

LIGHTHOUSE



SEPTEMBER 2019 | EMEA EDITION

M O R R O W S O D A L I

THE 2019 EUROPEAN AGM SEASON

Taking stock of the shareholder sentiment
and looking forward to 2020

Foreword

Welcome to the inaugural edition of our European AGM season review. This publication covers key markets in Europe, complementing our other publications from the US and Australia. Our aim is to shed light on some of the common themes emerging from shareholder meetings across the many markets in Europe. Our focus is on those issues we think are likely to have impact on companies in the coming season 2020.

Shareholder Rights Directive in its second update ('SRDII') has this year entered into force and is being implemented by EU member states. Areas of focus are related party transactions, directors' pay rules and rules applying to shareholders enhancing transparency of shareholder engagement. Whilst the implementations of the directive will be felt by companies across Europe, each market will experience it differently. We include in this review, for each market, key outcomes resulting from implementation of the directive in the context of existing country-specific developments.

Another trend across Europe has been the emergence of loyalty shares in several markets. The facility already exists in France, Italy and the Netherlands, and this year Spain and Belgium introduced similar measures. This issue should be seen in a wider international context, with dual class and non-voting shares being a topical issue in the US and now with the debate also reflected in some markets in Asia.

Finally, an overarching theme across all the markets in recent years has been the emergence of sustainability as a growing part of the agenda of discussion between companies and their shareholders. When it comes to shareholder meetings, which this publication reviews, the impact is more limited at least for now. Two notable harbingers of change in Europe are France and Spain. France introduced legislation mandating companies to be managed taking into consideration the social and environmental implication of its activity; the "Loi Pacte," perceived as a flagship measure of the French government, modifies the governance framework by extending the purpose of corporates beyond shareholder interests. In Spain, starting from this year, companies are required to put for shareholder vote a report on non-financial performance although shareholders' approach to this vote is not yet fully formed.

Preparation for the 2020 AGM season will soon be underway with many companies already having commenced early engagement with their major shareholders. It is our aim that this publication can assist in clarifying the main market themes so that companies can consider their own context.

As always, we welcome our readers' comments and would be delighted to discuss any part of this review.

David Shammai

Cross Border Director, Corporate Governance



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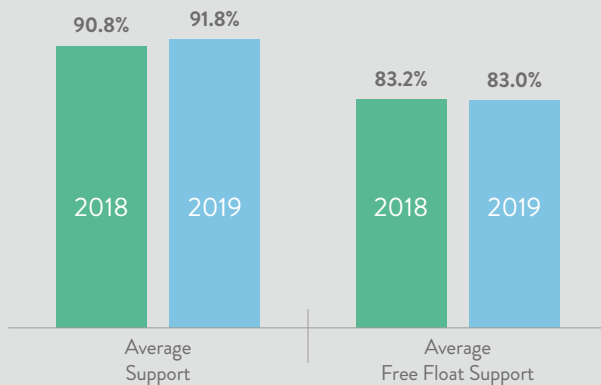
34 UNITED KINGDOM

The Shareholder vote on remuneration – taking stock

EU Shareholder Rights Directive II (SRDII) aims to create a level playing field for shareholder voting across the EU. Although the details of the transposition into national legislation differ, with some markets taking the opportunity to introduce additional rules and regulations, SRDII does set a consistent base level of requirements. Custodian banks, proxy advisors, investors as well as issuers are all affected.

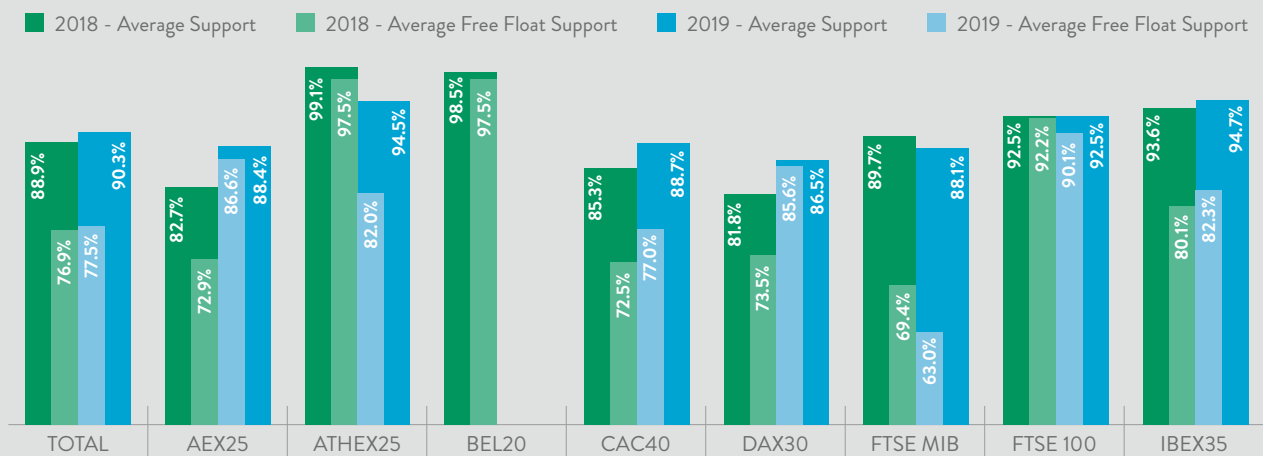
REMUNERATION VOTE

Average support of remuneration-related proposals in selected countries



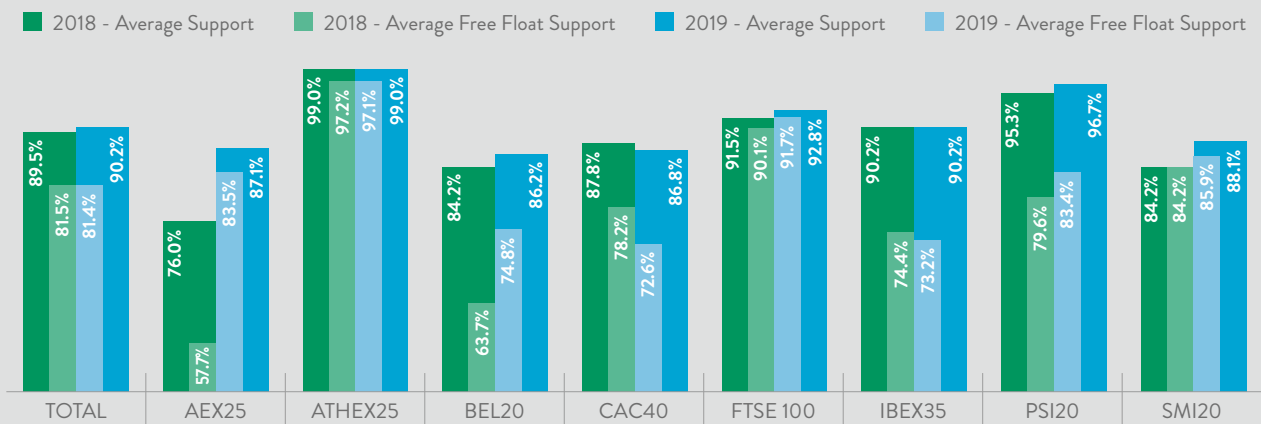
Remuneration is arguably one of the most high-profile voting items in all EU markets.¹ Accordingly, granting an annual shareholder vote on remuneration reports as well as periodical policy votes could be a challenge to issuers in those markets where this did not exist. A key concern for companies in those markets is how to anticipate investor and proxy advisor concerns where there is no market practice precedent. Additionally, names of proposals could be misleading – what is labelled a remuneration report in Switzerland does not necessarily correspond with that concept in the UK market.

Average support for management proposals regarding the remuneration framework



1. For the purpose of this section, we have re-grouped individual remuneration proposals according to their substance rather than label. Proposals to amend or introduce an overall remuneration framework (akin to the SRDII remuneration policy vote) were separated from proposals pertaining to remuneration decisions on how the remuneration framework was implemented over the reported financial year (akin to the SRDII remuneration report vote).

Average support for management proposals regarding the implementation of the remuneration framework over the preceding fiscal year



COMPARABILITY ACROSS MARKETS, WHAT WILL BE THE NEW YARDSTICK?

The UK is one of the few countries with a history of having a periodical vote on the remuneration policy as well as an annual vote on the implementation of the policy. But some issuers may be hesitant to look across the channel for inspiration, given the fundamental differences in UK ownership structures of public companies (few major continental issuers have as many domestic institutional investors fairly concentrated among their top holders, simplifying engagement) and more importantly also bearing in mind the conceptual differences in corporate governance principles in the Anglo-Saxon realm compared to Continental Europe.

France may therefore be a more immediate market to look at for experience with policy and report votes. However, in the current French regime, both proposal types are annual and binding. Furthermore, in terms of practice, the formerly dominant (if decreasing) practice of granting stock options and a generally high reliance on equity-based pay may not be comparable across all markets. In addition, French issuers typically vote on individual remuneration packages per person rather than an overall remuneration report for all directors. In Spain and Italy, typical ownership means that strategic investors often determine the vote decision of over 45% of voted shares. And in Germany and the Netherlands, issuers only vote infrequently on remuneration policies.

Companies could reasonably doubt there is no one country that will serve as the perfect reference point to understand how shareholder expectations translate into voting decisions.

Perhaps ironically, considering the overarching aim of harmonization across markets, we conclude that it is different pre-existing national governance frameworks that contain features to provide precedence and may therefore be of help to issuers to prepare for their own reporting and shareholder engagement. We hope the following parts provide a good overview of the inherent general voting trends, but also the distinguishing features of each market.

PRE-EXISTING SRDII RELATED FEATURES IN OTHER MARKETS

PORTUGAL

Reporting on employee average pay over the previous five years already in place since 2018 Corporate Governance Code introduction.

GREECE

Already implemented remuneration policy vote in line with SRDII requirements in proxy season 2019.

SWITZERLAND

Long history of very granular binding votes on remuneration amounts differentiating between executive and non-executive directors which may be of interest for companies in countries that elected to implement a binding policy vote.

Belgium

2019 was a year of major regulatory changes in Belgium with a revised Corporate Governance Code and the new Belgian Code on Companies and Associations that will take effect from 2020.

Average General Meeting participation in the BEL20 index was in line with 2018 at around 67%, whereas the free float figure increased since last year from 51.5% to 53.9%.

REMUNERATION

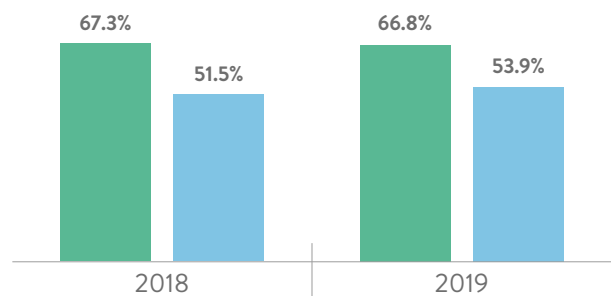
Investor dissent is apparent when looking at the approval rate of remuneration proposals: although the level of support increased slightly from last year, free float investors supported remuneration-related items with still only 82.1% on average (2018: 77.7%). Remuneration report resolutions, in particular, met with investor concerns, frequently related to the:

- lack of disclosure of performance targets;
- lack of pro-rated severance pay; and
- absence of clawback policy.

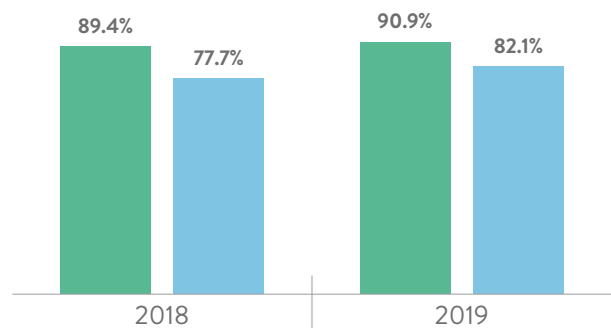
Although the overall trend on remuneration support is positive, two remuneration proposals were withdrawn before 2019 General Meetings (one in 2018). One remuneration report did not obtain majority shareholder approval, and in two cases the approval reached was less than 80% (down from eight in 2018), a threshold below which, according to Glass Lewis and potentially also ISS from 2020 onwards¹, companies will be required to explain the extent to which the shareholders' vote will be taken into account.

1. See ISS Annual Policy Survey, July 2020.

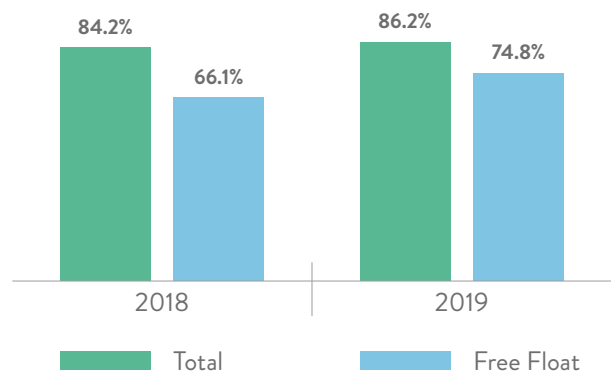
GENERAL MEETING PARTICIPATION



GENERAL MEETING SUPPORT: ALL REMUNERATION-RELATED PROPOSALS



GENERAL MEETING SUPPORT: REMUNERATION REPORTS



DOUBLE VOTING RIGHTS

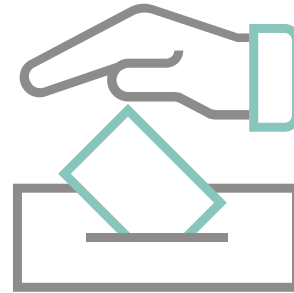
The new Belgian Code on Companies and Associations (BCCA) will apply to most companies from 2020. Among other provisions, the BCCA enables Belgium-listed companies to enhance the voting rights of long-term holders of shares. This new class of shares can have a maximum of two votes per share and will only apply to those shareholders holding shares for an uninterrupted period of at least two years (nominative shareholding). These “loyalty shares” lose their double voting rights upon transfer.

To use this facility, companies are required to amend their articles of association with the approval of a two-thirds majority at the General Meeting. This ‘opt-in’ process resembles Italian legislation and the proposals in Spain, and therefore differs from loyalty share arrangements in France.

OUTLOOK

The recent regulatory updates make it likely for 2020 to be a year of major changes including a significant impact on Say on Pay proposals. The new Code builds on the new management model for listed companies prescribed by the new Belgian Companies Code, which allows companies to choose freely between one- or two-tier Board structures and will also have a significant impact on remuneration, such as requiring the Board to set a minimum threshold of shares to be held by executives.

Finally, issuers considering introducing loyalty shares may be well advised to take note of similar discussions on the subject in the US as well as in France or Italy. When such legislation was introduced, the International Corporate Governance Network, representing international investors with more than \$34 trillion under management, sent an open letter urging to consider that “loyalty shares with multiple voting rights ultimately marginalize investor rights and diminish the accountability of executive managers to shareholders.”²



“While the risks of dual voting class structures can ultimately be priced into a company’s valuation, we believe the most sensible starting point is simply to avoid the introduction of dual class share regimes in the first place. Otherwise we believe there is a slippery slope to unintended consequences, even with the best of intentions.”³

Kerrie Waring, CEO ICGN, 2019

2. 3. Open letter to the President of the Chamber of Representative, Chairman of the Commercial and Economic Law Committee and Minister of Justice, Belgium, International Corporate Governance Network, October 17, 2018.

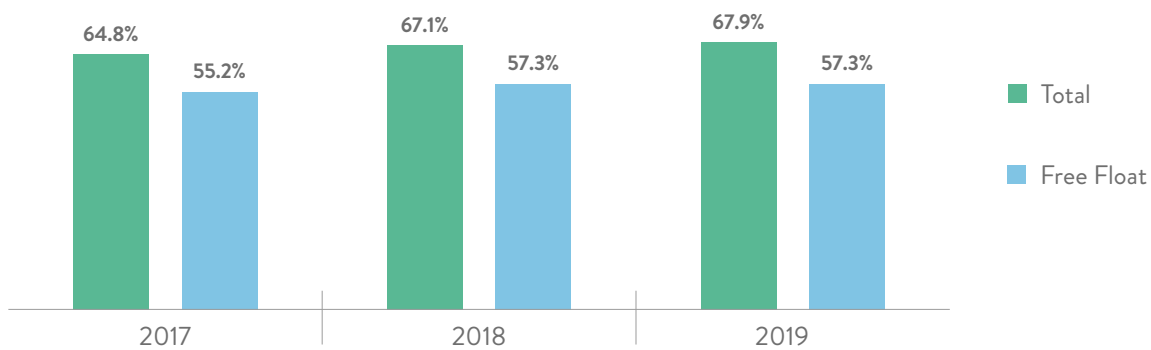
France

Several ongoing trends aside, the 2019 season has had its share of novelty and controversy. While the traditional topics addressed during shareholder engagement ahead of AGMs such as compensation, Board organization and composition are continually becoming more complex, new issues such as shareholder activism and ESG are gaining ground.

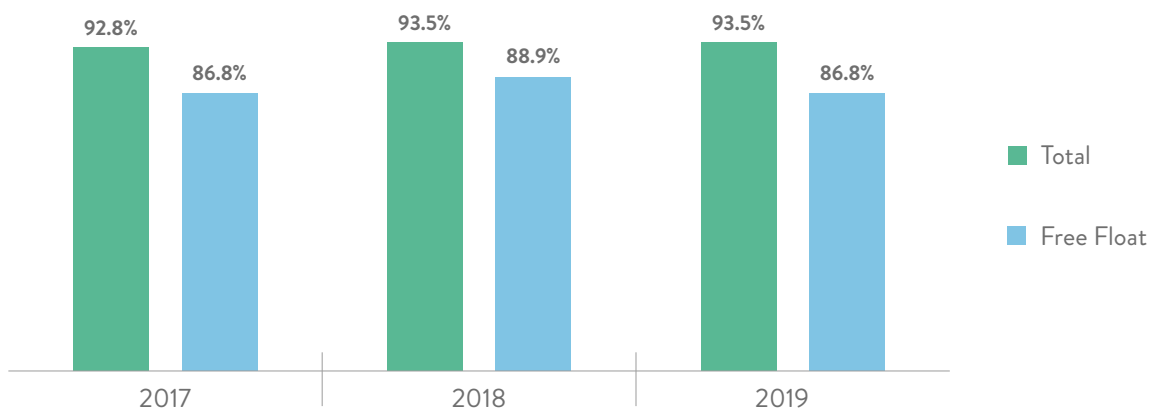
PARTICIPATION

Average General Meeting participation and free float participation increased by 3.1% and 2.1% points over the last three years. The increase is largely explained by the shareholding profile of CAC40 newcomers. While the high level of General Meeting participation is clearly correlated with strategic shareholders' weight in the share capital, free float participation remains valid (from 27% to 73%) and less predictable.

GENERAL MEETING PARTICIPATION



AVERAGE GENERAL MEETING SUPPORT



RESULTS

Remuneration

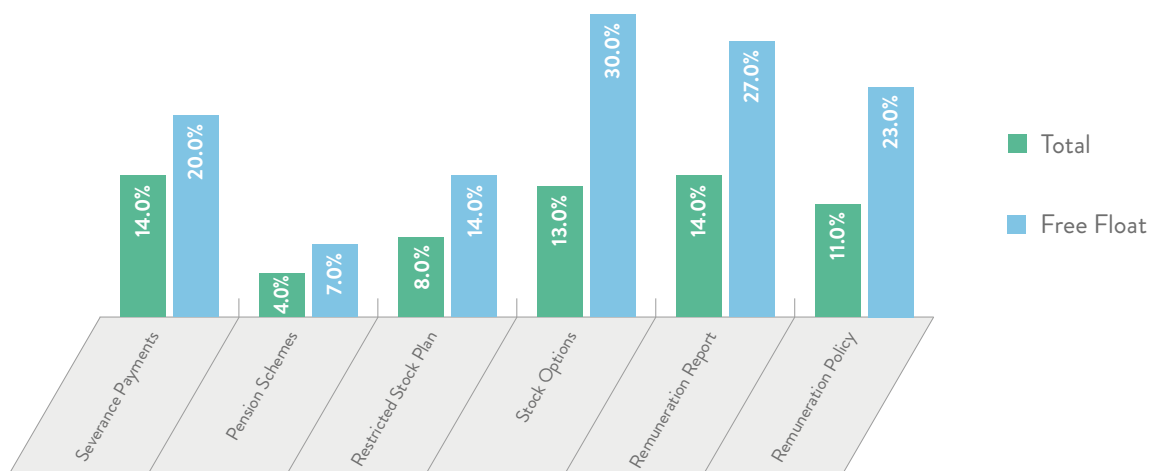
Executive remuneration remains a high-profile topic. The average level of free float support is below 80%. France stands as one of the countries with the most extensive range of requirements, with binding votes on both the remuneration policy (ex-ante) and remuneration report (ex-post).

Shareholder support on remuneration reports is slightly lower compared to remuneration policy proposals. Two years after the implementation of the Sapin II law, remuneration policies are more in line with investor guidelines than two years ago. Meanwhile investors and proxy advisors have become more demanding on the design and disclosure of performance conditions. French issuers have to go to greater lengths to verify the challenging nature of their executive pay metrics.

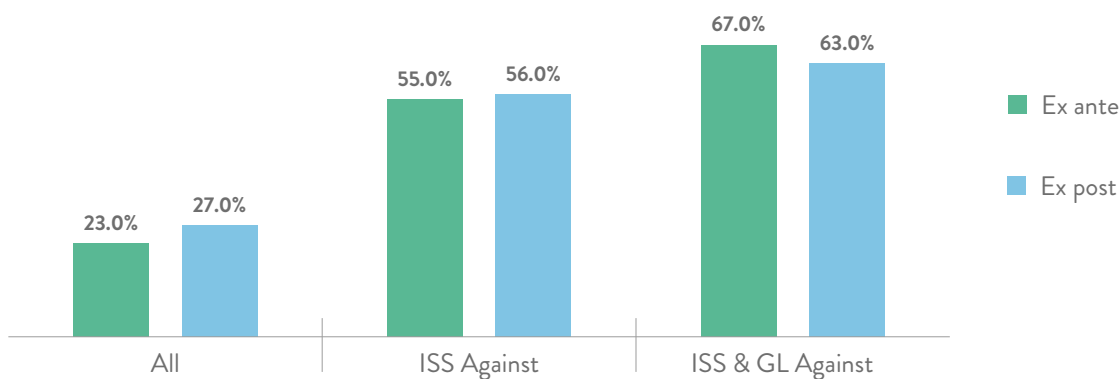
Generally in the market, investors continue to favor restricted stock plans over stock option plans. Indeed, stock option plans' free float dissent (9 resolutions) reached more than twice the level of restricted stock plans' free float dissent (20 resolutions). There were still several controversies on outgoing executive exit packages, however deferred remuneration packages (pension scheme and severance payment) were broadly less criticized by institutional investors in 2019 compared to previous years.

Within the CAC40, all the executive remuneration resolutions passed except one: the Renault CEO/Chair Remuneration Report 2018. It was noteworthy in that case that the Board recommended voting against the proposal, which consequently failed to achieve majority support.

AVERAGE DISSENT PER TYPE OF REMUNERATION PROPOSAL



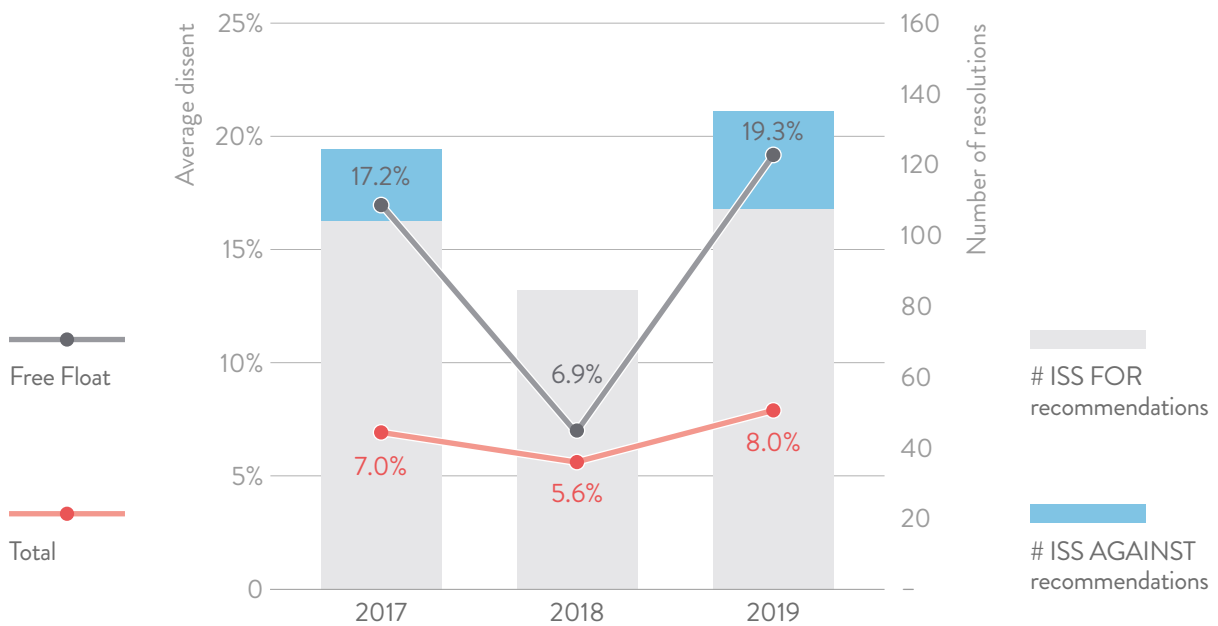
EX POST & EX ANTE - Average free float dissent



Share Issuance

The decrease of free float support is partially explained by the cyclical nature of some contentious share issuance proposals. The number of share issuance proposals increased by 60% from 2018 to 2019, overtaking 2017 levels. In 84% of these resolutions, ISS recommended voting FOR (versus 100% in 2018), contributing to an increase in the free float dissent. Major reasons for withheld support include proposed volumes exceeding market guidelines and issuances that could be used during takeover periods.

AVERAGE GENERAL MEETING DISSENT

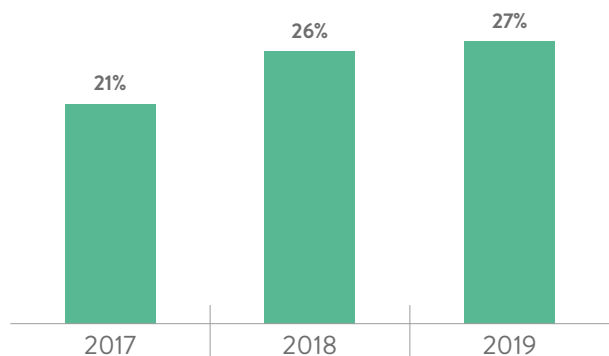


Board Composition

Board composition is an issue that matters to investors, even if the average free float dissent is low (12%) compared to remuneration topics. The slight decrease between 2018 and 2019 is partially explained by last year’s high number of CEO/Chair renewals (12 in 2018 instead of only four in 2019) with a higher level of dissent (above 25%).

Investors’ scrutiny of director skills and experience is still growing, but there is no clear impact on their voting decision. However, independence, excessive numbers of mandates and

CEO/CHAIR (RE)ELECTION¹ - Average free float dissent



1. Excluding companies which committed to splitting the roles in the near future.

attendance are under the scrutiny of investors who sometimes adopt more stringent voting policies than proxy advisors do.

Recent corporate governance and leadership crises increased investor scrutiny on the CEO/Chair com-

bination. It raised some questions among minority shareholders on the viability of the usual measures to counterbalance concentration of power (such as through the Lead Independent Director role or Board and committee independence).

OUTLOOK

Activism

Activist investors have become increasingly visible in France. Two high-profile proxy fights raised issuers' and investors' awareness, although there are still fewer shareholder proposals in France compared to the US or UK markets. The large majority were led by employee shareholders, specifically on employee-related topics (such as employee stock plans, employee representatives or dividends). This topic should be closely monitored, for example by reviewing investors' and proxy advisors' decisions to back activist proposals, anticipating the impact of the approval rate calculation methodology change introduced by the "Loi Pacte."

Remuneration

Investors' and proxy advisors' voting policies and engagement practices are becoming more complex and diverse and should therefore be carefully monitored. Stakeholders are particularly weary of:

- poor transparency (e.g., insufficient levels of information on performance conditions or achievement);
- Board discretion (e.g., exceptional remuneration and increases in remuneration-component values without compelling rationales);
- lack of correlation between pay and performance (e.g., concerns regarding the challenging features of performance criteria, retesting and offsetting mechanisms);
- unbalanced remuneration structure (e.g., no cap or insufficient long-term orientation); and
- excessive retirement packages or unclear post-mandate vesting policies.

A series of measures introduced by the "Loi Pacte" are intended to partially transpose SRDII

- to clarify the procedure for monitoring related party agreements; and
- to introduce a series of new rules regarding transparency of executive director remuneration (e.g., non-financial performance criteria and pay ratios).

ESG

ESG is a rising concern among shareholders and investors. Regulatory and soft law developments encourage companies to link executive pay to ESG performance. Although most CAC40 companies already link CEO pay to ESG performance, there is a significant diversity on how this is done. This must not be overlooked as investors tend to consider remuneration as a means to evaluate the quality of Board oversight on ESG matters.

Purpose

The increased attention to corporate and social responsibility will continue to rise. The "Loi Pacte," perceived as a flagship measure of the French government, modifies the governance framework by extending the purpose of corporates beyond shareholder interests. According to the legislation, companies should be managed in the interest of shareholders as well as other stakeholders, such as employees, customers and society (including environmental and social responsibility). In line with the Notat Sénard report recommendations, companies are now able to adopt a "purpose" in their bylaws. In 2019, two companies have already done so with solid investor support.

Germany

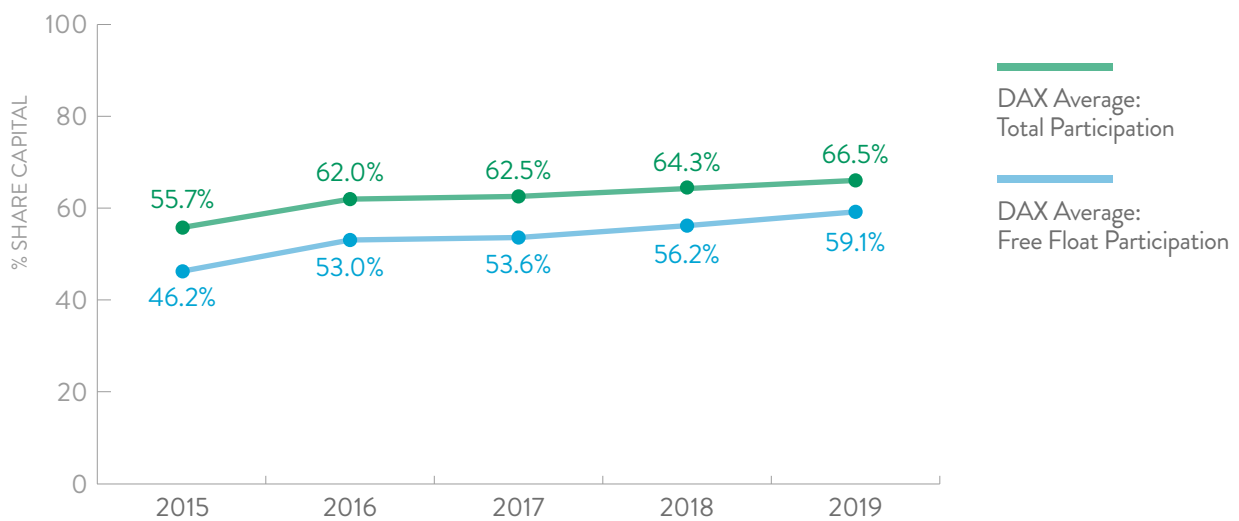
Although a few individual General Meetings in 2019 may have had controversial outcomes, the overall trends for DAX issuers are stable. General Meeting participation increased mildly but steadily over more than five years, as did investor support for most proposal types, with the exception of Board discharge and director elections.

PARTICIPATION

Average free float vote participation increased by over two percentage points year-on-year, resulting in average total General Meeting participation of over 66%. The strongest increases were driven by one-off events, such as the Extraordinary General Meeting for preferred shareholders at Henkel (+30%), significant corporate restructuring of e.on (+13%) or the high profile meeting at Volkswagen (+11%). Taking these exceptional events into account, participation remained stable overall. However, controversy did not consistently drive participation; with Deutsche Bank, Fresenius Medical Care and Wirecard experiencing a decrease in the free float vote by over five percentage points.

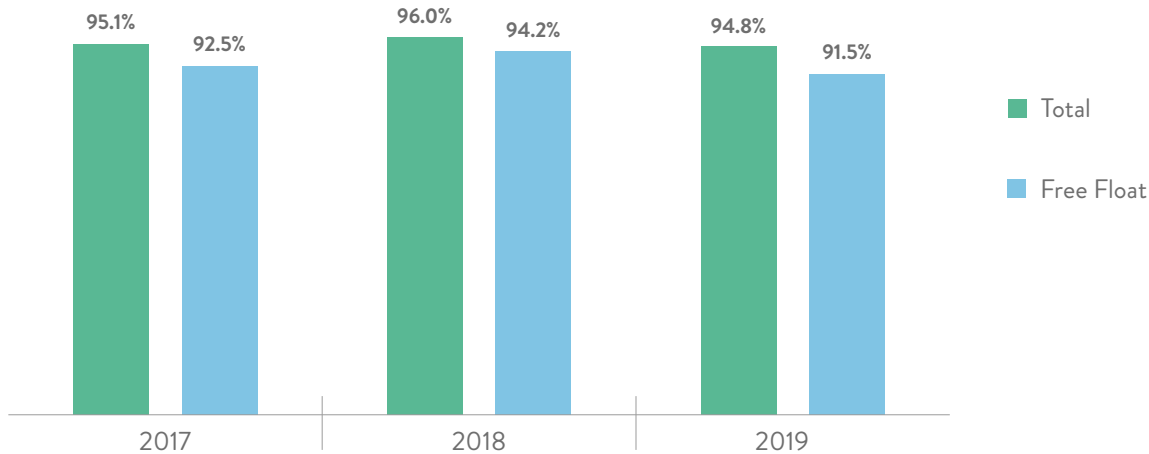
+10%
increase in AGM
vote participation
since 2015

AGM VOTE PARTICIPATION TREND



RESULT

AVERAGE GENERAL MEETING SUPPORT



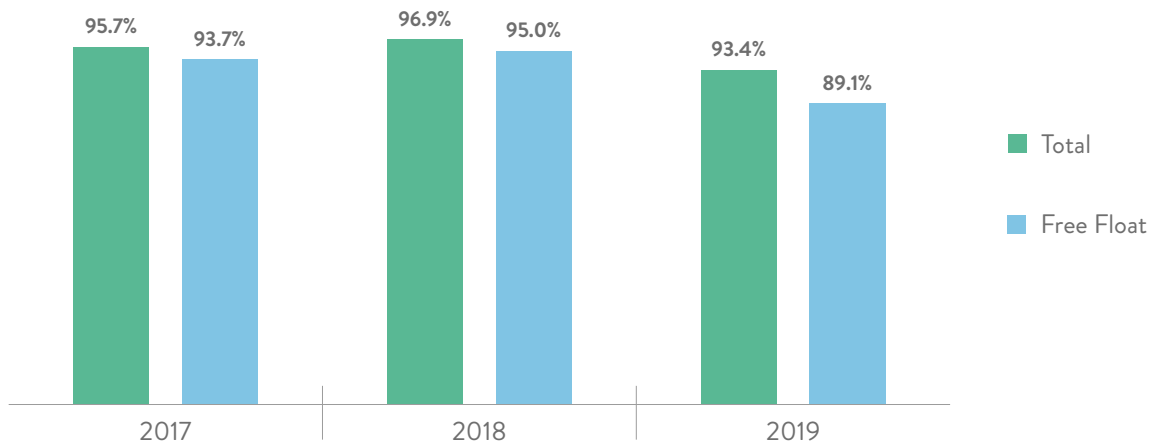
Average General Meeting support decreased to below 2017 levels, with 91.5% average free float support reaching an all-time low. The reason: for the first time, discharge and election proposals of Supervisory Boards received less than 90% free float support on average. The trend for discharge of executive director elections points in the same direction, decreasing by over five percentage points compared to 2018.

- **Elections:** at issuers with significant strategic holders, typical free float investor concerns were with Board and committee independence levels as well as director availability (e.g., meeting attendance and over-boarding). Elections at issuers with over 90% free float remained above 93% free float support on average and were consistently supported by Glass Lewis and ISS, with one exception for Glass Lewis. Nevertheless, compared to over 96% average free float support in 2018, rising discontent is noticeable regardless of shareholder structure and proxy advisor recommendations as investor policies on over-boarding and independence diversify further.
- **Discharge:** low average discharge support in 2019 was a result of outlier results, rather than an overall trend. Three issuers received less than 80% support for discharge proposals, compared to two and one in 2018 and 2017, respectively. In all three cases, the issuers were involved in legal disputes with potentially significant financial implications for the company and its shareholders. Excluding these outliers, average support has remained stable between 97% and 98% since 2017.

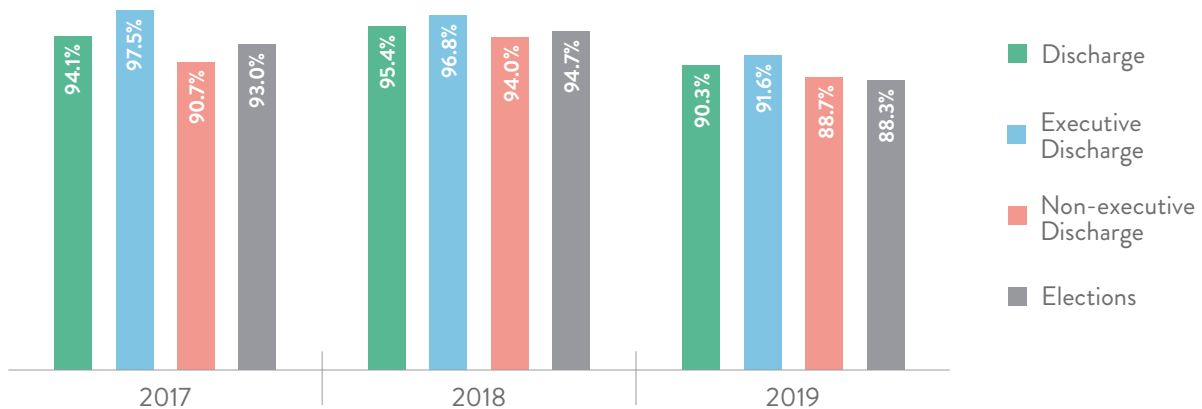
<90%

of the free float vote was cast in support of Supervisory Board elections and discharge proposals

AVERAGE SUPPORT OF BOARD-RELATED PROPOSALS



FREE FLOAT SUPPORT OF BOARD-RELATED PROPOSALS



Interestingly, items traditionally attracting lower support, such as those relating to the issuance of share capital or remuneration, met with less resistance than in previous years.

- Share capital:** issuers largely adhere to the lower ISS guideline on limiting exclusion of pre-emptive rights to 10%, further aligning German market practice on this with international investor expectations. Average support of general authorisations increased to over 92% – compared to 88% in 2017.
- Remuneration:** Germany is one of only few major international markets without a mandatory annual vote on remuneration and DAX issuers made use of this flexibility. Awaiting the final version of the revised German Corporate Governance Code as well as the implementation of the SRDII, only four DAX companies proposed an advisory executive remuneration proposal¹ – half compared with 2018 and 2019. With one exception, all items reached over 90% support.

1. In addition, Linde proposed two remuneration-related items as required under their US listing.

OUTLOOK

Supervisory Board

Compared with the initial draft of the revised German Corporate Governance Code, the final version as published on May 22, 2019, may appear less far-reaching. However, investors and proxy advisors alike have closely followed the discussion around the new Code. Several standard German practices that have been high on investors' agenda for some time, may no longer be tolerated from 2020 onwards, even if not included in the final Code. Issuers should be mindful of their investors' views on less prescriptive elements of the Code, even if not reflected in stricter proxy advisor guidelines for 2020, particularly:

- Supervisory Board terms;
- external Board performance review and reporting of findings;
- appointments of former executive directors to the Supervisory Board;
- independence definitions; and
- over-boarding limits.

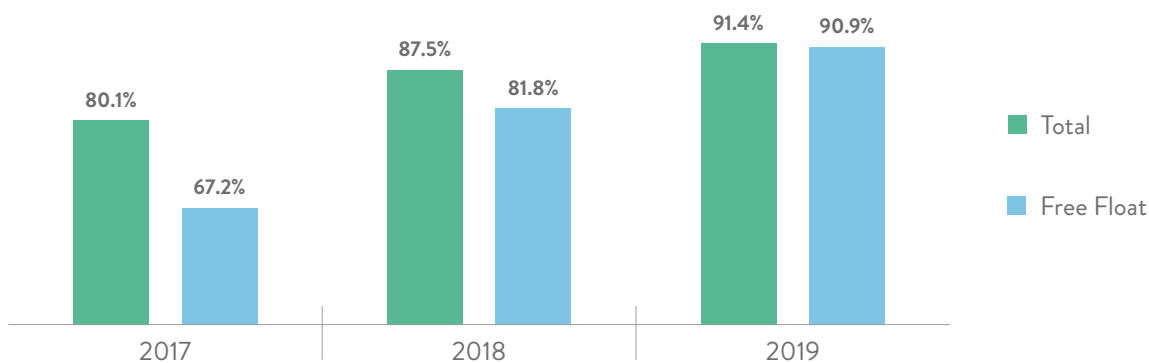
Comply and Explain

With the revised Corporate Governance Code, the contents of the Corporate Governance Report will be absorbed by the existing Corporate Governance Statement. The restructuring of governance reporting may be an opportunity for German issuers to revise their disclosure practices with a view to add more explanatory content. Although the Code maintained the “comply or explain” approach, based on conversations we had with investors, we expect free float investors to welcome further explanations of governance-related decisions, even if issuers comply with the Code.

Management Remuneration

The infrequent votes on executive remuneration may have created a false sense of security for issuers who had received substantial approval on their previous remuneration votes. Similarly, 2019 remuneration vote results may contain a positive bias as issuers voluntarily submitted reports to a vote despite having had good reason to delay the vote to 2020. Therefore, we believe that in many cases, more-comprehensive explanation around the Supervisory Board's rationale is needed.

AVERAGE SUPPORT OF REMUNERATION RELATED PROPOSALS



Vote results from previous years display a strong discontent with German remuneration practices. When identifying best practice guidance and reviewing investor perception, German companies may be better advised to look abroad, particularly to markets with similar remuneration regimes under SRDII, such as in France, the UK, the Netherlands or Greece. Issuers should also be mindful of the European alignment of standards when explaining deviations from in-

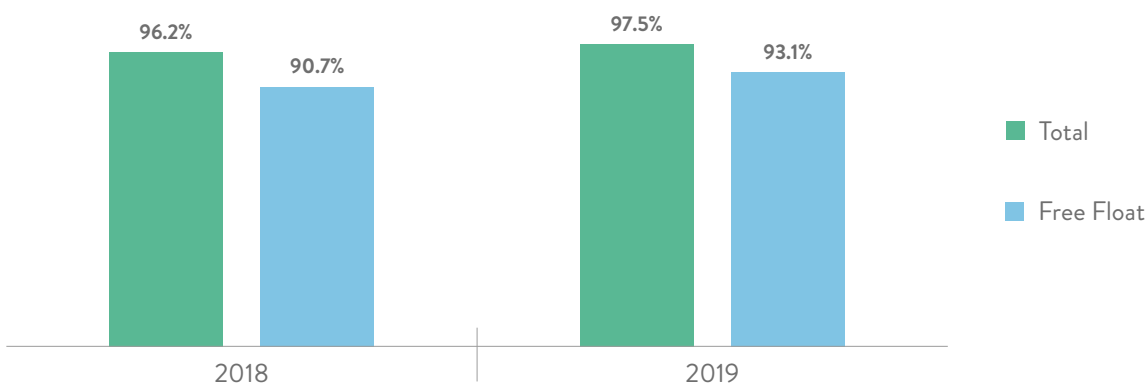
dividual best practice features. Investors may expect a more detailed justification on why certain remuneration features appear harder to implement for German issuers in European comparison, such as:

- granting remuneration with equity;
- disclosing performance targets for all criteria; and
- introducing malus and clawback clauses.

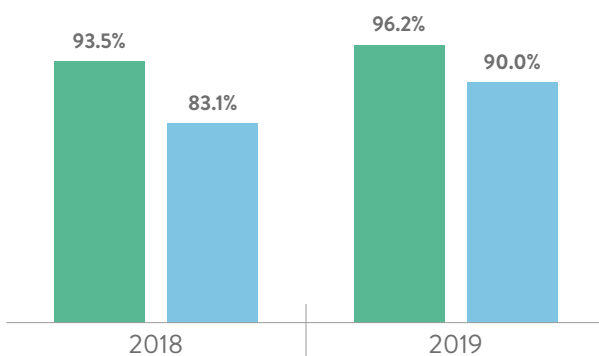
Greece

Corporate governance in Greece has undergone significant changes over recent years, showing a notable improvement in alignment versus the expectations of international investors, as well as being one of the first markets to implement SRDII.

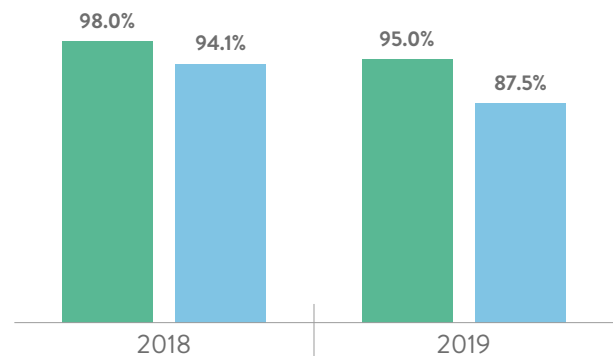
AVERAGE GENERAL MEETING SUPPORT



AVERAGE GENERAL MEETING SUPPORT: DIRECTOR ELECTIONS



AVERAGE GENERAL MEETING SUPPORT: ARTICLE AMENDMENTS



ARTICLE AMENDMENTS

Further changes in the law applicable to Sociétés Anonymes (S.A.), in conjunction with the implementation of SRDII, led many issuers to update their articles of association. Twenty-one article amendments were proposed in 2019, compared to seven in 2018. Although the changes themselves were rarely problematic, some issuers did not provide satisfactory explanations of their rationale and

additional assurance that shareholder rights would not be affected in a negative way. Consequently, average free float support amounted to only 87.5% of 2019 proposals (94.1% in 2018). In the six cases where ISS recommended against the proposed amendment, average free float support dropped to 58.7%.

BOARD

Board composition and disclosures significantly improved, with financial institutions leading the way – arguably supported by the work of the Hellenic Financial Stability Fund. Although Chair and committee independence still remain a concern for some investors, bundled election proposals and agendas without specification of nominee names and CVs have become the exception. Investor support reflects this trend. In 2019, free float investors supported election proposals on average by 90.0% – a steep increase from 83.1% in 2018.

REMUNERATION

Proposals related to remuneration remain a significant concern for Greek issuers. With the introduction of remuneration policies in line with the SRDII and respective average free float support of 82.0% in 2019¹, average free float support of remuneration still increased to 89.0% year-on-year. While only four remuneration proposals received less than 80% support in 2018, this number increased to nine in 2019, five of which were remuneration policies. When only considering free float support, these figures increase to eleven proposals in 2018 and 17 in 2019, respectively. Seven of the 2019 remuneration votes with less than 80% free float support were remuneration policy proposals. In five cases, both ISS and Glass Lewis recommended against the proposed policy. Major concerns included:

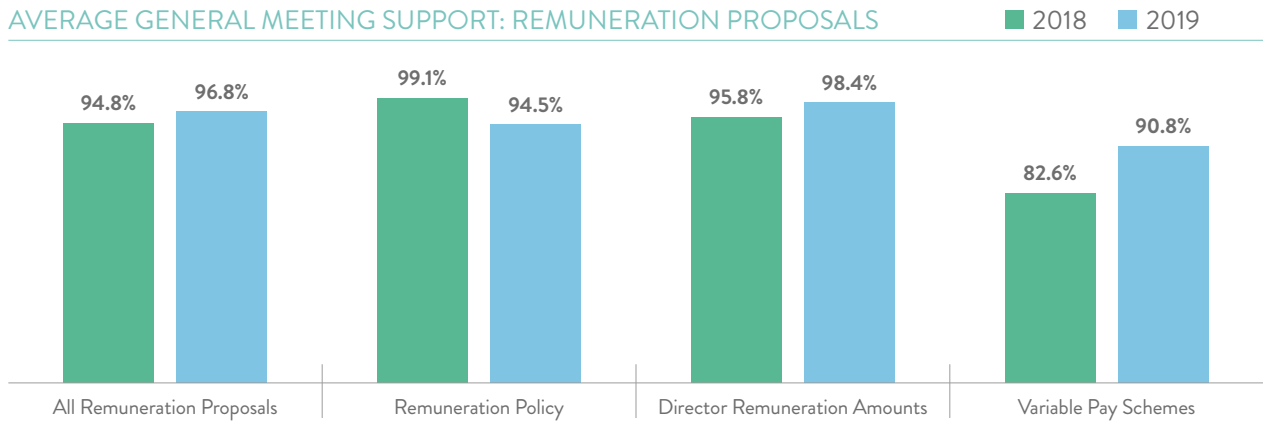
- insufficient disclosure of performance criteria;
- lack of clearly differentiated short-term and long-term incentive plans;
- lack of protection from unjustified or excessive remuneration; such as clawback policies, caps of individual variable pay plans, or sufficiently long performance periods; and
- non-executive directors not explicitly excluded from variable remuneration components.



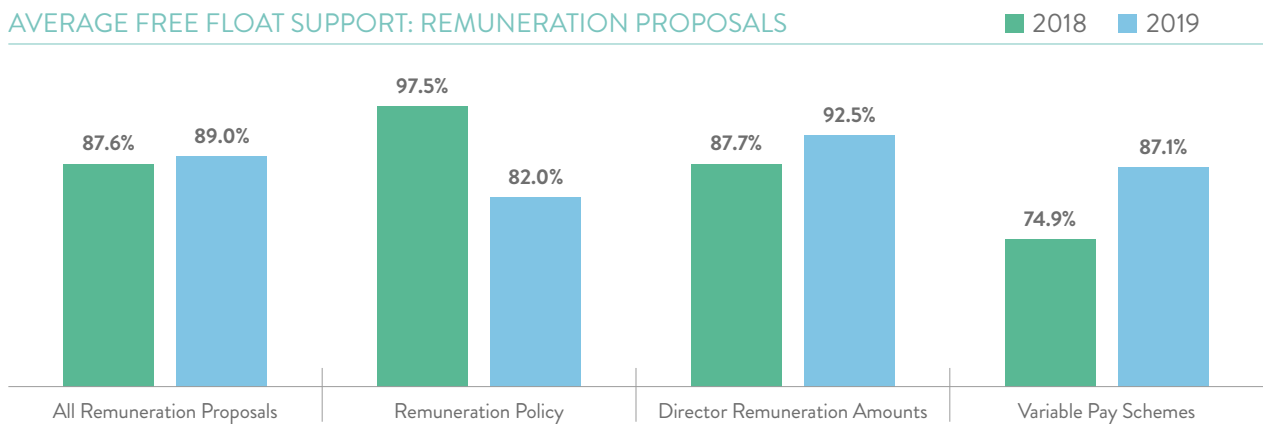
+1.4%
higher average
support for
remuneration-
related proposals
in 2019 compared
with 2018

1. 2018 remuneration policies were proposed by issuers with listings in countries where remuneration policies are required. Note that these policies did not have to align with SRDII requirements.

AVERAGE GENERAL MEETING SUPPORT: REMUNERATION PROPOSALS



AVERAGE FREE FLOAT SUPPORT: REMUNERATION PROPOSALS



Despite investor concerns with many proposed policies, overall the quality of disclosure of the policies as such improved the transparency of Greek remuneration systems. Therefore we note a measurably positive side effect on the support of proposals of variable pay schemes, such as profit sharing or stock option plans. Average free float support increased from 74.9% in 2018 to 87.1% in 2019 – the most significant improvement across all agenda items.

OUTLOOK

Some Greek Boards still face investor concerns regarding insufficient Board, Chair or committee independence. However, for those Boards that largely comply with international best practice standards in this context, new areas of concern have opened-up:

- **Responsiveness to investor concerns:** disclosure and discussion around executive remuneration – particularly subsequent to an event of notable investor concerns with remuneration policy or report (typically measured by less than 80% approval) – will be at the forefront of investor expectations for 2020.
- **Remuneration reports:** many investors have been lenient with regards to 2019 remuneration policy disclosure, taking account Greece was an early implementer of the new European framework. Expectations on remuneration report proposals in 2020 may not have the same advantage. Particularly, further disclosure such as exact and measurable performance targets or individual remuneration amounts will be expected to support the upcoming annual advisory vote.

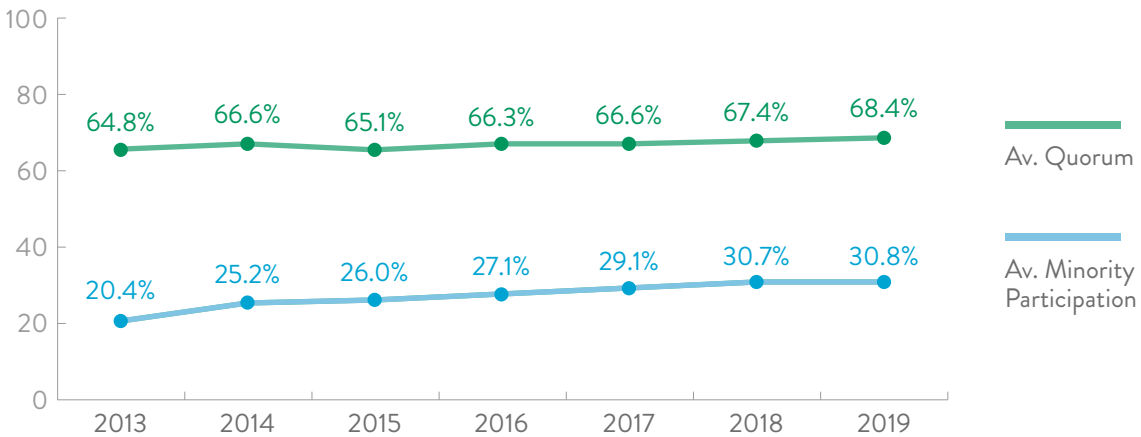
Italy

Over the years, there has been a steady increase in average participation in FTSE MIB Index meetings, which in the period 2013-2019 increased by 3.6 basis points, from 64.8% in 2013 to 68.4% in 2019. Considering minority shareholders voting alone, the increase is much more dramatic approaching 50%.

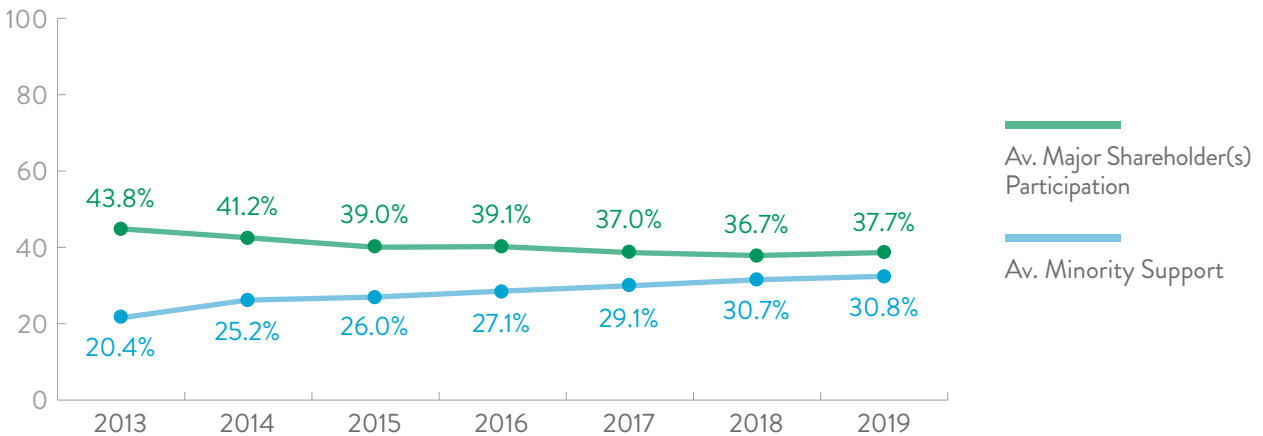
The increase, which does not seem particularly significant at first sight, should be read in light of reference shareholders decreasing their market share whilst the participation of minorities keeps rising at a faster pace. The gap between the two shrank over time from 23.4% to 6.9%, with the

prospect of further reduction due to the expected growing participation of minorities in the coming years, in view of the potential impact of the SRDII on the fiduciary duties of institutional investors.

PARTICIPATION, FTSE MIB, 2013-2019 – AVERAGE VS MAJOR SHAREHOLDERS



PARTICIPATION, FTSE MIB, 2013-2019 – MAJOR VS MINORITY SHAREHOLDERS





REMUNERATION RESULTS

The eighth year of "Say on Pay" in Italy has once again highlighted the importance of the position expressed by minority shareholders.

The average consensus of minority shareholders in 2019 decreased from 67.1% in 2018 to 60.7%. This figure should be read in light of the growing number of negative recommendations from the proxy advisors for FTSE MIB companies (43% negative recommendations in 2019 vs. 37% in 2018), the highest among the European countries that have implemented "Say on Pay."

The main issues attracting shareholder dissent include:

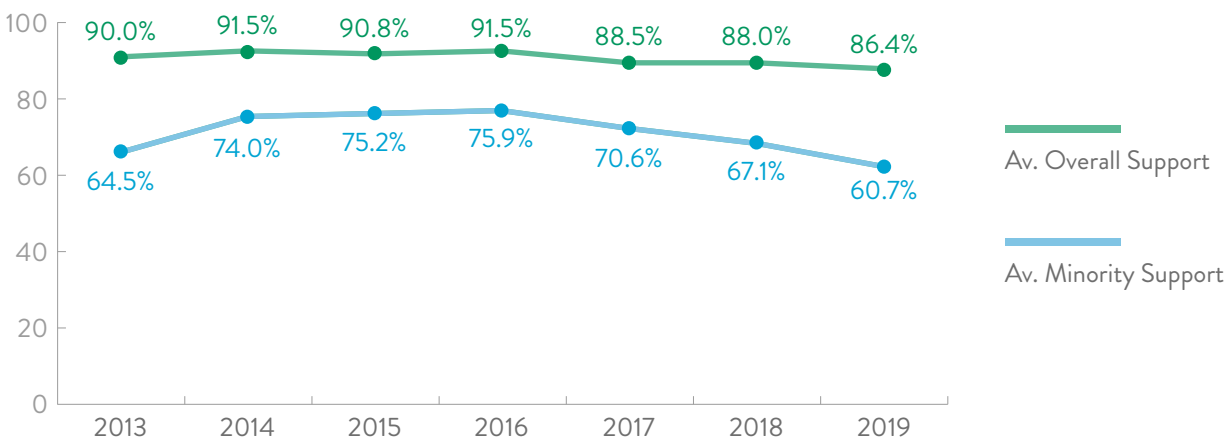
- non-disclosure of performance criteria and/or the specific targets of incentive plans (short and/or long-term);
- the right to award discretionary bonuses;
- excessive severance payments; and
- lack of adequate alignment of remuneration to company performance.

While average overall support steadied around 90% and then decreased in the last three years, minority support tells a tale of two trends. First, increasing by 17.7% in the first half of the period, then dropping significantly by 20% in the second half. Our view is that initially, investors rewarded the improvement of engagement practices and increasing attention to minority investors, but then inverted their support because of unmet higher expectations.

Typically, the companies that performed best during the reference period were those showing willingness to engage in dialogue with their shareholders and the absence of a shareholder that exceeds the 40% threshold.

2019 was the first season where we have seen a failed advisory vote on remuneration policy. Additionally 15 companies obtained less than 50% support from their minority shareholders, a result that in the absence of a reference shareholder would have led to the rejection of the remuneration policy.

SAY ON PAY, FTSE MIB, 2013-2019 – AVERAGE VS MINORITY SHAREHOLDERS



ADVISORY VERSUS BINDING VOTE

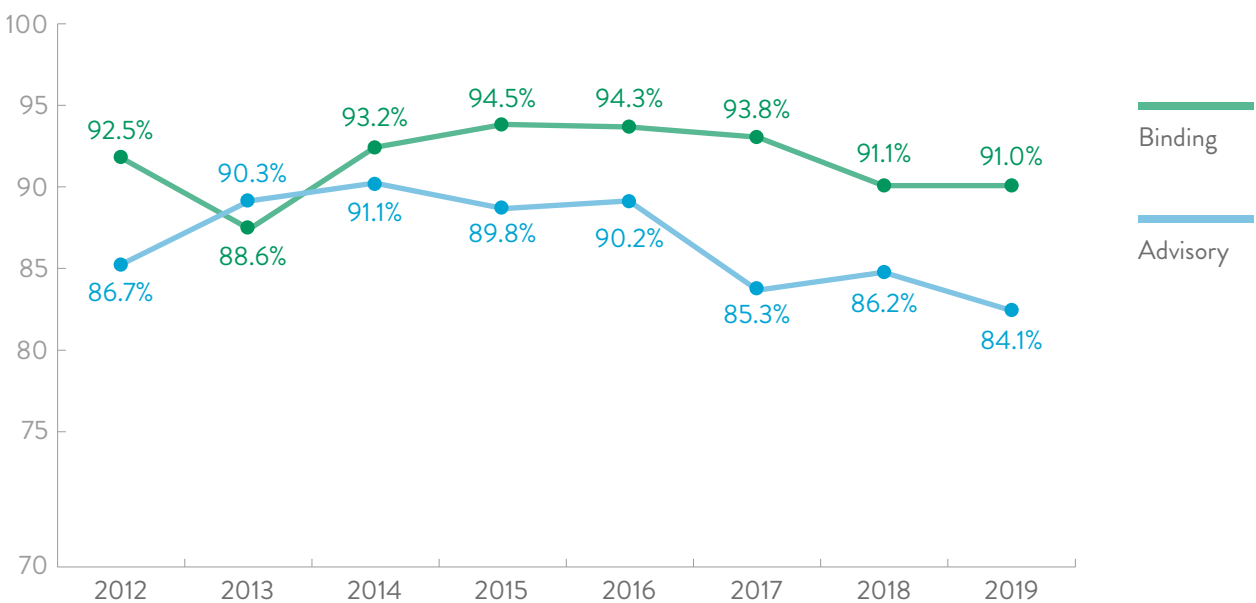
The transposition of SRDII revised the debate on whether “Say on Pay” should be binding or advisory. The original text of the decree submitted for consultation provided for an advisory vote on the policy, while the final text provided for a binding vote.

Interestingly, as the chart below shows, binding votes (mandatory in financial companies since 2012) tend to attract a higher level of support, perhaps reflecting greater attention from issuers and a more cautious approach by investors.



15 Say on Pay proposals would have failed without the support of strategic investors

SAY ON PAY, FTSE MIB, 2013-2019 – AVERAGE VS MINORITY SHAREHOLDERS





BOARD RENEWALS AND BOARD LISTS

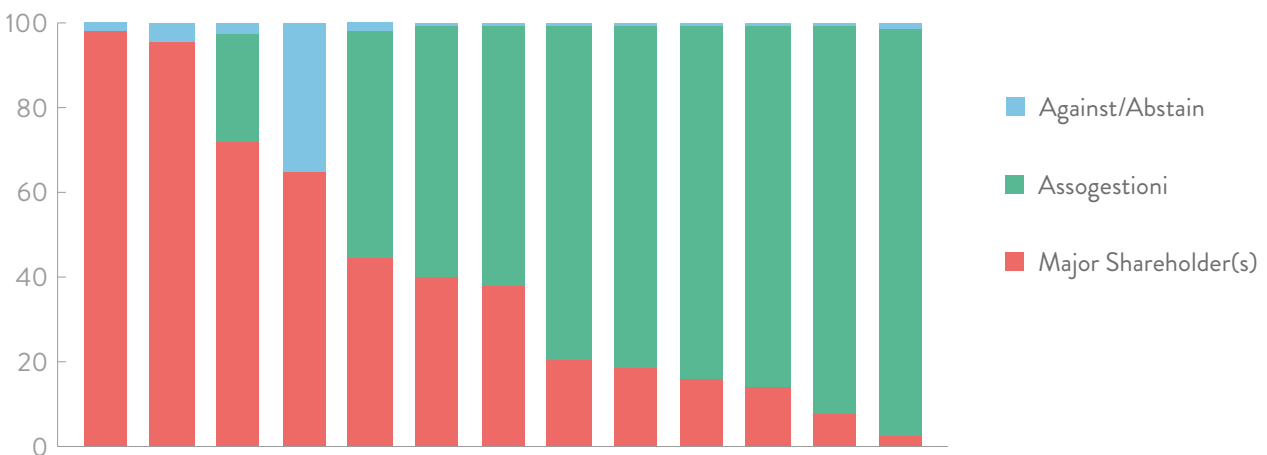
As of May 2019, 13 FTSE MIB issuers renewed their Board of Directors during the proxy season. Two lists have been presented in ten companies, and one list has been presented only by the reference shareholder in three companies.

Different to last year, no issuer had a list submitted by the outgoing Board. Among the companies that renewed their Board in 2019 only Atlantia provided this option in its articles of association.

Following the renewals, our analysis shows that the FTSE MIB as a whole has the following characteristics:

- average Board size of 12.5 directors;
- 60% independent directors (based on the corporate governance); and
- 16% minority directors.

SAY ON PAY, FTSE MIB, 2013-2019 – AVERAGE VS MINORITY SHAREHOLDERS



OUTLOOK

On June 10, 2019, the Legislative Decree No. 49/2019 implementing SRDII was published in the Official Gazette and entered into force.

The Decree will apply in practice from the 2020 season, introducing a binding remuneration policy vote at least every three years. However, the element with the most significant impact in the Italian context is undoubtedly the annual advisory vote on actual remuneration. We expect it to require companies to make a significant effort in terms of ex-post disclosure of paid remuneration and ensuring there is appropriate reporting to show the alignment of payment outcomes with company performance.

Revision of the Corporate Governance Code

The Corporate Governance Code in Italy is now under review. The objective of the revision is to offer listed companies a more incisive instrument of self-discipline, to encourage practice improvement and respond to new challenges that emerge from market developments. Particular emphasis will be placed on incorporation of sustainability, including environmental and social strategies, risk management and remuneration policies for listed companies, and the development of a more intensive dialogue between issuers and their investors and other relevant stakeholders.

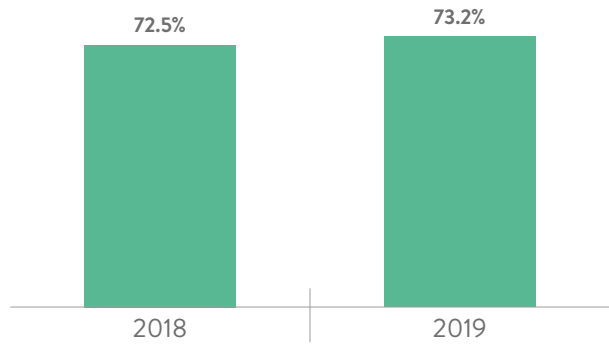
The new version of the Code, which is expected to be approved at the Corporate Governance Code Committee meeting in December 2019, will be published to coincide with the Italy Corporate Governance Conference later that month.

Netherlands

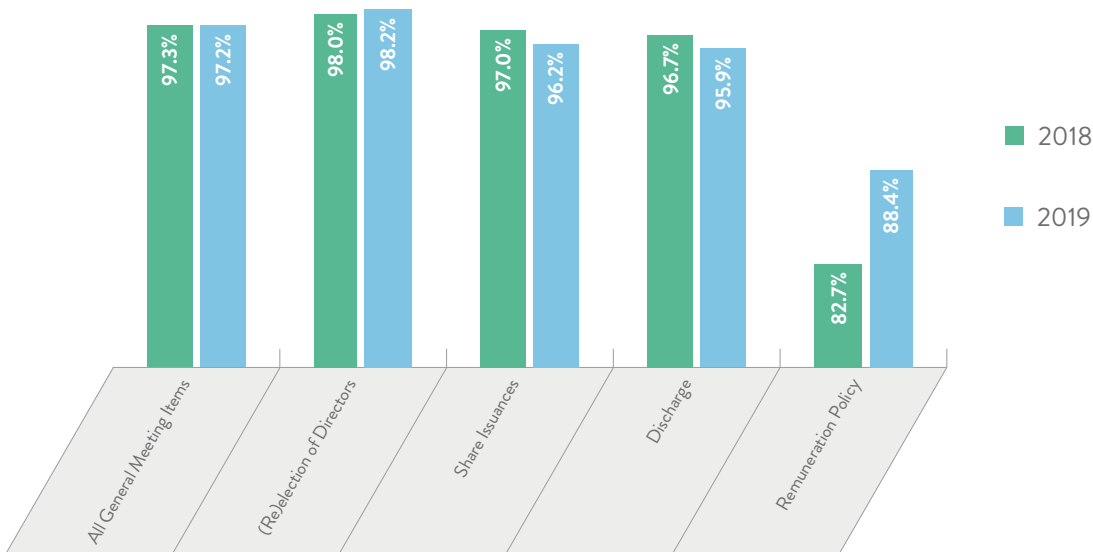
The seemingly tranquil, steady increase in participation and voting support figures mask a reality of a growing number of outlier controversies in the Dutch market. According to Dutch association Eumedion’s review of the 2019 AGM season, 14 Board resolutions were voted down or withdrawn across all Dutch issuers, marking a dramatic increase from the five such cases in 2018 and eight in 2017.

The shareholder participation at Dutch AGMs is steadily increasing, reaching its highest level to date in 2019, reflecting investors’ interest in participating in General Meetings. Average shareholder support remains stable while the number of withdrawn or rejected proposals is significantly higher than in previous years, totaling 14 resolutions rejected or withdrawn in 2019 versus five in 2018 and eight in 2017.

GENERAL MEETING PARTICIPATION



AVERAGE GENERAL MEETING SUPPORT





DISCHARGE

Failed discharge votes mark one of the most notable events in the market this season. Although seen as having little direct legal consequence, a failed discharge vote serves as a very strong signal that investors are dissatisfied with the performance of the Board. According to discussions with investors in the market, it represents a public ‘pre warning’ before resorting to votes that may have more dramatic consequences such as director elections. As such, a failed discharge vote mainly has an impact on the reputation of the company and its management.

SHAREHOLDER PROPOSALS

In 2019, the only shareholder proposal was submitted by Dutch activist group Follow This, which called on Royal Dutch Shell to set and publish ambitious climate targets aligned with the UN Framework Convention on Climate Change (COP21) agreements. The group of shareholders finally decided to withdraw the proposal, acknowledging the effort already made by the Company and giving Royal Dutch Shell more time to align its strategy with the agreements. In our experience, such cases tend to suggest extensive behind-the-scenes engagement took place, with the company often needing to get its largest shareholders on board to explain why supporting such a proposal is not merited.

Whilst the number of resolutions facing an opposition of more than 20% has declined in 2019 versus 2018, there has been a dramatic growth in the number of resolutions failing to pass or withdrawn before the meeting. According to Eumedion in their season review, this shows the dichotomy between those companies who do and don’t engage effectively with their investors and stakeholders.

GENDER DIVERSITY

Rules of a comply or explain nature promoting gender diversity on Boards have been applied since 2013 (with a target of at least 30% female members). The proportion of women on the Board of Dutch listed companies has slowly but steadily increased. Progress has been made towards more gender diversity especially for non-executive directors. However, in the view of some investors, this was not done sufficiently fast and ahead of the season. Collectively via Eumedion, investors wrote a letter to all companies who had not yet met the target.¹

42%
of newly appointed
directors to the
Boards of AEX25
companies were
women

OUTLOOK

As in other markets, we find that proposals relating to remuneration can be sensitive and at times flare up into public controversy. Average shareholder approval of remuneration policies was 88.4% in 2019. It will remain a prominent issue for Dutch issuers following the implementation of SRDII, with 2020 shaping up to be a pivotal year. While current legislation only requires a vote in the event the remuneration policy is changed, remuneration reports following the implementation of SRDII will have to be submitted to an annual advisory vote with remuneration policy approval at least every four years. Moreover, the Dutch implementation of SRDII will require a qualified majority of 75% to adopt remuneration policy amendments unless the company bylaws set a lower voting majority threshold. Institutional investors and proxy advisors will expect issuers to provide extensive rationales to justify such amendments and will scrutinize the impact on shareholder rights.

1. <http://www.eumedion.nl>

Portugal

Largely dominated by strategic shareholders, Portugal remains a steady market in terms of voting participation and support levels. But beneath the surface of secure majorities, free float investors retain substantial concerns with corporate governance practices at some companies and the status of the implementation of the 2018 IPCG Corporate Governance Code.

2019

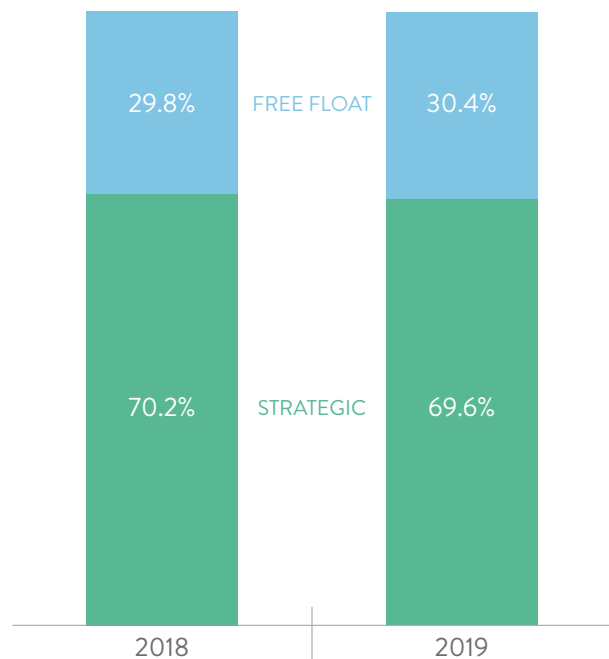
Among PSI20 issuers, average participation remains almost unchanged from 2018 at 71.4%. The average quorum still firmly lies in the hands of strategic shareholders. In 2019, an average of 69.6% of shares voted at PSI20 General Meetings were owned by strategic shareholders (70.2% in 2018).

Accordingly, governance practices that have gradually been abolished in most European markets following pressure from investors, such as bundled director elections, are still maintained by some Portuguese companies with safe majorities in the hands of their strategic owners and without requiring additional support from free float investors.

Surprisingly in this context, 2019 also saw emerging shareholder activism. China Three Gorges had tabled a resolution to remove the voting cap as a condition to their takeover offer of Energia de Portugal (EDP). The proposal failed, with Elliott International actively arguing against the Chinese takeover plans. At Pharol, Highbridge proposed to reduce the Board size and replace four directors to reflect the need for a strategic repositioning following the end of a long-standing legal dispute between Pharol and Oi. The investor withdrew the proposals a week before the General Meeting. Both cases illustrate how traditional governance topics and decisions on corporate strategy can be directly linked.

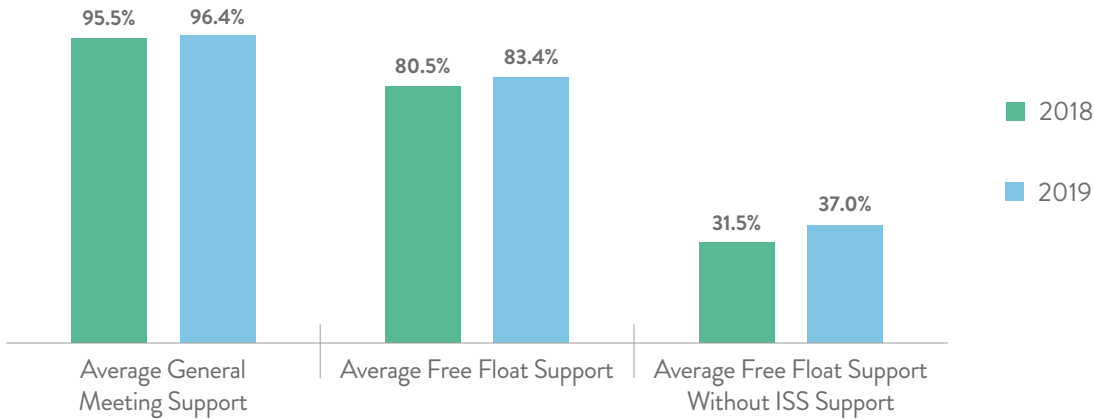
Governance concerns of free float investors are particularly visible when looking at remuneration-related General Meeting items. Although average approval remains well above 90%, free float investors supported remuneration propos-

AVERAGE DISTRIBUTION OF SHARES VOTED AT GENERAL MEETINGS (BY SHAREHOLDER TYPE)



als with only 83.4% on average (2018: 80.5%), dropping to 37.0% in the event of a negative ISS recommendation, and therefore failing to achieve an absolute majority without the support of strategic investors.

COMPARISON OF AVERAGE GENERAL MEETING SUPPORT (2018-2019)



The trend towards higher level of support may indicate the effectiveness of the 2018 Portuguese Institute of Corporate Governance (IPCG) Corporate Governance Code. Among other developments, the code advises companies to:

- improve Board independence: at least half of the Board should be non-executive and at least one-third should be independent;
- consider and promote general diversity and specifically gender diversity among Board members;
- set up a mainly independent nomination committee; and
- report (and vote) annually on remuneration, including an explanation of how the total remuneration paid complies with the adopted remuneration policy, contributes to long-term performance and considers the average remuneration of full-time employees over the previous five years for comparison.

Frequent investor concerns regarding executive pay include:

- lack of disclosure of performance criteria and performance targets; and
- preference for stock option plans over long-term incentives with additional performance metrics.

37% was the average support of free float investors when there was a negative ISS recommendation

OUTLOOK

Remuneration-related recommendations of the Portuguese Corporate Governance Code and common, international practice have yet to be fully adopted by Portuguese issuers in terms of structure and disclosure. Issuers, especially those with a more dispersed ownership structure, should be mindful that Portuguese market practice does not always align with international investor expectations and that Portugal has long been discovered as a potential market for activism.

With the additional requirements expected from the implementation of the SRDII, we expect international investors to be more rigorous in applying similar voting policies across Europe. Proactive engagement with major institutional investors can provide Portuguese issuers with a platform to explain the longer path to meet expectations, compared to jurisdictions that have a history of governance frameworks with a starting point more similar to SRDII requirements.

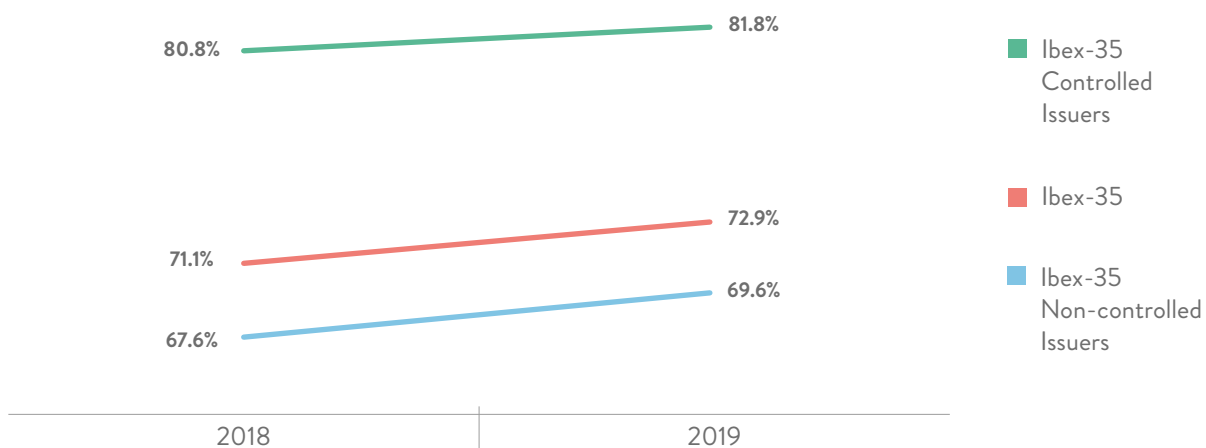
Spain

Although several General Meetings in 2019 have had controversial outcomes and the overall trends for Ibex-35¹ issuers are stable, General Meeting participation increased slightly from last year, whilst shareholder support decreased. 3.0% of voting items received less than 70% of shareholder support (1.8% in 2018), with five items receiving less than 60% (three in 2018).

PARTICIPATION

Ibex-35 average quorum in 2019 has notched up slightly from the previous proxy season: 72.9% of the share capital from 71.1% in 2018. Quorums grew on average among both issuers with a shareholder controlling more than 50% of the share capital (81.83% versus 80.77% in 2018) and among non-controlled issuers (69.65% versus 67.61% in 2018).

IBEX-35: AVERAGE QUORUM

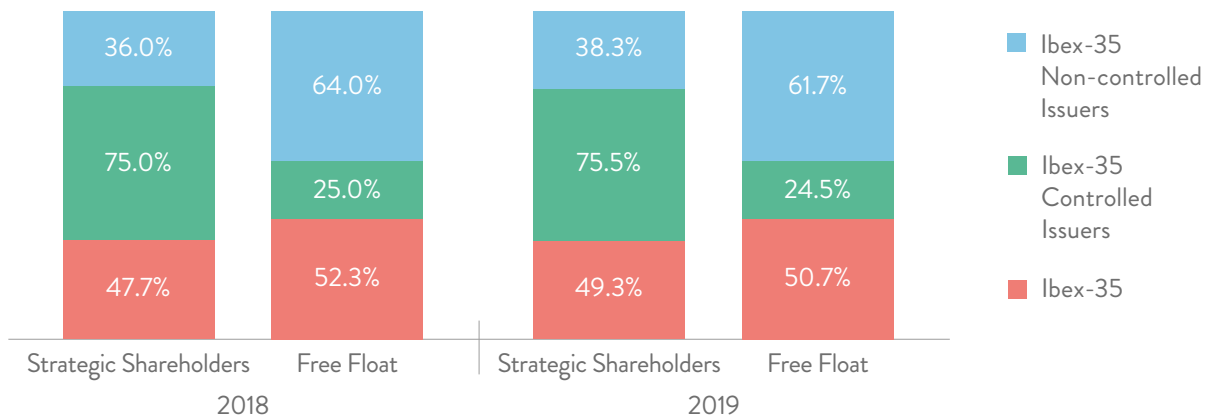


The overall quorum increase is explained by higher stakes controlled by strategic, long-term oriented shareholders, whose interest in the company is not only financial and who remain active at AGMs due to their involvement with management teams and Boards. In 2019, 35.9% of share capital at Ibex-35 issuers was controlled by strategic shareholders on average (34.0% in 2018), which implied that 49.3% of the average quorum was in their hands (47.8% in 2018). This means that their average weight in AGM decisions is almost equal to that of the free float investors.

The decrease in shares held by free float investors (64.1% in 2019 versus 66.1% in 2018) was accompanied by an increase in free float participation, casting 57.7% of the held votes in 2019 (56.2% in 2018). Consequently, overall free float participation increased in the 2019 proxy season.

1. In this study, ArcelorMittal has been excluded from the Ibex-35 constituents due to the nature of its corporate governance and shareholder meetings, which do not resemble Spanish forms.

COMPARISON OF AVERAGE GENERAL MEETING SUPPORT (2018-2019)



TYPES AND FREQUENCY OF AGENDA ITEMS

CATEGORY	2019	2018
1. Board	31.51% =	30.20%
2. Accounts	26.76% =	21.52%
3. Remunerations	15.14% =	16.64%
4. Capital	7.92% =	9.40%
5. Approval of resolutions	6.69% ↑	6.87%
6. Auditors	4.05% ↑	3.44%
7. Non-voting informative items	3.52% ↑	2.35%
8. Bylaws and regulations	3.17% ↓	7.59%
9. Others	1.06% =	1.27%
10. Corporate operations	0.18% =	0.72%

While Board-related topics still represent the highest number of items in 2019, with 31.0% of all agenda items in 2019 (30.2% in 2018), the meaningful growth of the weight of accounting-related items is due to the introduction of the separate vote of non-financial reporting in 2019 as per Law 11/2018.

■ Higher than in 2018 ↑ Higher ranking than in 2018
■ Lower than in 2018 ↓ Lower ranking than in 2018
 = Same as in 2018

It should be noted that in 2019, there was only one (non-contentious) voting item submitted by shareholders, while there were two shareholder items resulting in a proxy fight in the 2018 proxy season.

VOTING RESULTS

Average General Meeting support in Ibx-35 AGMS decreased in 2019 to 95.7% compared to 96.2% in 2018. This downturn is mostly driven by the following types of agenda items:

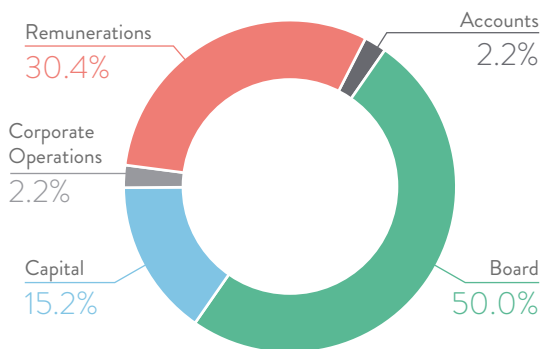
- **Elections:** while average support of Board elections in 2019 reached 94.0% (95.7% in 2018), certain resolutions attracted higher levels of opposition:
 - (i) elections creating less-independent Boards received an average support of 70.43% of cast votes, with a minimum of only 51%; and
 - (ii) elections of combined Chair/CEOs received an average support of 83.21%.

- **Remuneration:** while remuneration-related items received an average support in 2019 of 90.7% (91.2% in 2018), a more granular analysis reveals that:
 - (i) remuneration reports received an average support of 87.2%, including one proposal that received less than 60% of support. The most common shortcomings pointed out by shareholders and proxy advisers were the misalignment of executive pay and company performance, excessive termination arrangements for executives, lack of sufficient disclosure, and the abnormal vesting of variable awards.

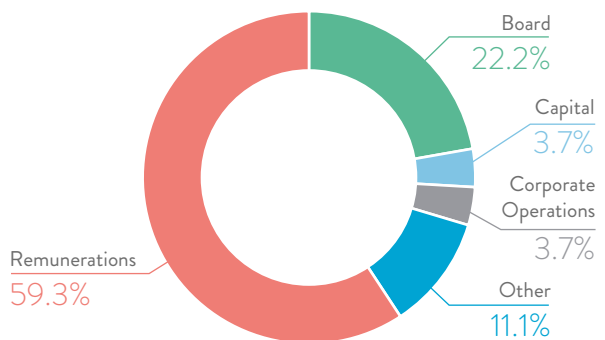
- (ii) remuneration policy items received an average support of 91.8%, with the lowest support at 65%. The most frequent source of discontent among shareholders was that of discretionary decisions resulting in excessive pay-outs, high contributions to executives' retirement plans and companies not reducing executives' termination arrangements to be within investors' expectations.
 - (iii) long-term incentive plans received an average support of 89.45% and minimum support of 65%. The most common reasons for dissent were amendments of award caps for variable remuneration and lack of transparency for vesting requirements.
-
- **Capital:** whilst the average approval of capital items remained virtually unchanged this year at 94.6% (94.6% in 2018), some items attracted considerable opposition. Authorising equity for convertible debt was particularly controversial. In fact, when pre-emptive rights were waived above 10% of the share capital, average support was only 79.8%, but when rights' exclusion was capped at or below 10%, average support increased to 93.4% of the quorum.

Elections, remuneration and capital-related proposals comprised the bulk of the unfavorable recommendations issued by global proxy advisers ISS and Glass Lewis, attracting 95.7% and 85.2% of the negative voting recommendations, respectively.

ISS NEGATIVE VOTING RECOMMENDATIONS



GL NEGATIVE VOTING RECOMMENDATIONS



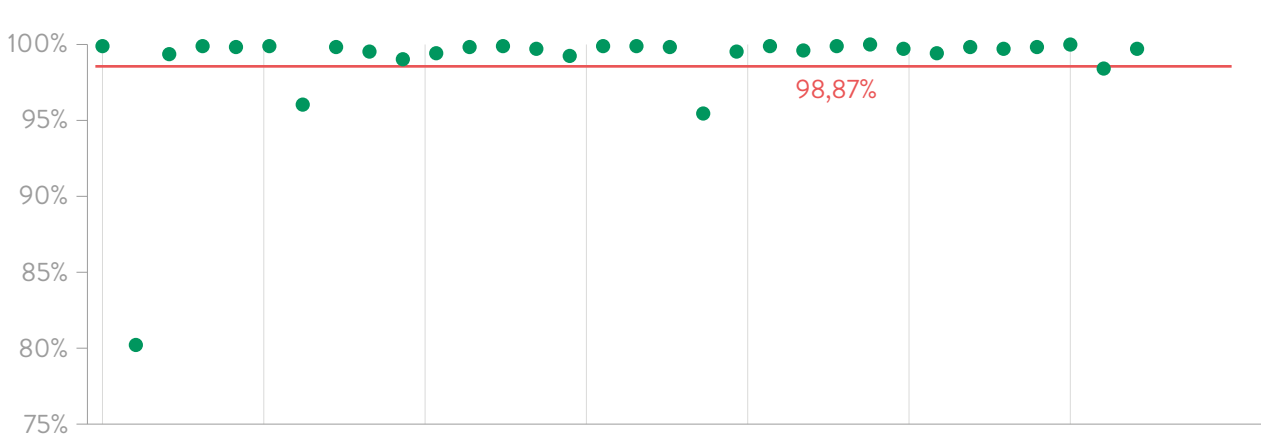
OUTLOOK

One of the main new developments in Spain this year was Law 11/2018 from December 28, 2018. This piece of legislation imposed various additional requirements around reporting of non-financial information, the key features being that:

- non-financial reports should be annually submitted to a shareholder vote at AGMs under an individual binding item;
- international standards (e.g., GRI, EMAS, etc.) are accepted reporting models;
- certain information and themes should be included, such as:
 - the business model;
 - environmental information;
 - measures relating to employees, including social and economic data;
 - measures to respect human rights;
 - measures to fight corruption and bribery; and
 - current CSR policies of the company; and
- the information should be ratified by an external auditor to verify that the non-financial information has been reported as stipulated and the auditors' report should be made public.

Average shareholder support for this voting item was high. For the 32 issuers that, according to the regulation, did have to table non-financial reporting, support was as follows:

SHAREHOLDER SUPPORT TO NON-FINANCIAL REPORTING



While 2019 was the first proxy season where this vote was implemented and, as such, was perhaps marked by a more cautious investor approach, we are already observing some investor criticism around the scope of these reports, specifically when the information was not complete for all the markets where the company is operating.

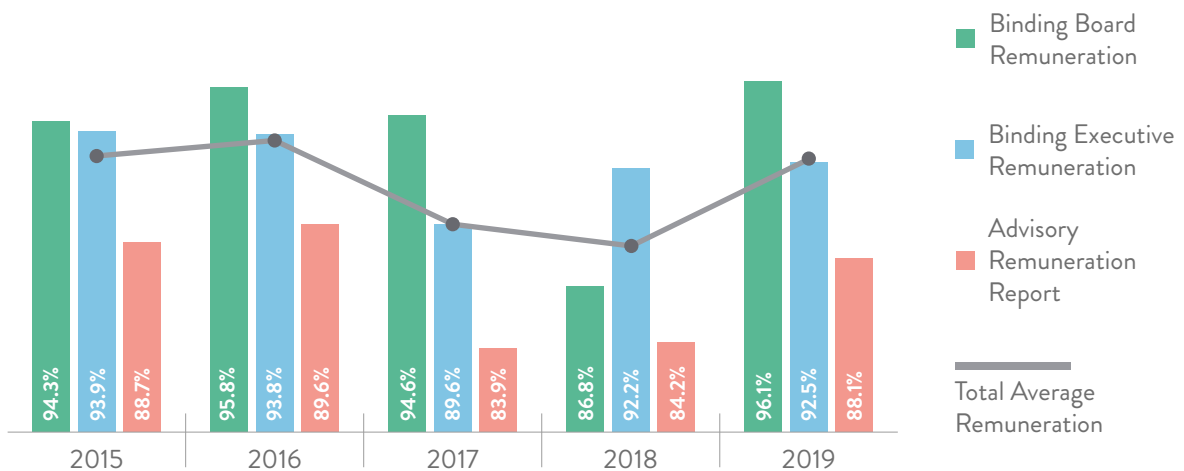
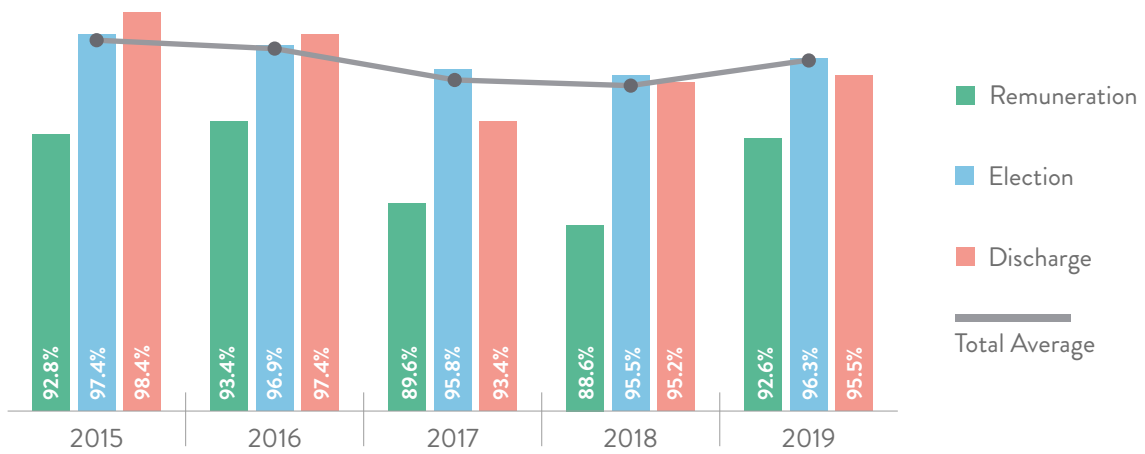
However, considering the novelty of this type of reporting and its inclusion as a voting item, we observe that both proxy advisers and shareholders are open to engaging on reporting approaches.

31
resolutions to approve
non-financial reports
reached over 95%
approval

Switzerland

When it comes to voting outcomes, 2019 was a good year for the average SMI issuer. Although for the first time in five years a Board-related management proposal failed without dissident-shareholder involvement, overall participation, average approval and support for executive remuneration proposals markedly improved year-on-year.

RESULTS



Contrary to other markets, the increase in free float participation in Switzerland went hand-in-hand with higher average support. Arguably, Swiss issuers are better aligned with minority investor expectations than their European peers following a steep learning curve when binding remuneration proposals were introduced in 2014. Eleven of today's 20 SMI issuers – 55% – have had a remuneration-related resolution with less than 80% approval since 2015. Average support of remuneration reports fell well below 85% in 2017 and 2018. This year, the average recovered by almost 4% to 88.1%.

Even so, remuneration reports remain on average the most controversial voting item. Frequent investor concerns focus on disclosure including (prospective) targets, individual executive remuneration disclosure as well as missing narrative on changes in target or maximum compensation amounts.

Other proposal types are largely uncontroversial from a Swiss perspective. Board-related agenda items may have received less support on average than other proposals but were mostly driven by Board or committee independence concerns at companies with significant strategic holders. In 2019, 16 proposals at seven issuers received less than 80% support. Ten of these proposals related to elections and were put forward by two companies with strategic holders of at least 30% share capital.

Considering issuers with at least 70% free float, the picture is more diverse. Other than remuneration, investors took issue with the election of a director with comparatively low attendance throughout FY2018, a long-tenured auditor and Board discharge in the context of a significant potential fine to the company from ongoing litigation. All these concerns are related to one-off events, rather than reflections of a general misalignment between international investor expectations and Swiss issuers. Interestingly, in two of these three cases, ISS recommended in favor of the management proposal, while in 2018 all items with less than 80% support were facing a negative ISS recommendation. Simultaneously, average approval despite a negative ISS recommendation increased by 5%, from 76.3% in 2018 to 81.3% in 2019, with free float support soaring from 44.5% to 53.9%, respectively.

This indicates a stronger individualization of investor preferences and equally shows that the renunciation of one-size-fits-all approach cuts both ways, bringing:

- increased scope for issuers to convince even free float investors of their proposals regardless of proxy advisor policies; but also
- additional uncertainty that a positive proxy advisor recommendation is not enough to ensure a positive result.

>50% of the free float investor vote supported management proposals despite a negative ISS recommendation, a record high

OUTLOOK

The harmonization of remuneration rules in the EU from 2020 ought to come as a great relief to international investors but could simultaneously pose a risk to Swiss issuers if shareholders adjust their policies and expectations to the new European standard.

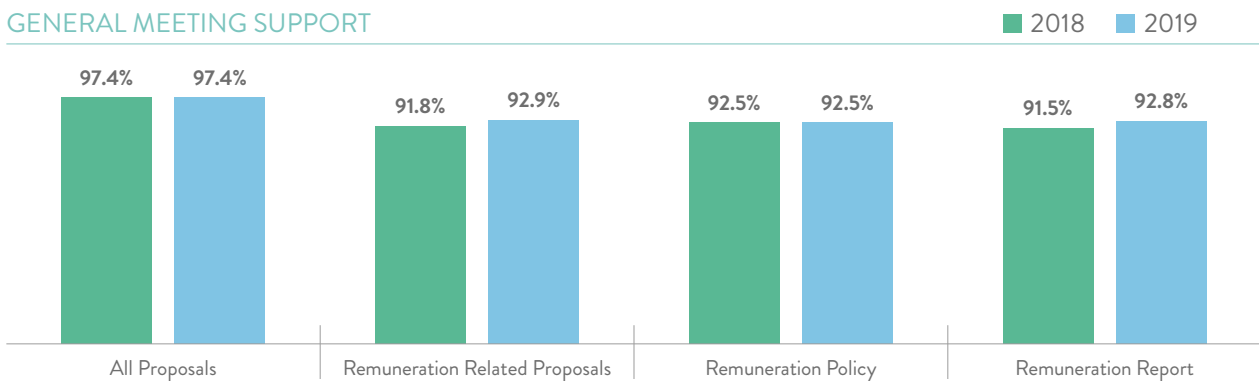
Swiss issuers are generally mindful of the discrepancies between Swiss and EU practices. Additional engagement on certain aspects may however become advisable, for example, in the event of:

- SRDII disclosure that goes beyond standards in Swiss remuneration reports, such as comparison between management and employee pay, individual executive remuneration disclosure as well as specification of potential awards outside of the standard remuneration policy;
- differences in local market terminology that may be less clear for international investors, such as the Swiss remuneration report. This typically includes the remuneration policy, while EU issuers have separate votes on policy and report, with the latter focusing on remuneration decisions over the previous fiscal year.

United Kingdom

The AGM season in the UK this year, albeit broadly displaying similar or higher levels of support to last year's, was nonetheless marked by high profile protests by shareholders in a handful of companies, mainly around issues to do with remuneration.

GENERAL MEETING SUPPORT



Overall, the level of approval of resolutions at FTSE100 annual meetings was stable compared to 2018. However, as the dust has settled on the voting season, there are several topics worth noting.

PENSIONS CONTRIBUTIONS

When it comes to issues around remuneration, executive pension arrangements have been the one topic generating the most vocal level of controversy with shareholders. Ahead of the season in February 2019, the Investment Association (IA) marked its battle lines when it announced that its corporate governance research service, IVIS, will 'red top' companies who pay newly-appointed directors' pension contributions that are out of step with most of their employees, and issue a warning level of 'amber top' to any company where any existing directors receive a pension contribution of 25% of salary or more.

These specific guidelines were on trend with statements issued pre-season by several investors and indeed by updated provisions contained within the revised 2018 Corporate Governance Code, which requires that companies effectively aim for parity between the pension contributions of directors and the workforce. As many UK issuers are set to renew their remuneration policies in 2020, reviewing pension policies will become a major consideration for FTSE100 remuneration committees.

INVESTMENT ASSOCIATION PUBLIC REGISTER OF CONTROVERSIAL RESOLUTIONS

The Public Register operated by the IA is, at least for now, a unique feature of the UK system. It allows public tracking of shareholder dissent at listed companies by noting all companies faced with 20% or more opposition by shareholders to any meeting resolution. To add further weight to the consequences of becoming registered, the revised UK Corporate Governance Code requires these companies to issue an update statement within six months of the shareholder meeting.

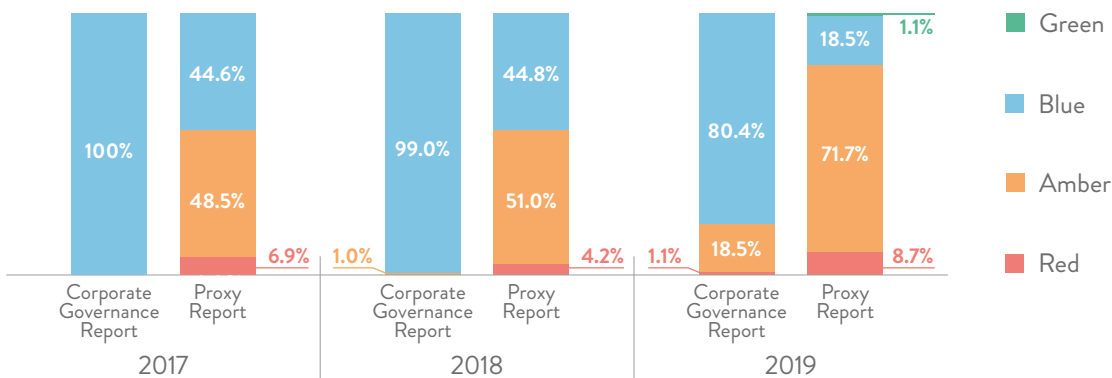
Whilst the reputational implications are somewhat diluted so far, as there are currently many companies on the Register, the requirement to issue an update statement will put companies in a position with potentially disruptive consequences. Moreover, the opposition vote is not only monitored for remuneration-related resolutions. In fact, it is opposition to individual director re-elections where we have seen a notable increase in resolutions on the register, up from 66 in 2017 to 105 in 2018.

The Investment Association published guidance for companies on update statements. Speaking with investors, we understand that the next phase could be deeper scrutiny of update

statements. We therefore recommend that companies carefully consider their approach to address a Register listing and their update statement. We expect investors to pay close attention to the language and level of detail used to differentiate between those companies making a serious attempt to address investors' concerns by providing descriptions of engagement activity and

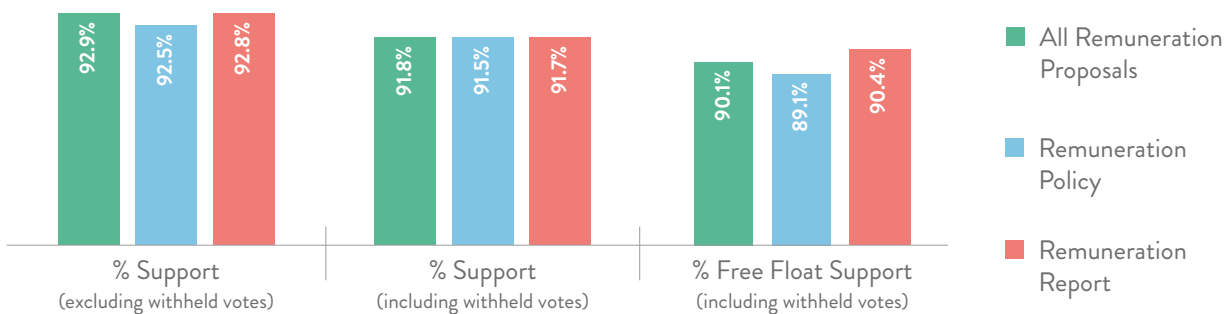
actions taken, from those companies resorting to boilerplate expressions that are merely meant to satisfy formal requirements. Finally, we expect investors to focus on those companies appearing on the Repeated Dissent list, with potential voting implications. This list of 44 companies captures issuers appearing on the Register for two consecutive years for the same resolution.

IVIS ASSESSMENT OF PROXY REPORTS AND CORPORATE GOVERNANCE REPORTS

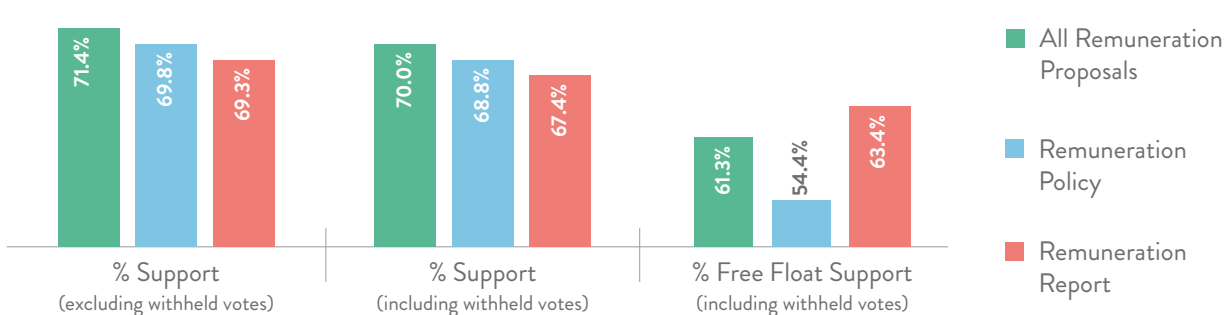


The most notable trend is the growing proportion of 'amber top' proxy reports in 2019 at 71.7% (based on data to end of August), up from 51.0% last year. This reflects a heightened level of concern from the Investment Association in general but, from a company perspective, perhaps more uncertainty as to the voting implications.

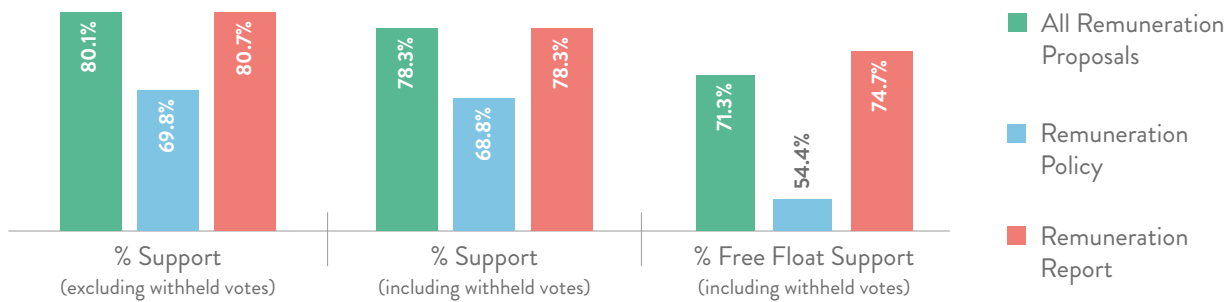
GENERAL MEETING SUPPORT 2019: REMUNERATION



GENERAL MEETING SUPPORT 2019: REMUNERATION PROPOSALS WITHOUT ISS SUPPORT



GENERAL MEETING SUPPORT 2019: REMUNERATION PROPOSALS WITHOUT GLASS LEWIS SUPPORT



OUTLOOK

Given the timing of the introduction of the UK remuneration policy vote and the three-year renewal cycle applicable to the majority of companies, it is expected that many will be submitting a new remuneration policy to vote in their upcoming 2020 AGM.

Engagement to secure strong shareholder support

Company attention will no doubt be on ensuring attainment of a comfortable majority, a crucial requirement given the binding vote on policy. This typically necessitates pre-design outreach to the top shareholders to consult on anticipated key changes. At that stage, it is important that the engagement is led by the remuneration committee. We believe that already over 30 FTSE350 companies have commenced the first round of consultations with their largest shareholders. At the same time, as shown by the outcomes of the 2019 season, companies can hardly neglect the broader range of investors, with the risk of opposition approaching or exceeding 20%.

Implementation of the revised corporate governance code

The coming year will be the first in which UK-listed companies apply provisions of the 2018 Corporate Governance Code. Some companies have chosen to adopt provisions early, but compulsory adoption applies to accounting year beginning on January 1, 2019 or later. This coincides with new regulations mandating pay ratio disclosure and reporting on how directors take employee and other stakeholder interests into account.

Whilst going into the technical details of the various disclosure pieces is highly important, and no doubt will occupy

company secretaries' minds, the complexity of it means that it will necessitate internally bringing together several teams within the company. Externally, considering shareholder engagement, the issues will also become more complex, as companies will need to triangulate the shareholder perspective with that of other stakeholders, mainly employees, and finally with broader reputational considerations.

Approach to investor engagement

Broadly speaking, UK companies have several years of experience in engaging with their largest shareholders. Most issuers routinely reach beyond the regular fund management teams and contact the governance teams at their major shareholders. However, so far this has centered mainly around remuneration. Going forward, as discussed above, other issues are expected to rise in importance to shareholders who wish to streamline remuneration engagement and concentrate on more fundamental topics. Issues such as the composition and effectiveness of the Board as well as a growing range of ESG topics, for example a poor record of gender diversity or unsatisfactory climate change disclosure may culminate in negative votes from unmet investor expectation. Additionally, the need to push up levels of consensus means that engaging with a wider circle of shareholders will become less of a luxury and more of a necessity to mitigate the risk of being involved in a controversial vote.

COMPANY OVERVIEW

Morrow Sodali is a leading provider of **strategic advice and shareholder services to corporate clients around the world**. The firm provides corporate boards and executives with strategic advice and services relating to corporate governance, shareholder and bondholder communication and engagement, capital markets intelligence, proxy solicitation, shareholder activism and mergers and acquisitions.

From headquarters in New York and London, and offices and partners in major capital markets, **Morrow Sodali** serves **more than 700 corporate clients in 40 countries**, including many of the world’s largest multinational corporations. In addition to listed and private companies, its clients include mutual funds, ETFs, stock exchanges and membership associations.

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