

SPAIN

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

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

QUORUM

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

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

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

AVERAGE FREE FLOAT PARTICIPATION VS. IBEX-35 AVERAGE QUORUM



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

BOARD

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

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

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

62%
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Interestingly, female nominees received an average support significantly higher than male, **97.14%** vs **91.85%** across all categories, partially due to investors' increasing demands on better-balanced board gender. Also, this difference is motivated by the fact that circa **80%** of female candidates were independent nominees, the preferred director category by investors, while only **37%** of the male nominees were up for election under said status. Consistently, **86%** of the board elections that received a very significant dissent vote (higher than **20%**) put male nominees on the ballot.

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

CAPITAL

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

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

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

SHAREHOLDER SUPPORT IN EQUITY-DILUTIVE ITEMS BEFORE ISS RECOMMENDATIONS



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

REMUNERATION

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

Within those, **38.67%** addressed the advisory approval of the remuneration report², who received an average support of **87.05%** (similar to 2019 season's **87.23%**). **27.58%** were below the average support (four items received less than **70%** of support), being lack of sufficient disclosure and negative remuneration practices the most common concerns expressed by investors and proxy advisers.

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

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

OUTLOOK 2021

- Quorum levels and free float participation remain stable and did not suffer significant downturns.
- Remote-only shareholders' meetings were the majority type of meetings.
- Female board candidates were in average preferred by shareholders nominees, who were majority proposed as independent nominees.
- The incidence of equity-dilutive request grew significantly, who were consistently supported by shareholders despite the increasing number of proxy adviser ISS' negative recommendations.
- Remuneration-related items' incidence and average support remain unchanged regarding previous proxy season.

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

AGMs 2020: INVESTOR INSIGHTS Q&A



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

The incidence of items that diluted equity (capital raising authorities, issuance of convertible debt tools) has grown in this 2020 proxy season in Spain, as well as the average support of shareholders before said items. Are investors announcing that they are able to put liquidity into the markets?

Yes. Investors are ready to add liquidity in capital and financial tools that used to be seen merely as tangential years ago. Indeed, the current long-term horizon of zero interest rates opened the door to diversify investment opportunities and search for risk-balanced alternatives. Nonetheless, it is worth noting that these new investing perspectives stopped being a no-brainer to become increasingly complex.

This has been the second year where Spanish issuers had to submit to the binding vote of shareholders the verified non-financial report. The average levels of support seem to be very satisfactory. What are the key aspects that Santander AM evaluates to support items like this?

Transparency is of great importance for us and we value very positively that issuers improve their ESG reporting. The regulation that fosters transparency on this matter is helping to have a much better information from issuers, but we like going even further since we engage not only with those companies that are subject to this law, but also with those who are not so they can anticipate and improve their reporting.

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

Ana Rivero Fernández

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

This is indeed the path to follow. If we agree that sustainability adds value and helps to manage risk and opportunities, it makes sense that ESG factors are taken into account when assessing the performance of those who sit on the board of directors and that are part of the management of the company.

In addition to the first question, the outcome of our analysis does not seem to show any significant new trend in the 2020 season regarding the previous one. Shall Boards expect the consequences of the Covid-19 pandemic on proxy season 2021 (i.e. higher levels of scrutiny on the appropriateness of executive pay in relation to the overall economic and social situation)?

The pandemic has implied a deep transformation in all aspects and the greater interest in sustainability is one of those changes. In the last months, we have seen inflows and better performance data in ESG funds. The raise of ESG investment will imply a greater pressure on issuers to prove that they are able to manage this type of risks and the opportunities triggered by a situation like this.

What are the most significant engagement trends spotted by Santander AM regarding its listed investees that emerged during the last years?

Our engagement activities with issuers are planned ad-hoc. Often it addresses the improvement of companies' ESG transparency. In other cases, we dig in how companies give answer to certain controversies identified in our analysis. We also promote our involvement in collaborative engagement activities. In fact, our recent adherence to the Institutional Investors Group on Climate Change initiative highlights our commitment to promote more engagements focused on climate change.