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THE 2022 EUROPEAN PROXY SEASON REVIEW

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ALSO, IN THIS EDITION:

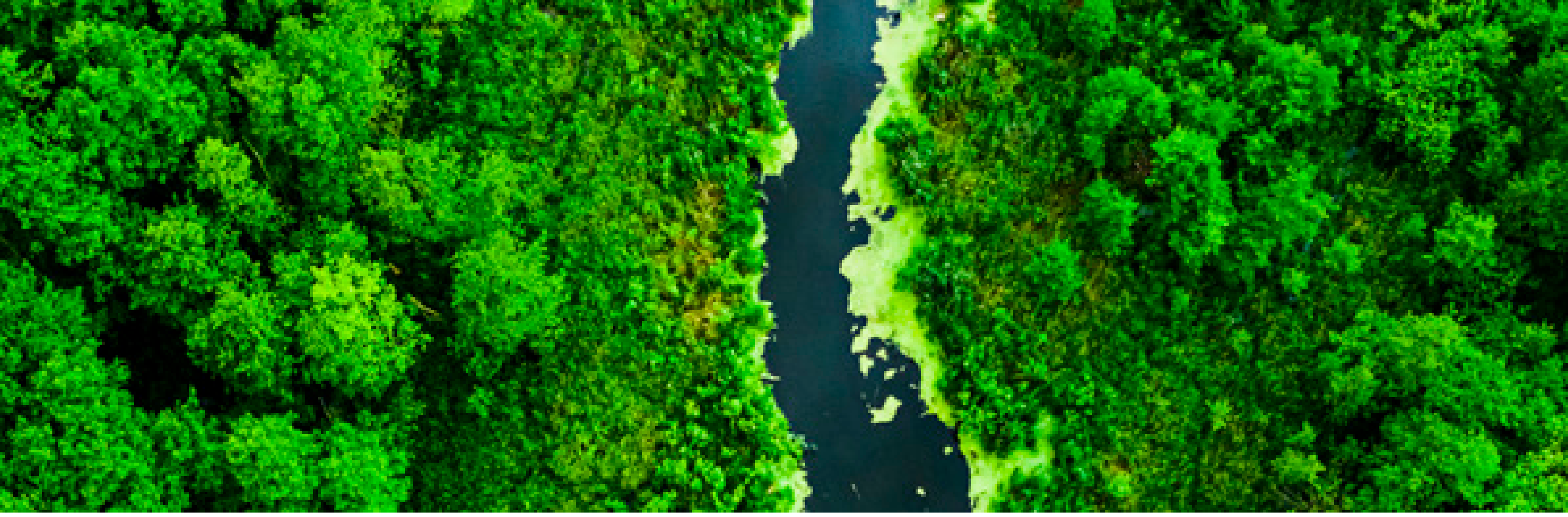
Say on Climate, a Review

How can boards address increasing E&S expectations

Board gender diversity 2022: a convergent road across Europe

Investor Insights Q&A with

BNP Paribas Asset Management
UBS
Legal & General Investment Management



SAY ON CLIMATE, A REVIEW

THE INITIATIVE

In 2021, a new type of environmental proposal appeared on ballots at annual general meetings (AGMs) globally. It was dubbed "Say on Climate" after the well-established "Say on Pay" framework that features as a regular voting item on executive remuneration.

Say on Climate is a global initiative encouraging listed companies to periodically give their shareholders the right to vote on their climate action plans in the form of a voluntary (board-endorsed), non-binding, advisory proposal. The initiative was first tabled by the Children's Investment Fund Foundation, a UK-based charity holding $6 billion in assets under management, who is strongly committed to climate change action, which together with TCI Fund Management, called on companies to establish their climate transition plans.

In fact, according to the initiative, to manage the transition to net zero under the Say on Climate, companies should provide:

- Annual disclosure of their greenhouse gas ("GHG") emissions is consistent with recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), an international body established by G20 leaders to improve the efficiency of these disclosures.
- Disclosure of a plan to manage GHG emissions.
- Shareholders with an advisory vote on the plan and performance relative to such plan at their AGMs.

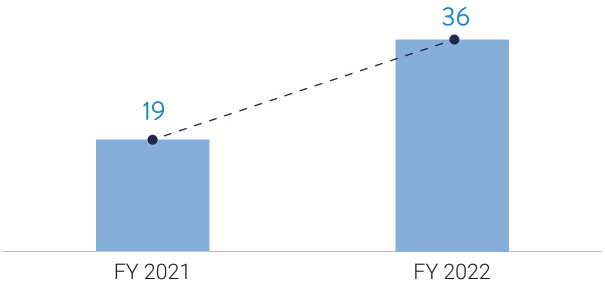
The phenomenon has so far generated significant interest, receiving support from the Institutional Investors Group on Climate Change (IIGCC), among others. A large number of issuers submitted their climate plans for the first time in 2021 or 2022, sometimes as a result of some successful shareholder campaigns, effective engagement, and responsive company management, in other cases voluntarily as a board-endorsed action and a way to also anticipate potential unwanted activism from shareholders.

> "Now, it is the management itself that is involving shareholders in the ratification of corporate climate strategy and this is unprecedented..."

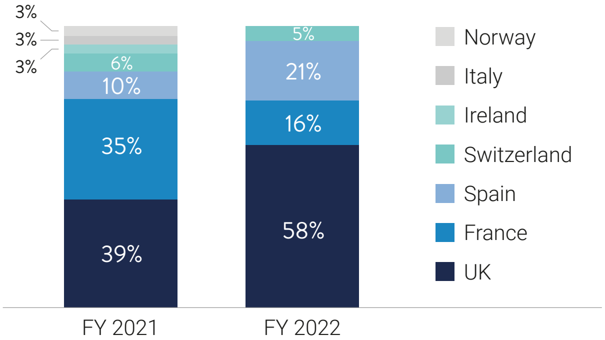
In reality, prior to 2021, environmental-related proposals were not new to the AGMs of some big corporations around the globe, especially in markets outside Europe such as the US, Canada and Australia, but those resolutions had been typically filed by shareholder activists or associations looking for some sort of change. Now, it is the management itself that is involving shareholders in the ratification of corporate climate strategy and this is unprecedented, albeit not without raising debates over the eligibility for shareholders to vote on corporate strategy, typically deemed to be best left to management decisions.

EUROPEAN SAY ON CLIMATE IN 2022

In Europe, Say on Climate turned out to be one of the most relevant topics of the 2022 AGM season with 36 management resolutions submitted to date, in seven European jurisdictions: France (11), Ireland (1), Italy (1), Norway (1), Spain (3), Switzerland (2) and the UK (17). This represents an **89%** increase if compared to the 19 resolutions proposed in 2021.

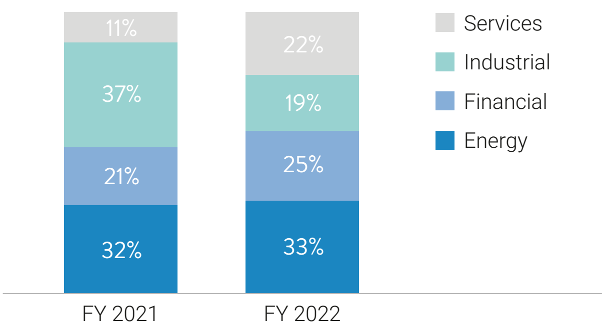


Weight by Countries



Contrary to the Australian market where all Say on Climate resolutions up to date were filed by mining and energy companies, Say on Climate resolutions in Europe are not particularly tied up to specific sectors. Companies holding Say on Climate votes in 2022 belonged to different industries: Energy (12), Financial (9), Industrial (7) and Services (8).

Weight by Industries

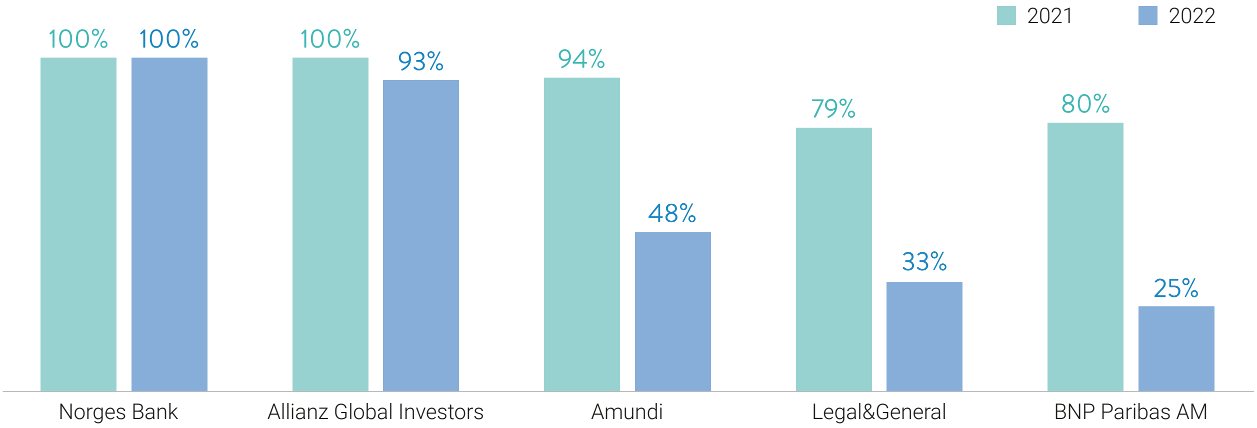


MARKET PERCEPTION

Since early 2021, management-proposed climate plans put to an advisory shareholder vote have gained overwhelming support at AGMs. Taken by surprise, investors seemed to be particularly enthusiastic but unready to fully elaborate on this new type of ballot, which ultimately led to approvals by large majorities. However, since the beginning of 2022, some investors have started to push for higher standards for Say on Climate resolutions, and adopted stricter voting approaches through abstentions or oppositions, reflecting the view that the initial enthusiasm in 2021 for such ballots probably led to rubber-stamping. So far, the resolutions presented in 2022 have confirmed a growing dissent in comparison to the previous year, decreasing to an average approval rate of **90.7%** in 2022 from **93.7%** in 2021.

While some investors continued to be largely supportive of Say on Climate resolutions, such as Norges Bank or Allianz Global Investors, and voted in favor of more than **90%** of Say on Climate items at the European AGMs in 2022, others believe that the quality of the information provided to investors should be set at a higher standard. For instance, Amundi has supported only **48%** of the climate resolutions of European companies in 2022, down from a **94%** support level in 2021. According to the investor, climate strategies should present comprehensive targets as well as an agenda with short, medium and long-term objectives, with clear resources to achieve the climate goals and a 3 to 5-year investment plan. Likewise, Legal & General IM moved from a **79%** support level in 2021 to approving only one-third of the European Say on Climate items in 2022. LGIM is particularly committed to fighting climate change and does not hesitate to target laggard companies through voting sanctions or even divestments if they demonstrate insufficient action to address the risks posed by climate change. BNP Paribas AM is also among the most demanding investors, granting support only to **25%** of Say on Climate ballots in 2022, compared to **80%** in 2021. The fund became particularly cautious, adopting a tougher approach following the publication of its 2022 voting policy, which requires issuers to publish all three emission scopes, set short- and medium-term reduction goals consistent with the 1.5-degree target and provide disclosure on their governance, strategy, risk management, metrics and climate objectives, in line with TFCD standards.

Level of Support - 2022 vs 2021



Similarly, the two biggest funds in the world, BlackRock and Vanguard released statements in 2022 to clarify that their approach to Say on Climate would be more cautious moving forward.

At the beginning of 2022, BlackRock stated that when taking climate-related voting decisions, it carefully assesses companies' risk oversight and mitigation, alongside their disclosures detailing how climate risk and opportunity are integrated into their strategy and plans. Proposals put forth by shareholders or management on climate risk and energy transition are evaluated on a case-by-case basis. In some instances, BlackRock is likely to oppose directors considered responsible for climate risk oversight, such as when it deems that corporate disclosures do not sufficiently enable investors to assess risk through the TCFD framework or do not provide Scope 1 and 2 emissions disclosures and meaningful short-, medium-, and long-term targets.

Vanguard has also reviewed its approach. In 2021, Vanguard was essentially encouraging companies to disclose climate transition plans, however, in June this year, it clarified that it does not proactively encourage companies to hold a Say on Climate vote due to the lack of established standards or widely accepted market norms that govern these votes. In fact, Vanguard does not seek to direct company strategy as it views Say on Climate as "a signal on the coherence and comprehensiveness of the reporting and disclosures a company provides to explain its climate plan to the market, rather than an endorsement of, or an expression of lack of confidence in, the plan itself".

Such views started echoing in the market, and if some investors reviewed their voting policy on climate issues in 2022, so have the proxy advisors, yet without drastic behavioral changes in their recommendation approach. To date, Glass Lewis has expressed favorable opinions on **67%** of management-proposed climate resolutions for 2022, a higher threshold compared to 2021, where only **53%** of total climate resolutions met the proxy advisor's conditions. Conversely, ISS has always been widely supportive of Say on Climate items (all approved in 2021), with only a few cases not meeting its minimum standards this year (approval rate of **94%** to date).

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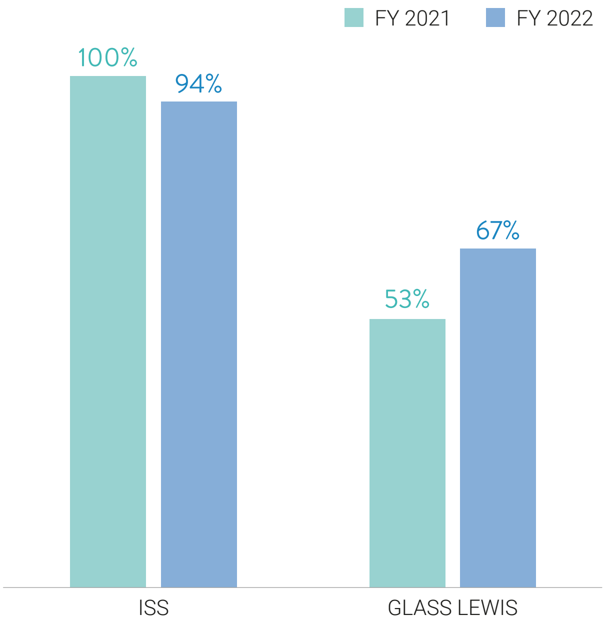


SHAREHOLDER PROPOSALS

One trend witnessed in Europe and internationally is an increase in climate-related shareholder proposals, including requests to set and publish targets for GHG emissions. The number of shareholder proposals on environmental topics filed at European AGMs has increased steadily in recent years, and 2022 has so far confirmed this trend, despite the boost in management-endorsed Say on Climate resolutions. At the time of writing this report, 10 European issuers received and put to vote climate-related shareholder proposals, in all cases failing to reach majority support. The average approval rate of these shareholder resolutions did not exceed **10%** of votes cast (**9.9%** to be precise), proving that there remains a huge gap in consensus between the resolutions filed by shareholders and the management regarding Say on Climate. This is also partially impacted by the typical lack of support from proxy advisors and boards, which often condemn such activism.

An interesting case concerns Germany, where for the first time a climate-related shareholder proposal was voted at a large cap, yet without receiving much traction having gained only **2.44%** of support. Shareholders and proxy advisors did not endorse the proposal of a shareholder (ENKRAFT IMPACTIVE GmbH & Co. KG) at the AGM of RWE AG to spin-off the coal and nuclear business. This result arrived mostly because the company was already committed to phasing out coal and nuclear as per legal provisions, and it is currently exploring different options to restructure through ongoing discussions with the German government which can de-facto veto major transactions in the event they affect national energy supply. RWE's management denied support to the proposed shareholder resolution, concerned that undergoing discussions could be prematurely affected by a binding general meeting resolution.

LOOKING AHEAD

When it comes to climate, the 2022 proxy season was a completely different context compared to 2021. The latter represented a high point of investors' support for climate change proposals, and as discussed, the risk of rubber stamping might have further involved climate-minded investors this year and encouraged them to engage more with issuers, file bolder proposals and raise the bar of expectations, by opposing inadequate climate transition plans.

On top of that, the Russian invasion of Ukraine earlier this year created a global energy crisis, prompting many investors and companies to think harder about how to transition to net zero economies, while also ensuring energy security and stability in the near term.

Lastly, there has been increased scrutiny of ESG investing with growing concerns about investors and companies greenwashing their climate efforts, also combined with the effort from some to discredit investors' work to address climate change risks as part of true stewardship.

All in all, the scenario seems to have changed quite dramatically this year compared to 2021, and all the above-mentioned issues are not likely to be resolved soon, and they will probably continue to impact the 2023 proxy season.

HOW CAN BOARDS ADDRESS INCREASING E&S EXPECTATIONS

The December 2021 EMEA edition of 'Lighthouse' contained an article titled 'Why COP26 Matters: What Happens Next?' which reported on what had been a busy twelve months in the world of sustainability and environmental and social (E&S) policymaking, culminating in the commitments agreed at the COP26 Conference in Glasgow last November.

What followed was a myriad of new requirements and standards for companies to address. New regulations were issued while the ones introduced in 2021 have not been fully implemented, and some of them with very wide-reaching implications that go far beyond a mere requirement for the companies to disclose the information about E&S issues, which had been the main focus of most regulations issued so far.

For example, in February 2022 the European Commission announced a proposal for an EU Directive[1] that will place a legal obligation on company boards to identify and address human rights abuses and adverse environmental impacts, not just in the company's own operations but throughout its value chain. In September, the Japanese Government addressed a few similar issues by publishing guidelines[2] on how companies should address possible human rights violations in their supply chains.

On the disclosure front, the International Sustainability Standards Board (ISSB) launched a consultation on the first proposed drafts for sustainability disclosures in March 2022. While the consolidation of competing standard-setters under the auspices of the ISSB should provide companies with greater clarity about what is expected from them in terms of public reporting, it also compels them to provide more insightful disclosures.

It is not just standard-setters and policymakers that are ramping up their expectations on companies to make them contribute to tackling sustainability challenges. Investors are doing so as well, partly due to client demand, and partly because they are themselves coming under pressure from policymakers to channel their investments into sustainable businesses and sectors.

Investor coalitions such as Climate Action 100+ and the FAIRR initiative – whose members in both cases have jointly nearly $70 trillion of assets under management – are increasingly active and influential across the globe. As explained in the article 'Say on Climate: A review', included in this edition, the recent trend of year-on-year increase in shareholder resolutions on environmental issues continued throughout the 2022 proxy season.

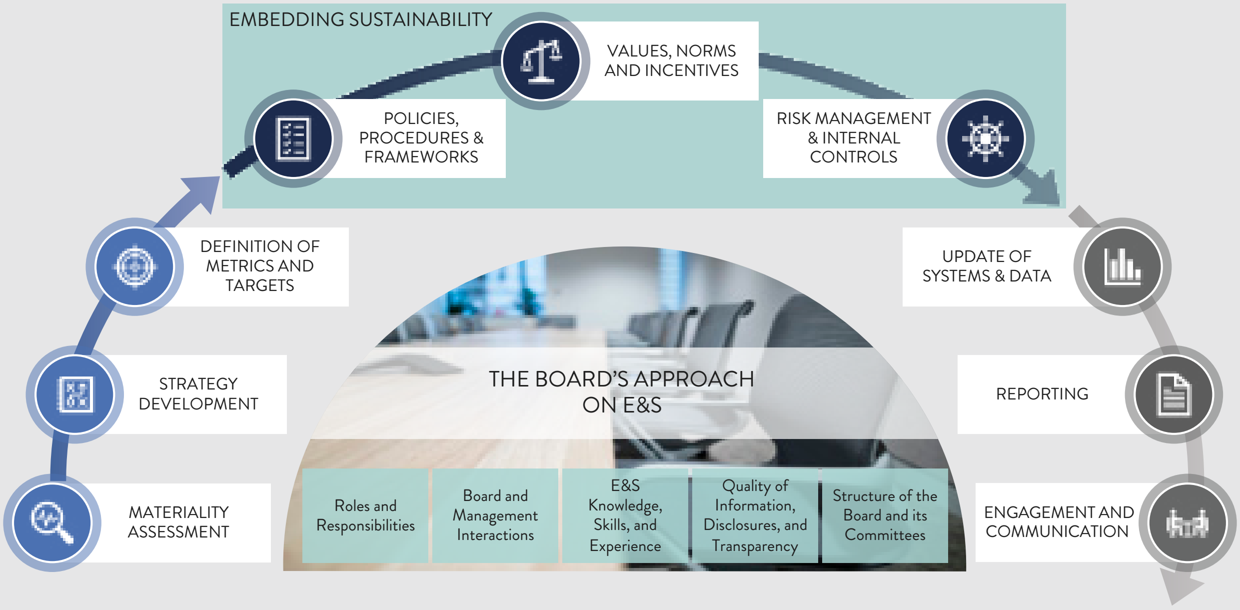
Clearly, many company boards have already taken action to increase their awareness of E&S issues and integrate them into their strategy, as evidenced by the substantial growth of climate plans being put forward by the management for shareholder approval, as mentioned in the same article. By choice or obligation, many have also increased the amount of information they publish. But in the current climate – no pun intended – they cannot afford to rest on their laurels.

Now more than ever, companies in many markets are expected to make ambitious sustainability commitments and to demonstrate tangible progress in addressing risks and opportunities related to environmental and social issues. Stakeholders' ability to spot 'greenwashing' is getting more refined and their tolerance of it diminishing.

What do the boards need to make sure they are prepared to meet these challenges? This graphic, developed by Nestor Advisors and Morrow Sodali, illustrates the stages of the sustainability journey of a typical company, and the different components that will affect the board's ability to guide the company effectively through the process.

1. Corporate sustainability due diligence: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1145
2. Release of Japan's Guidelines on Respecting Human Rights in Responsible Supply Chains: https://www.meti.go.jp/english/press/2022/0913_001.html

THE COMPANY SUSTAINABILITY JOURNEY



The five overlapping components relating directly to the board are:

- **Board role and responsibilities**
  – ensuring that the board takes ultimate responsibility for E&S direction and oversight, as it does for other matters of strategic importance;
- **Interaction between the board and management**
  – ensuring their respective roles are clear and complementary, and there are clear lines of accountability;
- **E&S knowledge, skills and expertise**
  – ensuring the board has an understanding of the E&S risks and opportunities, sets the direction and assesses progress to meet targets;
- **Quality of information, documentation and transparency**
  – including the flow of information to and from the board within the company, as well as reporting to shareholders and stakeholders; and
- **The structure of the board and its committees.**

As the example of the future new legal obligations in Europe and Japan, and as new reporting standards from the ISSB show, regulatory and policy expectations are likely to continue to be focused on the board's formal responsibilities and transparency. Boards will need to keep these aspects under regular review, as requirements and expectations change. But a board's ability to meet those expectations will also depend on how effectively they address other elements.

In some markets, this practice has been successfully implemented through the increased use of board committees that support and advise the board. The most recent data shows that just over half of FTSE100 companies in the UK now have a committee with a specific E&S remit[3], such as a sustainability committee, while other companies have chosen to expand the remit of an existing board committee. For example, Nestor Advisors' research into the banking sector revealed that many large banks had extended the remit of their governance or risk committees.

Each company will need to evaluate which approach is the most appropriate. Creating an additional board committee with a specific E&S remit may lead to the risk of creating gaps or overlaps in the way in which issues are considered, but it also can be beneficial, for example for companies

3. Source: More Than Half of FTSE 100 Companies Now Have ESG Committees - Bloomberg: https://www.bloomberg.com/news/articles/2022-09-04/more-than-half-of-ftse-100-companies-now-have-esg-committees

where the E&S factors are fundamental to their business model, such as extraction industries, or for companies that are in the process of just setting out on their E&S journey.

Ultimately what matters more though is that the respective remits and accountabilities of the board and its committees for E&S are clearly set out.

It is good practice for companies to periodically review the respective responsibilities of the board, its committees and management in relation to E&S factors, as well as the policies and procedures that support them. Depending on how far the company has already progressed on its sustainability journey – and on new regulatory requirements – the likely outcome in most cases will consist of a few adjustments rather than radical revisions.

One aspect of board effectiveness that might need close scrutiny in order to meet the expectations of policymakers, investors and other stakeholders, is whether they have the knowledge required to deal with the new issues that are now on their agenda.

In this context, knowledge refers to both the skills and experience, that the board collectively possesses and the information that the board receives. When it comes to an understanding of the material E&S issues facing the company, many boards are currently 'underweight' on both counts.

More generally, when assessing board composition there can be a tendency to look only at what skills and expertise the board needs today, not at what the board – and the company – needs if it is to have a successful future. And when we discuss the quality of board papers with directors when undertaking board evaluations, one of the most common complaints is that they are too backward-looking and internally focused.

Concentrating only on today's needs – though perhaps understandable in the current economic climate – is a luxury that most companies cannot afford. The rhythm of changes will unlikely slow any time soon, and companies that do not react will soon be left behind.

Integrating E&S into the board's composition is not a straightforward task. This term includes a multitude of different issues, to draw on different expertise and experience, and even without them, the typical skills matrix comprehends more items than the board table can seat. Many boards attempt to address this by identifying candidates who are 'sustainability literate' but with wide-ranging experience or expertise, rather than a single-issue expert.

The challenge with board information is similar. How can you fill in the gaps in what board members need to know without overwhelming them with more information than they can possibly absorb?

Some form of prioritization is essential. That is why Nestor Advisors and Morrow Sodali recommend that the first two steps on a company's sustainability journey should be to undertake a materiality assessment that identifies the most relevant E&S issues to the company and its stakeholders, and to develop a strategy for addressing those issues.

Once those processes have been completed they can provide companies with a basis for taking a whole series of decisions – including identifying which gaps in skills and expertise need to be filled by finding a suitable board member, and which can be addressed through training and briefings for directors.

If there are any boards or companies that have not yet started the process of ensuring that they are equipped to deal with the E&S challenges ahead, the time to do so is now.

BOARD GENDER DIVERSITY 2022: A CONVERGENT ROAD ACROSS EUROPE

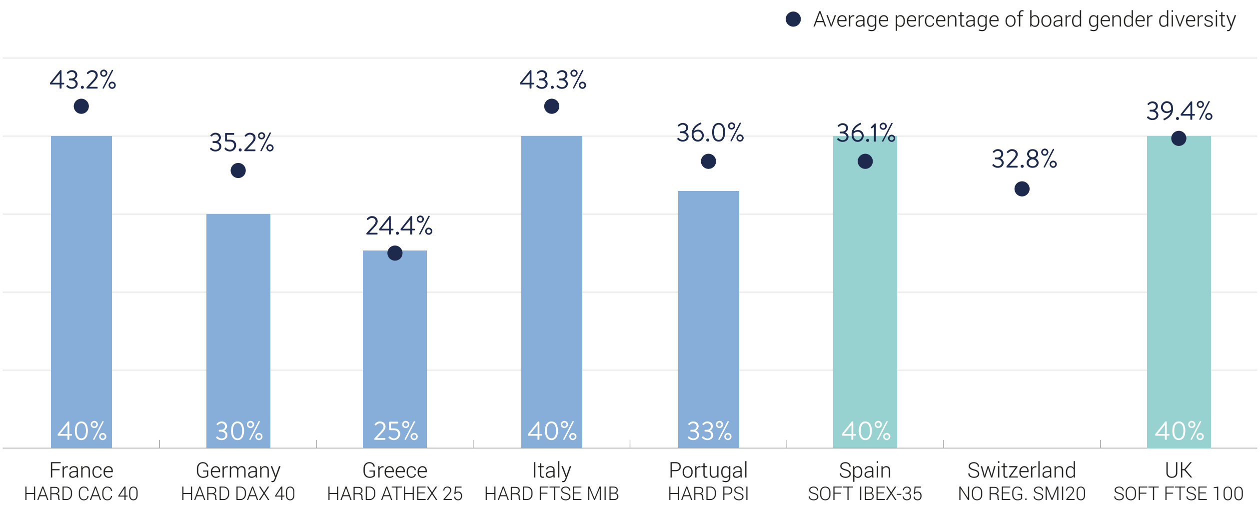
THE REGULATORY FRAMEWORK: MORE FINGERS POINTING IN SIMILAR DIRECTIONS

European countries still address board gender diversity from different legal approaches. This level of legal divergence is due to several factors that influence how gender diversity in the boardroom can be regulated. These factors range from the need to achieve a relative degree of harmonization within the EU regulatory environment, the type of board system operated in the market (one-tiered, two-tiered, or both co-existing), the degree of social awareness on the matter, the actual gender diversity existing in society, or the countries' customs on how to regulate governance and social issues. Ultimately, all these give rise to a diverse legal environment on the topic.

Indeed, while some countries approved hard laws to regulate board gender in corporate bodies compulsorily, others adopted soft guidelines to merely make recommendations on the matter under a comply-or-explain basis.[1] Exceptionally, there are also European states who do not regulate gender in the boardroom in any manner - although these cases represent a minority.

However, when taking a closer look at those countries that choose to regulate board gender diversity, either on a hard or soft basis, the adoption of gender quotas seems to be a common element in all of them. Even if the bar is still set at distinct levels, fixing a numerical threshold seems to be the converging solution that most European regulatory frameworks are embracing gradually. This triggers that in practice, amongst the issuers of the indexes in the Lighthouse sample, the casuistry of board gender diversity versus regulation is distributed as follows:

Fig. 1 - Types of regulation and use of board gender quotas in Europe - Board gender diversity practice 2022



1. All regulatory frameworks, hard and soft, introduce different gender requirements in function of parameters such as the size of the company, the stock index, the size of the board of directors, or whether it is a supervisory or a management board.

When reviewing the data, the average practice in the markets with hard regulations (in blue) tends to comply with or exceed the legal floors - with the exception of Greece, a market showing a slight mismatch with its recently approved hard gender quota and where issuers elect their boards every four years. Regarding the markets that adopted soft gender laws (in green), the average diversity does not reach the recommended target diversity threshold.

When assessing the legal momentum in the EU, it seems that a new regulatory impulse on board gender diversity is being taken for the future. And this future revolves around the quota-solution. Indeed, in June 2022 it was announced that by 2026, listed companies shall aim to reach a diversity threshold for the less represented gender of either (i) at least **40%** of non-executive directors, or (ii) at least **33%** of executive and non-executive directors combined. While numerical floors for the least represented gender seem to be spreading across the EU to harmonize uneven levels of gender balance, a couple of questions arise: Will member countries adopt this threshold in a soft or a hard manner? And what actions will already compliant EU countries take in their leading gender diversity journey?

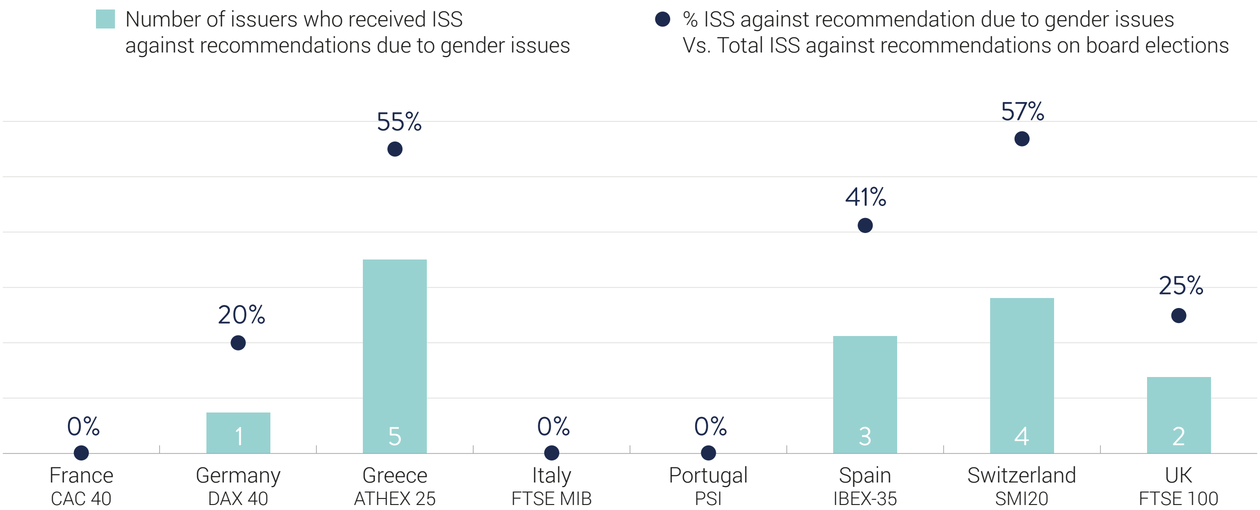
GLOBAL PROXY ADVISORS: CRUCIAL ACTORS WHO CROSSED THE RUBICON IN 2022

2022 has been a milestone for global proxy advisors ISS and Glass Lewis on board gender diversity. After several seasons of echoing the importance of having a healthy gender balance at top corporate bodies to incorporate more talent, and having a broader view angle when assessing risks and designing long-term strategies, those considerations finally crystallized in gender thresholds in their respective voting policies for the 2022 proxy season.

As a matter of fact, for the first time in 2022, both proxy advisors set a board gender diversity bar for Europe - fixed at **30%**. This implies that if a board does not include at least **30%** of the underrepresented gender, proxy advisors would issue adverse voting recommendations either against the chair of the nomination committee (if he or she is on the ballot) or against those nominees of the overrepresented gender. This breakthrough on gender also spreads to some of their other non-European voting guidelines, which proves this movement as their irrevocable and global bet.

The level of incidence of proxy advisors' **30%** threshold in the European proxy season 2022 mainly relies on three aspects: Firstly, while ISS applies this threshold in a stricter manner,[2] Glass Lewis remains more permeable to the rationales provided by the issuers for non-compliance - if any. Secondly, the number and form of the election of board candidates and corporate bodies broadly differ from market to market. Some of the elections adopt the form of a bundled vote for a

Fig. 2 - Impact of ISS against recommendation due to gender issues in 2022



2. In the function of market and voting guidelines, ISS analysts do have room for flexibility when penalizing non-complying gender quotas. In some markets, like in the UK, adverse recommendations are issued only against the chair of the nominations committee (if on the ballot); while in some others, like Spain, against the nominees of the overrepresented gender and the chair of the nominations committee. Issuers' public commitments to balance gender diversity in a short period of time work as a mitigating factor.

slate (Italy and Portugal), while in some others, the election is made individually, nominee by nominee (Germany and France). Thirdly, it also depends on the market's overall gender diversity level and how far issuers have already come in the gender balance journey. Broadly, those countries that legally mandate boards to adhere to gender quotas are equal to (Germany)[3] or superior to (Portugal, France and Italy) the proxy advisors' **30%** gender floors, and registered little to no impact. In the case of those countries which either adopted hard quotas inferior to **30%** (Greece), or passed flexible soft laws (Spain and UK), or had no regulation at all on the matter (Switzerland), boards were more significantly affected by the new rules and received a higher number of negative voting recommendations on board elections due to poor gender balance.

In 2022, global proxy advisors for the first time became a tangible key piece in the gender puzzle by agreeing to point in the same converging direction as most of the market agents: gender diversity is a corporate governance must, and the way to prove it is through forming boards complying with specific gender quotas. Non-compliance is now sanctioned with against recommendations. In other words, the consequences of unbalanced board gender diversity became real.

> "... gender diversity is a corporate governance must, and the way to prove it is through forming boards complying with specific gender quotas."

INSTITUTIONAL INVESTORS AND GENDER QUOTAS: DIVERSE VIEWS AND UNCONSCIOUS ADHERENCE

The views and voting stances of institutional investors on gender balance vary widely. While some maintain vague guidelines on board gender diversity, stating their preferences in terms of suitability or fairness, others gradually started to adopt numerical thresholds whose application, in some cases, depends on the issuer's track record on gender, companies' commitments to better balance gender, or the market's development regarding gender.

For instance, institutional investors such as Amundi, Allianz or BNP are clear on targeted gender quotas but behave more indulgently: their **30%** threshold applies depending on the market - it is normally used in Europe and the US, but is softened in other geographies. An example of this is Legal & General, which lowers its gender diversity appetite to market standards (**25%** for Greek issuers). Other investors, such as Schroder and Candriam, apply higher thresholds (**33%** quota). And others such as La Banque Postale, UBS, Sycomore, Alecta or La Française AM operate a more demanding **40%** diversity floor, on some occasions in a strict fashion since it is applied worldwide. Investors such as UBS define a wider scope, both conceptually and in time: a **40%**-gender threshold shall be achieved by 2025 across issuers' entire workforce - a target that includes ethnic diversity too.

Additionally, it shall be noticed that even though many institutional investors do not state their preferences on board gender diversity in any manner and some may even not consider it at all, those who fully adhere to the voting recommendations of proxy advisors (mainly ISS) are unconsciously applying the quota defined by proxy advisors' standard research guidelines.

Consequently, although the investing community is not perfectly aligned on gender matters, the need for better gender balance either echoes directly in their voting policies and proxy voting or indirectly through the recommendations of the proxy advisors.

3. The German quota is calculated by counting both employee and shareholder representatives jointly, while the threshold of the ISS considers only the latter.

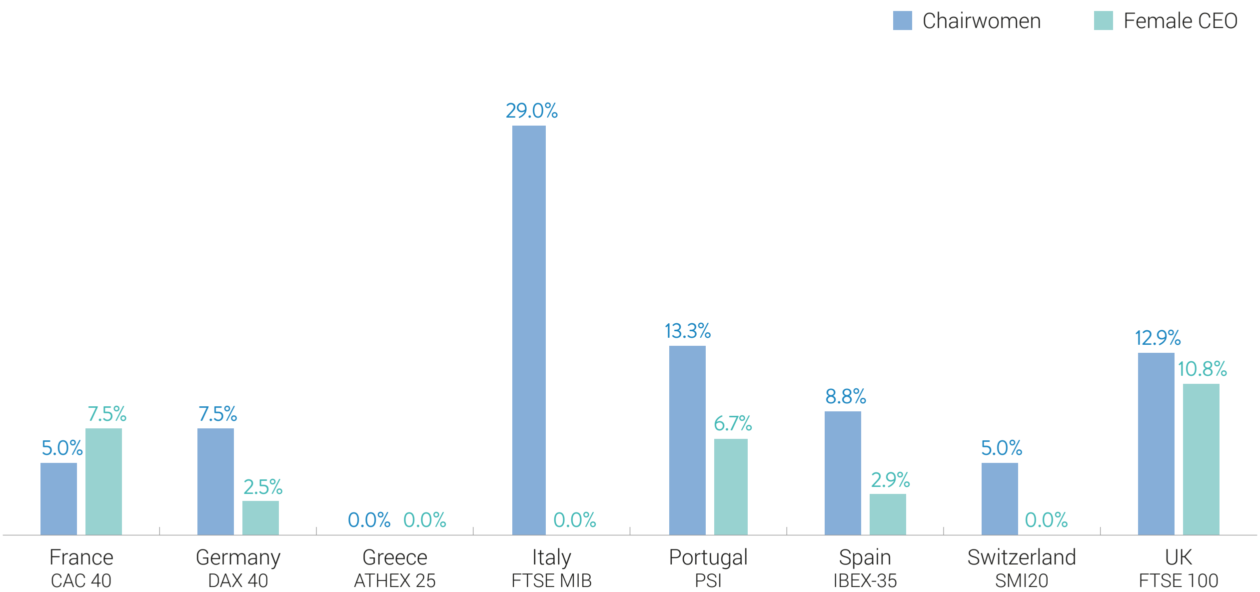
BOARD AND EXECUTIVE LEADERSHIP: GENDER DIVERSITY STILL LOW AMONGST EXECUTIVES

There are two main categories of directors on European listed boards: insider and external (with slight differences across regulatory frameworks in Europe). While the first mainly refers to the chief executives that take care of the day-by-day company management from within (CEOs, CFOs, COOs, etc.),[4] the latter alludes to directors who exercise their oversight duties from an outside environment. In turn, external directors can be either independent (they have no ties with any of the internal or outer stakeholders of the company) or non-independent (they have ties with some of the aforementioned stakeholders, for example by being affiliated with a significant shareholder or by having held executive posts in the past). Besides, amongst all board members, regardless of their director category, a chair is designated to lead and coordinate the board action.

Further, there are two posts on boards that are historically considered to be the leading roles in listed companies: the top executive (often the CEO) and the chair of the board – who at times may be held jointly by the same individual. These two positions are the peak of the power pyramid in corporations and, for the moment, remain significantly off the limits of overall gender diversity in the sample.

The chart below reveals that the average percentage of women holding these two leadership roles is significantly below the average levels of diversity of other board posts or director categories. Indicating that in 2022 board and executive top-level positions are still largely in hands of male directors and senior officers.

Fig. 3 - Women in leadership roles in 2022

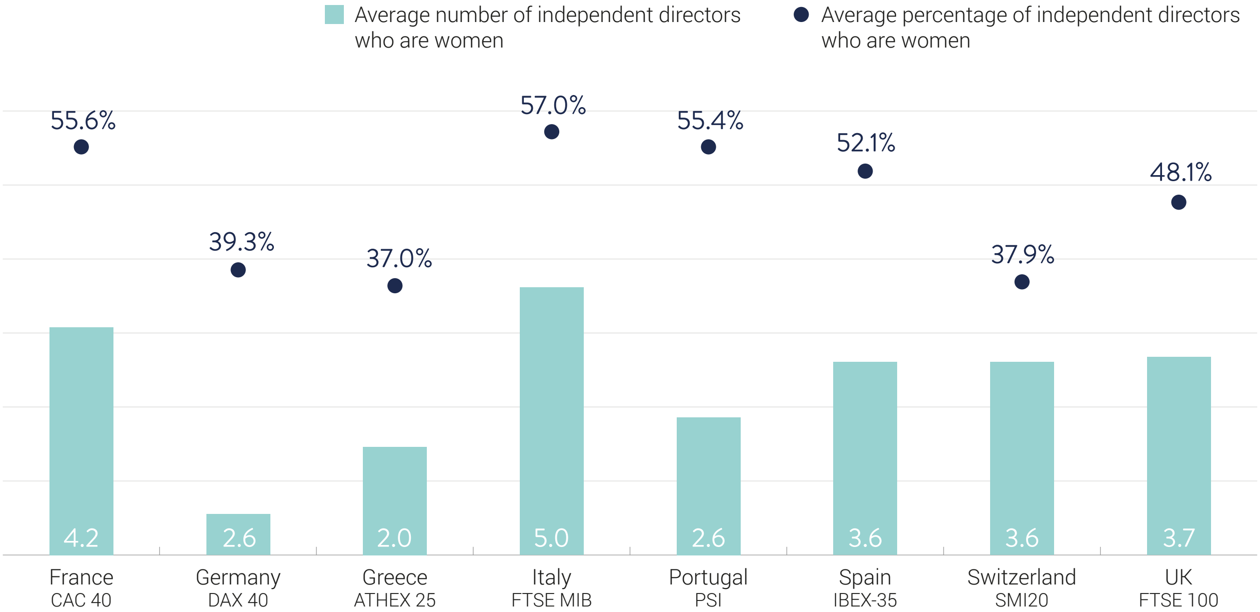


4. Chief officers are not necessarily part of the board, mainly in two-tiered board systems, which keep separate management boards that are not elected by shareholders (Germany). Nonetheless, some two-tiered board systems allow executives to be part of the supervisory board, which is elected by shareholders (Switzerland).

INDEPENDENT DIRECTORS: NON-LEADING ROLES THAT BALANCE BOARD GENDER DIVERSITY

External independent directorships tend to be the preferred board roles that issuers and shareholders propose and approve for the appointment of female directors to the board and hence, balance poor gender diversity in the boardroom - if needed. The percentages in Fig. 4 are indeed, significantly higher than those in Fig. 1:

Fig. 4 - Independent directorships held by female directors



The importance of independent roles is crucial. Their function and level of presence on boards are key as they are often perceived as *'canaries in coal mines'*, as due to their lack of ties with any of the other stakeholders, their sensitivity to any controversy in the boardroom should be high. In other words, they should guarantee proper board oversight. Indeed, international best practices recommend issuers (mainly non-controlled ones) form majority-independent boards and apply the most stringent requirements to assess nominees' independence.

> "... Indicating that in 2022 board and executive top-level positions are still largely in hands of male directors and senior officers."

Nonetheless, independent directorships remain alien to top executive power and often to board leadership given their lack of bonds with management or the company's significant shareholders. In consequence, and although their experiences, skills, and backgrounds are scrutinized by issuers and shareholders, their relationship with day-to-day management and companies' strategic decisions is external, hence serving under an *accompaniment* status who "merely" reacts to the exercise of power.

Consequently, the current distribution of gender amongst director categories, together with how the latter relates to executive power and board leadership, reveals that at the moment, despite gender on average being better balanced in the boardroom amongst top European issuers, which in most cases exceeds the European minimum consensus (**30%**), executive power and board leadership remain far from being shared amongst male and female directors. Indeed, this could be the next goal in the gender diversity journey.

SWITZERLAND

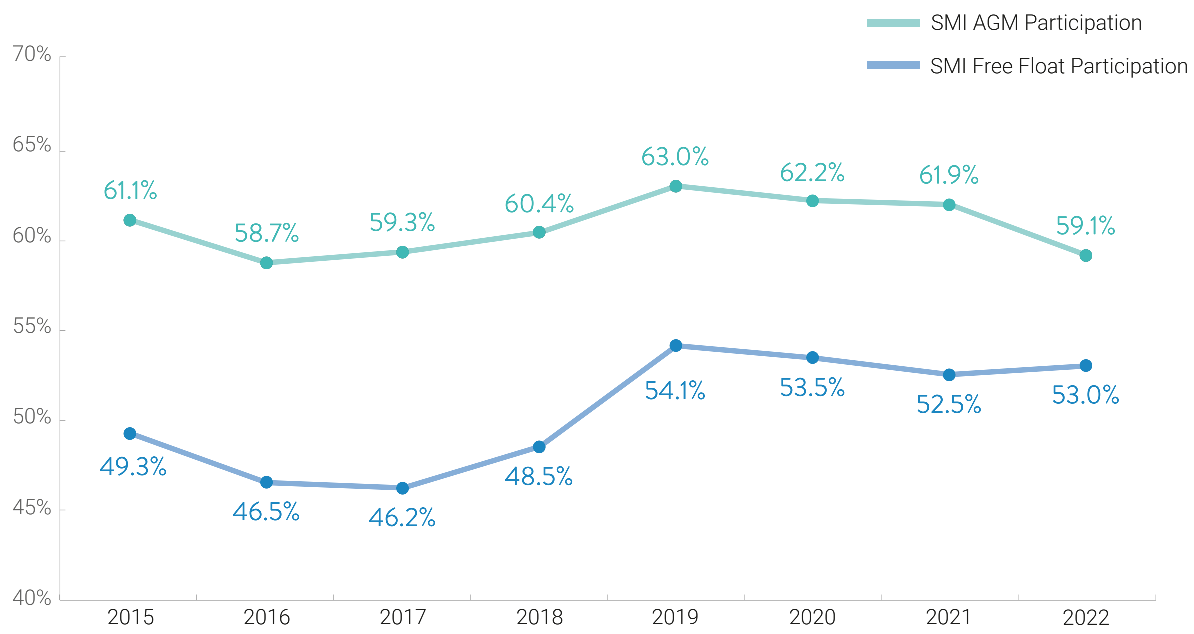
The following analysis covers the published results[1] of the companies included in the SMI 20 (Swiss Market Index) as of March 2022.

MEETING ATTENDANCE AND QUORUM

As regulations allowed companies to choose between physical and virtual general meeting formats, four SMI issuers offered in-person participation of shareholders at their 2022 Annual General Meetings (AGMs),[2] while **80%** of them continued to hold virtual-only general meetings (**100%** in 2021).

The decrease in quorums reflects changes in the shareholder structure of SMI companies rather than restrictions on the physical participation of shareholders. Average free float ownership of SMI issuers increased from **84%** in 2021 to **89%** this year. Simultaneously, free float attendance increased slightly compared to 2021.

SMI 20 Proxy Season 2022: Average Participation



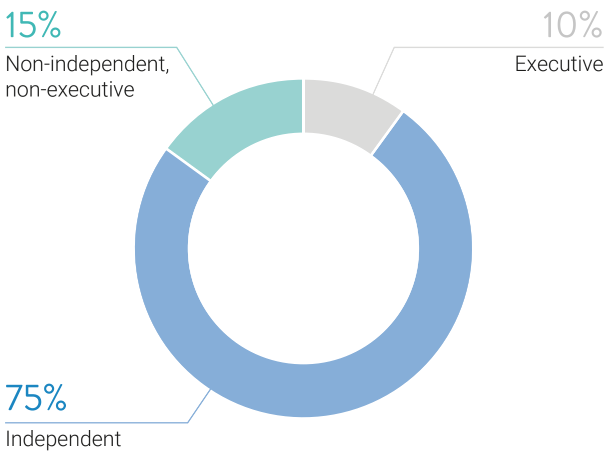
> "The decrease in quorums reflects changes in the shareholder structure of SMI companies rather than restrictions on the physical participation of shareholders."

1. Results published by 30 August 2022.
2. The two outstanding SMI general meetings are included here but are excluded from the following analysis as meeting results are still pending.

POST-AGM BOARD COMPOSITION

Although not legally required to do so, many Swiss issuers follow a two-tier board structure. Boards are elected annually. In addition, chairs and compensation committee members are appointed directly by the general meeting. Typically, executives are not members of the board but are part of a separate executive committee. Only six SMI issuers nominated executives to the board in 2022. Board independence is therefore comparatively high, with an average of **88%**, according to the companies' internal independence assessment. Only two SMI issuers have less than **50%** of free float investors. Both companies' board independence averages **88%**. **75%** of SMI boards are chaired by an independent director.

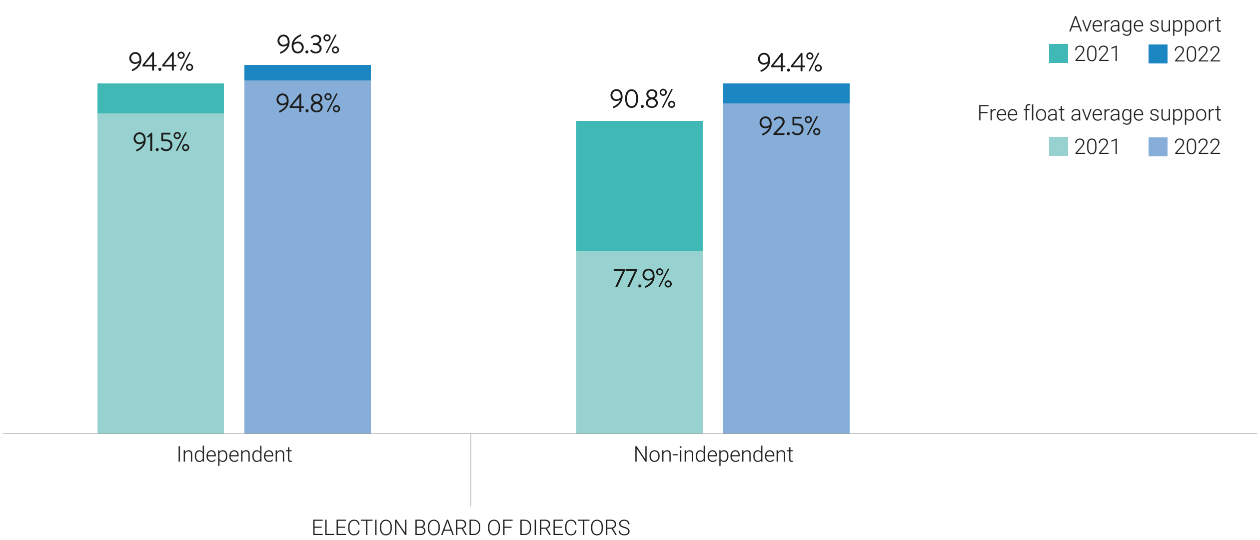
SMI 20 Proxy Season 2022: Chair Independence



BOARD ELECTIONS

Support for board-related proposals (**96%**) was higher in 2022 than in the previous years (free float: **95%**). The average increase in support of elections was mostly driven by a stronger trend in the approval of remuneration reports, with a positive knock-on effect on compensation committee appointments. Against recommendations raised by proxy advisors, dropped below the record **5%** of all election-related proposals for both, ISS (Institutional Shareholder Services) and GL (Glass Lewis) in 2022. At the same time, new market expectations to which SMI issuers are not yet fully aligned, had a limited impact on vote results.[3] Indeed, Swiss legislation does not currently require a minimum board representation of each gender. Many investors and proxy advisors nevertheless set their own minimum thresholds, and would hold individual board members accountable if they are not compliant. Limited gender representation on the board therefore affects the elections of nomination committee members or even the board chair.

SMI 20 Proxy Season 2022: Average Approval of Board Nominees by Independence



3. Most prominently, Switzerland does not currently require a certain board representation of each gender.

SMI 20 Proxy Season 2022: Average Approval of Remuneration Related Items

REMUNERATION ITEMS

Unlike most other European markets, Swiss issuers do not propose a remuneration policy. Instead, companies set separate binding resolutions on the maximum budgets of compensation for executive committees and boards. Issuers may also propose an advisory vote on the remuneration report, which regularly includes a description of the remuneration policy. Indeed, **90%** of SMI issuers opted to do so in 2022.

Binding proposals on remuneration budgets receive significantly higher support than advisory votes on remuneration support. Following a pronounced dip in 2021, the support levels, recovered in 2022 and almost reached the 2020's record figures. ISS and GL gave negative recommendationsfor respectively four and six remuneration-related items only , being also the lowest numbers since 2018. The recovery of vote results was most pronounced for remuneration reports, with fewer contentious discretionary remuneration decisions, and generally a strong company's response compared to low results in 2021. However, overall disclosure levels are still perceived as low, subduing market-wide support levels.

MARKET HIGHLIGHT

Swiss companies are not subject to EU-wide regulations. Nevertheless, international shareholders and proxy advisors rarely discern continental European countries making part of the EU, from those who are not. Being Swiss market rules less stringent than the European regulations, companies take advantage of the additional flexibility, and are given lower general meeting support that range from concerns with longer auditor tenure over remuneration disclosure such as average employee remuneration, up to gender diversity in the board.

INVESTOR INSIGHTS Q&A

Orsolya Gal,
Senior Stewardship Analyst
BNP Paribas Asset Management

What are the key trends/topics you identified from this year's AGM season in Europe or the country under your scope?

General observations

In the first half of 2022, BNP Paribas Asset Management ('BNPP AM') voted at 1,608 general meetings globally, including **48%** in Europe and **29%** in North America, with the balance mainly in Asia.

As an active shareholder, we have a very high opposition level (**33%**) to management-related proposals. This is similar to 2021 and shows our high level of expectations from companies.

Our highest opposition rate was for board elections (**36%**), executive compensation (**61%**) and financial authorizations (**39%** - mainly capital increases), similar levels to last year.

Focus on executive compensation

The most important area of opposition is executive compensation. We opposed **61%** of proposals (**60%** in 2021), including **87%** in North America (**84%** in 2021) where the key issues were the absence of performance criteria on long-term incentive plans (other than underlying share price), and misalignment of pay and performance. Our opposition rate in Europe was **52%** (against **53%** last year), and **31%** in France (**32%** in 2021).

ESG criteria in executive remuneration

One of the key changes we brought to our voting policy this year was the introduction of a mandatory requirement that companies - from all sectors of activity[1] - have at least one component of their executive remuneration linked to ESG performance criteria. This has been a constant topic of discussion in our company engagement over the last years to encourage an evolution of their remuneration policies in that direction. Concretely, this means that the lack of such criteria either in short-term or long-term incentive plans can result in our opposition to the remuneration policy or remuneration report. We opposed remuneration policies or reports at 284 companies (**25%**) due to, among others, the absence of performance criteria linked to ESG indicators. **55%** of these companies are listed in North America (mainly the US), followed by Nordic companies (**17%**, mainly Sweden). Among European companies, those from the UK were the least impacted by the absence of ESG-related performance criteria in executive remuneration.

First ex-post votes in Germany

2022 was also the first year when most German companies submitted their ex-post remuneration report for shareholders' approval in accordance with the Shareholders' Rights Directive II. In the first half of 2022, we voted on 75 remuneration reports (there were no such proposals in 2021) and opposed **80%** of them, which is very significant. While the transparency of remuneration structure is considered rather adequate at most German companies, our main concerns were the risk of misalignment of remuneration packages with company performance, and the lack of sufficiently stringent performance conditions (like the possibility of grand long-term incentives while performance is below the median level – a poor practice, which goes against the principle of "no pay below median level").

We also proactively contacted 12 German companies in which we had significant holdings, informing them about our voting policy, in particular our expectations on remuneration disclosure and problematic practices. Among the 12, we supported the remuneration report of three.

ESG-related issues

On another note, this proxy season has shown environmental and social dimensions are increasingly under the spotlight at AGMs, allowing shareholders to have their word on companies' ESG strategy and climate action plans.

1. Page 17 of BNPP AM's governance and voting policy: https://docfinder.bnpparibas-am.com/api/files/B49ABC53-7F09-4BEB-A9F4-405E0B0D8381

ESG considerations have been integrated into BNPP AM's voting policy for several years. This means that specific items, not directly targeted by ESG-linked issues, can be sanctioned through the application of our voting policy if companies do not meet specific ESG considerations.

This is why, in addition to setting clear decisions factors when voting on so-called "Say on Climate" proposals and co-filing climate shareholder proposals (discussed below), BNPP AM has reinforced its voting policy in 2022 to further apply environmental and social considerations to its voting decisions in general. Such integration goes beyond strictly ESG-focused proposals, covering strategic items on the agenda of general meetings that BNPP AM may sanction due to social and environmental reasons. Depending on the market, we are therefore able to oppose the following categories of resolution because of ESG considerations:

- Board Reelections,
- Discharge of Board and Management, or
- Financial Statements.

We incorporate ESG considerations into our voting decisions on these resolutions, by opposing companies that are not respecting our Responsible Business Conduct or have a low ESG score.

Climate change and biodiversity are also priority issues we tackle in our voting decisions, by focusing on companies that are the most impactful and on practices we consider key for companies to implement. As an example,[2] we expect companies:

- to properly report on their carbon footprint (scope 1, 2, and 3, when appropriate);
- to be transparent with regard to their climate adaptation business strategy and their climate lobbying strategy;
- identified as the world's largest corporate greenhouse gas emitters to set an ambition to achieve net-zero GHG emissions by 2050 or sooner, underpinned by credible decarbonization strategies and intermediary targets, in line with global efforts to limit warming to 1.5 degrees Celsius;
- at risk for water and deforestation to assess and report on their main environmental impacts and nature dependencies.

> "Climate change and biodiversity are also priority issues we tackle in our voting decisions, by focusing on companies that are the most impactful and on practices we consider key for companies to implement."
>
> **Orsolya Gal**

In 2022, a total of 1,231 such resolutions (discharge, board reelections, and financial statements) were opposed at 216 companies for such environmental or social considerations, the vast majority of which (1,144) were for climate or biodiversity reasons.

Moreover, BNPP AM has proved its continuous support to companies' sustainable development by supporting ESG-related shareholder proposals on the agenda of AGMs and filing its own shareholder proposals.

In the first half of 2022, we supported **92%** of climate-related shareholder resolutions (against **90%** in 2021). We also initiated the filing of four resolutions requiring companies' climate lobbying activities to be aligned with the objectives of the Paris Agreement. Collaborative dialogue resulted in the withdrawal of three resolutions ahead of the AGMs, following the companies' commitments to comply with the request for the publication of a report.

Say on Climate was on the rise at the 2022 European AGMs. What is your view on the management proposals seeking shareholder support on the corporate's climate strategy? Does your voting policy embed specific provisions on the topic, or alternatively, do you plan to incorporate a dedicated guideline for next year?

Say on Climate management proposals emerged in 2021 and have significantly increased since. While they are being proposed in various sectors, the pressure to adopt a Climate Strategy and to submit it to a shareholders' vote was put at first on the largest GHG emitters, within the Oil & Gas and Mining sectors. As we expected this trend to continue, we edited our voting policy in 2022 to set and communicate clear factors[3] that influence our voting decisions on Say on Climate proposals.

2. Please refer to section "3.6.1 The application of ESG considerations to Management resolutions", on page 8 of BNPP AM's governance and voting policy: https://docfinder.bnpparibas-am.com/api/files/B49ABC53-7F09-4BEB-A9F4-405E0B0D8381
3. Please refer to section "3.6.2 Say on Climate proposals", on page 9 of BNPP AM's governance and voting policy: https://docfinder.bnpparibas-am.com/api/files/B49ABC53-7F09-4BEB-A9F4-405E0B0D8381

BNPP AM aimed to align these key factors of decision with the expectations of the Climate Action 100+ initiative of which it is a member, and the goals of the Net Zero Asset Managers initiative ('NZAM') that it signed in 2021. As such, BNPP AM assesses companies offering a Say on Climate vote to their AGM on whether they have:

- published all greenhouse gas emissions related to their activities (scope 1, 2 and 3 where applicable);
- set an ambition to achieve net-zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, and implemented the related short- and medium-term targets; and
- reported on their governance, strategy, risk management, metrics and climate objectives, in line with TFCD standards.

In the first half of 2022, we voted on 34 Say on Climate resolutions proposed by companies (up from 21 in 2021), with an overall opposition rate of **76%** (including votes against and abstentions), compared with just **29%** in 2021.

Our higher opposition rate this year was primarily due to the implementation of criteria set out in our 2022 Voting Policy, clarifying and strengthening our expectations.

In your view, are companies making more efforts on gender balance at board or management level? How would you recommend companies improve their gender equality policy?

As a committed investor, we have a strict voting policy on diversity issues, which has been a topic of continuous engagement with companies for many years. Gender diversity has been directly implemented in our voting policy since 2019. Since then, our policy requires us to vote against all male board members (and not only against the chair or nomination committee members, for example) if our guidelines are not respected.

We currently apply two thresholds for female board representation:

- a minimum level of **30%** in mature markets (Europe, North America, Australia, New Zealand, and South Africa);
- a minimum level of **15%** in all other regions, implemented in 2021.

In 2022, our voting policy remained unchanged and our opposition level was similar to last year in our main markets: **19%** in Europe (the same as in 2021) and **50%** in North America (against **49%** in 2021). In the APAC region, opposition decreased to **48%** from **54%** in 2021, showing a better alignment in these markets with our voting policy.

53% of our opposition to director (re)elections was due to our policy on gender diversity: **61%** was due to the application of our **30%** gender rule requirement, mainly in the US, and **39%** due to our **15%** gender rule requirement, mainly in Japan.

How would you recommend companies improve their gender equality policy?

Gender diversity at board level is taken into account unequally in local legislation or corporate governance codes, and investors' voting policies. While the minimum level of female board representation is more widespread in Europe (thanks to the Coppé-Zimmerman Act in France and more recent legislation in Germany for example), it is less present in the US or emerging markets. Dialogue with companies regarding gender diversity is therefore key in order to clarify expectations and allow companies time for director re-election and recruitment.

In 2022, as in 2021, we have proactively engaged with 40 companies (14 in Europe, 11 in North America and 15 in Asia) held in our active portfolios, who we contacted to explain our new voting policy and to ask for a discussion. As of the end of June, we had a **28%** success rate (against **36%** for the whole of 2021) with 11 companies adopting changes in line with our voting policy, allowing us to support the proposed re-election. We are still awaiting board appointments at eight companies (**20%**).

We review the relevance of our voting policy annually and we have already communicated our target of a minimum level of **40%** female board representation by 2025. We will continue to report on our ongoing dialogue with companies on this.

What are the trends you expect for next year and the points of attention you plan to monitor moving forward?

Compensation-related issues will remain in focus. With the rejection of some controversial remuneration packages by shareholders, advisory votes in some jurisdictions become increasingly relevant and regulation may evolve. For example, in The Netherlands, the ex-post vote on the remuneration report is only advisory, therefore, it does not necessarily lead to changes in payments. In light of these rejections at some blue-chip companies, there are discussions around the need to transform the advisory Say on Pay vote into a binding one. This shows that shareholder votes carry increasing weight and can result in rapid changes to market practice and regulation.

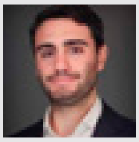
Last but not least, if ESG considerations are embedded in BNPP AM voting policy for several years, such integration must be constantly evolving generally to adapt to contemporary challenges, in particular the climate crisis. Besides, it is very likely that the number of ESG-focused proposals on the agenda of general meetings will keep growing, and not only in North America where there is historic shareholder activism in that sense. This trend is increasing the influence of shareholders on companies' social and environmental practices, beyond the traditional sphere of governance. The emergence of Say on Climate proposals is another sign of that, also questioning the impact of management proposals on ESG topics especially when they are made through advisory votes.

In this context, it is all the more important that asset managers act as responsible stewards, deepen their understanding of ESG risks, and proactively engage companies on the issues raised.

It is likely that regulatory initiatives could be undertaken in this field in the future.

We, at BNPP AM, will certainly keep making our voting policy evolve to reflect on those challenges, and amplify our engagement efforts to influence companies in the right direction.

INVESTOR INSIGHTS Q&A



Matteo Passero,
Investment Stewardship Analyst
UBS

What are the key trends/topics you identified from this year's AGM season in Europe or the country under your scope?

Two key trends emerged from this year's AGM season in Europe: companies tabling Say on Climate resolutions and increased attention on board gender diversity.

The substantial increase of Say on Climate votes put forward by companies' management was undoubtedly the biggest trend of this proxy season in Europe. While some isolated examples of these votes emerged last year, the numbers in 2022 were significantly higher, signaling a strong intention from companies to seek shareholder feedback on their climate transition strategies. It is remarkable that many of the highly polluting companies in Europe, in the oil & gas, extractive and utilities sectors have submitted Say on Climate proposals, giving investors a meaningful opportunity to express their opinion on the transition strategies of the companies with the highest impact on climate change. It is also noteworthy that some of the largest banks in Europe have submitted Say on Climate proposals during the latest proxy season: this is a clear indication of the material role played by the financial sector in the climate transition, and the willingness of banks to be transparent and accountable for their actions to shareholders as well as the public.

The other prominent trend was the increased attention to board gender diversity. In some countries (e.g. Switzerland), ISS has started to recommend voting against the chair of the board where gender diversity is below **30%**. UBS has adopted a similar policy this year: we vote against the chair of the nomination committee if the gender diversity ratio of the board is below **30%** (**33%** for the UK). This applies to all developed countries, including Japan (where diversity rates are historically lower than most other countries). The increased requirements for board gender diversity led a few large companies that did not meet the threshold by the time of their 2022 AGM (e.g. ABB, Swiss Re) to publicly disclose commitments to comply by the 2023 AGM: this implies that gender diversity at top managerial levels is rightly becoming business as usual, and there is little tolerance for laggards.

Say on Climate was on the rise at the 2022 European AGMs. What is your view on the management proposals seeking shareholder support on the corporate's climate strategy? Does your voting policy embed specific provisions on the topic, or alternatively, do you plan to incorporate a dedicated guideline for next year?

Say on Climate votes proposed by management are a welcome innovation of the last two years. Before 2021, investors could only vote on shareholder resolutions, which are not particularly common in Europe. Such resolutions tend to focus on narrow issues, and have narrow objectives compared to Say on Climate votes; moreover, filing a shareholder resolution tends to be a complex process, so it is not an option for many investors. Another tool used by shareholders to express disappointment with a company's transition strategy (or lack thereof) is to vote against board directors: however, this is generally seen as a last resort, and typically reserved for extreme circumstances.

Say on Climate resolutions enable investors to express their opinion, positive or negative (instead of only a negative vote against a director), on the overall transition strategy, and not only on specific details (as with many shareholder resolutions). Professional investors are now forced to pay attention to this topic, and potentially to develop a voting policy around it, because many have a fiduciary duty to vote on behalf of their clients. Having a dedicated vote on climate at the AGM is also likely to augment the engagement efforts of investors, who now have a clear tool to express their satisfaction (or dissatisfaction) with the progress of the company against the objectives communicated during engagement. We believe that Say on Climate votes are likely to increase board attention and accountability on climate topics, as companies now face a headline voting result on their efforts: a very welcome development, given the scale of the climate challenge.

For 2021 and 2022, UBS Asset Management analyzed and voted on these resolutions on a case-by-case basis, focusing mostly on the ambition of the objectives presented by companies, the clarity of their transition plans, and the intrinsic characteristics of issuers. In 2022, we voted on 38 such resolutions, and we did not support nine of them: in our view, these strategies were not sufficiently ambitious. Going forward, we are planning to integrate our voting approach on Say on Climate with our commitment to become a Net Zero asset manager: as we update our proxy voting policy to include clear guidelines for this new type of resolution, our Net Zero framework will form the basis to determine which strategies we should support, but also what expectations we should communicate to companies through engagement. This builds on our existing voting approach on climate change commitments that support our thematic engagement program.

In your view, are companies making more efforts on gender balance at board or management level? How would you recommend companies to improve their gender equality policy?

Improving gender diversity is becoming a key requirement for any company, both in developed and emerging markets. For developed markets in particular, it is no longer acceptable to have an all-male board or management team, despite claims of difficulty finding candidates. Gender balance across boards and management teams is steadily improving, and excuses for not including women and members of ethnic minorities in the top ranks become less credible every day. We believe this trend has clear benefits for society as a whole, but also for companies themselves: those that are able to attract diverse candidates can take full advantage of broader and deeper talent pools, with significant expertise and backgrounds, which may then be reflected in performance.

Companies that claim they cannot find adequate diverse candidates should turn the problem on its head, and ask themselves why they are not able to attract a diverse pool of qualified people. Is their culture sufficiently welcoming? Is their path to progression open to accommodate the needs, and value the ideas of candidates other than white, heterosexual males? Do they present themselves as genuinely open workplaces?

We are seeing authentic efforts in this respect, and the trend towards more diversity across all levels is obviously positive. It will probably improve even further in the future, as many companies are now committing to a 50/50 gender split for recruitment, at least at entry level. Gender quotas can be controversial, but they do help to even out a gender imbalance built up over centuries. We believe that, as new recruits work their way through the ranks up to top management positions, excuses about lack of talent will become empty and obsolete, to the benefit of all players involved.

A strong tone from the top is needed in this transition. This is why UBS has implemented a more stringent voting policy, whereby we will vote against the chair of nomination committees where the gender diversity ratio is below **30%** in all developed countries (**33%** for the UK). We believe that board diversity is a primary signal of company culture, and that the presence of women and directors from minority backgrounds at board level is a primary driver of wider diversity throughout the organization, hence investors have a clear duty to act when diversity is clearly insufficient.

What are the trends you expect for next year and the points of attention you plan to monitor moving forward?

Going towards the 2023 voting season, we certainly foresee another significant increase in the number of Say on Climate resolutions proposed at European companies, together with increased pressure from investors and NGOs on those companies who will not align voluntarily to this trend. In 2022, for example, we saw shareholder resolutions asking financial institutions to disclose details of their strategy to fight climate change, including targets on the reduction of their exposure to high-emitting sectors: this type of pressure will only strengthen going forward. We expect significant scrutiny from shareholders on these resolutions, and potentially a higher number of votes against: as investors design consistent voting policies to assess these proposals, companies' climate strategies will be under a magnifying lens, and may be rejected if they are not sufficiently ambitious. We do not expect the simple filing of the resolution to be an advantage for companies.

In connection to climate change, we also believe that investors will request companies' management teams to include climate-related performance targets in their variable pay frameworks. There have been instances of investors considering voting against pay reports if no ESG targets are included, and this trend will likely reinforce next year.

Finally, the focus on gender diversity at board and managerial level will likely intensify even further. There is no turning back from this trend, and the tolerance for non-compliance is reducing every year. Investors' policies on gender diversity may become ever more robust, leading to a potentially greater number of votes against directors at laggard companies.

INVESTOR INSIGHTS Q&A

Legal & General Investment Management

What are the key trends/topics you identified from this year's AGM season in Europe or the country under your scope?

In many ways, the AGM season of 2022 could be described largely as a return to something closer resembling 'normality' following previous years' disruption through COVID-19. In addition to climate, governance topics such as remuneration and director re-elections made regular appearances.

We were pleased to see a number of climate proposals from European companies, particularly the energy sector, reflecting increased pressure (especially on higher polluting industries and financial organizations) to align to a net zero trajectory against the evolving regulatory backdrop and market expectations. In our response to Question 2, we include more detail on what we require from companies in order to be able to support their 'Say on Climate' proposals.

The treatment of employees and employee welfare is also an increasing focus of attention – while not a traditional AGM item, we are increasing our focus on this area. We would also draw attention to our joint filing (with ShareAction) of a shareholder resolution at Sainsbury's, demanding that the company becomes a living wage accredited employer.

Another angle which appears to be sharpening is an increase in the number of companies considering a permanent move to hybrid AGMs. Changing the format of AGMs requires a change to the company's articles of association. LGIM supports the use of hybrid meetings: while hybrid AGMs can improve accessibility, companies should ensure that all shareholders attending are given an opportunity to ask questions, regardless of their location. This is similar to hybrid working, which has a stronger role to play in today's everyday life following the dramatic shifts forced by the pandemic; we would not, however, welcome a proliferation of electronic-only AGMs. LGIM will continue to automatically vote against any request to amend the articles to facilitate virtual-only meetings unless the company sets out that this will only be used in exceptional circumstances, such as during the pandemic, where physical meetings were banned.

Say on Climate was on the rise at the 2022 European AGMs. What is your view on the management proposals seeking shareholder support on the corporate's climate strategy? Does your voting policy embed specific provisions on the topic, or alternatively, do you plan to incorporate a dedicated guideline for next year?

Our expectations of companies: a summary

In March 2022, we published our expectations for management proposals on climate strategy. We want to encourage ambitious and credible plans to be put forward, and we feel it is important to be transparent about how our voting policy will be applied. In keeping with this, we will strongly discourage companies from putting half-baked plans to a vote. We expect all climate-transition plans to include the following:

- A public commitment to net zero by 2050;
- Disclosure of short-term (up to 2025), medium-term (2026-2035) and long-term (2036-2050) targets covering scope 1 and 2 emissions and material scope 3 emissions;
- Disclosure of current scope 1, 2 and material scope 3 emissions;
- Credible targets that are aligned to a 1.5°C trajectory. Gaining approval and verification by SBTI (or other external independent parties as they develop) can help demonstrate the credibility and accountability of plans.

For the 15 climate-critical sectors covered by our Climate Impact Pledge, our longstanding engagement program, we publish sector-specific 'red lines' (minimum expectations). Companies failing to meet the required number of red lines may be subject to voting sanctions and/ or divestment (from LGIM funds which apply our Climate Impact Pledge exclusions).

Looking ahead

From 2023, we will continue to apply pressure on companies that fail to put suitably ambitious and credible transition plans to a shareholder vote through various escalation channels, including filing shareholder proposals, voting sanctions and targeted engagements.

In your view, are companies making more efforts on gender balance at board or management level? How would you recommend companies to improve their gender equality policy?

Gender diversity has been a focus for our Stewardship Team for many years and through the campaigns we have conducted, targeted at specific regions around the world, we have monitored trends and improvements.

Our expectations of companies: a summary

In the UK market, we publicly supported the initiative for women to make up at least one-third of board directors at FTSE 350 companies, and **30%** of senior managers at FTSE 100 companies by 2020; these beliefs are reflected in our voting policy. We also apply voting sanctions to those FTSE 350 companies that do not have a minimum of **33%** women on their boards and those FTSE100 companies with all male executive committees. For smaller companies, our policy has been to require at least one female to be on the board. However, we have signalled that our expectation is for a minimum of **33%** to be reached over time.

In Japan, following our gender diversity campaign in 2019, we currently vote against the appointment of the board chair or most senior member of the board or the nomination committee chair of TOPIX 500 companies that do not have a woman on the board.

As a minimum, in the other regions around the world where we invest, we expect all companies to have at least one woman on the board.

Recent trends: an overview

In our annual Active Ownership Report on our stewardship and engagement activities, we included in our most recent edition a short summary of our voting on gender diversity during 2021. In the Northern American market our negative votes on gender diversity increased significantly in 2021 compared with 2020 (102 versus 31). This could indicate a worsening of the representation of women on boards in this market as our expectations remained consistent. In the UK, however, our negative votes in 2021 decreased from 54 last year to 40, indicating an improvement in the representation of women on boards. Overall, during 2021, we opposed the election of: 102 directors in North America; 88 directors in emerging markets; 60 directors in Japan; 51 directors in Asia Pacific (ex-Japan); 40 directors in the UK; and 29 directors in Europe for failing to meet our expectations.

Looking ahead

Our work on gender diversity continues – as our voting statistics from 2021 demonstrate, there are still improvements to be made around the world. In 2022 for the first time, we included gender diversity voting sanctions in the US and the UK at executive management level: in the UK, we now apply voting sanctions to the FTSE 100 companies that do not have at least one woman on their executive committee, with the expectation that there should be a minimum of **33%** over time. In the US, we now apply voting sanctions to the S&P500 companies that do not have at least one woman within their Named Executive Officers, with the expectation that there should be at least one-third women by 2023. We are targeting the largest companies, as we believe that these should demonstrate leadership on this critical issue.

Gender diversity (and other forms of diversity) goes beyond simply a question of recruitment - a number of other governance items are also linked to the broader issue of diversity, and we support appropriate resolutions at AGMs requesting transparency on issues such as gender pay gap reporting.

As our policies state, and as we have been advocating for several years, we believe that companies should set aspirational targets in order to reach gender parity at board and senior management level. Ultimately, what gets measured gets managed, and therefore setting an appropriate aspirational target will help companies reach their goals on this important issue. Finally, we believe that as investors keep this topic at the top of their minds and keep engaging with companies through stewardship meetings and voting, improvements will continue over time.

What are the trends you expect for next year and the points of attention you plan to monitor moving forward?

Climate change

Following on from Question 2, we expect an increase in climate change proposals (both from management and shareholders).

Disclosures in accordance with TCFD are likely to attract increased scrutiny, and we will monitor companies' adherence to our expectations regarding disclosure of and reduction targets for Scope 1, Scope 2, and material Scope 3 emissions. As set out above, we will continue to assess companies' 'Say on Climate' proposals to ensure they are both credible and sufficiently ambitious. We will also escalate our engagement where appropriate from 2023 by filing climate shareholder resolutions. In Europe, whilst there have been some delays to corporate disclosure regulations, our expectation is that companies will continue to improve their quantitative ESG disclosures in anticipation of what is likely to be required; we are supportive of the ISSB and proposed EU regulations, and will continue to press companies for improved transparency when it comes to ESG disclosures.

We believe the interdependencies between nature and climate are of critical importance; the risk of degradation of nature and the role of biodiversity in preserving the natural capital on which we depend are garnering increasing attention. A changing climate threatens natural ecosystems, and nature loss amplifies climate change by reducing the ability of ecosystems to store carbon. Deforestation is a thematic priority that raises the important conflicting challenges presented by managing risks from both biodiversity loss and climate change. As part of our deforestation commitment, we have taken (and will continue to take) further steps to assess our exposure to commodity-driven deforestation risk, identifying companies in key sectors that have not yet demonstrated necessary action to begin addressing the issue.

Health

The Pandemic has brought public health issues into relief; the global scale, multi-year duration and deep, wide-ranging impacts upon society and the economy, both global and on a national level, have made it clear that more needs to be done to prevent future health catastrophes of this nature.

One area that has been a long-term focus for us and which is gaining increasing prominence is antimicrobial resistance (AMR). The overuse of antimicrobials (including antibiotics) in human and veterinary medicine, animal agriculture and aquaculture, as well as discharges from pharmaceutical production facilities, is often associated with an uncontrolled release and disposal of antimicrobial agents. Put simply, antibiotics end up in our water systems, including our clean water, wastewater, rivers, and seas. This in turn potentially increases the prevalence of antibiotic-resistant bacteria and genes, leading to higher instances of difficult-to-treat infections. The World Health Organization cites AMR as one of the top 10 global public health threats facing humanity today.

Our engagement has included dialogue with individual companies (particularly water utilities, but also food producers) on AMR risks and management from their processes and products, and supporting relevant shareholder resolutions on this topic, which are beginning to appear in AGMs. We will also continue our work with expert and industry groups, including Investor Action on AMR, and policymakers. We believe this topic, and the broader theme of public health, will gain in importance, prominence and urgency.

Dual class shares

As responsible investors, we aim to vote every share on behalf of our clients and to exert our influence upon companies on key issues by exercising these voting rights. Voting is the primary means through which investors can hold to account the companies in which they invest.

However, this ability to hold companies to account is potentially impeded where unequal voting rights ('dual class shares') exist, enabling company management or individual or groups of shareholders to outweigh (in terms of percentage of votes), other minority shareholders. We strongly believe that voting rights should be commensurate with an investor's economic interest in the company.

Companies are being expected (and ever more frequently, legally obliged) to increase their ESG disclosures, with carbon emissions being just one example. However, if investors are unable to hold companies to account for failing to meet required standards, or for failing to meet the targets that they have set, this undermines the power of these disclosures.

We will encourage companies to implement and/ or maintain equal voting rights.

Cost of living

As the cost of living continues to lurch upward amid spiraling inflation and soaring oil prices, we believe that companies will be increasingly scrutinized on factors such as the living wage (as mentioned in our response to Question 1), and executive remuneration. For companies that received government support to survive the disruption wrought by the Pandemic, these areas are even more likely to be put under the microscope.

Human rights

We have observed a number of shareholder proposals related to human rights being filed at AGMs, requesting for companies to undertake reports such as a civil rights audit, to report on their gender or ethnicity pay gap, or to report on employee rights such as freedom of association. We would anticipate this trend of increased focus on employee welfare and human rights issues to continue as part of the broader theme of diversity and equality, not just at board level, but across entire companies

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