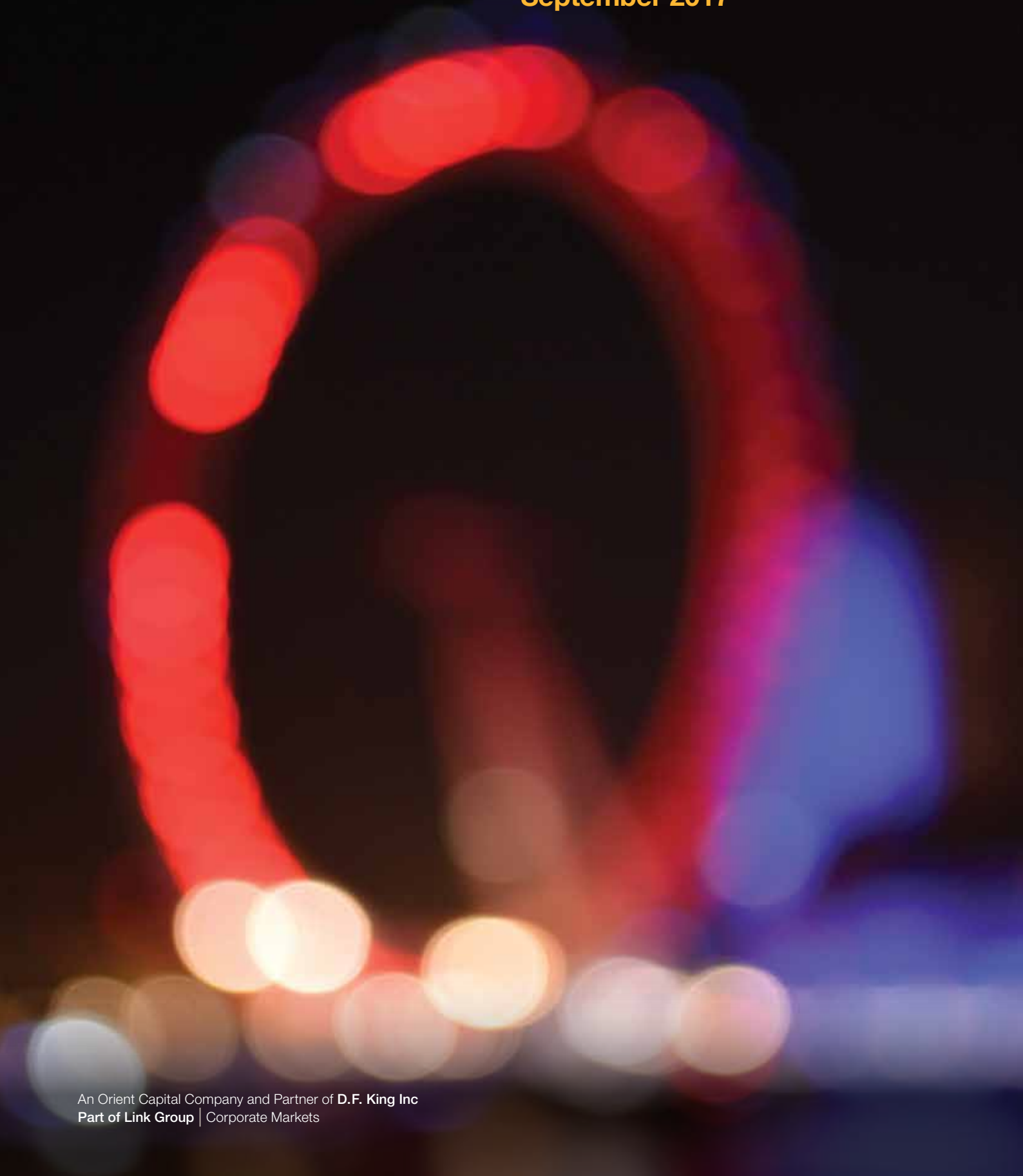
D.F. KING

General Meeting Season Review

September 2017



An Orient Capital Company and Partner of **D.F. King Inc**
Part of Link Group | Corporate Markets

Dear Clients and Friends,

The 2017 AGM season saw robust quorums, improvements in shareholder engagement, expansion of regulatory oversight and further influence of stakeholders across Europe and the United Kingdom. In the run-up to the EU Shareholder Rights Directive (SRD II), there was a convergence of key themes across the region such as capital increase limits, director elections and remuneration. In an era of more transparent information, increased regulation and third-party voting, the challenge for issuers to explain their governance in the context of their strategy directly to investors grew further. In the battle for AGM votes, there was a clear correlation between the level of shareholder support but also the quality of company outreach.

Growing Expectations

This season was marked by an increased overlap of major themes throughout the region. Companies must receive shareholder approval on key subjects such as director elections, remuneration and capital increases. Not only have these become important to investors but there has been a regional harmonisation of the definition of "best practice". Director elections are now evaluated in terms of overboarding, diversity and skillset, as investors increasingly want directors who can devote their time, energy and expertise to benefit the implementation of management's strategy. Investor scrutiny on remuneration is greater than ever, especially in France with the enactment of the Sapin II law and major changes looming in the UK. Investors are challenging remuneration in terms of structure, amounts and a clear alignment with their long-term interests. Looking ahead, accountability and scrutiny will only grow with SRD II.

Widening Stakeholder Focus

In terms of corporate governance, investor relations is evolving more toward stakeholder relations and this metamorphosis has begun to play out at AGMs. Subjects such as the remuneration of Executive Directors are examined in relation to what society deems as equitable. Variable pay (bonus and LTIPs) is dependent on non-financial, qualitative criteria that address stakeholder concerns. Several countries now have laws obliging employee representation on boards. The outsourcing of voting to the proxy advisory business dilutes investors' stewardship responsibilities to a stakeholder whose voting policies may greatly influence AGM outcomes. While this practice facilitates investor participation, it reduces the probability of exceptions to best practice standards being fully evaluated; one might say this is in defiance of the concept of 'comply or explain'.

Direct Engagement - Effective Shareholder Dialogue

The implementation of SRD II will be a sea-change for four major groups: companies, shareholders, custodians and proxy advisors. Of the four, companies appear to be the most prepared because they have been the most proactive, for the longest time, on addressing corporate governance holistically and with needed common sense.

Companies are harnessing more and more the power of direct shareholder engagement in relation to their corporate governance strategy. They have learned how to explain their corporate governance, in the context of their business strategy and how to underpin their AGM resolutions, to facilitate their investors' ability to take their own decisions about their AGM, through clear information and straight-forward 1:1 dialogue. This method has over time provided companies with sufficient corporate governance capital to explain exceptions and secure shareholder support in the face of greater inflexibility from proxy advisors.

We hope that you will find this Review helpful in assessing this past year and our take-aways for next year valuable but also useful for determining your strategy and timing for 2018.

Best regards,

David Chase Lopes
Managing Director, EMEA
D.F. King

Review: Europe

European Evolution of Corporate Governance Regimes

Demands for a more transparent and thoughtful corporate governance have remained a major component of public debate over recent years. In the wake of the implementation of the European Shareholder Rights Directive II some stakeholders may ponder the need and benefits of further regulation.

National governments still maintain substantial flexibility in how they transpose the Directive in national legislation meaning, for example, it is up to the Member State to decide whether the vote on an issuer's remuneration policy will become binding or advisory

If the aim of further regulation is to better align investor and issuer perspectives on corporate governance, how well have previous national attempts on legal intervention faired?

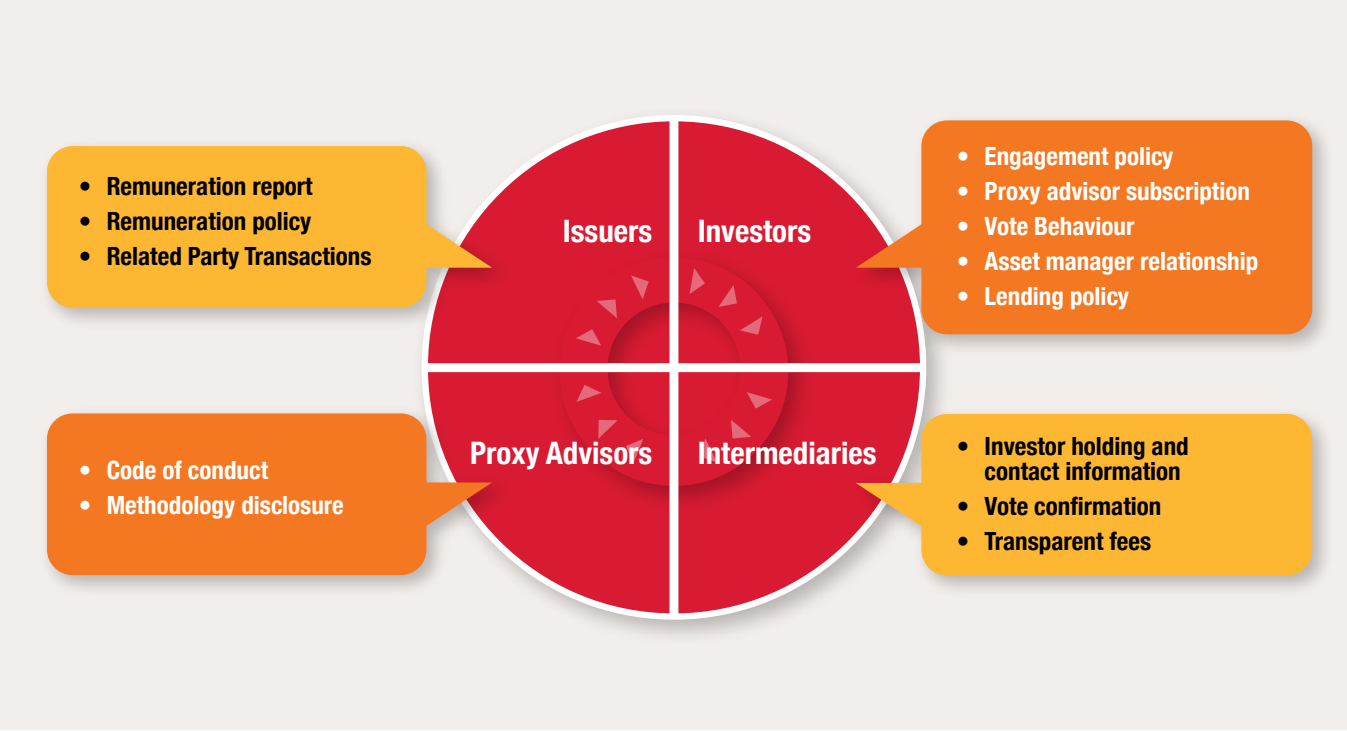
To answer this question, D.F. King selected four European countries with different regulatory regimes on corporate governance overall and executive remuneration in particular.

Following the financial crisis several European countries implemented the possibility of shareholders to vote on a company's compensation. When the public did not perceive the expected decrease in executive compensation, many national governments came under pressure to make remuneration votes binding.

To analyse the impact of this improvement in shareholder rights, we selected the United Kingdom and Switzerland as two countries with early but very different legal implementations of binding compensation votes. In comparison, France only introduced their legislation in 2017, and it will be fully implemented in 2018. The German government proposed an amendment to existing law in 2013. However, the law never passed the Bundesrat, leaving Germany as the only country in this selection without a binding vote on remuneration.

What lessons can we learn from these countries about the effects of further regulation, specifically the introduction of a binding remuneration vote?

Shareholder Rights Directive II - Implications for Stakeholders



Data analysed includes major indices' General Meetings until 30 August 2017

Participation

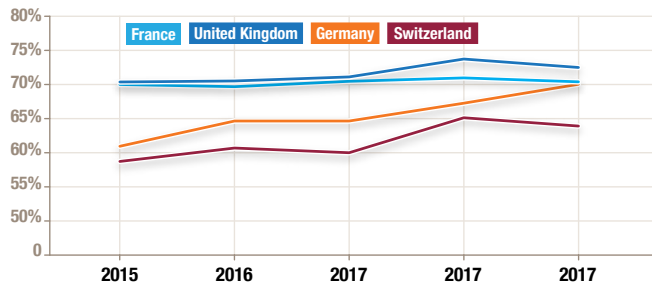
A functioning shareholder democracy goes both ways: investor participation at General Meetings is just as as necessary as company efforts to communicate their best practices. One might also say that improving shareholder rights such as a binding remuneration vote- may lead to an increase in investor awareness, engagement and therefore, participation.

The data provides a mixed picture. Switzerland and Germany started from a significantly lower participation level in 2013. In Switzerland, this may be due to the fact that share blocking still exists for bearer share issuers while in Germany, AGM participation was historically low in 2013 following legal uncertainty around the registration requirements for voting.

Participation levels improved across all four countries up to 2016 but this year, slightly less shares were voted in all countries except for Germany where shareholder vote submissions increased most significantly and consistently over the last four years. This would directly contradict the theory that improvement in shareholder rights was a major driver for investor voting.

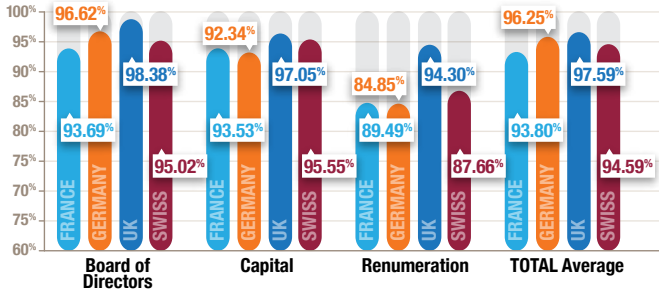
Overall, the "shareholder spring" in 2016 was accompanied by increased vote submission in all countries but a clear reaction to regulatory changes in individual countries cannot be determined.

Average AGM Participation 2013-2017



Trends in Corporate Governance

Average AGM Support per Proposal Type



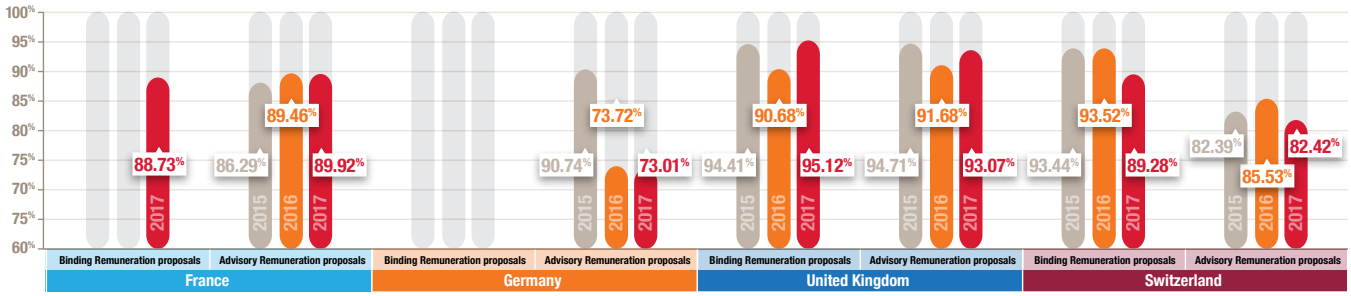
Average approval rates in 2017 across all governance areas do not vary substantially across countries, ranging between 97.59% in the UK and 93.80% in France. French results were mostly affected by low approval rates for Director and capital related proposals. The UK has the highest average results in all vote categories. Interestingly, French issuers received comfortably more support on remuneration proposals than German or Swiss companies, despite the recent and arguably rushed implementation of the Sapin II law. German issuers in particular, with the least regulatory requirements on remuneration votes, received on average almost 10% less support than the best in class - the UK.

Executive Remuneration

A look at vote outcomes over time might provide a better understanding of the relationship between the lower level of regulation and the higher investor concern at general meetings on executive remuneration.

In 2015, advisory compensation votes in Germany received more support than Swiss or French companies. The significant decrease in average support by almost 20% occurred in 2016. In 2017, results remained low. In relation to the other countries, no general trend related to the timing of legislation can be identified: French approval of advisory remuneration votes increased steadily over recent years whereas in Switzerland, support for non-binding remuneration reports peaked in 2016, while the same year was notably tougher than 2015 or 2017 for UK companies.

Average AGM Support per Remuneration Proposal Type



Data analysed includes major indices' General Meetings until 30 August 2017

For Switzerland, binding compensation proposals receive significantly higher average support than non-binding resolutions. The obvious reason may be that, unlike in other countries, Swiss issuers may choose to ask for approval of the compensation amounts already paid out to executives. A failed proposal can therefore be too risky to consider for an investor, compared to the binding proposals on a general remuneration framework in France or the UK. In both countries vote outcomes for advisory and binding remuneration proposals are roughly similar. The UK has already implemented the compensation vote structure envisioned by the European Shareholder Rights Directive II. **There is no direct evidence from these countries for a direct effect of binding compared to advisory vote regimes on investor support.**

So, what happened in Germany? Germany is different in one more way than the other three countries: issuers do not have to provide a vote on remuneration in regular intervals. In all other countries, companies have to provide annual votes on at least one of their remuneration components.

In Germany, some DAX issuers have not put their remuneration up for a vote since 2010; since then investor expectations have changed drastically.

Best practice rules only oblige companies to ask for shareholder approval once they make "significant" amendments to their compensation structure. The lack of a regular compensation vote may increase the difficulty for German issuers to remain informed on the evolution of investor demands. Even where engagement occurs, compensation plans may not be at the forefront of the agenda of investor meetings. **It may therefore not be the binding nature of the compensation vote suggested in the EU Shareholder Rights Directive which will lead to better alignment of companies', investors' and, eventually, other stakeholders' preferences, as intended by the European Commission but rather the introduction of annual compensation votes which may help a long way towards this goal.**

SRD II - Timetable

Data analysed includes major indices' General Meetings until 30 August 2017

What does the market say?

"BlackRock takes corporate governance particularly seriously and engages with our voice, and with our vote, on matters that can influence the long-term value of firms… When BlackRock does not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect our clients' long-term economic interests, we do not hesitate to exercise our right to vote against incumbent directors or misaligned executive compensation."

BlackRock
Open Letter
January 2017

"We are spending quite a bit of time discussing remuneration, because we believe that the right salary package for executive directors and supervisory boards increases shareholder value."

ATP
Opposing pay rises for top management
March 2017

"Engagement is a process, not an event, whose value only grows over time. A CEO we engaged with once said, "You can't wait to build a relationship until you need it," and that couldn't be more true.

There is a growing role for independent directors in engagement, both on issues over which they hold exclusive purview (such as CEO compensation and board composition/succession) and on deepening investors' understanding of the alignment between a company's strategy and governance practices."

Vanguard
Open Letter to Portfolio companies
August 2017

"Proxy voting activities. This is in large part, due to increased expectations from our clients…. While proxy advisory firms provide very valuable services to many of us, we wanted to be clear that our proxy policies and votes are an expression of our own views. Ultimately engagement on these issues is the critical component here. It can be very confusing for all parties involved to interpret the many different types of votes on executive compensation. It can also be a bit of a challenge to untangle what exactly we are voting on. So explaining our views on executive compensation directly with the company via our global engagement program will become more critical as the votes become more complex."

Matthew Filosa
CVP, Director of Corporate Governance and Proxy Voting
MFS
June 2017

"The strategy to achieve a company's purpose should reflect the values and culture of the company and should not be developed in isolation.

Boards should oversee both….

Investors should consider carefully how their behaviours can affect a company behaviour and understand how their motivations drive company incentives."

Aaron Bertinetti
SVP, Research & Engagement
Glass Lewis
September 2017

"The board should develop pay practices that are simple and do not put undue strain on corporate governance. Allotted shares should not have performance conditions and the complex criteria that may or may not align with the company's aims."

Yngve Slyngstad
CEO
Norges
Remuneration position paper
April 2017

Review: United Kingdom

This year the UK has experienced growing scrutiny and public interest in major companies' corporate governance policies, reflected by pressures on the British Government to progress in reforming governance practices such as compulsory annual binding votes on remuneration and worker representation on boards, which were previously included in the government green paper in November 2016.

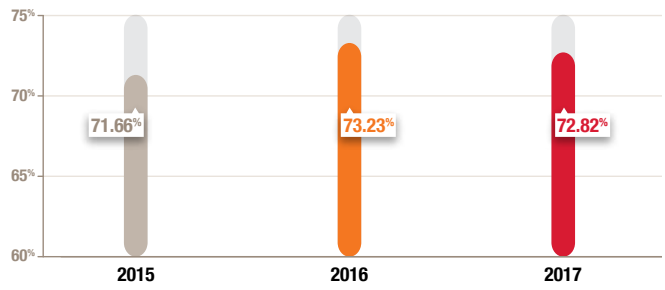
> "Just a year ago the prime minister repeatedly promised fundamental reform of business. And that's because there was real public concern about boardroom greed, about tax avoidance, and exploitative works practices… This response, I'm afraid, is feeble."
>
> ***Frances O'Grady***
> Secretary of the **British Trades Union Congress**
> Response to UK Prime Minister Theresa May's 2017 governance reforms
> August 2017

During this time, there have been several policy changes in 2017 from proxy advisors and large investment managers, some of whom have developed a more critical standpoint particularly with respect to remuneration, director overboarding and sustainability.

Participation

Average participation in UK AGMs in 2017 has remained largely stable over the past three years, with a slight decrease from 73.23% in 2016 to 72.82% this year. This small difference can be put down to the fact that several issuers who are yet to have their AGMs tend to have slightly higher quorums than average.

FTSE 100 Quorums



Two companies in the FTSE 100 experienced large swings in quorum of more than 10%.

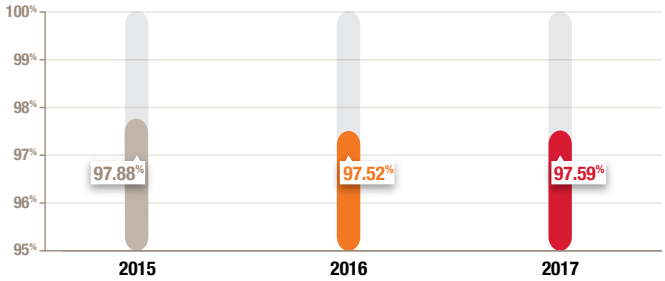
The most significant quorum decreases were accompanied by significant lending activity in company shares around the voting deadline. Issuers with voting deadlines close to the ex-dividend date tend to lose quorum as investors lend shares to benefit from **dividend arbitrage**.

Trends in Corporate Governance

As well as participation, average shareholder support also remained stable, increasing slightly from 97.52% in 2016 to 97.59% this year. As the media focus is increasingly on directors' pay structures and the policies of several investors, who are becoming more critical in several areas, this may come as a surprise to some.

Only one resolution proposed by company management in the entire FTSE 100 failed to reach 50% support – this was in connection with Pearson's non-binding vote on remuneration. This has decreased from two proposals in 2016, again both relating to non-binding remuneration votes.

Average Approval Rates



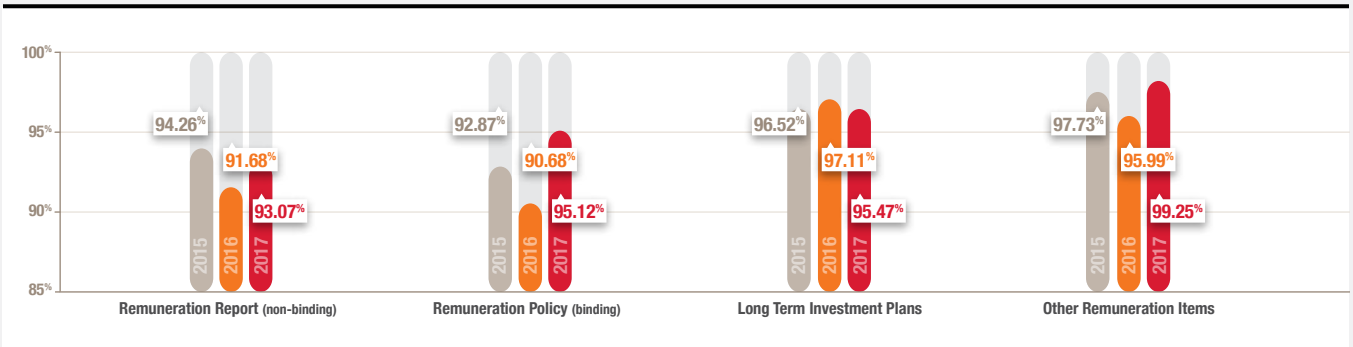
Although overall support on average remained high, this does not paint the whole picture with certain types of resolution experiencing much greater disparities. What follows is a breakdown of the voting trends for the most controversial resolutions relating to remuneration, capital increases and director elections.

Remuneration

Overall support for remuneration related proposals in the UK tends to be high in comparison to other markets, and has actually increased from 92.40% in 2016 to 94.30% this year. One of the reasons for this is the binding votes on remuneration policy. Policy votes have been much more prevalent in 2017 due to the 3-year cycle as per the UK Corporate Governance Code (there were 61 votes this year in the FTSE 100 compared to 20 in the whole of 2016). They also experienced a noticeable improvement on previous years, rising from 90.68% approval to 95.12% this year.

Data analysed relates to FTSE 100 meetings up to 1 September 2017

Average Approval Rates On Remuneration



Compared to the sharp increase in approval rates on binding remuneration proposals, the FTSE 100 also saw a slight increase in the non-binding approval rates, up from 91.68% in 2016 to 93.07% this year.

Given that there are significantly fewer resolutions concerning LTIP plans and other remuneration items such as general fees, they played a much smaller role than the main two sub-categories in affecting the overall remuneration approval rate.

On the binding votes, all 61 proposed resolutions up to 1st September passed, approximately two-thirds of which achieved greater than 95% support from shareholders, while just five achieved less than 90%, with the lowest approval rate at 68.85%.

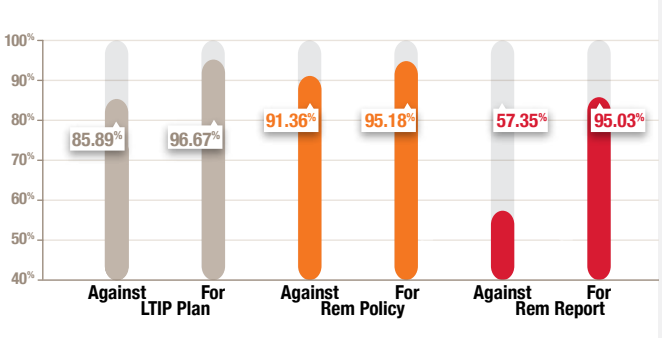
On the non-binding votes, seven of the 94 remuneration report items achieved less than 80% support, one failed to achieve 50% support and another just passed with 51.89%. In both cases, the largest proxy advisors ISS and Glass Lewis advised their subscribers to vote against.

> "We are signalling that we expect change in the way remuneration is constructed. Over time, we expect long-term incentive plans to be gradually phased out... neither society at large, nor regulators, investors, boards or even CEOs are comfortable with where we are at the moment. Most people recognise there is a need for change"
>
> ***Yngve Slyngstad***
> CEO
> **Norges**
> Financial Times
> April 2017

Average approval for remuneration items in 2017 and the proxy advisors' recommendations remain strongly correlated. Specifically for ISS' recommendations, there seems to be a notable marked difference in approval rates on the remuneration reports in particular (57.35% approval when ISS is against as opposed to more than 95% when ISS is in favour) although with only five against recommendations, the two outliers (Pearson with 34.41% and WM Morrison with 51.89%) are likely to have greatly skewed average results.

Compared to 2016, both ISS and Glass Lewis have been less critical this year. ISS has recommended against 2 out of 61 policies in 2017 (3.3%) as opposed to 2 out of 20 last year (10%). They have also recommended against 5 out of 94 reports in 2017 (5.3%), down from 13.3% last year. Similarly, Glass Lewis's against recommendations approximately halved this year; 4.9% of policies this year compared to 10% in 2016 and 9.6% of reports this year down from 18.1% last year.

Approval on 2017 Remuneration Items - ISS



Despite appearing to be less critical than in previous years, it is likely that the more favourable remuneration recommendations are down to other factors.

With several large investment managers earlier in the year publicly indicating a more critical stance on certain aspects of remuneration, many FTSE 100 issuers responded accordingly. For example, BP announced substantial decreases to CEO pay; Reckitt Benckiser scrapped their CEO's annual bonus, while Imperial Brands, whose February AGM was among the earliest in the FTSE 100, withdrew their policy altogether from the agenda with the intention of submitting next year.

> "We consider misalignment of pay with performance as an indication of insufficient board oversight, which calls into question the quality of the board. We believe that shareholders should hold directors to a high standard in this regard"
>
> ***Amra Balic***
> Managing Director, Head of EMEA,
> Investment Stewardship
> **BlackRock**
> January 2017

Data analysed relates to FTSE 100 meetings up to 1 September 2017

Unlike in other markets, withheld votes are not included in the overall approval rates in UK. As such, average approval figures do not give the whole picture on shareholder support. Many investors chose to abstain to register their disapproval, possibly with the intention of voting against the next time around if their concerns are not addressed appropriately.

On remuneration in particular, there were several instances where items passed with approval rates of 99% and above, even though over 8% of voted shares abstained. **It is important for issuers in that position to understand which investors abstained, why they abstained, and to take steps to address the reasons well in advance of next year's AGM.**

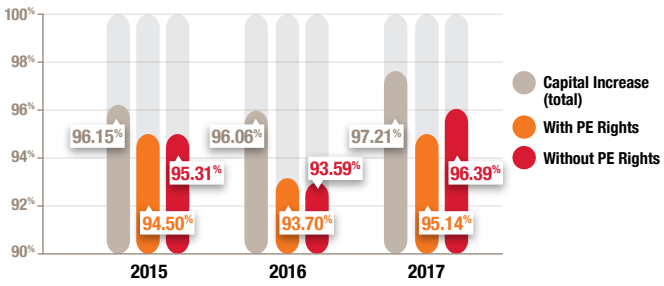
Capital Authorisations

Across all capital related items support levels have remained largely stable from last year, increasing slightly from 96.72% to 97.05%.

Of all the types of resolutions associated with capital, it has been capital increases with pre-emptive rights that experienced the lowest approval rates in the FTSE 100, with an average of 93.52% representing 89 items. Of these, the lowest approvals came from two dual-listed issuers with large shareholder bases in South Africa, whose governance code allows unspecified capital authorisations up to 10% of share capital and therefore sets less demanding limits than those applied by most UK investors.

Capital increases without pre-emptive rights experienced slightly higher approval rates – 96.39% this year up from 95.14% last – with all proposals passing comfortably.

Capital Increases Approval Rates

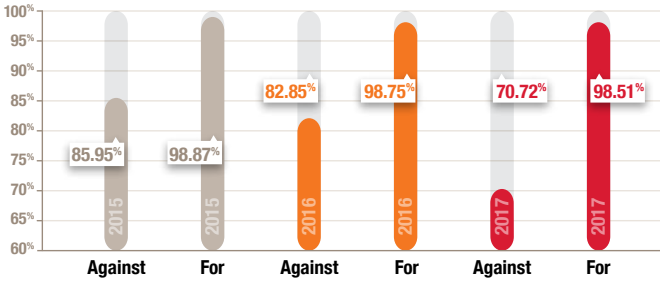


Approval rates remain high at well above 95% on other capital related items such as employee share plans, the allotting of securities, share buy-backs, and the issuance of dividends.

Director Elections

Average support has remained high this year for all director types (CEO, chair, and any committee members). Support this year averages 98.38% from 946 elections, almost identical to last year (98.63% across 1,080 elections). From the 946 directors, just 5 of those experienced approval rates lower than 80% with the lowest at 63.45%, therefore all items passed.

Director Elections ISS



The proxy advisors have been generally less critical this year, with ISS recommending against four directorships (withholding on five others), a decrease from nine against recommendations last year. Glass Lewis recommended against significantly fewer directors in 2017, down to 11 (12 including the withdrawn resolution) from 34 last year. Of those 45 against recommendations, **over two thirds (31) have been due to over-boarding**, with approximately one sixth being due to attendance and another sixth due to independence or related party transactions. Of the four directors ISS recommended against, Glass Lewis also recommended against three of them. It is therefore not surprising that there is a strong trend between ISS recommendations and overall approval rate this year.

> "It's always been something we've raised as an issue, but it feels like investors have been taking it more seriously over the last 12 months or so. It feels like this year was the year investors chose to make a stand…"
>
> ***Martin Mortell***
> Director of Research for UK & Europe
> **Glass Lewis**
> Discussing investors' approach to over-boarding
> The Times
> August 2017

Data analysed relates to FTSE 100 meetings up to 1 September 2017

Other Items

The **authority to call an EGM at two weeks notice** is a common resolution in UK AGMs, traditionally recommended against by Glass Lewis. Historically, this item tends to receive strong support, with average approval rates of 91.80% and 91.14% in 2015 and 2016 respectively, with many of the 'against' votes coming from Glass Lewis subscribers. This year however, Glass Lewis has relaxed its policy on this item and is now recommending in favour. Thus, approval rates have risen to 93.73%.

Regarding **auditor appointments**, average approval rates are high at 98.37%, almost identical to 2015 and 2016. That said, several shareholders have voted against the auditors for certain issuers, with the lowest approval rate being 78.85% at BT where ISS gave a 'withhold' recommendation due to the recent accounting scandal in the Italian side of their business.

Finally, there has been a growing interest in environmental matters such as addressing climate change. There is an increasing number of investment managers who are prepared to vote against several management items, such as Director elections or remuneration policies, where they perceive an issuer is failing on these issues.

> "The consideration of ESG issues is now formally integrated as part of our investment research process. As active investment managers, engagement continues to be at the heart of our approach to ESG matters and it is important for us to influence the standards of governance that apply"
>
> ***Euan Stirling***
> Head of Stewardship and ESG investment
> **Standard Aberdeen**
> Pensions and Investments article
> January 2017

Key Takeaways for 2018

- **Early engagement** - Follow up with major investors and proxy advisors, understanding what their concerns are and address those concerns accordingly, particularly if there have voted against or withheld votes in previous years on similar items.
- **Explain your rationale to investors** - Investors can sometimes deviate from their own governance policies. If their concerns cannot be met, prepare good reasoning, outlining why you are an exceptional case; they usually just have to understand your rationale. When preparing your arguments, consider that most institutional investors will have to justify these deviations to their clients so pick content and format that makes it easy for them to pass on.
- **Monitor your investor base and their policies on an ongoing basis** – keep track of new investors and changes in governance policies from existing investors – a favourable vote one year may not be the same next time round.
- **Stay on top of developments in the UK and beyond** – Brexit, potential changes to UK legislation and proxy advisor policy reviews are obvious places to look for changes in the UK's best practice framework for 2018. However, awareness of first lessons learnt from the US pay-ratio disclosure or understanding where your corporate governance deviates from the standards of the EU Shareholder Rights Directive II will make it easier to pre-empt concerns of your investors from outside the UK.

Data analysed relates to FTSE 100 meetings up to 1 September 2017

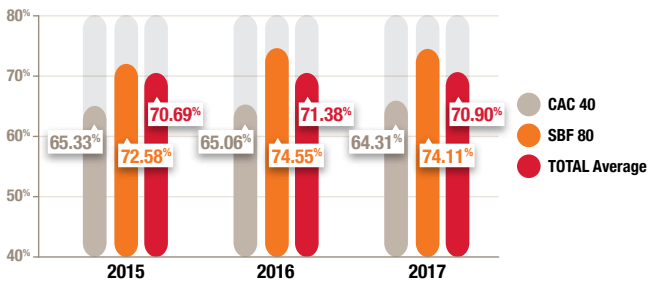
Review: France

Participation

Average shareholder participation of 70.90% within the SBF 120 index, a decrease from the 2016 results.

Average participation in French AGMs remained steady in 2017, albeit with a slight decrease from 71.38% in 2016 to 70.90% this year. Shareholder participation also decreased within the CAC 40 index this year where the quorum merely reached 64.31%, compared to 65.06% in 2016 and 65.33% in 2015. This general decline can be explained by minor changes in the SBF 120 composition following the entry of Soitec and Tarkett (57.64% and 78.62% quorums respectively) and the fact that several issuers such as Pernod Ricard and Ubisoft - who tend to have higher participation level at their meetings - have yet to hold their AGMs.

Average AGM Participation of SBF 120

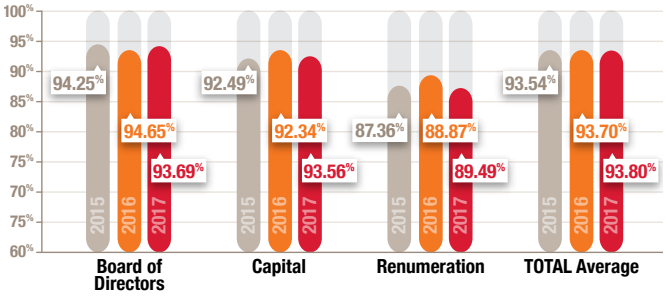


The most significant decrease this year was at Renault's AGM, where participation only reached 62.95% compared to 72.73% in 2016. This difference can be put down to the contentious meeting in 2016, related to executive remuneration, where some shareholders exceptionally voted to express disapproval on this subject.

Trends in Corporate Governance

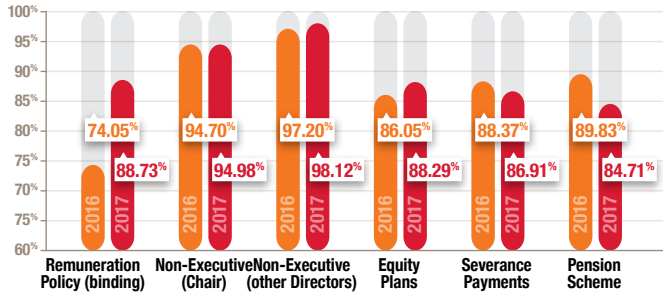
There was a slight increase in average approval rate for resolutions from 93.70% in 2016 to 93.80% in 2017. Of the three main resolution categories Remuneration, Capital and Board of Directors, only items related to Directors saw a decrease in the average approval rate, dropping from 94.65% in 2016 to 93.69% in 2017.

Average approval rate by proposal type



Remuneration - Greater shareholder oversight through Sapin II

Average approval rate for remuneration by proposal sub-category



The enactment of Sapin II law – a reaction by the French government to an apparent disregard by some CAC 40 listed companies to shareholder dissent on remuneration, was the focal point of much of the 2017 AGM season because the law gives shareholders far greater influence on executive remuneration. Through Sapin II, this year, a company's remuneration policy (aka Say-on-Pay ex ante) is now subject to a binding shareholder and the non-binding nature of the shareholder vote on a company's remuneration report (aka Say-on-Pay ex post) will end after this year. Therefore, in 2018, French companies will submit binding resolutions for shareholder approval on all forms of executive compensation, making France's regulations some of the most demanding in the EU. In a season characterised by significant structural change, average approval for remuneration related items increased from 88.87% in 2016 to 89.49% in 2017. A substantial driver for this improvement was a significant reduction in the number of new long term incentive plans ("LTIPs") for executives submitted for

Data analysed includes includes all SBF 120 General Meetings until 1 September 2017

shareholder approval; from 162 items in 2016 they decreased dramatically to 62 items in 2017. With an average approval rate of 86.05% in 2016, this sub-category negatively impacted the overall average approval rate for remuneration in 2016. Despite a decrease in the number of resolutions put forward, the average approval rate for equity plans to executives rose to 88.29% in 2017. Other factors worth noting are the decrease in severance payment proposals (41 items in 2016 vs 25 items in 2017), the increase in average approval rates for non-executive Chairperson Remuneration Reports (94.70% in 2016 vs 94.98% in 2017) and the increase in average approval rates for non-executive related remuneration such as Director Fees (97.20% in 2016 vs 98.12% in 2017).

> "Sapin II has played its first act this year, putting in the spotlight the subject of executive remuneration. Issuers have therefore updated their presentations thoroughly and rigorously."
>
> ***Caroline de La Marnière***
> Managing Director, **Institute of Responsible Capitalism**
> & Founding Partner, **Capitalcom**
> La Tribune
> June 2017

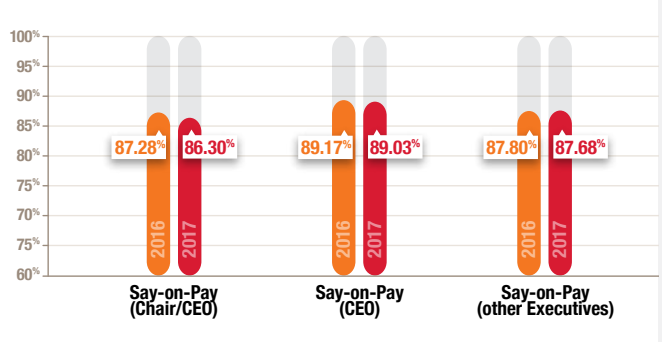
- **Remuneration Report (Say-on-Pay ex post): non-binding for the last time**

This year, one Remuneration Report failed in the SBF 120 compared to two proposals in 2016. Carlos Ghosn, Chairman/CEO of Renault, and Benoit Potier, Chairman/CEO of Air Liquide, narrowly saw their Remuneration Reports approved with 53.05% and 57.83% support, respectively. For Renault, this followed the rejection of the Chairman/CEO Remuneration Report last year, and an umpteenth opposition from the French state which owns 19.7% of outstanding shares. Renault's board cut the variable component of Ghosn's pay package by 20%, an action which was not sufficient to satisfy the French government but was enough for other minority stockholders and influential proxy advisor ISS which switched to a favourable recommendation. For Air Liquide, the support fell sharply from last year's 89.58% approval rate. Shareholders turned against Benoit Potier's remuneration after the deal to acquire Airgas, as they did not consider that the free share plan granted to him following the acquisition was sufficiently linked to the company's performance.

Interestingly, while the average shareholder approval for Remuneration Reports Say-On-Pay increased slightly from 89.46% in 2016 to 89.92% in 2017, a breakdown of the different types of Say-On-Pay ex post reveals other trends related to whether there exists a separation of the roles of Chairman and CEO.

The average approval rate for a dissociated CEO has decreased year-on-year by 0.14% as the average approval rate for a combined Chair/CEO which decreases year-on-year by 0.98%. It is the increase in the average approval rate for non-executive Chairman Say-On-Pay proposals that is driving the growth in support (+0.28% year-on-year and an increase in the number of proposals). One must therefore conclude that average approval rates for Remuneration Reports has actually fallen.

Average approval rate by type of Remuneration Reports



- **Remuneration Policy (aka Say-on-Pay ex ante): 2017's Big Event**

As a new feature in the French AGM landscape, issuers and investors spent much of 2017 trying to understand the legal implications, requirements and best practice content of a Remuneration Policy. With the official decree surprisingly only appearing well into the AGM season and issuers/investors lacking the necessary precedence to carry out benchmarking, it was quietly agreed 2017 would be a year of leniency, with eventual concerns aimed at the non-binding AFEP-MEDEF Remuneration Report. Many in the investment community referred to an against vote on the Remuneration Policy as a last resort "nuclear option". Data nonetheless shows otherwise. The average approval rate for Remuneration Policy proposals in 2017 was 88.73% (1.19% lower than the average Remuneration Report). Some could speculate that the lack of precedence led investors to be more reliant on proxy advisors even though these firms' own policies were not yet fully formed. ISS, for example, recommended against 77 out of the 179 items proposed (over 43%).

Of note, some companies did not submit a Remuneration Policy for shareholder approval at their 2017 AGMs due to the early end of their fiscal year 2016 or their legal form did not fall under the Sapin II law (limited stock partnerships).

Data analysed includes includes all SBF 120 General Meetings until 1 September 2017

Other companies listed in the SBF index, but headquartered outside of France, also chose not to present such resolutions. Airbus, an issuer incorporated in the Netherlands for example, presented a non-voting item to discuss the Remuneration Report containing the remuneration policy - but no separate resolution to approve it.

Whilst those issuers headquartered in France will be legally obligated to present their policy next year – even companies headquartered abroad but listed in the index should be mindful. **The Shareholder Rights Directive II decrees that it is mandatory to present a remuneration policy resolution at least every four years which should be binding unless the member state specifies that it is advisory.** This new Directive may not significantly impact French issuers already subject to Sapin II. The current French legislation already covers many of the Directive's requirements. **However, French issuers should look at the detail of the new European regulation. For example, the remuneration policy under the Directive should include non-executive Director compensation, which is not part of Sapin II.**

Capital – In line with International Best Practice

Capital related authorisation resolutions have previously been a significant source of contention in the French market, due to concerns about potential shareholder dilution and anti-takeover devices, although this year the average approval rate for this category type increased from 92.34% in 2016 to 93.53% in 2017.

Following the introduction of the Florange Act in 2014 and investor pressure to maintain Board neutrality during takeover periods, an overwhelming majority of French issuers are now proposing standardised best practice capital increase authorisations. As a result, capital increases generally stay within limits of 50% with or 10% without pre-emptive rights. Other considerations also need to be taken into account, such as the existence of binding priority rights (and their duration), neutralisation of authorisations during takeover periods, potential discount at issuance, or the possibility of over-allocating shares ("green-shoe" mechanism)

> "The new binding Say on Pay did not bring major changes. It is trial-and-error phase. Voting each year on the remuneration policy is an oddity that does not allow for the consideration of the long term."
>
> ***Cedric Laverie***
> Head of Corporate Governance
> **Amundi Pioneer Asset Management**
> Les Echos
> June 2017

Board of Directors – Continued hostility toward combined roles

The average approval rate for Director related resolutions decreased from 94.65% in 2016 to 93.69% in 2017, with a relatively constant sample population (520 items vs 548 in 2016).

The driving factors behind this decrease are:

- A 1.8% decrease in the average approval rate for **dual Chairman/CEO re-elections** (symptomatic of an increased desire from investors to see these roles separated)
- A significant 18.79% drop in average support for the election of **employee representatives**
- A general 0.21% decrease in the support for **standard Director elections/re-elections** (excluding Chairman/CEO/employee representatives and non-voting members)

The stricter approach to dual Chair/CEO roles is of key importance for a market where roughly half the companies on the index have such combined roles. This year only a handful of companies separated the Chairman/CEO functions such as AXA and Technip. Others introduced a joint Chair/CEO role. For example, Genfit, appointed Jean-François Mouney as Chairman/CEO while the roles were previously separated (84.77% approval).

> "The succession planning process was initiated by the Board upon my request in October 2013. …Before we enter into a new strategic cycle, I considered, with the support of the Board, that it was the best moment to begin the transition to a new management team who I know will very successfully lead AXA through the next stages of its development."
>
> ***Henri de Castries***
> Outgoing Chairman & CEO
> **AXA**
> Letter announcing his retirement and split of Chair/CEO roles voted at 2017 AGM
> March 2016

Employee representatives saw a large drop in approval rates but this must be put into context; on 17 August 2015, the French government enacted the "Rebsamen law" in order to rebalance powers between employees and shareholders, pushing for more employee representation at Board level. Average approval rates for such proposals should not be seen as representative of the investment community's view on increasing employee input at the highest levels of decision making. Some companies submit resolutions for all the candidates proposed by the supervisory boards of the "ESOPs" (company employee stock ownership plans) invested in company shares or by the employee shareholders when their shares are held directly and not via "ESOPs".

Data analysed includes includes all SBF 120 General Meetings until 1 September 2017

Issuers then either recommend in favour of a specific candidate or leave the choice entirely to the shareholders. This practice explains why employee representative elections have such low average support rates.

At Schneider Electric for example, five candidates were up for election but only one was elected by shareholders and four were rejected with an average support below 10%. Since inception, the scope of the legislation has increased, also leading to an increase in the number of items proposed and thus a stronger impact on average support rates for the overall category.

Approval rates for standard Directors experienced a slight decrease in average, such as independent non-executive Directors. The explanation may lie in the tightening of investor/proxy advisor views on overboarding. Blackrock recently revised downwards their voting policy limit on the number of external board seats that can be held. Other examples include Amundi Asset Management which considers that Chairman of the Audit Committee seats should count as double.

While formalised policies of proxy advisors remain largely unchanged, D.F. King has noted instances this season where ISS has recommended against candidates whose number of external seats have remained constant for years (sometimes even decreasing) and who previously secured ISS' support.

"Board composition, effectiveness and accountability remain a top priority for BlackRock. Companies should have to have wider range of profiles on the Boards in terms of experience, expertise, age, race and gender. A diversified board make better decisions."

Edouard Dubois
Vice President, Investment Stewardship
Blackrock
March 2017

Key Takeaways for 2018

- **Use your advantage** – French issuers have gone through a number of legal changes in recent years. Your experience with the different remuneration regimes and investors' reactions may put you ahead of other European markets. Use this to better understand the detail of your investors' reasoning behind their vote decisions. Non-binding say-on-pay votes can provide a unique insight into their concerns on particular pay elements or recipient groups. Understanding these details may prove crucial once advisory votes are replaced by binding votes.
- **Help your investors** – Despite the unifying aspirations of the EU Shareholder Rights Directive II, France will maintain its particularities as a voting market. Your non-French investors may struggle to understand these differences, starting with the appointment of employee representatives up to binding ex-post remuneration proposals. Explain it to them. ISS' reconsideration of their strict position on the separation of Chair and CEO position, as indicated in their 2018 policy survey, shows that the effort of many French issuers to explain their perspective to the investor universe can prove fruitful.

Data analysed includes includes all SBF 120 General Meetings until 1 September 2017

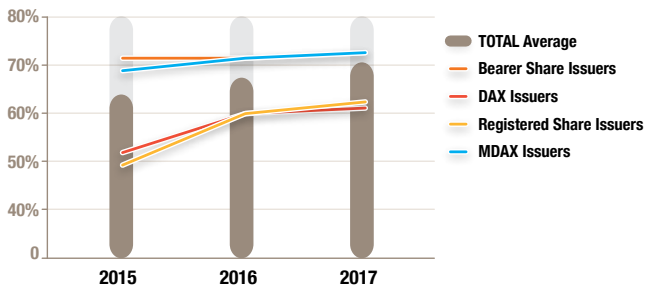
Review: Germany

Participation

For the first time ever, average participation at German AGMs surpassed 70%!

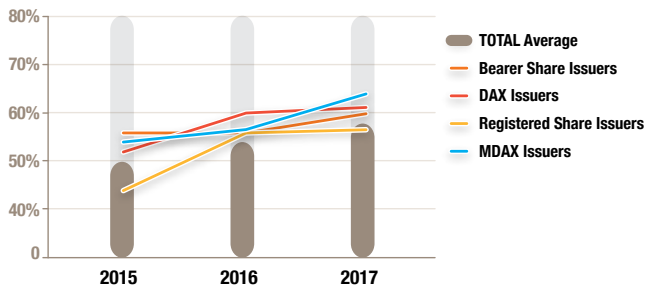
A closer look at the results reveals this steady, if somewhat slowed, increase over the last four years, is mainly driven by registered share issuers, suggesting average results recovered from the uncertainty around re-registration procedures which existed up until 2015.

Average AGM Participation - Germany



On the surface, it seems that investors still vote less at registered share AGMs (average participation 62.60%) than at meetings of bearer share issuers (74.45%) but one should always keep in mind that the average free float within registered share issuers is higher than that of bearer share issuers. Strategic investors typically vote full shareholdings. When looking at free float investors only, participation at registered and bearer share meetings was level in 2016 to 55.19% and 55.30% respectively and differed only slightly this year. Despite the increase in public attention for shareholder democracy, a large and stable minority of over 40% of shares held by free float investors in German public companies are not using their voting rights, regardless of the share type.

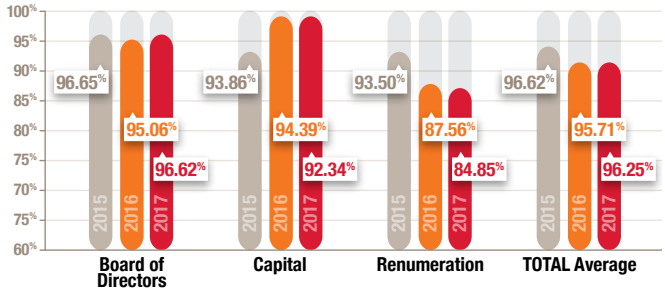
Average AGM Participation of Free Float Investors



Trends In Corporate Governance

Average shareholder support has stabilised and even increased slightly from 95.71% in 2016 to 96.25% this year. This may come as a surprise to most people following the public debate around executive pay. Remuneration related proposals have indeed suffered a further decrease in support. An average of 84.85% of shares were, voted in favour of Board proposals regarding pay – a new low and also a worrying trend considering the implications of the Shareholder Rights Directive II for German issuers. Beyond remuneration, capital proposals remained one of the proposals least supported by investors. The improvement in overall results was driven by Board related proposals recovering from 95.06% to 96.62%.

Average AGM Support per Proposal Type



Remuneration

Support for remuneration related proposals fell strongest, from an already historic low of 87.56% in 2016 to 84.85% this year. Management remuneration remains the most contentious topic for German issuers. Following the steep drop by over 12% from 2015 to 2016, average results fell further to 73.01%. Excluding Volkswagen, Deutsche Bank was the only DAX issuer to receive over 90% support. Presumably, investors rewarded the bank's responsiveness to shareholder concerns voiced at the previous General Meeting.

Three out of sixteen proposals failed to reach majority support. Excluding the backing of strategic investors, 50% of the executive remuneration proposals in Germany in 2017 would not have passed.

In previous years, investors were mostly discontent with German disclosure practices around performance criteria and targets, lack of additional safeguards such as claw-backs, deferred bonus payments or minimum shareholding requirements, as

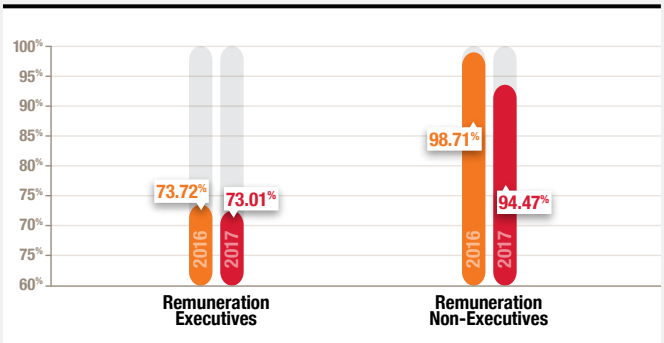
Data analysed includes all German DAX and MDAX Annual General Meetings before 1 July 2017

well as the high discretion of Supervisory Boards in setting pay. These concerns remain and **investors have in fact increased their expectations regarding justifications of pay outcomes and changes to compensation policies. The lack of explanation on its own may lead to a vote against, even if the change itself appears supportable**.

> "Presumably, discussions with investors and advisors prior to the AGM could have changed this [outcome]."
>
> ***Rolf Nonnenmacher***
> Head of the
> **German Corporate Governance Code Commission**
> Handelsblatt interview on the low support levels on DAX remuneration
> June 2017

The additional drop from 2016 to 2017 overall remuneration results was partially driven by non-executive compensation proposals. Albeit still high on average (94.47%), two individual proposals during this AGM season would not have reached a simple majority without support of strategic holders. Both companies asked shareholders to approve a variable compensation component for their Non-Executive Directors. Many investors see this as a significant impediment to Director independence.

Average AGM Support per Proposal Type (Capital)



The German Corporate Governance Code recommended a long-term performance based compensation component until recently, but General Meeting results show that investors will not make an exception for German issuers despite historic local market practice.

Issuers with variable Supervisory Board compensation may want to take note: **the remuneration policy vote envisioned in the Shareholder Rights Directive II will include Management and Supervisory Board remuneration in one proposal**. A positively perceived management remuneration cannot be expected to outweigh a negative vote decision based on variable non-executive remuneration.

> "Bonus payments to Supervisory Board members are a thing of the past"
>
> ***Marc Tüngler***
> Managing Director
> **Deutsche Schutzvereinigung für Wertpapierbesitz (DSW)**
> March 2017

Capital Authorisations

Across all capital related items support levels decreased by over 2%. The fall in average support was driven by share repurchase authorisations and proposals to allow issuers the use of derivatives for such buy-backs. A small but stable minority of institutional investors prefer companies to pay a dividend if are to return profits to investors. In addition, share buy backs may have implications for executive remuneration where performance measurement is frequently share price based and not typically adjusted in the event of a repurchase.

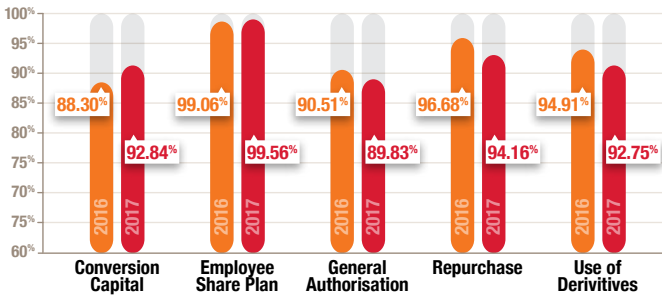
> "While we certainly support returning excess capital to shareholders, we believe companies must balance those practices with investment in future growth. Companies should engage in buybacks only when they are confident that the return on those buybacks will ultimately exceed the cost of capital and the long-term returns of investing in future growth."
>
> ***Laurence Fink***
> CEO
> **BlackRock**
> Open Letter to CEOs of global leading companies
> January 2017

The perceived increase in investor discontent with regards to general capital authorizations is not reflected in average vote turnouts. Following the discussions surrounding the Munich Re AGM and the last minute adjustment to their capital proposals (which eventually passed by 79.47%) issuers became concerned: German institutional investors, such as Allianz Global Investors or DEKA Investments, had adjusted their voting guidelines in the spring to disallow exclusions of pre-emptive rights exceeding 10% of outstanding capital. This did not come as a surprise. Internationally, exclusion of pre-emptive rights above 10% has been a long standing issue for investors, specifically for general authorisations without a clearly defined purpose. The partial financing of recent major transactions increased the awareness of investors for the comparatively long and unspecified capital authorisations issued in Germany.

However, all proposals passed in 2017 and average support was almost stable at 89.83% compared to 90.51% in 2016. Nevertheless, the close results of Deutsche Wohnen (75.70%) or Vonovia (79.01%) show that a qualified majority of 75% can no longer be considered a given.

Data analysed includes all German DAX and MDAX Annual General Meetings before 1 July 2017

Average AGM Support per Proposal Type (Rem)

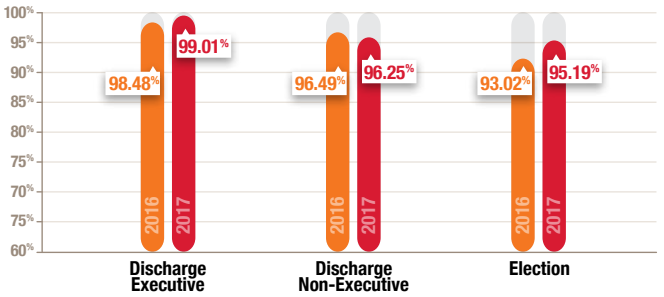


Issuers need to monitor their shareholder base closely. Exposure to investors sensitive to capital increases can easily endanger the success of a capital authorisation. Proxy advisor policies may not serve as an appropriate benchmark for capital authorisations. ISS, for example, had supported all management proposals in 2017, including at Munich Re.

The Board Of Directors

With only 30 election proposals at DAX General Meetings compared to 82 in 2016, 2017 was a quiet year for Board related items.

Average AGM Support per Proposal Type (BoD)



The good news is that average approval for Board elections improved significantly in 2017 with support of Director Discharge remaining stable.

> "As we seek to build long-term value for our clients through engagement, our aim is not to micromanage a company's operations. Instead, our primary focus is to ensure board accountability for creating long-term value. However, a long-term approach should not be confused with an infinitely patient one. When BlackRock does not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect our clients' long-term economic interests, we do not hesitate to exercise our right to vote against incumbent directors or misaligned executive compensation."
>
> ***Laurence Fink***
> CEO
> **BlackRock**
> Open Letter to CEOs of global leading companies
> January 2017

Overboarding would not have been a major concern this year, were it not for IVOX and German institutional investors. Contrary to most international investors, IVOX also consider mandates at non-listed companies and full-time employment, as well as any other significant engagements when assessing overboarding.

The bad news is that investor expectations diversify further. Different priorities for committee and overall board independence, the inconsistent treatment of tenure as an independence issue and individual overboarding limits – including disagreement on which mandates should be considered for determining over boarding – have already been a concern in previous years.

Additionally, the 2017 season results show that investors are increasingly holding Directors directly accountable. SAP's 2016 remuneration results which were not addressed by the company in 2017 is reflected in this year's discharge vote at the AGMs.

> "We have also incorporated climate change assessment in our voting policy by requesting that companies disclose their strategies towards confronting climate change and their carbon footprint. If a company fails to do so, we may oppose its financial statement, the discharge of the board or even the board elections."
>
> ***Michael Herskovich***
> Head of Corporate Governance
> **BNP Paribas Investment Partners**
> ProxyInsight interview
> April 2017

This year, when talking to investors, we heard concerns regarding individual Board members a number of times that was based on their historic conduct at the same or at a different company, frequently accompanied by a perceived lack of engagement. Institutional investors are clearly no longer just looking at hard coded criteria, such as meeting attendance, board independence and overboarding. Issuers may want to take note that investors are watching closely when they prepare the Board profiles as advised by the new Corporate Governance Code. This increased attention to Directors can also be considered an opportunity: early engagement by the Supervisory Board, as referenced in the 2017 Corporate Governance Code, can help mitigate concerns.

> "Our push against all-male boards has been a great success. We will keep voting against those that don't improve, and we hope other investors will join us."
>
> ***Rakhi Kumar***
> Head of Corporate Governance
> **State Street Global Advisors**
> Financial Times
> July 2017

Data analysed includes all German DAX and MDAX Annual General Meetings before 1 July 2017

Advice to German issuers regarding executive remuneration:

- If you held a (successful) vote on your remuneration before 2016, do not expect the same proposal to pass in the current or future market environment without further action. The lack of regular votes on remuneration may create a false sense of security among German issuers.
- Use the time before the transposition of the Shareholder Rights Directive II to understand your investors' view of your current remuneration framework. Investors and proxy advisors have developed diverse preferences on their preferred system. However, there is (almost) always room for exceptions for a strong, company-specific rationale.
- Failing remuneration proposals are not "just a cosmetic issue". Investors and proxy advisors may consider support below 80% of free float vote as a clear sign of discontent. Even if remuneration votes do not become binding, unresponsiveness to investor concerns, which manifests itself in low approval of an advisory proposal, will have a direct impact on other items, such as Director discharge or even elections.

Key Takeaways for 2018

- **Monitor your investor base** – Most investors will have clear-cut guidelines on general capital authorisations and exclusion of pre-emptive rights. Publicly available guidelines with regard to elections and remuneration may be more complex and they may change frequently. Understanding the voting behaviours of your top investors, both at your own as well as your peers' General Meetings can help understand their focus areas better.
- **Have a good reason** – Everybody agrees: one size cannot fit all. Investors can support proposals outside of their guidelines. However, to do so, they need to understand why your situation is different from that of most other companies. "Market practice" is no longer considered a compelling argument.
- **Talk about it** – With the 2017 Corporate Governance Code and the upcoming transposition of the Shareholder Rights Directive II disclosure rules for remuneration and Boards will change. Some issuers may find it necessary to review their compensation structures. All these changes can provide an opportunity for Supervisory Boards to engage with their major investors before reaching a final decision on new structures or disclosure. Investors do not want to run your company for you, but they want to understand how you run it – and, who knows, the corporate governance experts at some of your investors may even have some valid points to add.

Data analysed includes all German DAX and MDAX Annual General Meetings before 1 July 2017

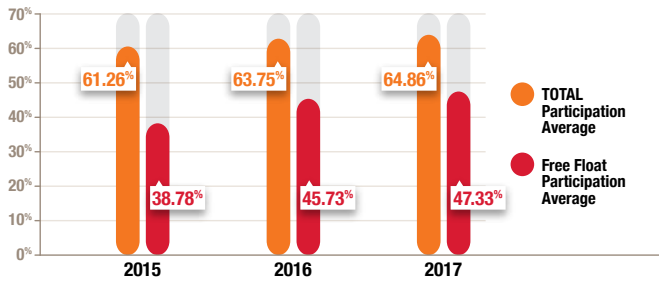
Review: Belgium

Participation

Shareholder participation in the Belgian market has been increasing steadily over the last years. In 2017, 64.86% of shares were voted on average at Belgian General Meetings.

The positive trend in vote participation is driven by free float investors. Since 2015, participation of shares held by free float investors has increased by over 8% of total shares held in free float. In particular, **institutional investors are now voting more frequently and consistently in Belgium**.

Average AGM Participation 2015-2017

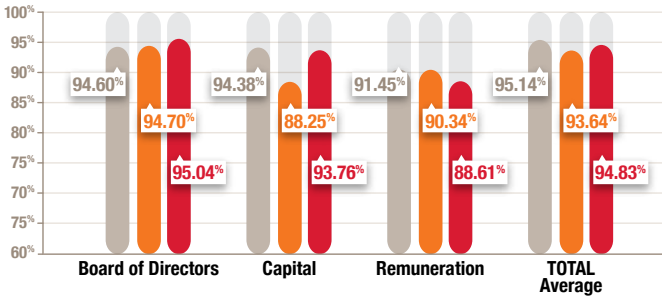


Trends in Corporate Governance

Investor support increased by over 1%, reaching an average of 94.83% at Belgian AGMs in 2017. **Proposals regarding capital, the Board of Directors and remuneration remain the most contentious agenda items in Belgium**.

> "Annual reports naturally focus the mind on short term achievements. The Ageas philosophy however reflects a longer term view. Our culture supports sustainable and predictable growth and value creation for every stakeholder from employees and partners to customers and investors. And this mind-set underpins every decision we take."
>
> ***Ageas SA/NV***
> October 2017

Average AGM Support per Proposal Type

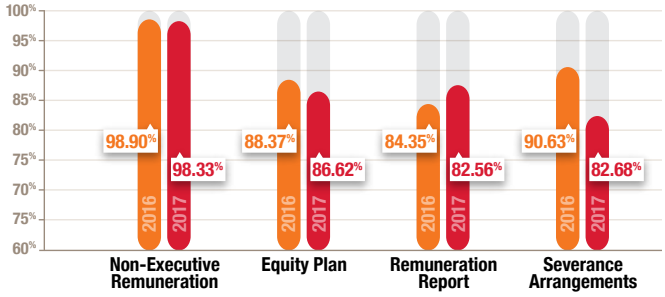


Capital Authorisations

Capital authorisations bounced back to over 90% average support following the record low of 88.25% in 2016. The most controversial proposals remain capital measures which may be triggered in a takeover situation or "in the event of serious and immanent harm" to the company.

However, in 2017 only 4 proposals, with the explicit purpose to defend a company against potential takeovers, were put forward, compared to 20 in 2016. In addition, Belgian issuers increasingly exclude the possibility of share buybacks or re-issuances in a takeover scenario which resulted in average support of related proposals improving significantly to over 99%.

Average AGM Support per Proposal Type: Share Capital

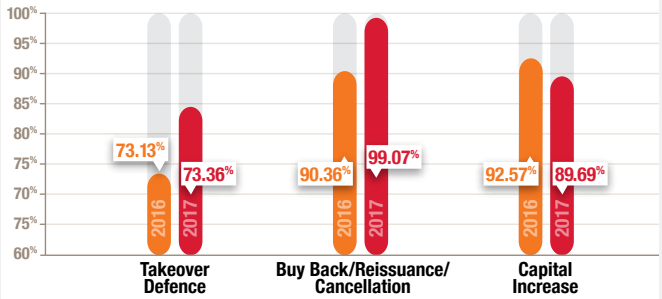


Low average approval for general capital increases persists. Exclusion of pre-emptive rights or overall, unspecified increases above 10% or 33% respectively remain cause for concern especially as proxy advisors may adjust their policy guidelines downwards in the near future. Meanwhile, **Belgian issuers need to monitor their shareholder bases closely as exposure to investors who are sensitive to capital increases can easily endanger the qualified majority necessary for a capital authorisation**.

Data analysed relates to BEL 20 meetings up to 1 September 2017

Remuneration

Average AGM Support per Proposal Type: Remuneration



Remuneration related proposals overtook capital increases as the most contentious item in 2017. Average support dropped steadily by about 2% per annum over the last years to 88.61% in 2017. A closer look shows that investors are most concerned with compensation proposals related to executive remuneration. Although only Ontex failed to reach majority support at their AGM (and only just, with 49.50%), average results for equity plans, remuneration reports and severance arrangements declined notably.

Institutional investors are generally unsatisfied with the level of disclosure provided by most Belgian companies. Variable performance metrics, including target performance levels and weights across different performance criteria are rarely disclosed.

More structural concerns regarding executive compensation include:

- Poorly designed variable remuneration plans (e.g. unchallenging performance criteria, lack of caps, deferral or clawback option)
- Lack of long-term incentive components
- Excessive severance pay arrangements

The transposition of the EU Shareholder Rights Directive (SRD II) will address many of these issues. Experience in other countries, such as Switzerland or the UK, shows that waiting for final implementation of new legal frameworks frequently leads to disruption and high uncertainty regarding investor perception. Limited disclosure can also hide remuneration features which investors will eventually disagree with when disclosed.

Reaching out to shareholders today is the most secure way to identify and address potential structural concerns before you have to provide full disclosure with the EU Shareholder Rights Directive.

Data analysed relates to BEL 20 meetings up to 1 September 2017

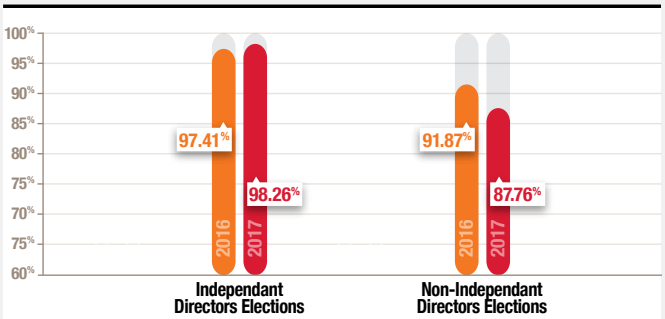
"With the aim of continuously improving its position as a responsible business and landlord, Befimmo conducts a process of regular dialogue with all its stakeholders. Befimmo seeks to strike a balance between the expectations of its stakeholders and the challenges it regularly faces. This has enabled the Company to identify its priority environmental, economic and social challenges. These have been grouped into four pillars: the environment, its team, its tenants and governance."

Benoit De Blieck
CEO
Befimmo
Integrated Social Responsibility strategy - 2017

The Board of Directors

Support for Board related proposals was high and even increased marginally from 94.70% in 2016 to 95.04% on average in 2017.

Average AGM Support per Proposal Type: Board of Directors



Investors have one major issue with Belgian Boards: lack of independence. The Belgian Code requires companies to have at least three independent directors. However, as reflected in 2016 and 2017 vote results, international investors and proxy advisors typically expect higher independence levels. Majority independence of the Board and its key committees increases the chances that minority investors' views are taken into account.

Many Belgian companies have mostly focussed their deliberation and decision making processes on their largest, strategic holders to date.

Direct dialogue between Directors and minority shareholders may help build trust in Belgian Directors' independence in judgement, if not in terms of formal independence definitions. Investors understand that succession planning is not a short term initiative. Board composition does not change overnight. Communication with the Board will help shareholders to see the long term strategy of the Board, including its own make up, as well as provide additional insights into the expectations of international shareholders regarding executive compensation packages.

Engagement could work both ways: Boards who know their free float may consider it less necessary to protect their company from minority investor decisions in the event of a public takeover offer or "serious and immanent harm".

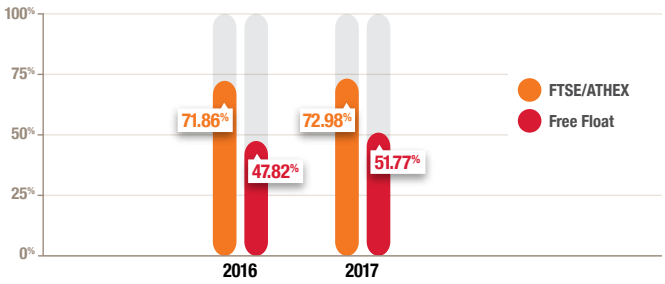
Review: Greece

Participation

With 73%, average participation at General Meetings of major Greek public companies has surpassed General Meeting attendance at many other major European markets, such as Germany, France, or Switzerland.

Participation has increased steadily over recent years. The largest increase was certainly driven by the additional attention accompanying a major transaction (Mytilineos, +21.19%). But **free float investors across all companies have also contributed to this positive development.** This is supported by the fact that the most substantial improvements compared to 2016 General Meeting participation were made by companies recently joining the FTSE/ATHEX index, such as Fourlis Holding (+13.51%) or Sarantis (+17.83%).

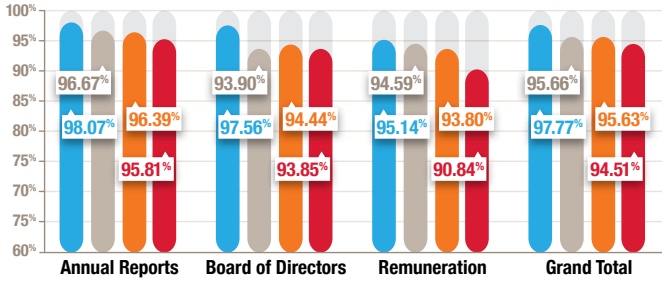
FTSE/ATHEX AGM Participation 2016-2017



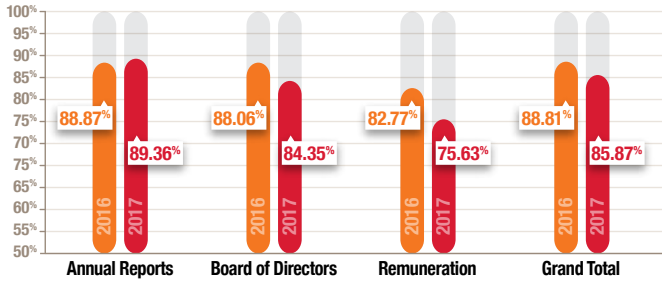
Trends in Corporate Governance

Dissent at Greek General Meetings grows as an increasing number of free float investors make use of their right to vote. Average support gradually decreased year-on-year since 2014.

Average AGM Support per Proposal Type 2014-2017



Average Free Float Support per Proposal Type 2016-2017

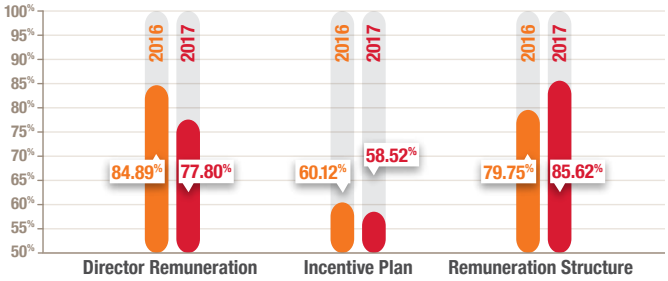


Annual Reports

Average support related to the Annual Reports declined. Investors direct their reservations towards Greek market practice at related party transactions and auditor appointments. Key information, such as names of audit, company or related party, fee or transaction volume are frequently not disclosed. Some **improvements have been made compared to 2016**, as reflected in increasing free float support.

Remuneration

Average Free Float Support per Proposal Type: Remuneration



Regardless of Director fees, incentive plans or executive remuneration structure, **all areas of Greek remuneration proposals are considered controversial by investors**.

The limited transparency of Greek companies rarely allows investors to understand what cost they are voting on, much less to consider structural remuneration features.

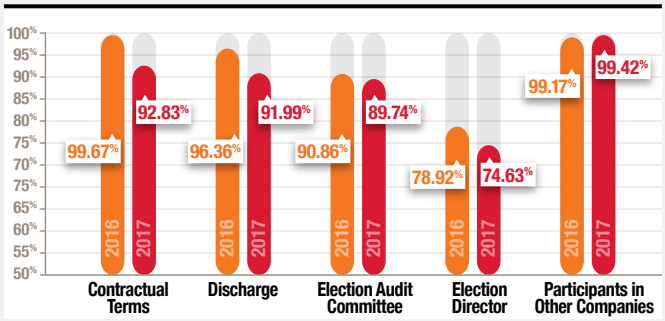
Expectations of investors and proxy advisors regarding structure and disclosure vary strongly between executive versus non-executive remuneration. **For both, disclosure of actual annual compensation is a minimum requirement**.

Data analysed relates to FTSE/ATHEX meetings up to 1 September 2017

In addition, investors expect to understand the performance metrics for any variable pay component available to executive Directors. Even if no payments were made, the **disclosure of performance criteria, targets and vesting schedules for equity plans** allow investors to understand strategic alignment and assess if the priorities of the Board correspond to their own.

Board of Directors

Average Free Float Support per Proposal Type: Board of Directors



The dip in Director support occurred in 2015 but support levels remained stable since then. However, support of free float investors does not follow this trend; **Average free float support decreased by another 4% from 2016 to 2017**.

Director elections are clearly the most sensitive issue for investors. On average, only 74.63% of free float investors supported Director elections in 2017 – 4% less than in 2016. **Investors expect more disclosure, such as names and CVs, to enable them to support a company proposal**.

The independence of the Board and especially the Chair is of particular importance to re-assure minority investors that their interests are sufficiently considered. Investors generally do not accept **joint Chair and CEO mandates. Board and committee independence at Greek companies are also often perceived as too low.**

> "We are committed to implement our new strategy based on the highest international standards of entrepreneurship and best practice. Through our new, optimised corporate structure and governance, we strive for closer engagement with our investors with the ultimate aim of unlocking further value for our shareholders"
>
> ***Evangelos Mytilineos***
> Chairman & CEO
> **Mytilineos Group**
> Announcing the split of Chairman & CEO roles at AGM
> June 2017

International shareholders do not apply all requirements of their home market to their portfolio companies. **They assess the corporate governance of a firm within its local market environment, typically defined in a local corporate governance code.**

As part of an assessment of the corporate governance frameworks and the governance practices in its countries of operations in December 2016, the European Bank for Reconstruction and Development ("EBRD") found that the Hellenic Corporate Governance Code for Greek listed companies (the "Code") is well structured. However, the EBRD also finds that the "comply-or-explain" principal of the Code has "not been fully understood". Instead of reviewing their own corporate governance practice in comparison to the Code, at least one third of Greek issuers published their own governance code and explain their compliance with this. The lack of Board independence and information may be a symptom of this misunderstanding. **The Code requires Greek issuers to provide sufficient biographical details of nominees as well as a minimum independence of one third of the Board.** Investors expect companies to explain why they do not comply with the Code's minimum standards.

The practice of bundled elections – proposing all Board nominees as one voting item at the General Meeting rather than as individual proposals per nominee – further affects average support levels negatively. Where investors are given the option, they would target their against votes on non-independent nominees or the Chair who also acts as the CEO, rather than vote against all Board members.

Advice to Greek Issuers:

The EU Shareholder Rights Directive II will give investors all over Europe further rights on agreeing company pay from 2019 onwards. Greek issuers are well advised to use this time to assess if their current disclosure levels meet international minimum standards on compensation, rationale, but also on broader corporate governance practices, such as background of individual Board members or diversity policies.

The Hellenic Corporate Governance Code provides a comprehensive guidance on corporate governance related disclosure and structural expectations. **Using the Code as a template to further explain where practice differs and why will enable investors to better understand points of view and support General Meeting proposals**. The importance of such engagement will only grow in the future, in fact the Greek market will be catching up to a trend already in effect in Western Europe, particularly in the context of increasing vote participation and scrutiny of international minority investors. Issuers that choose to adopt this initiative early will be the ones with the advantage.

> "The new EC directive SRD II, to be implemented by mid-2019, is anticipated to bring more long term focus in corporate governance. In order to address and reduce investor short-termism, Greek companies need to consider enhancing their governance dialogue with their investors, thus allowing for more director oversight. This should improve decision making by companies and reinstate trust among the broader stakeholder community"
>
> ***Leda Condoyanni***
> General Manager
> **Hellenic Corporate Governance Council**
> October 2017

Data analysed relates to FTSE/ATHEX meetings up to 1 September 2017

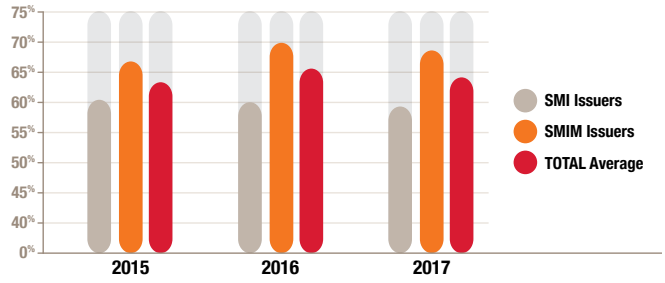
Review: Switzerland

Participation

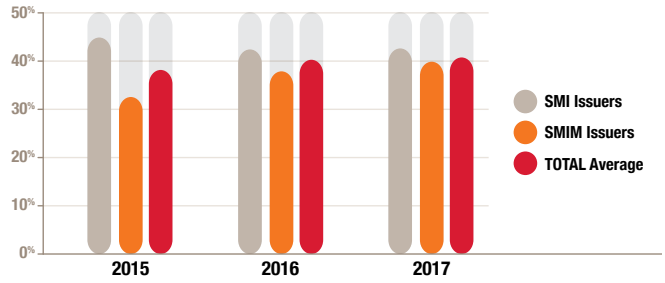
Average participation levels at Swiss AGMs decreased by over 1% compared to 2016.

SMI quorums have been stagnating since 2015. This year, participation at mid-cap companies, which had been increasing steadily since 2013, came to a halt too. Minority shareholders are not to blame: free float participation increased further, particularly at smaller companies.

SMI/SMIM AGM Participation 2015-2017



SMI/SMIM Free Float Participation 2015-2017



Trends in Corporate Governance

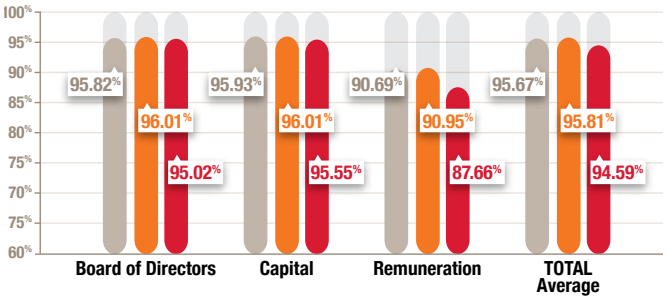
Average investor support at Swiss AGMs also dropped by over 1% to 94.59% in 2017, after it had slightly recovered to 95.81% in 2016. This decline was driven by remuneration proposals, with average approval.

> "Shareholders have given clear signals this year and provided more resistance than before."
>
> ***Vincent Kaufmann***
> **Ethos foundation**
> August 2017

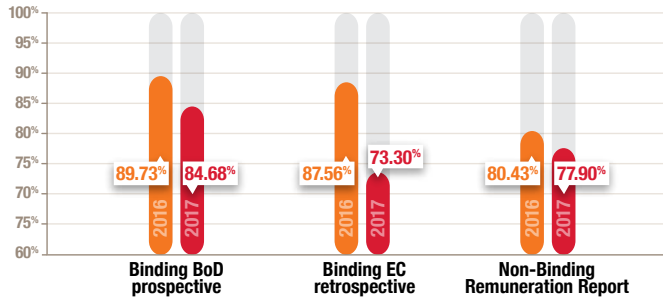
Remuneration

Remuneration remains the most contentious AGM resolution. Following a modest improvement in 2016, this year's drop of over 3% was determined by both a fall in median approval as well as negative outliers. Moreover, when considering only free float investors, although 82.42% average approval for a non-binding remuneration report proposal sounds high, this actually translates into an average approval of 77.90%. **One must keep in mind that investors and proxy advisors typically find approval rates below 80% as suspicious. Boards who do not react to such results may be seen as unresponsive to shareholder concerns and may bear the consequences at next year's election.**

Average AGM Support per Proposal Type: Remuneration



Average Free Float Support per Proposal Type: Executive Remuneration



Surprisingly, non-executive remuneration received the least support. This was not due to relatively high non-executive fees finally catching up with Swiss issuers as this low approval affected only retrospective non-executive remuneration votes and few Swiss issuers chose this option. Only 5 out of 45 non-executive remuneration proposals sought approval for

Data analysed includes all Swiss SMI and SMI Expanded General Meetings before 1 July 2017

backward looking remuneration and two of these five were put forward by Sika. The company's Board has not received any remuneration since the Schenker-Winkler family attempted to sell their 52.4% voting rights stake to Saint-Gobain at the end of 2014. Subsequently, the family prevents the Board remuneration proposal from passing with their majority vote. The controversy is still ongoing and the transaction pending forcing Sika to add a retrospective remuneration vote to the agenda every year, presumably in the hope that the affected Board members will eventually receive their fees, dated back to fiscal year.

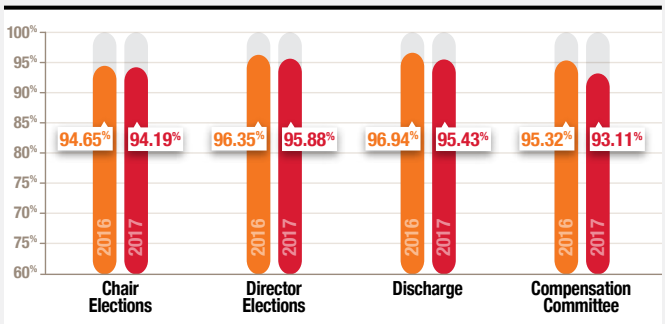
Ignoring Sika's unique situation, non-executive remuneration proposals look less bleak and executive pay returns to focus. This season's lively remuneration discussions were a reminder of the first days following the implementation of the binding vote by the Minder Initiative. At companies such as GAM or Georg Fischer, investors expressed concern that they had not seen a reaction to previous criticism of their remuneration policies. Investors also penalised companies who did ask for increased pay envelopes, pensions, or one-off payments without providing adequate explanations.

If there is just one take-away from this year's compensation results, it is that **investors have become wary of hidden or small but continual pay increases**. They no longer give companies the benefit of the doubt and feel easily ignored. **Pro-active engagement and comprehensive explanations of any, even slight amendments to potential pay outcomes, have become a necessity**. The Swiss remuneration framework and its maximum budget vote increases the sensitivity of investors to potential changes in pay.

The Board of Directors

Support for Board related proposals was still high with 95.02% support on average, although it was the second most contentious item on AGM agendas.

Average AGM Support per Proposal Type: Board of Directors



Investor discontent focussed on the appointment to a specific role, such as Chair or Compensation Committee appointments, rather than on elections in general. This suggests that the low approval is driven by investors voting against specific corporate governance (Chair) or compensation practices (compensation committee), rather than against the persons themselves due to, for example, overboarding or diversity concerns. **However, gender diversity may become a more prominent topic for investor engagement going forward.**

> "A gender quota alone will not suffice to enable change. To change our stereotypical images of man and woman, we have to adjust processes, systems, and structures."
>
> ***Iris Bohnet***
> **Harvard Business School** and member of the Board of Directors at **Credit Suisse Group AG**
> September 2017

Although the "schillingreport" – a Swiss publication on annual trends in gender diversity in key functions in Switzerland – found that over 20% of recent new hires in senior management positions have been female (a five-fold increase from 4% in 2016), 8% female representation on Swiss management boards remains low.

> "Talking about gender equality is not enough – employ more women, support more women!"
>
> ***Axel Weber***
> Chairman
> **UBS Group AG**
> May 2017

Swiss Boards may be more diverse overall, but the development here is less impressive: 17% of Directors at Swiss SMI companies were female in 2017 – an increase of 1% from 16% in 2016. Swiss companies lag in comparison with other markets; in many countries, legal action has been taken to force the issue. However, the Swiss Code still only recommends having at least one representative of each gender on the Board – well below quotas of 30% (Germany) or 40% (France). Investors tend to export their home market standards to their investee companies regardless of local standards. In addition, major international shareholders, such as State Street Global Advisors or Vanguard, have increased their focus on gender diversity. Swiss issuers may face tough questions on the status quo in Switzerland and their strategy for more diverse succession planning in the future.

Data analysed includes all Swiss SMI and SMI Expanded General Meetings before 1 July 2017

Investor focus for 2018

"We are expecting to have a continued focus on director competency, board effectiveness and human capital development within companies. With the introduction of GDPR next year, data security will be an important topic. We will look to examine not only how effectively the Directive is implemented, but that boards are sufficiently informed to provide ongoing oversight. We expect the UK remuneration landscape to be quieter in 2018 than this year, although with the implementation of the Shareholder Rights Directive in Europe, the focus on pay in other markets will likely increase."

Governance and Sustainable Investment
BMO Global Asset Management (EMEA)
September 2017

"Gender diversity is one element of board composition that we will continue to focus on over the coming years. We expect boards to focus on it as well, and their demonstration of meaningful progress over time will inform our engagement and voting going forward."

Vanguard
Open Letter to Portfolio companies
August 2017

"For us, a comprehensible, transparent and understandable executive remuneration system is an important measure to ensure the alignment of the interests between the shareholders and the management. To ensure professionalism and critical evaluation, we place high importance on the degree of independence of the Board and the key committees."

Hendrik Schmidt
Corporate Governance Analyst
Deutsche Asset Management
September 2017

"Our preferred approach is to drive greater board diversity through an active dialogue and engagement with company and board leadership. In the event that companies fail to take action to increase the number of women on their boards. despite our efforts to actively engage with them, we will use our proxy voting power to effect change - voting against the Chair of the Board's nominating and/or governance committee if necessary."

State Street Global Advisors
Guidance on Enhancing Gender Diversity on Boards
March 2017

"2017 has provided the first signs of a reversal in the growth of executive pay with some FTSE companies reducing overall quantum and a number of companies reducing executive pension provisions. Other companies are encouraged to follow suit."

Legal & General Investment Management
September 2017

"As a global investor, we are aware of the potential risks climate change presents to our investments. For investors to manage these risks, companies should disclose their assessment of the impact climate change could have upon the sustainability of their activities over the long term and also in a scenario that limits climate change to 2 degrees. Where material risks have been identified, the expectation is that companies will act to mitigate these"

Chris Cheetham
Global Chief Investment Officer
HSBC Global Asset Management
September 2017

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