improve their transparency? What were the most critical elements you noticed?
The principles of accountability, transparency and engagement have always applied to best practices for good corporate governance. Transparency is fast becoming the new paradigm for conducting business.

On a positive note, what has changed in the last couple of years is that there is a greater emphasis on good corporate governance than ever before, including on its oversight of Sustainability issues. Particularly large Italian companies provide greater understanding of board's reasoning in how they make decisions and oversee management, with a longer-term perspective in mind, resulting in a robust corporate governance that promotes stronger oversight.

There is a trend towards Integrated Reporting, which highlights the growing understanding of ESG's financial materiality on the part of companies, enabling investors to make better decisions by increasing market efficiency. We have noticed that better integrated reporting has also helped companies align their business strategy with their sustainability objectives. Through improved reporting, companies can also understand, communicate, and better manage their contributions to the SDGs.

As investors we increasingly seek decision-useful, comparable and reliable information about sustainability performance in corporate disclosures, to better understand how non-financial metrics can impact business and profitability. Our expectations are towards better clarity of the financial impact of ESG risks, such as climate change or social risks. We need to see an increasingly clear correlation between economic and financial performance – and meeting the SDG's established by the UN.

Has your voting approach changed in the past years, given the rapid developments in the Corporate Governance area?
Our voting strategy has been evolving. We have had well-defined criteria for shareholder meeting participation, such as meeting certain numerical holding thresholds and participating at meetings in order to support minority shareholder rights. Our recent approach has been oriented towards a case-by-case approach, in order to ensure meeting participation at companies that are relevant for our portfolio in line with our long-term investment strategy.

Specifically regarding Italian companies, the evolution of the Italian Corporate Governance Code in the last year has been a point of reference for our active investment in order to grasp companies' approach to innovative issues such as the independence of the board, the role of Sustainability in their business and governance strategy, and companies' diversity policies.

Over the past year we have been deepening our engagement with Italian and foreign companies on a range of topics, holding them to the highest standards of corporate governance and sustainability. Our voting strategy focus is increasingly aligned with the engagement topics that are considered material for the respective company and hence impacting on our investment portfolio.

Several companies, particularly large ones, are communicating a materiality matrix to inform shareholders and key stakeholders about the risks and opportunities within the business strategy that mostly impact their financial performance as well as their external framework. Disclosure of the most important non-financial drivers of value within the business and how these are monitored are becoming extremely important for our voting decisions that regard companies' capital allocation or remuneration policies.

How have your considerations towards executive remuneration policies evolved? Do you think Directors' performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors?
Our remuneration policy has also developed, becoming more nuanced and considering a tailored approach towards individual companies.

We do not want to see dramatic changes in remuneration policies. It is important to see continuity with previous remuneration plans, reflecting the performance appraisal, the value that executives have created during the reference period, the right mix of short- and long- term incentives and the right alignment with shareholder interest.

We continue to monitor discretionary payments very carefully, flag them as potential issues where unreasonable or misaligned with the pay-performance philosophy. Nevertheless, not all policies that adopt an element of discretion warrant a negative vote, as we assume that boards do a good job in overseeing the appropriate implementation of the remuneration policies.

We expect a company's executive remuneration policy to help promote the appropriate balance between the pursuit of short-term targets and the achievement of long-term value generation. Therefore the choice of KPIs is important, not only regarding financial metrics but also qualitative factors, linked to company's ESG performance objectives. We may revert to the materiality matrix also for assessing and understanding company's priorities in terms of performance, as an expression of the remuneration metrics chosen.

We are also aware that the longer-term nature of performance objectives, for example considering the link with climate change strategy (this being included also in the companies' industrial plans) will be challenging. Other challenges will emerge as well, and I'm thinking of the increased importance of social factors, such as the attention to human capital. All companies will need to rethink their strategy and purpose in these directions, aligning their remuneration policies with such important goals.

The analysis of investor voting behaviour and voting recommendations of proxy advisors do not seem to show different significant trends in the 2020 season. Do you expect Board should address the consequences of the Covid-19 pandemic (if so, what are you looking for in particular)?
Every major crisis has shown that companies need to be better prepared for rapid crisis responses.

Despite the uncertainties of the current environment, the Covid-19 crisis might prove to be a watershed moment in a number of contexts - including in the re-orientation of corporate governance priorities towards addressing social impact and the interests of a wider group of stakeholders.

I think that companies that didn't really understand the impact and the importance of ESG prior to this health crisis have probably learned a lot from this exercise. Some of the aspects that we were already focusing on are going to be more emphasized as a result of this crisis; one relevant example is the 'S' in ESG, which represents social issues. Covid-19 has highlighted the importance of communicating to employees and the broader stakeholder group about how they are taking care of employee's health and wellbeing.

Stakeholders are increasingly holding companies to a higher social standard, demanding a real commitment to responding to health issues, diversity, inequality, and social unrest.

For us, companies' stakeholder engagement will be another important metric for companies' measurement of overall behavior and performance.

Today's directors should therefore become increasingly aware of the importance of ESG to investors, employees, consumers, and the company's bottom line. Companies will need to re-think their sustainability approach for a post-Covid world, focus on the substance of their impact, set out a strategy of future action and involve all their stakeholders.

PORTUGAL

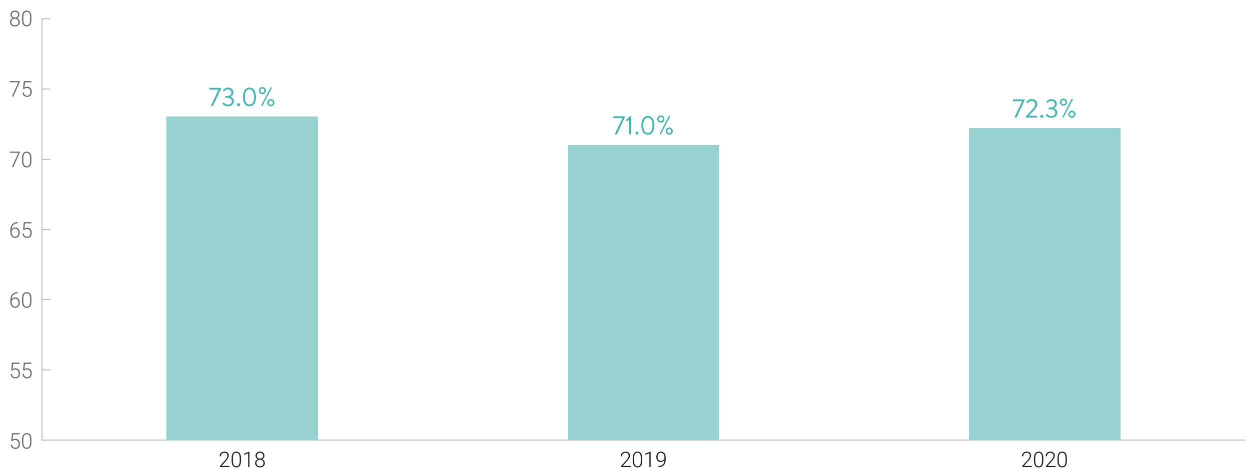
QUORUM

Like in all European countries and regions, the Covid-19 pandemic has dramatically impacted the life course in Portugal. Shareholders' meetings were not an exception in 2020 and although the PSI-20 proxy season occurred during the usual months of March and June, **22%** of the AGMs had to be postponed and issuers had to put in place more means to be able to hold either hybrid AGMs (**6%**) or remote-only AGMs (**72%**).

However, quorum average figures did not decrease in proxy season 2020 among PSI-20 constituents, but they went up regarding in the previous years:

"At the gates of implementing the new legal standards arising from the transposition of SRD II, the PSI-20 issuers concentrated the highest shareholder opposition levels and numbers of negative voting recommendations on remuneration-related items."

AVERAGE QUORUM IN PSI-20



BOARD

Portugal generally maintains a slate election for its board members, who are normally elected jointly for a three-year period -being four years the maximum length. Individual elections remain rare and may only happen if there is a ratification of a new director who replaces an early-outgoing board member.

In this proxy season 2020, PSI-20 constituents have submitted board-related items that represented **22.7%** of the total items, receiving **27.3%** of the total negative voting recommendations issued by global proxy adviser ISS. At any rate, the average opposition to these items was only of **1.9%**, being **18.2%** the highest level of negative votes registered at an AGM this season.

The main areas of complain of proxy advisers and institutional investors were mainly connected with insufficient board independence and the appointment of combined Chair/CEO roles.

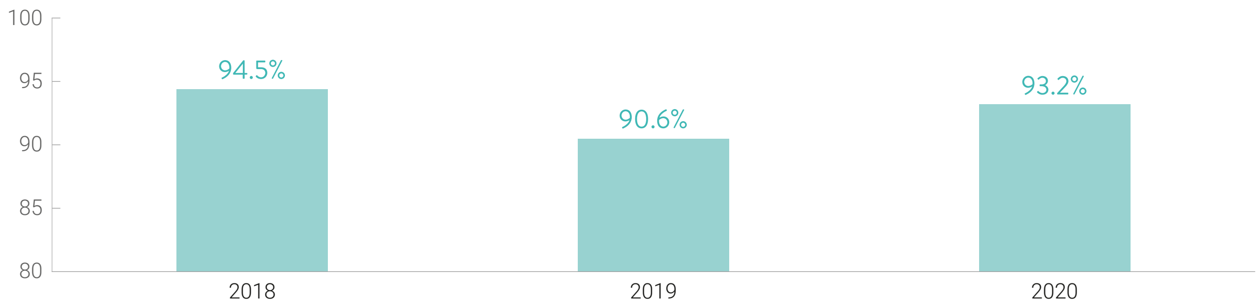
REMUNERATION

The transposition of Directive 2017/828/EU (Shareholders' Rights Directive II) into the Portuguese regulatory framework will bring significant changes in AGMs' remuneration-related items in the future. Nonetheless, in proxy season 2020 has still resembled the previous seasons in this regard.

In proxy season 2020, the approval of the remuneration policy has been submitted to shareholder vote by all 18 constituents of the PSI-20, except for energy issuer EDP, who submitted it twice, one time for its executive committee and the other for its corporate bodies.

At any case, remuneration-related items represented **14.9%** of the total items submitted to shareholder vote in PSI-2020 this season, receiving **45.4%** of the total negative voting recommendations issued by the global proxy adviser ISS in PSI-20. This means that these items concentrated the highest proportion of ISS' unfavorable recommendations. Further, the average support received by these items was **93.2%**, while against votes hit **5.0%** in average. While these average figures show a broad shareholder adherence to the remuneration policies and improved 2019's average figures, some individual issuers received significant opposition levels when tabling this item, fixing the maximum of negative votes at a significant **35.5%** of the quorum:

AVERAGE SHAREHOLDER SUPPORT TO REMUNERATION POLICIES IN PSI-20



Shortcomings such as uncapped bonuses, the participation of non-executive directors in executive remuneration schemes, the lack of severance caps, the absence of clawback clauses, the existence of too short long-term incentive plans, and excessive dilution were among the most common complains of proxy advisers and institutional investors when issuing voting recommendations and casting votes on the remuneration policies, respectively.

CAPITAL

Capital-related items were **24.1%** of the total items submitted to shareholder vote at this proxy season, receiving the remaining **27.3%** of the total negative voting recommendations issued by proxy adviser ISS. However, similarly to neighboring markets such as Spain, these items did not trigger significant opposition levels by shareholders, whose average votes against were only **0.8%**, hitting the highest opposition level among cast votes **9.7%**.

Proxy advisers and institutional investors focused their complains on features such as the repurchase of shares allocated in problematic compensation schemes, or the excessive exclusion of preemptive rights in capital increase and debt issuance authorizations.

OUTLOOK 2021

- Remuneration-related items in Portuguese shareholders' meetings will be even more important in 2021, mainly after the EU-driven regulation changes.

- Portuguese issuers will have to improve the quality of hybrid and remote-only shareholders' meetings in 2021. After the disruption of 2020, investors expect issuers to find more means to participate online and live at meetings.

- Board diversity, mainly in terms of gender diversity, will remain as a hot topic regarding board-related matters.

SPAIN

On March 14 and upon the fast spread of Covid-19 virus, the Spanish government declared a nationwide state of alarm, which ended on June 21. Among other measures, it enabled to establish different degrees of confinement of the population and brought significant movement restrictions.

On the impacts on corporate governance practice, the deadline on which general shareholders' meetings were to be held was extended from six to ten months after the end of the fiscal year under review. Besides, on the form of meeting attendance, while all issuers advised against shareholders' physical attendance, **62%** of the Ibex-35 issuers organised remote-only shareholders' meetings, while the remaining **38%** kept hybrid meetings that allowed both remote and physical attendance.

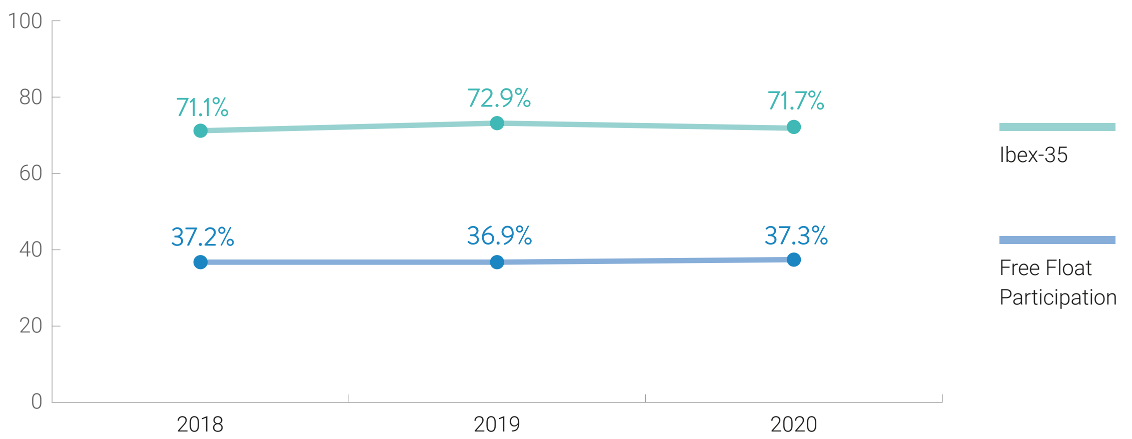
QUORUM

While the consequences of the confinement was detrimental to some shareholders' voting ability, overall, as of August 31[1] the average participation level in Ibex-35 proxy season 2020 was **71.65%**, suffering a slight YoY downturn but remaining broadly in line with the previous seasons. Similarly, the participation of the free float remains constant compared with precedent seasons, although in this case with a small YoY upturn. Overall, both magnitudes remain highly stable throughout the seasons:

Regarding the quorum outcome sorted by type of issuer in terms of free float levels, both magnitudes are inversely proportional in average. In other words, ownership dispersion and atomisation trends to impact negatively against quorum. In fact:

- Issuers that have a controlling shareholder (or group of shareholders acting in agreement) with a stake over **50%** of the share capital, have an average quorum of **85.65%**
- Issuers that have shareholders holding a significant but not controlling stake and a free float level between **30%** and **80%** of the share capital, have an average quorum of **71.07%**
- Issuers with a free float of **80%** or more, have an average quorum of **63.23%**.

AVERAGE FREE FLOAT PARTICIPATION VS. IBEX-35 AVERAGE QUORUM



1. *Acerinox, Aena, Almirall, Grifols* and *IAG* are Ibex-35 issuers that had not held either their AGMs or published the attendance and voting results by August 31st. *ArcelorMittal* is a Luxembourgian Ibex-35 constituent excluded from this study due to the form of its corporate governance that is different to Spanish market practice. *Pharmamar* has been recently included in the index, but at time its AGM was held this issuer was not part of it.

BOARD

As of August 31, 2020, **26%** of the items in Ibex-35 proxy season 2020 tackled board issues. **9.5%** of them addressed the board size, while the remaining **90.5%** dealt with board elections. Within the latter type and considering the gender of the nominees, elections and shareholder support distributed as follows:

	ELECTIONS (ALL)		FEMALE		MALE	
	Nominees	Average support	Nominees	Average support	Nominees	Average support
Executive	13 (10.50%)	**97.67%**	1 (7.69%)	**98.28%**	12 (92.31%)	**97.62%**
NI-NED	44 (35.50%)	88.72%	9 (20.45%)	94.58%	**35 (79.55%)**	87.21%
Independent	**67 (54.00%)**	96.65%	**39 (58.21%)**	97.70%	28 (41.79%)	95.17%
TOTAL	**124 (100%)**	**93.94%**	**49 (39.52%)**	**97.14%**	**75 (60.48%)**	**91.85%**

Non-independent non-executive nominees received the lowest average support amongst all nominees. Indeed, the most common cause of dissent votes mentioned by institutional investors and proxy advisers is the insufficient level of board independence, which would partially explain aforesaid low support average towards these nominees.

62%

of the issuers organised remote-only shareholders' meetings

Interestingly, female nominees received an average support significantly higher than male, **97.14%** vs **91.85%** across all categories, partially due to investors' increasing demands on better-balanced board gender. Also, this difference is motivated by the fact that circa **80%** of female candidates were independent nominees, the preferred director category by investors, while only **37%** of the male nominees were up for election under said status. Consistently, **86%** of the board elections that received a very significant dissent vote (higher than **20%**) put male nominees on the ballot.

Finally, **43%** of all the negative voting recommendations of ISS among Ibex 35 AGMs were against board elections. This type of items concentrated the highest portion of adverse voting recommendations issued by said proxy adviser.

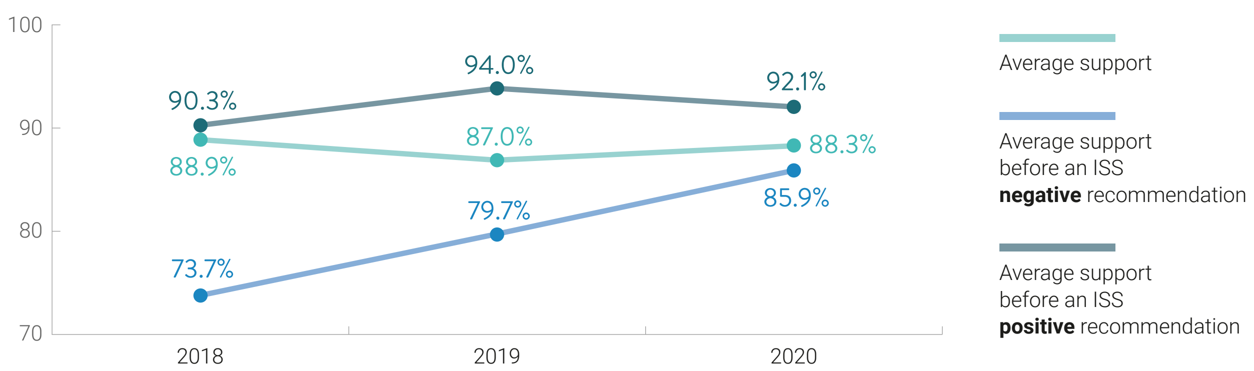
CAPITAL

Capital-related items were **10.25%** of the total items submitted to shareholder vote in Ibex-35 proxy season 2020, which implies a meaningful increase regarding 2019 and 2018 seasons' levels (**7.92%** and **9.40%** respectively). This upturn is partially due to the capital-consuming consequences triggered by the Covid-19 crisis. Indeed, in this 29-issuer analysis, in 2020 there were 28 items requesting equity-dilutive cash resources (proposed by 17 issuers), while in 2019's 34-issuer analysis there were 26 of these items (proposed by 12 issuers).

Interestingly, the analysis also offers a paradox: in season 2020, the items that sought shareholders' approval on equity-dilutive requests (capital raisings and issuance of convertible debt) were remarkably opposed by proxy adviser ISS. Indeed, IIS adviser issued a significantly higher number of negative voting recommendations (**25%** of the total adverse recommendations vs **15.22%** in 2019 and **0.02%** in 2018), which implies that for this adviser issuers' proposals are now more contentious than in previous years. However, average shareholder support remained unchanged regarding previous seasons. Indeed, those proposals that warranted an against voting recommendation from ISS received a much higher average support than in precedent seasons:

39.5%
of the board elections were female nominees, who outperformed male nominees in terms of average support in every director category

SHAREHOLDER SUPPORT IN EQUITY-DILUTIVE ITEMS BEFORE ISS RECOMMENDATIONS



In consequence, it can be inferred that in general, investors have been more flexible and have backed issuers' capital needs even if dilutive or unfavourable in terms of the exclusion of pre-emptive rights.

REMUNERATION

Remuneration-related items represented **14.23%** of the total items in Ibex-35 proxy season 2020, in line with **15.15%** in 2019 and **16.64%** in 2018.

Within those, **38.67%** addressed the advisory approval of the remuneration report[2], who received an average support of **87.05%** (similar to 2019 season's **87.23%**). **27.58%** were below the average support (four items received less than **70%** of support), being lack of sufficient disclosure and negative remuneration practices the most common concerns expressed by investors and proxy advisers.

The binding approval of the remuneration policy represented **21.33%** of the remuneration item. Its average support was **88.31%**, slightly below 2019 season's **91.80%**. The reasons argued to oppose these items replicate those mentioned on the remuneration report.

Overall, the evolution of shareholder support on remuneration-related items remain very stable in time.

OUTLOOK 2021

- Quorum levels and free float participation remain stable and did not suffer significant downturns.

- Remote-only shareholders' meetings were the majority type of meetings.

- Female board candidates were in average preferred by shareholders nominees, who were majority proposed as independent nominees.

- The incidence of equity-dilutive request grew significantly, who were consistently supported by shareholders despite the increasing number of proxy adviser ISS' negative recommendations.

- Remuneration-related items' incidence and average support remain unchanged regarding previous proxy season.

2. *Red Electrica* and *Endesa* were the only two Ibex-35 issuers who submitted the approval of the remuneration report to the binding vote of shareholders.

AGMs 2020: INVESTOR INSIGHTS Q&A

Ana Rivero Fernández,
Global Head of Investment Content and ESG,
Santander Asset Management

The incidence of items that diluted equity (capital raising authorities, issuance of convertible debt tools) has grown in this 2020 proxy season in Spain, as well as the average support of shareholders before said items. Are investors announcing that they are able to put liquidity into the markets?
Yes. Investors are ready to add liquidity in capital and financial tools that used to be seen merely as tangential years ago. Indeed, the current long-term horizon of zero interest rates opened the door to diversify investment opportunities and search for risk-balanced alternatives. Nonetheless, it is worth noting that these new investing perspectives stopped being a no-brainer to became increasingly complex.

This has been the second year where Spanish issuers had to submit to the binding vote of shareholders the verified non-financial report. The average levels of support seem to be very satisfactory. What are the key aspects that Santander AM evaluates to support items like this?
Transparency is of great importance for us and we value very positively that issuers improve their ESG reporting. The regulation that fosters transparency on this matter is helping to have a much better information from issuers, but we like going even further since we engage not only with those companies that are subject to this law, but also with those who are not so they can anticipate and improve their reporting.

> “Transparency is of great importance for us and we value very positively that issuers improve their ESG reporting.”
> **Ana Rivero Fernández**

Do you think Directors' performance should be assessed by investors using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors?
This is indeed the path to follow. If we agree that sustainability adds value and helps to manage risk and opportunities, it makes sense that ESG factors are taken into account when assessing the performance of those who sit on the board of directors and that are part of the management of the company.

In addition to the first question, the outcome of our analysis does not seem to show any significant new trend in the 2020 season regarding the previous one. Shall Boards expect the consequences of the Covid-19 pandemic on proxy season 2021 (i.e higher levels of scrutiny on the appropriateness of executive pay in relation to the overall economic and social situation)?
The pandemic has implied a deep transformation in all aspects and the greater interest in sustainability is one of those changes. In the last months, we have seen inflows and better performance data in ESG funds. The raise of ESG investment will imply a greater pressure on issuers to prove that they are able to manage this type of risks and the opportunities triggered by a situation like this.

What are the most significant engagement trends spotted by Santander AM regarding its listed investees that emerged during the last years?
Our engagement activities with issuers are planned ad-hoc. Often it addresses the improvement of companies' ESG transparency. In other cases, we dig in how companies give answer to certain controversies identified in our analysis. We also promote our involvement in collaborative engagement activities. In fact, our recent adherence to the Institutional Investors Group on Climate Change initiative highlights our commitment to promote more engagements focused on climate change.

SWITZERLAND

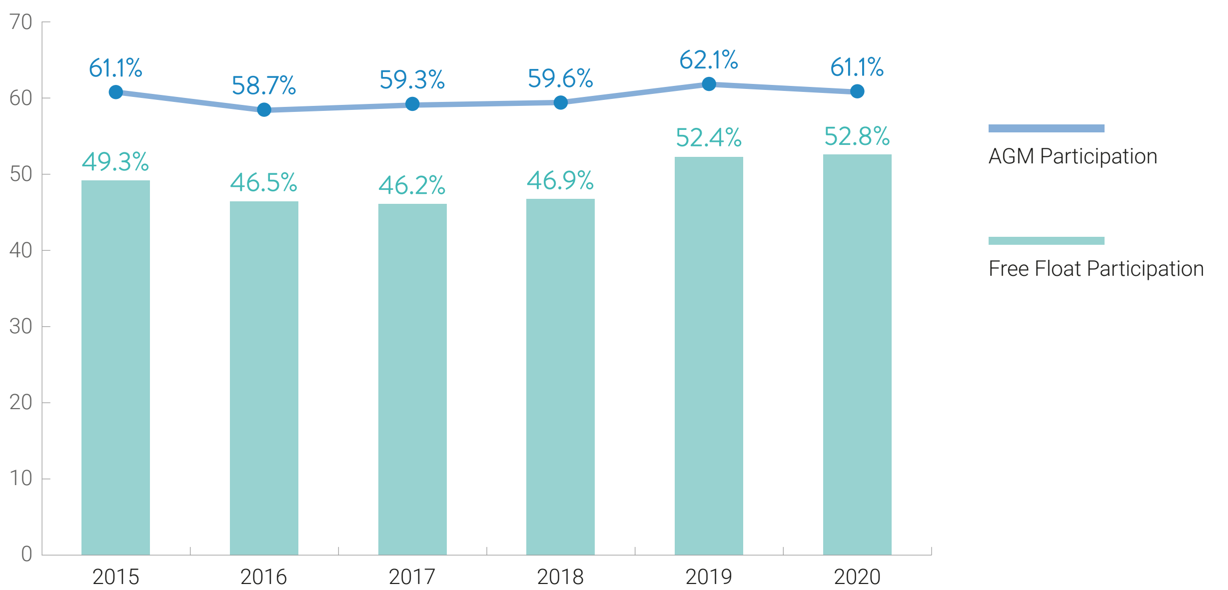
QUORUM

The Covid-19 pandemic also had its impact on the 2020 AGMs in Switzerland, though the quickly enacted ordinance by the federal council kept all SMI companies from postponing their shareholder meetings. Except for Novartis, which held its AGM before the Covid-19 implied lockdown, all issuers held non-physical general meetings with shareholder votes cast exclusively through the independent proxy. Despite unfavorable circumstances, shareholders' voting participation in SMI companies remained largely unchanged or, in case of free float participation, even increased slightly. A positive signal that shareholders value their voting rights.

85%

of the agenda items with the lowest support in 2020 relate to board elections; a clear signal that investors increasingly hold individual board members accountable.

MISSING TITLE

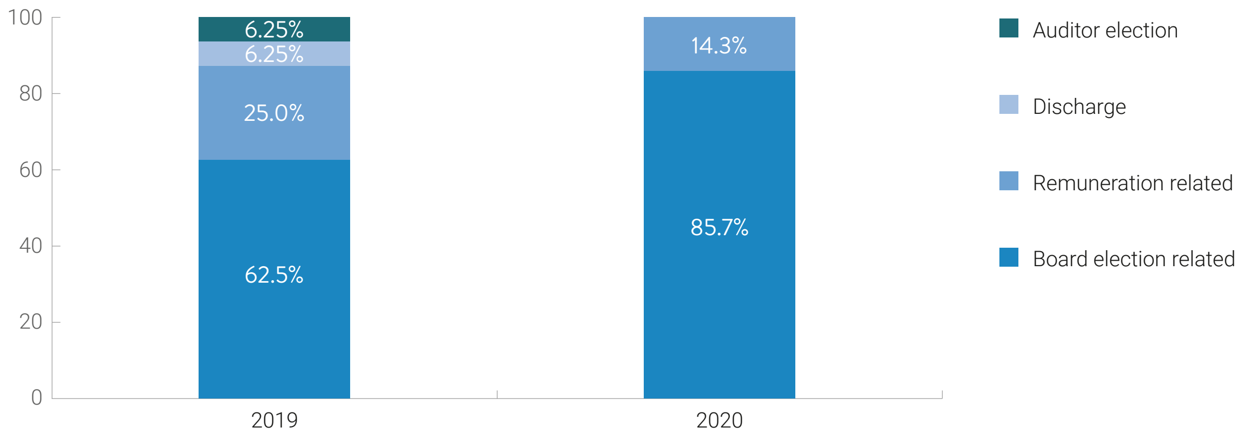


Going forward, the revised Swiss business law expected to come into force in 2022 will allow for fully-virtual shareholder meetings, though technical and legal requirements will be disproportionally higher than this year. Consequently, a prominent shift towards more virtual meetings is rather unlikely.

BOARD

In 2020, board elections continued to have high average approval rates, with little indication of concern. However, when considering only agenda items with less than **80%** support, board elections contribute more than **85%** to this group, and four elections would not have passed if only free float support was considered.

MOST CRITICAL AGENDA ITEMS (<80% SUPPORT)



Interestingly, the average fraction of AGAINST votes was higher for male than female board candidates, and in the most contested board elections, insufficient (gender) diversity was increasingly raised as an issue by investors. In SMI companies, the fraction of female board members has increased steadily, from a little under **18%** in 2015 to a bit over **28%** in 2020. This is not yet the minimum comply-or-explain level of **30%** for each gender that the revised business law stipulates, but there is still time as companies have a five-year transformation period (10 years in case of the **20%** executive committee gender ratio) after the revision comes into force, thus until about 2027.

REMUNERATION

Compensation-related votes raised little discussion and outcomes compared to those of last year. However, investors have started becoming more specific in who to hold accountable. Of the board election items receiving less than **80%** approval, almost **60%** concern elections to the compensation committee. The reason for these low approval rates was mostly due to consecutive years of shareholders' concern with compensation matters. The low approval rate was hence the result of a seemingly insufficient reaction to shareholder concerns.

OUTLOOK 2021

The 2020 AGM Season will be remembered as a transitional one in terms of governance and CSR, with prominent issues mostly muted by the Covid-19 pandemic. Significant challenges for the board of directors lay ahead though. The board will be in focus for the decisions taken in light of the Covid-19 crisis, with increased accountability for specific board functions and committees. Additionally, regulatory developments spilling over from the EU, particularly in relation to ESG disclosures, and the revised corporate law in Switzerland will pose additional challenges. Besides beneficial amendments to the latter, such as a capital band and the flexibility in organizing AGMs, the new corporate law will also increase uncertainties around the AGM. The independent proxy, generally representing approximately **75%** of the AGM votes and therefore often deciding the ballot, is only allowed to share the indicative voting outcome with the company three business days ahead of the AGM, while the hurdle for shareholders to request a shareholders' meeting or include items on the AGM agenda decrease notably.

UNITED KINGDOM

Measures taken by companies to stay afloat during the global Covid-19 pandemic meant that investors took a more lenient approach in terms of their stewardship activities this proxy season. This has been shown by similar AGM approval levels this year to those of last year. However, against a turbulent backdrop, a spotlight was shone on the materiality of ESG risks and opportunities, arguably putting to bed any doubt that ESG factors take a back seat in the eye of the investor.

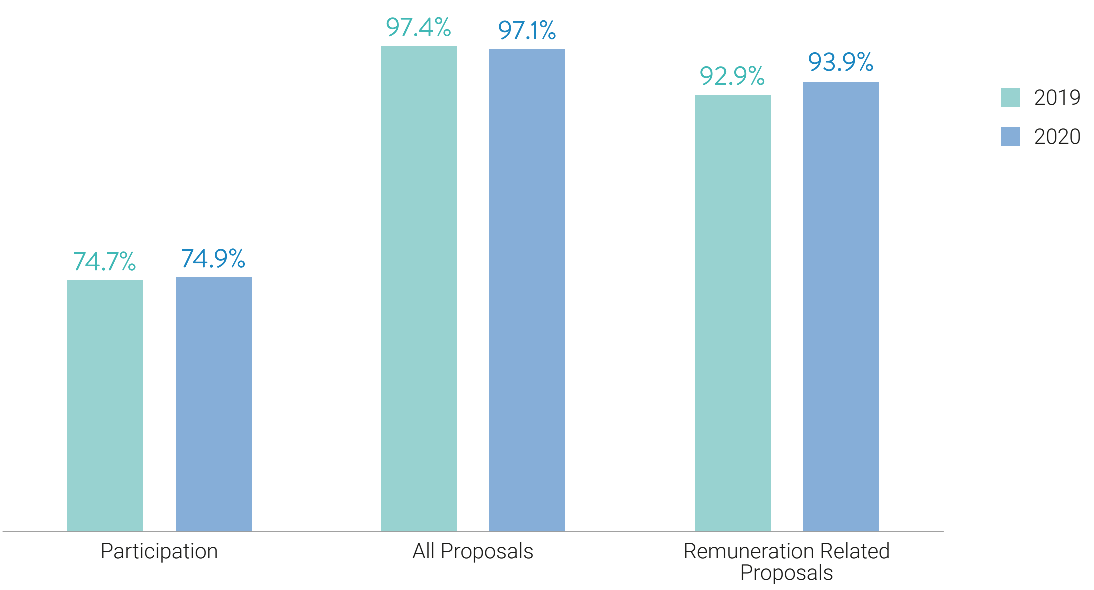
QUORUM

The 2020 AGM season presented several challenges to issuers as they navigated a turbulent environment crippled by a global pandemic and resulting regulatory and investor pressures. However, despite the majority of FTSE100 AGMs taking place behind closed doors with little opportunity for live engagement with company boards, average investor participation at AGMs and average support for all proposals remained in line with what was seen last season. There was a slight increase in support for remuneration-related items, perhaps signaling a gradual convergence in views between companies and their shareholders on issues related to pay.

REMUNERATION

As highlighted in our 2019 AGM season review, many UK issuers renewed their remuneration policies in 2020 with nearly half of all FTSE100 companies seeking investor support for a new 3-year policy. All of the 41 remuneration policies were passed with a comfortable vote bar two which received more than **20%** shareholder opposition and negative recommendations from ISS. We note investor concerns centered on the disapproval of the replacement of a restricted share plan or on the pension arrangements for incumbent executive directors which remained significantly above market levels with no commitment provided to align the pension with that of the wider workforce. The latter we highlighted in 2019 as a major investor concern, echoing revisions made to the 2018 Corporate Governance Code which required companies to align pension contributions of directors with that of the wider workforce.

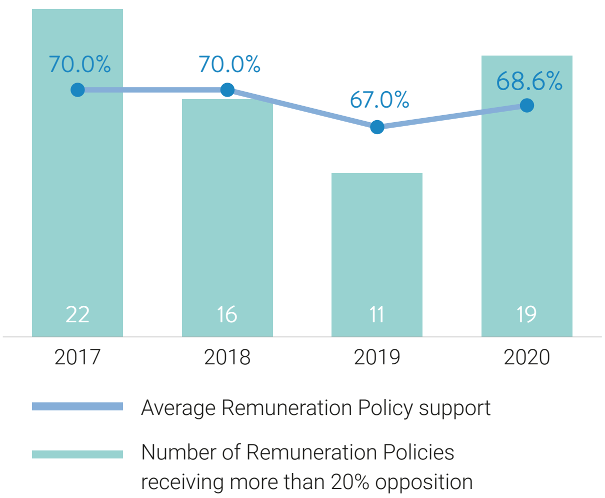
GENERAL MEETING SUPPORT



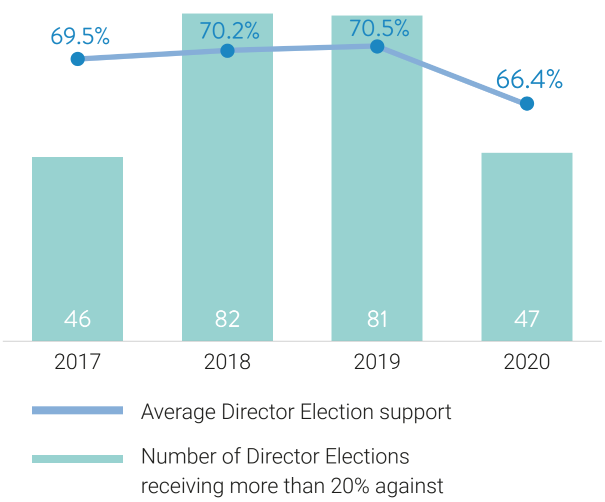
BOARD

Casting the net wider to the UK FTSE All Share, data from the Investor Association's Public Register shows us that the 2020 proxy season was a year where trends were reversed when looking at approval rates of remuneration policies and director elections. Here we see where investors were willing to slightly relax accountability (director elections) and sharpen focus (remuneration policies) as their portfolio companies navigated the business impact of Covid-19.

FTSE ALL SHARE REMUNERATION POLICY APPROVALS



FTSE ALL SHARE DIRECTOR ELECTION APPROVALS



The increased focus on remuneration policies was demonstrated by nearly double the number of companies receiving more than 20% opposition to their proposed structure in comparison to the previous year, halting a downward trend in the number of remuneration policies receiving this level of opposition since 2017. Average support was broadly in line with previous years with only one company unable to implement its new policy. Additionally, a handful of companies who received more than 20% opposition are not first-time offenders, having appeared on the register once or twice since 2017. It is clear investors are not adopting a more lenient approach to remuneration structures of smaller companies and these investee companies will only come under increasing pressure to meet the standards expected of larger organizations.

We expect increased scrutiny on remuneration reports next year when decisions that were made during the pandemic will be reported. Comprehensive explanations of how investors and wider stakeholders were considered in, for example, discretionary adjustments to criteria, targets or pay outcomes will be expected.

When it comes to holding individual directors accountable over an organization's strategy and performance, investors took a relatively relaxed approach to re-appointments with the number of directors being elected with more than **20%** opposition dropping by nearly **40%** between 2019 and 2020. This is not entirely unexpected as our engagement with investors revealed fund managers were largely supportive of companies steadying their ships through the pandemic without disruption to the composition of the board and executive management.

The call on companies to preserve cash during the pandemic was illustrated by a request from the Prudential Regulatory Authority, the supervisory arm of the Bank of England, to suspend dividend payouts for the 2019 financial year. While we witnessed most major banks in the UK apply this policy without objection, the withdrawal of its dividend for one issuer left its large retail base without their regular expected income resulting in a threat to call an EGM in an effort to reverse the decision.

15 FTSE100 COMPANIES suspended 2019 dividend payments including 5 banks and 4 insurance companies on the back of a request by the Prudential Regulatory Authority to preserve cash during the pandemic.

PROPOSED HYBRID MEETINGS

Forced to carry out their AGMs behind closed doors with, in some cases, no live virtual participation, some UK issuers took the opportunity this season to amend their articles of association to allow for hybrid meetings in future, comprising a physical and virtual component. One company had proposed the option to allow for this, however some shareholders were of the view the company could and possibly would use the permission to hold 'virtual' meetings only with no shareholders present, suggesting they thought the Board had plans to do away with physical meetings, reminding issuers that crisis related limitations in shareholder rights are only tolerated in the short term.

Other issuers were perceived as avoiding shareholder scrutiny for their AGM when meetings did not comprise a virtual component. With retail investors increasingly weary of potential limitations on their shareholder rights, issuers with strong retail shareholdings will need to be increasingly aware of the voice of this shareholder group especially as we expect hybrid meetings to continue in 2021.

OUTLOOK 2021

During the 2020 AGM proxy season, against a backdrop of a global health crisis and social unrest, the growing importance and investor expectation on a company’s management of ESG risks, opportunities and consideration for stakeholder perspectives is for all to see. Climate change and executive pay will continue to be pressing issues, however going into the 2021 AGM season we expect much closer attention to be placed on health, safety and treatment of staff. This has been and will continue to be driven by the likes of Blackrock’s call on companies to report based on SASB and TCFD frameworks, their list of 192 at-risk companies as well as State Street’s open letter asking companies to articulate their risks, goals and strategy related to racial and ethnic diversity. These are themes that will continue to gain traction as we move into 2021 and play a bigger part in corporate governance engagement between issuers and investors. The message of investors was loud and clear: we are looking at the “S”, but the “E” in ESG is not going away.

AGMs 2020: INVESTOR INSIGHTS Q&A

Philip Vernardis,
Vice President, Asset Stewardship,
State Street Global Advisors

How are companies responding to the coronavirus crisis? Have you been engaging with your portfolio companies on the pandemic?
Since the outbreak of the pandemic we have engaged with over 170 companies globally, across various markets and sectors, to understand how they have navigated the crisis and positioned their business for the future. Many companies were forced to adapt quickly though managing their business remotely and making changes to their operations, supply chains and customer connectivity. The pandemic has thus accelerated trends that were already in place, such as digital transformation, remote working, online ordering and delivery and supply-chain diversification.

What are some of the key ESG trends in the time of Covid-19? Has the focus of State Street Global Advisors' Stewardship program changed?
I think the Covid-19 pandemic has brought the social pillar of ESG to the fore, in a way that we have never seen before. As a result, we have amplified our focus on human capital, employee health, safety, equality, diversity and inclusion. In our engagements during the 2020 proxy season, we encouraged our investee companies to articulate how the pandemic might influence their approach to these material issues as part of their long-term business strategy. We believe that companies should consider redeploying talent by reskilling and upskilling the workforce. Companies may also need to re-evaluate their purpose, culture and portfolios to deliver more sustainable business models in the post-pandemic era. We are confident that forward-looking companies with strong ESG practices will use this crisis as an opportunity to reinvent themselves.

We also believe that the Covid-19 crisis accelerates the need for transformative change to address climate change as it shows the importance of being prepared and the huge cost of slow action. Therefore, climate change continues to be a core theme of State Street Global Advisors' stewardship activities in 2020 and it will remain a core campaign until we are confident that portfolio companies are effectively addressing this issue.

In terms of governance the potential impact of Covid-19 on the health of company senior executives and the risk of multiple concurrent absences highlight the need for robust succession plans in a time of crisis. Such leadership-continuity risk is a new experience for many boards. Therefore, we have placed additional focus on succession plans in our engagements with investee companies since the outbreak of the pandemic. Our engagements revealed that, even though many boards spend more time and effort on succession planning than ever before, some companies are still not fully prepared to handle multiple unexpected executive transitions.

How did companies respond to liquidity risks arising from the pandemic during 2020 proxy season?
Liquidity management was a top priority for companies during 2020 proxy season. As a consequence of the pandemic, many companies have been in greater need of capital and liquidity and have consequently suspended their dividend payments and share buy-back programs to preserve cash and ensure the ongoing viability of their business. In light of the current uncertainties, we understand that some companies have to take a prudent approach in assessing their ability to withstand financial stress. However, we are also mindful when companies unnecessarily suspend or reduce their return of capital to shareholders. We expect companies that decide to suspend dividend payments to resume them as soon it is prudent to do so.

Unsurprisingly, there was also a significant increase in the number of investee companies seeking to raise survival cash from shareholders during the 2020 proxy season. The number of capital raising resolutions submitted for approval at shareholder meetings more than doubled compared to the same period last year. As we recognize that a global health and economic crisis of this magnitude presents extraordinary challenges for businesses, we have been supportive of well thought-out capital-raising requests.

Covid-19 has disrupted supply chains around the world. Are there any trends you have seen during the season in terms of supply chain management? How should companies respond to this?

In our discussions with our investee companies, it is clear that Covid-19 has accelerated the need for businesses to embrace digital transformation and supply-chain optimization. The pandemic and the associated production stoppages across the globe have revealed the fragility of many companies' centralized-production and supply chain systems. Therefore, some companies are now reconsidering the benefits of their existing systems. We believe that companies may need to re-evaluate their supply chains and consider implementing more diverse sourcing, digitalization and robust supply-chain risk management processes. These factors will be key for companies to achieve resilience and ensure a lasting recovery from the pandemic.

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