Webinar

2023 European Proxy Voting Guideline Update

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Introductions

Silvia Gatti | Director of Research – Central & Eastern Europe
  • Joined Glass Lewis in 2015
  • Oversees teams and product and policy developments in the region

Irene Bucelli | Lead Research Analyst – France
  • Joined Glass Lewis in 2017
  • Has primary responsibility for research and engagement in France

Jan Jonasson | Senior Research Analyst – Nordics
  • Joined Glass Lewis in 2018
  • Leads Glass Lewis’ research and engagement in the Nordics (Denmark, Finland, Iceland, Norway and Sweden)

Ester Ballabio | Research Analyst – Ireland & UK
  • Joined Glass Lewis in 2020
  • Contributes to Glass Lewis' research and engagement in UK & Ireland
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• For public companies, our Governance Hub provides easy access to tools and resources, including Glass Lewis research and thought leadership, to help companies optimize their corporate governance programs and ESG strategies.

Contact your Glass Lewis representative to discuss further or email our teams at:
grow@glasslewis.com (institutional investors) | engage@glasslewis.com (public companies)
Agenda

Housekeeping

• The webinar will be available on demand through your registration link
• Colleagues can still sign up and view on-demand via our website (or you can forward them a link)
• We will send out a copy of the slide deck in a follow-up email
• Guidelines Update documents will also be circulated
• View additional webinars at www.glasslewis.com/webinars
  • North America webinar happened yesterday

Agenda

• GL Policy Guidelines
• Continental Europe & UK Updates
• Continental Europe Updates
• UK-Specific Updates
• CE Regional Highlights
• Q&A
GL Policy Guidelines

• Continental Europe policy applicability - 2 complementary sets of guidelines:
  • Continental Europe: basic principles and general approach to main areas of analysis
  • Market-specific: market-specific issues, local regulations and best practice codes

• Independent sets of guidelines:
  • UK, Russia, Turkey

• Additionally: ESG Initiatives (US focus, but global span)

• Annual update to each set of guidelines (September – November)
  ➢ Global policy discussions, input from advisory council (RAC)
  ➢ Regional policy updates and EU regulations/recommendations
  ➢ Local legal updates and market practice developments

• All sets published on GL Website in November – December
  • Remaining regions in January; off-cycle markets later in the year
CONTINENTAL EUROPE & UK COMMON UPDATES
External Commitments (Policy Change)

• Limit remains at 5 public board positions for non-executive directors (6 considered excessive).
  • However we will consider overboarded:
    o Executive officers (C-suite) who have more than 1 external board position
    o “Full-time” or “executive” board members (e.g. “executive chair”) who have more than 2 external board positions
      ➢ Non-executive chair at European board: counts as 2 positions
      ➢ Non-executive chair at North American board: counts as 1 position

• Policy Application
  • GL will generally not recommend against overboarded directors in the company where they hold their “primary” position (e.g. executive role or board chair role)
    o Exceptions (e.g. initial election as board chair; competing board chair positions)
  • Positions on boards of consolidated group in related industries generally counted as 1
  • Generally no exceptions solely based on attendance

➢ Underlying rationale: enough time availability during crisis
Combined Incentive Plans (Clarifying Amendment)

- Combined plans, also known as omnibus plan
  - Key features
    - 1-year performance period
    - Large portion of the awards deferred with underpins
- We generally prefer structure with separate STI + LTI plans
- Essential criteria to support omnibus plans
  - Minimum vesting period of 3 years (ideally additional holding period of 1 or 2 years)
  - Award at least partially in form of restricted equity
  - Quantitative underpins/gateway conditions on deferred portion
- If a company is seeking approval of shift to omnibus plan from STI+LTI structure
  - We expect a significant cut of the quantum (i.e. target and maximum variable pay opportunity), proportional to the reduction of risk-exposed portion of award
Linking Executive Pay to E&S Criteria (Clarifying Amendment)

- Expanded existing guidelines section on E&S metrics
- Following SRD II, most large- and mid-cap companies in Europe now have E&S metrics
  - For companies that still do not feature any E&S metrics in the executive remuneration structure, we expect additional disclosure to explain if and how their executive incentive system is linked to the company's sustainability strategy
    - SRD II: "The remuneration policy should contribute to the business strategy, long-term interests and sustainability of the company [...] Directors’ performance should be assessed using both financial and non-financial performance criteria, including, where appropriate, environmental, social and governance factors."
Remuneration Committee Discretion (Clarifying Amendment)

- Expanded existing section on use of discretion by the remuneration committee

- Clarified that we expect boards to apply discretion to account for material events that significantly impacted shareholders/stakeholders but would otherwise not be considered in incentive plans

  - Explicit examples include:
    - Litigation charges should not be excluded from non-GAAP metric used in plan
    - Health & safety failings (e.g. significant deterioration in accident/fatality rates)
Cyber Risk Oversight (Clarifying Amendment)

- Companies should provide clear disclosure on board's role in overseeing issues related to cybersecurity
- Companies should provide information on how they are ensuring that directors are fully versed on the topic
- Currently no specific policy in place
  - However, there is scope to escalate on a case-by-case basis where a cyber-attack has caused significant harm to shareholders.
Directors Accountability for Climate Issues (Policy Change)

• Applies to "companies with increased risk exposure"
  • Climate Action 100+
  • Others on case-by-case

• We expect:
  • Clear disclosure on risks, mitigating actions and board oversight of ESG; and
  • Disclosure in line with the recommendations of the Task force on Climate Related Disclosure ("TCFD").

• Accountability:
  • Chair of committee overseeing climate-related issues
  • Chair of Governance Committee
  • Other relevant directors (particularly for classified boards)
  • Other relevant proposals (e.g. ratification, accounts and reports)
CONTINENTAL EUROPE-ONLY UPDATES
Multi-Class Share Structures (Policy Change)

• Adoption of Multi-Class Share Structure:
  • Glass Lewis will generally recommend voting against if share class with superior voting rights is unlisted.
    o Unless:
      □ The board has committed to submitting the share structure to a shareholder vote; or
      □ The board has provided for a sunset period of the multi-class share structure (generally seven years or less).
  • Accountability:
    o Governance Committee chair or equivalent
    o Representative of major shareholder; or
    o Other relevant proposals if necessary.

• Companies with an Existing Multi-Class Share Structure:
  • Long standing feature of European capital markets.
  • We will generally not recommend shareholders take actions, based on the existence of an established multi-class share structure alone.
    o Unless a company with multi-class share structure, where the superior voting rights are unlisted, shows:
      □ Evidence of unresponsiveness to minority shareholder concerns; or
      □ Poor governance practices relative to peers.
  • Accountability:
    o Governance committee chair of equivalent.

• Proposals to Unwind Multi-Class Share Structures
  • Glass Lewis will generally recommend voting in favour of recapitalization proposals to eliminate multi-class share structures.
    o We will take into consideration impact on all equity holders and financial compensation being offered to holders of shares with superior voting rights.
Disclosure of AGM Vote Results (Policy Change)

• Access to breakdown of vote results an important tool for shareholders in conducting stewardship duties
  • Can help in gaining better understanding of outcomes of general meetings, establishing engagement priorities and in tracking companies’ response to material shareholder dissent

• Disclosure of vote results a listing regulation mandate in some European countries
  • A growing market practice in other countries where disclosure is currently voluntary

• If vote results are not disclosed:
  • Companies listed on major European blue-chip/mid-cap index:
    o Against Governance Committee chair or equivalent (i.e. board chair or Lead independent director)
  • All other companies:
    o Mindful note in analysis of the composition of the board

• **Policy to be applied from 2024 AGMs (i.e. expect disclosure of results from 2023 AGM)**
• Companies should provide clear and individualised disclosure of executives’ annual pension contributions

• Glass Lewis will generally consider pension contributions as *fixed* pay elements when assessing the appropriateness of pay mix and proportion of “at-risk” compensation
Capital Management (Clarifying Amendment)

• Clarified when we may apply exceptions to our policy on general authorities to issue shares or convertible debt in excess of the limits outlined in our guidelines

• Case-by-case basis for:
  • Companies with clear and defined inorganic growth strategy;
  • Companies in pre-revenue stage and highly dependent on external financing.

• Incumbent on company to provide clear disclosure on strategic rationale
UK-SPECIFIC AMENDMENTS
Share Issuance Authorities

Reflecting update to Statement of Principles of the Pre-emption Group:

• Increased limit for general authorities to issue shares, subject to certain disclosure recommendations:
  • Without pre-emptive rights: 5% → 10%
  • Without pre-emptive rights in connection with an acquisition or specified capital investment: 5% → 10%

• Additional 2% leeway on each authority limited to a follow-on offer intended to involve retail and other investors otherwise excluded from the issuance
Clarifying Amendments

• Pension Provisions for Executive Directors
  • Expect both newly appointed and incumbent executives' pensions to be in line with the wider workforce by the end of 2022
  • May recommend shareholders vote against a company’s remuneration policy, absent a cogent rationale

• Employee Representatives
  • Clarified our interpretation of an employee representative serving on the board of directors
  • Clarified that employee representatives are not included for the purposes of calculating board independence
CE REGIONAL HIGHLIGHTS
CE Regional Highlights (not exhaustive list)

- Clarifications around termination provisions (FRA, DEU, BEL, NLD, ESP)
  - No new LTI grants in last year of service after termination is planned (FRA)
  - Pro-rating of outstanding LTIs, rather than full vesting (BEL, DEU, ESP, FRA, NLD)
  - Exclusion of at-target LTIs in calculation of severance cap (BEL, DEU)

- Capital band (CHE)
  - From +50% authorised capital pools for 2 years to +/-50% band for 5 years

- Virtual meetings (DEU, CHE)
  - Focus on disclosure of shareholders’ participation rights and terms thereof

- Disclosure of candidates (POL)
  - Improved requirement of 3 days before AGM insufficient
  - Gender diversity quota (ESP)
  - Quota increased to 40% based on local CG Code recommendation
Q&A

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What’s Next at Glass Lewis

- **Integration with French voting advisory agency Proxinvest**
- **Engagement with Issuers and Investors:** 2022-2023 Engagement Season underway, expect 1,000 meetings globally; request different types of engagements on our updated webpage
- **Season Preview:** Webinar in February/March 2023
- **Glass Lewis ESG Profile Page (Proxy Paper):** Expanding coverage universe in 2023
- Reports are bolstered by information from Sustainalytics, Diligent, SASB, BitSight, ESG Book
- **Active Ownership Engagement Solution and Letter Writing Campaigns:** Building dialogue and tracking developments on specific topics from GL research and policy; updated reports coming soon for subscribers.
- **Engagement Management Platform:** Manage engagements by recording information, tracking progress, reporting outcomes, etc.

Contact your Glass Lewis representative to discuss further or email our teams at:

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