S&P Global
Market Intelligence

2022 European Corporate Governance Season Review

Contents

Methodology

This review looks at AGM-related data of the seven European markets ("EMEA Markets") and their domestic indices as indicated:

- **Germany:** DAX 40 & MDAX 50
- **Austria:** ATX 20
- **Switzerland:** SMI & SMIM
- **France:** SBF 120
- **United Kingdom:** FTSE 100
- **Spain:** IBEX 35
- **Belgium:** BEL 20

For each market, our sample consists of data from AGMs that occurred between 1 January to 30 June for the two seasons (2021 and 2022) under examination. We have chosen to exclude data from AGMs of companies headquartered in foreign regions. "**Support**" in this review holds a universal meaning in each chapter. It refers to the % of FOR votes as disclosed by each company through public disclosure. However, where this information was not possible to ascertain due to a lack of disclosure, such as in cases where the company only provided the number of shares voted for each item, we would calculate this manually by following the formulations specified below:

Market	Formula for Support Rate
Germany	For/(For+Against)
Austria	For/(For+Against)
Switzerland	For/(For+Against)
France	For/(For+Against+Abstain)
United Kingdom	For/(For+Against+Abstain)
Spain	For/(For+Against+Abstain)
Belgium	For/(For+Against+Abstain)

Introduction

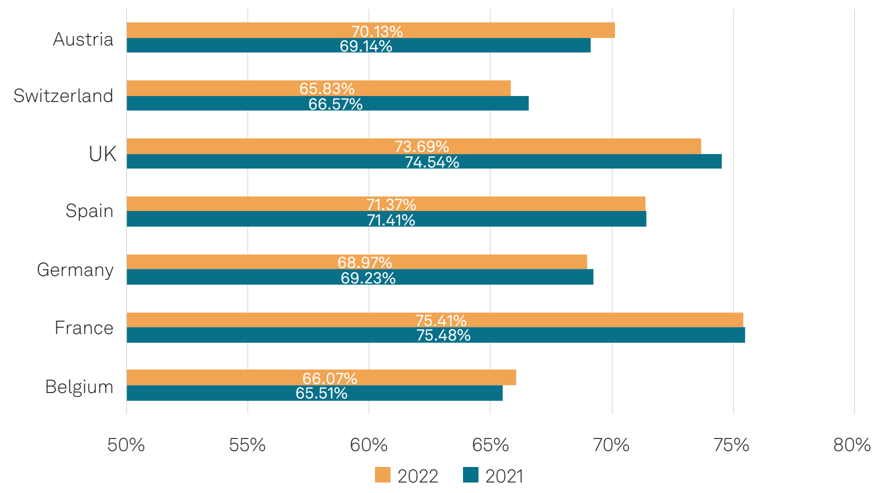
"Normalcy" is difficult to define at a time when the impact of the COVID-19 pandemic is, in some ways, still felt by corporations and society at large. During early phases of the pandemic, market practitioners pondered if the pertaining market regulatory changes would withstand the interim period or if another mass wave of COVID-19 would result in a subsequent market crash. But now, more than two years since the first lockdown in Europe, we have identified patterns that indicate a return to normalcy within the capital markets.

In producing this report, we noticed year-on-year average AGM vote results have followed a stable pattern. This is indicative of a newfound normalcy, where the residual effects of the pandemic are slowly fading and market participants have acclimatised to changed environments. Each market chapter explores familiar and emerging trends within the EMEA markets, reflecting a shift in priorities and attitudes in the post-pandemic era.

> "How the Return to Normalcy Impacted Voting Trends in 7 Markets "

The 2022 AGM season was the third to fall within the coronavirus pandemic. Investors and other stakeholders seem to have become accustomed to the virtual meeting format. Important European markets, such as Germany and Spain, have created a permanent legal basis for virtual general meetings that will probably play a dominant role into the future. This development had only a limited impact on voter turnout and voting results, as there were only minor changes compared to the 2021 season in most markets. Virtual general meetings have found acceptance among most issuers and shareholders over the past three years.

EMEA Markets Average AGM Capital Presence



In terms of content, ESG has continued to increase its impact on European AGMs, with the "G" coming more into focus again for investors and companies. The number one governance topic of the past AGM season was executive remuneration. This topic will continue to be of high importance in the years to come and will be viewed more critically by investors and proxy advisors than most other agenda items. This is particularly the case in markets where mandatory annually recurring remuneration votes have only just been introduced by SRD II. However, in markets such as the UK, France or Switzerland, which already have many years of experience with annual remuneration votes, higher approval results can be observed.

Regardless of these differences, one of the biggest criticisms surrounding executive pay is often a lack of transparency. This point is driven especially by institutional investors and proxy advisors, who expect a detailed description of how a company's remuneration system is applied in the respective remuneration report. Given that this link is not always transparently disclosed, investors vote against the compensation report more often than against the associated system.

Investors also commonly note inadequate performance conditions and a lack of correlation between pay and performance as points of criticism; red flags include the design of variable remuneration, discretionary pay components and, in some cases, excessive remuneration. Companies are therefore required to work to establish convincing and transparent remuneration systems and reports, as the expectations of investors will further increase in the coming years.

While say-on-pay has been dominating AGM agendas for years, say-on-climate is a relatively new voting item that has not even reached all European markets so far. But say-on-climate is on the rise: With a total of 30 voting items in four markets (UK, France, Spain and Switzerland) in 2022, the number of resolutions has more than doubled compared to 2021. Climate-related voting items, the reduction of CO2 emissions and environmental issues in general are becoming increasingly important for large investors, meaning that the "E" of ESG has gained huge importance in recent years. However, it remains to be seen whether the global impact of the war in Ukraine will lead to a postponement of some climate targets, as energy security and affordability could become more relevant in order for companies to maintain their operations.

These developments clearly show that the concept of ESG is in motion. Soon, the "S" may even come to the fore given the foreseeable shift towards people and employees. This, in turn, could again fuel the debate about potentially excessive management pay. The full ESG range could also affect board elections as shareholders increasingly tend to vote against the (re)election of directors due a lack of board or committee independence ("G"), insufficient diversity on boards or committees ("S") or based on climate-related or other environmental concerns ("E").

Nevertheless, the main basis for the ESG concept to function is a good corporate governance regime, as that is the prerequisite to meet investors' demands on environmental and social issues. Good governance ensures transparency and accountability, creates business resilience and provides business leadership with license to operate in the service of shaping long-term success. At AGMs, companies have to prove it year after year — and more than ever in these challenging times.

Evdokia Petrakopoulou **Thomas von Oehsen**

Germany

Germany

Capital Presence – The DAX

On 20 September the DAX index went through a major overhaul, expanding from 30 to 40 companies between 2021 and 2022. The index has seen a decreased average capital presence from **66.33%** to **65.89%**. Interestingly, the companies that remained in the DAX had an average loss of **0.63pp** of capital presence, whereas the companies that entered the DAX from MDAX had an average increase of **0.37pp**.

According to the ninth edition of the S&P Global & DIRK study "Who owns the German DAX?" the ownership of institutional investors has fallen by 2.1pp. From experience, decreasing institutional ownership often leads to a decrease in capital presence at AGMs, which may explain the overall decline.

Capital Presence – The MDAX

In conjunction with the change to the DAX, the MDAX decreased by 10 companies between 2021 and 2022. This resulted in an increased average capital presence from **70.28%** to **71.56%**. One possible explanation is that, in addition to the reduction of the index, the attributable investments may have been reallocated, increasing the institutional ownership portion of the MDAX. As outlined above for the DAX, increased institutional investor ownership positively correlates with capital presence at company meetings.

Remuneration-Related Voting

While the 2021 proxy season was marked by the voting on the remuneration policy, in 2022 the attention shifted towards the remuneration report. In 2021, 64 companies had a vote on their remuneration policy, while in 2022 there were only 16 — a **75%** year-on-year decrease.

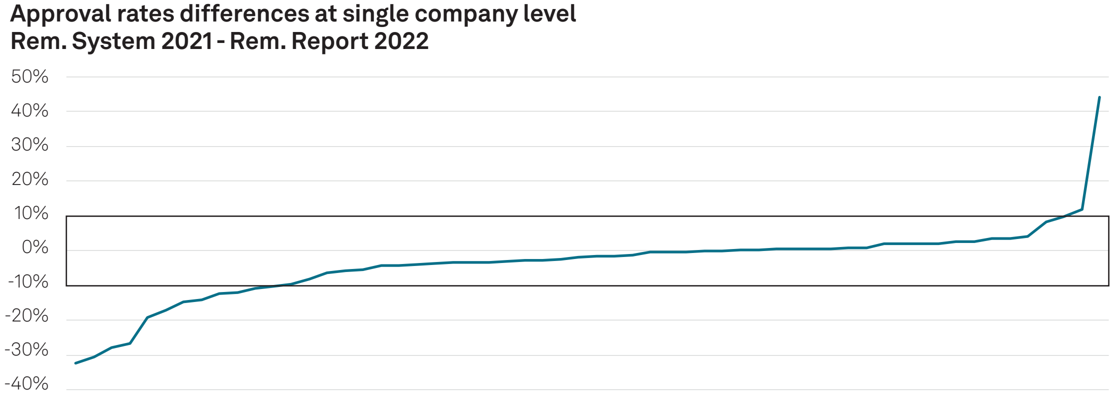
The average support for the remuneration report in the DAX was at **84.01%** and **81.61%** for the MDAX. The remuneration reports that garnered the lowest amount of support received only **24.11%** and **52.63%** in the DAX and MDAX, respectively.

Remuneration Policy 2021 Vs. Remuneration Report 2022

Within our DAX & MDAX sample, 58 companies submitted their remuneration policy for shareholder approval in 2021 and also submitted their 2022 remuneration report for voting.

As the remuneration reports are connected to the remuneration policy approved from previous years, S&P Global has formulated the following question: **Was the voting result on the report better or worse than the voting result of the policy?**

By subtracting the vote results for the policy in 2021 from the vote results for the report in 2022, the results show whether the report received more or less support than the policy voted on in the previous year.



- **20.69%** or 12 companies have a result of less than minus **10pp.**
- **75.86%** or 44 companies remained within **10pp** bandwidth (highlighted in the black framed box).
- **3.45%** or two companies have a result of more than plus **10pp**.

The findings show that, while the system does not automatically determine the fate of the report, there is a strong correlation for three-quarters of cases.

Approval Rates for Remuneration Reports Below the Minimum Thresholds

Some voting guidelines of proxy advisors and investors contain thresholds for the minimum acceptable approval rates before an issuer's response is expected. For example, Glass Lewis applies an 80% threshold, while BVI guidelines expect above 75% support for all remuneration-related items. Investors and proxy advisors may expect a response from the company in an appropriate time frame if the approval rate for any item falls below these thresholds.

With this in mind, S&P Global analysed the data with the following question: **How many companies have crossed these thresholds?**

	<80% approval		<75% approval	
DAX	8	22.22%	6	16.67%
MDAX	16	40.00%	11	27.50%

The data shows that at least six DAX companies (16.67% of our sample) and 11 MDAX companies (27.50% of our sample) are below the aforementioned thresholds. It will be important for these companies to engage with their most significant shareholders to address their concerns and understand their dissent rationales to respond accordingly.

Discharge Voting – Individual vs. Bundled

	% of individual voting			
	DAX		MDAX	
	2022	**2021**	**2022**	**2021**
Management Board	25.71%	13.95%	20.00%	10.20%
Supervisory Board	29.73%	13.64%	25.00%	9.76%

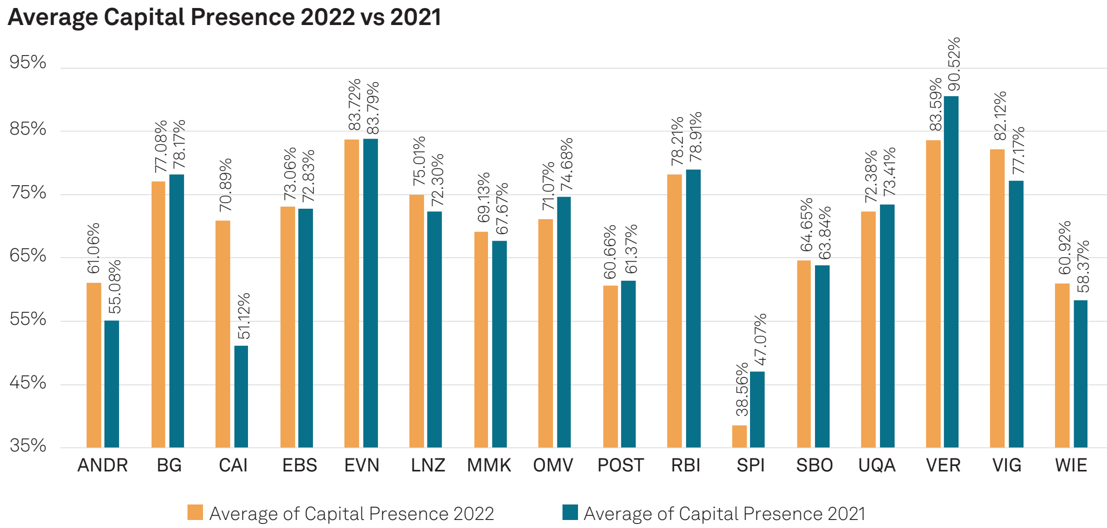
Even though it is considered best practice to submit individual director discharge from liabilities items, it is not a customary market standard to do so. Having analysed the data for 2021 and 2022, we wondered: **Was there any notable development towards singular director discharge from liabilities items?**

Indeed, our findings show that there was a significant increase of individual director discharge items for management boards and supervisory boards members in both the DAX and the MDAX. If this trend continues, pressure may rise and effectively compel companies to individualise the director discharge items.

Austria

Austria

Austrian shareholder meetings in 2022 saw a slight increase in average capital presence compared to 2021. While last year **69.1%** of shareholders on average voted at general meetings, in 2022 **70.0%** cast their votes. A more detailed look at individual meetings shows a notable change in capital presence.



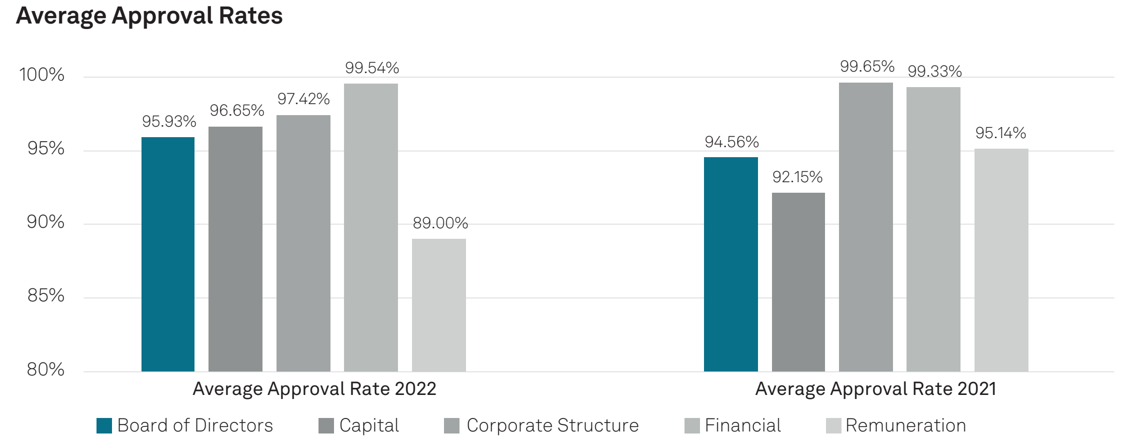
Capital Presence and Austrian Property Players

The above chart shows the average capital presence for each of the issuers covered in our analysis universe compared to the average capital presence at respective shareholder meetings in 2021. Average capital presence moved within a bandwidth of +/- **5pp**, with outliers **CA Immo** (CAI) and **S-Immo** (SPI).

A decade-long takeover battle among the largest Austrian real estate companies came to an end when **Starwood Capital Group** became **CAI's** majority owner in July 2021, currently controlling **61.4%** S/O (shares outstanding). At **CAI's** 2022 AGM, activist investor Petrus Advisers (the largest minority shareholder at the time) raised concerns about "serious corporate governance shortcomings" and submitted two shareholder proposals. These proposals (related to a special audit of undisclosed consulting mandates of former or possibly current Supervisory Board members with **Starwood Capital**) received overwhelming dissent, primarily driven by **Starwood's** votes. **CAI's** increase in capital presence from **51.1%** S/O to **70.9%** S/O (**+19.8pp**) can largely be explained by the increased stake of **Starwood** and its active voting behaviour.

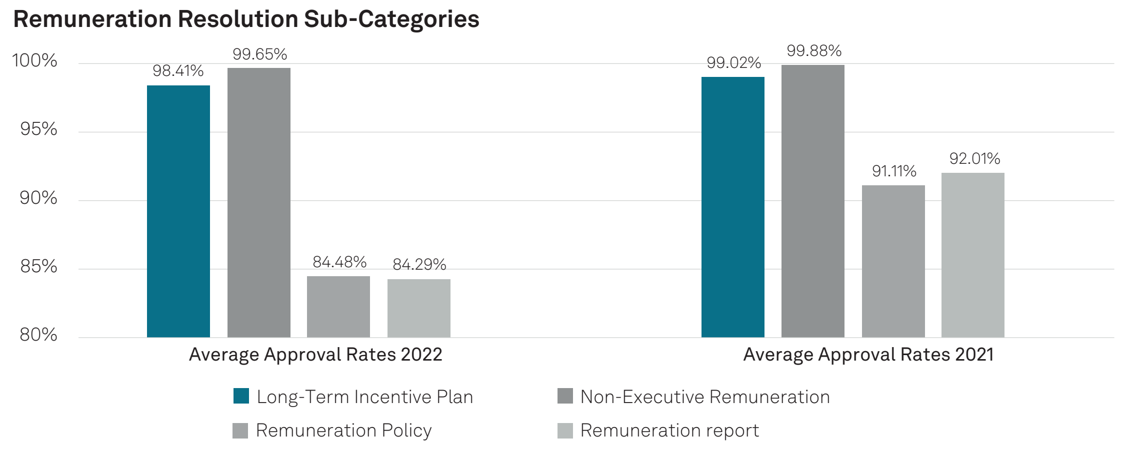
Like **CAI, SPI's** capital presence at the AGM 2022 was also influenced by a change in the ownership structure. With **CPI Property Group's** takeover offer on the table, a resolution on an amendment to the Articles of Association was approved by **97.3%** of the significantly decreased capital presence (**38.6%** vs. **47.1%**), enabling **CPI** to become a majority shareholder, now controlling **79.2%** S/O.

Approval Rates



Looking at the average approval rates for the five main resolution categories (Board of Directors, Capital, Corporate Structure, Financial, Remuneration) compared to 2021, shareholders have increasingly supported Director (Re)elections **(+1.4pp)**, Capital Issuances (**+4.5pp**) and Financial Resolutions (**+0.2pp**), such as allocation of income and dividends.

Remuneration Remains Contentious



The most significant shift happened with remuneration-related agenda items, where dissent increased and average approval rates fell to **89.0%** (vs. **95.1%** in 2021). Agenda items concerning “Remuneration Policies” and “Remuneration Reports,” are the key factors for the drop, with a decrease in average approval rates of **-6.6pp** and **-7.7pp**, respectively.

Increased dissent is driven by concerns around a lack of transparency in general, but specifically related to performance conditions and/or variable remuneration. These were prevalent concerns raised by investors and were the main vote drivers leading to proxy advisors’ negative vote recommendations. Although the requirement to put remuneration policies and reports up for approval at AGMs has only been implemented in Austria since 2019, it certainly looks like any ‘grace periods’ allowed by investors have come to an end.

Board of Directors’ Scrutiny

Despite an overall increase in average approval rates of **+1.4pp**, director (re)elections were still among the most controversial resolutions and faced significant dissent. Trending concerns were diversity issues and committee independence. Interestingly, we also saw a resolution to approve the “non-discharge” of a management board member. Additionally, shareholders continue to leverage votes against directors to show their dissatisfaction on issues such as climate change and other social or environmental concerns.

Switzerland

Switzerland

Jointly looking at the SMI and SMI Mid, we can see that the average capital presence for 2022 (**65.83%**) has dropped slightly from 2021 (**66.38%**) by **0.55pp**. Much of this change can be attributed to significant year-on-year differences between AGMs hosted by specific companies, where the attendance rates for three meetings saw over **5%** decreases (**20.20%, 18.21%** and **7.33%**). On closer inspection, looking at each index separately, we can see a year-on-year drop in the average capital presence with **62.84%** in 2022 and **64.16%** in 2021 for the SMI and **67.90%** in 2022 and **68.39%** in 2021 for the SMI Mid.

Committee Elections Targeted?

Average support levels for board of directors' election and director accountability-related items grew in the last two seasons, from **91.61%** in 2021 to **94.43%** in 2022, representing a significant **2.83pp** increase. This category also encompasses board committee membership appointments, the subcategory that garnered the biggest growth in support (**3.10pp**).

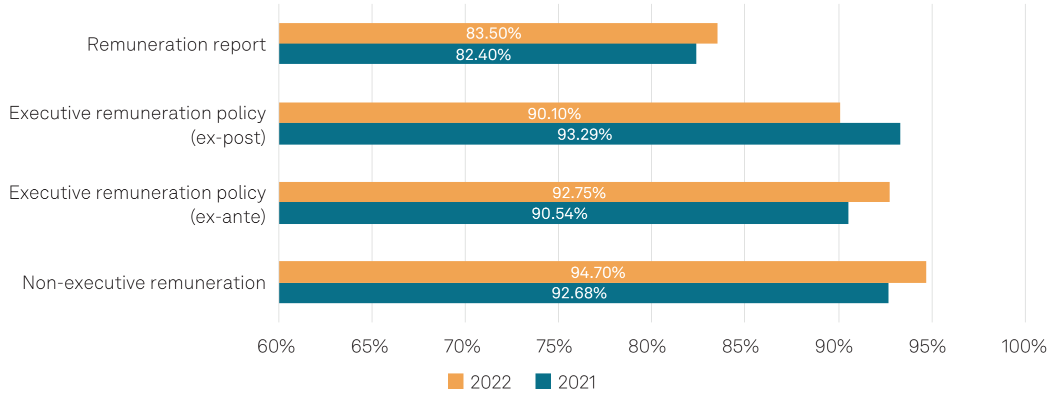
With the obligation for companies with at least 250 employees to report on missing the required 30% representation on boards and 20% on executive boards in place, we can expect to see greater scrutiny from investors on nomination committee members, with an expectation for them to ensure these criteria are met before this reporting becomes compulsory in 2026. Shareholders' decision to support compensation committee membership is also subject to any concerns linked to remuneration. This may be considered a heavy burden on compensation committee members and will remain a contentious area for shareholders into the future.

High Support Levels for Remuneration Sustained

In 2022, average support levels for remuneration-related items grew by **1.17pp**. At the continental level, Swiss market companies are widely recognised as proponents of high-quality corporate governance practices. This is especially true in the context of remuneration, where a majority of issuers' remuneration packages see overall strong support levels from investors. When measuring the levels of support for remuneration-related items against the markets examined in our review, the average result of the Swiss market is bettered only by the UK.

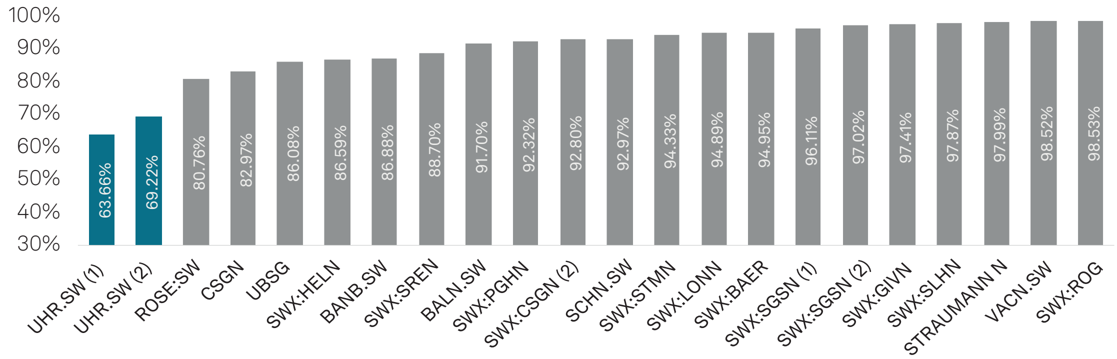
The distinction to vote on retrospective (ex-post) and prospective (ex-ante) remuneration proposals separately in Switzerland allows shareholders to narrow their views to a specific aspect or a smaller set of aspects related to remuneration rather than broadly voting against the entire remuneration system. Additionally, despite no regulatory obligation for issuers to submit their remuneration report at AGMs, 36 out of the 43 AGMs examined saw a remuneration report proposed for shareholder approval in 2022.

Remuneration Resolution Sub-Categories



Average support levels for all remuneration-related items grew by **1.17pp**. However, the general increase in support is not evenly distributed among ex-post and ex-ante remuneration items. Average support for ex-post executive remuneration items dropped by **3.19pp** in 2022 despite the overall number of ex-post items remaining unchanged; this represents a significant contrast.

2022 Ex-post Remuneration Items Results



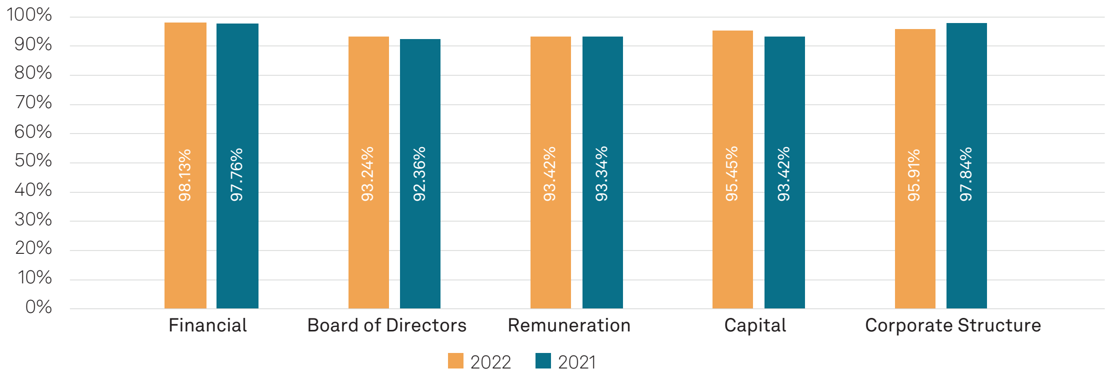
Having closely examined the voting results for every item, we can link this drop in vote results to the **Swatch AG** AGM, where two executive committee variable remuneration items received only **63.66%** and **69.22%** votes in favour, skewing the average approval rates for ex-post remuneration-related items. Large investors (including the likes of Schroders, UBS, and Legal & General Investment Management) cited concerns around the lack of adequate disclosure. While average approval rates for ex-post-related remuneration items decreased, average support for ex-ante items grew by **2.21pp**.


France

France

Stability is the key word when comparing the 2021 and 2022 results from our sample. (Re-)Elections to the board and remuneration were the two topics that raised the most criticism. Diving a little deeper, we see that, as in past years, items related to executive compensation are those that raise the greatest dissent within the remuneration category (with an average approval of around **89%**).

Average support per resolution SBF 120



Participation – A Similar Audience Meets Again

We notice a stable level of capital presence at the 2022 AGMs compared to 2021 (**-0.1pp**). This stability stands out from past years which showed continued steady increases in capital presence. We identify principally two trends this year:

- A majority of 56 companies in the sample saw an increase in the capital presence (from **+0.03pp** to **+15.18pp** at **Vallourec**).
- There were overall more cases of significant decreases with five companies exceeding a **10pp** decrease (down to **-21.52pp** at **Lagardère**).

Changes in the capital structure, notably the weight of strategic holder(s), are the main factor explaining most of the significant 2022 variations vs. 2021.

Board (Re-)elections – The Committee Factor

The level of support for board-related resolutions was relatively stable compared to the 2021 season. All management resolutions were approved in 2022. The only shareholder-proposed director candidate, submitted at **Ipsos**, was rejected, although the item gathered non-negligible support (**34%**). Thirty-four candidates out of 374 triggered more than **15%** dissent, (43 out of 377 in 2021). The lowest approval rate of an election item was a mere **57%**. The available data suggests that this high rate of dissent was due to a time commitment issue.

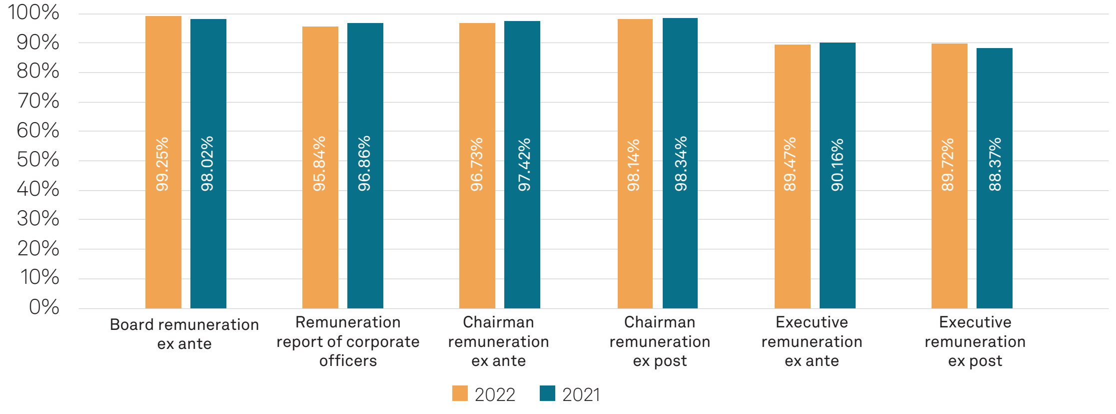
Directors' time commitment is also assessed through external mandates held by directors and potential "overboarding", an important vote driver in 2022. It is defined differently in the French Commercial Code, Afep-Medef Code, and in the various voting guidelines of proxy advisors and institutional investors, the latter typically enforcing stricter policies.

Finally, board directors who had committee responsibilities also experienced higher levels of dissent. More institutional investors require stricter independence thresholds to be met at the committee level, and committee members' re-elections are targeted when investors identify an issue related to the committee's missions (remuneration, chair/CEO combination, board independence, etc.). This combination of dissent factors requires increased attention when allocating responsibilities. The Ipsos shareholder proposal highlighted many repeated dissent factors.

Remuneration – Dissent as Usual

As in previous years, remuneration (most notably executive remuneration) was the most scrutinised topic at French general meetings in 2022. Despite the high levels of general dissent, only one meeting saw any rejected executive say-on-pay proposals. However, at this meeting, not one, but four resolutions did not pass. The dissent rationales are aligned with the 2021 review's highlights: discretionary adjustments to mitigate COVID-19 effects, excessive termination packages, and inadequate levels of information to support pay-for-performance linkage.

Remuneration Resolution Sub-Categories



With new and extended mandates among executives, average remuneration has increased significantly as reported in 2022 AGM materials. On several occasions, remuneration items triggered significant increases in dissent rates, up to **+30pp** when, in addition, performance and strategic choices did not meet shareholder expectations. On balance, however, good performance, recovery after the COVID-19 crisis and family control allowed higher support.

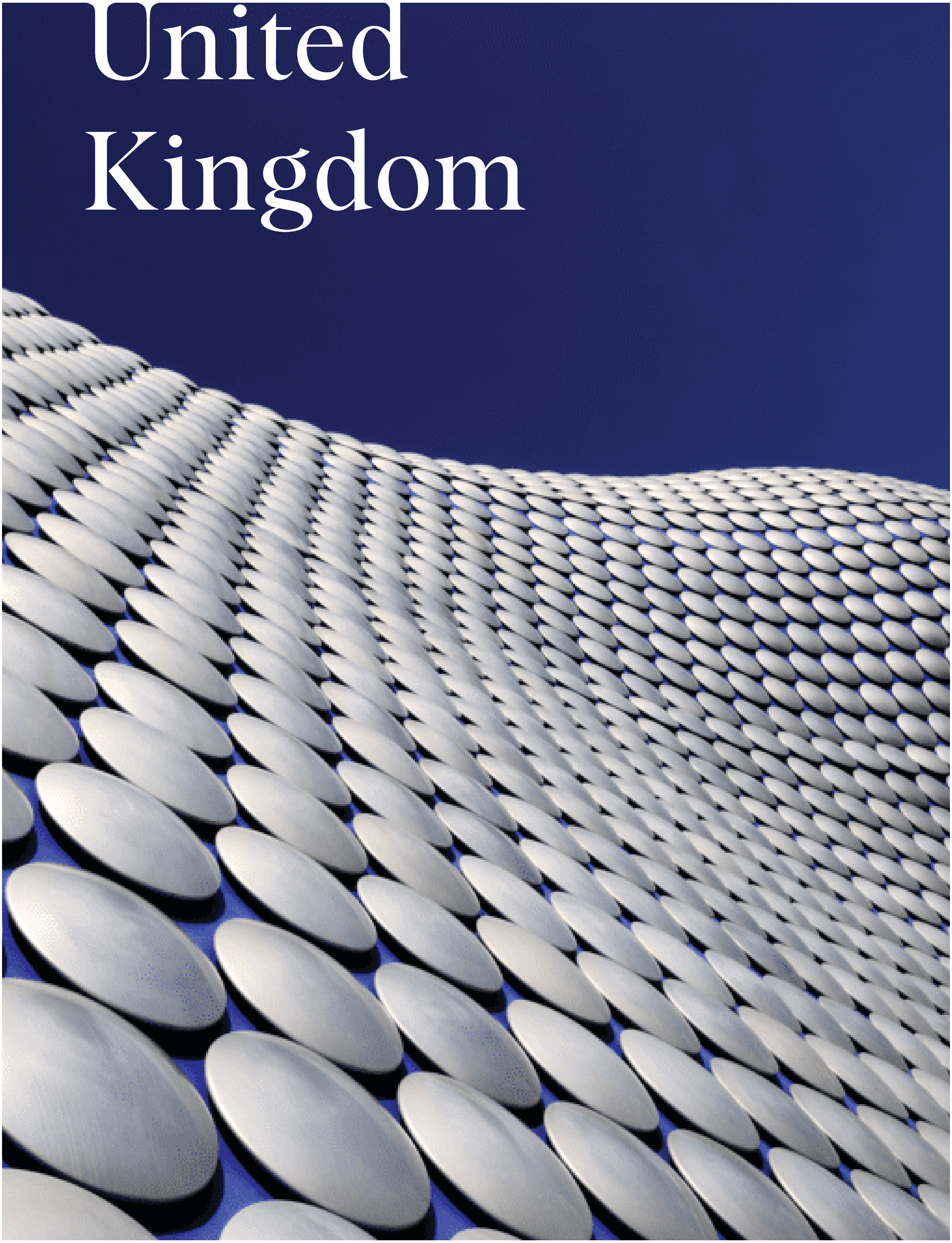
Finally, when boards did not react to repeated dissent on executive compensation, shareholders have started targeting the corporate officers' remuneration report. If rejected, this resolution blocks the board's pay, thereby forcing a board reaction on executive remuneration.

Diversity and Climate – The Push

With 10 climate resolutions submitted by management teams in 2022 vs. three in 2021, there is a growing expectation for regulation on climate topics. This increase is, in part, explainable by an increase in shareholder and NGO activism, with the **TotalEnergies** meeting serving as a particularly high-profile example of this style of engagement. Management say-on-climate frameworks and the veto power of boards facing shareholder climate resolutions were all and will continue to be debated.

Conversely, the debate appears to be settled on diversity among executives. The "loi Rixain" introduced a **40%** diversity requirement for executive bodies to be met by March 2029 (**30%** by March 2026). The expectation is to accelerate diversification among executive committees as the "loi Coppé-Zimmerman" did with boards of directors. However, boards of directors have much clearer legal definitions, size restrictions, and nomination/election processes. Shareholder will pay attention to potential executive committee size increases to meet thresholds before the deadline.

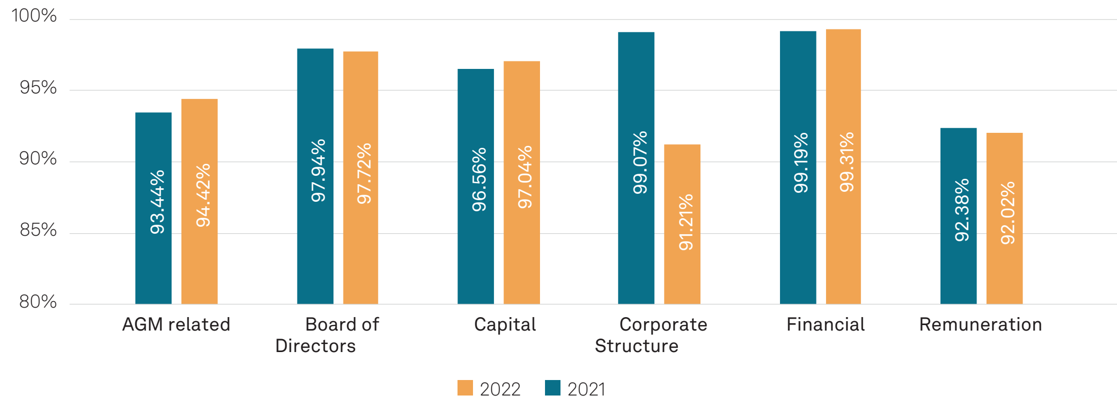
United Kingdom



United Kingdom

Looking at the AGM landscape, attendance rates in 2022 and 2021 were similar, with an average capital presence of **73.69%** in 2022 and **74.54%** in 2021. There were minor changes in the composition of our sample for both years, with seven changes overall (companies appearing in the 2022 sample and vice versa).

There are many legacy corporate governance-based themes which continue to be relevant in the capital markets, including the increase in climate-related risk accountability of the board of directors and executive management, accounting for stakeholder experience in executive remuneration packages, and boardroom gender and ethnic diversity. Nascent trends have also emerged that have gained significant traction and momentum, such as the shift towards the new audit and corporate reporting regime and mandatory TCFD reporting.



Approval rates across all categories have been stable when compared year-on-year except for the category corporate structure, where there is a **7.86pp** decrease. This is due to the differences in the volume of say-on-climate items proposed between 2021 and 2022, which is explained further in this chapter.

Director Elections Less Controversial, Diversity Meets Impressive Landmark

Overall, the average director election support levels in the last two years have been close to parallel, with **97.72%** in 2022 and **97.94%** in 2021. According to the Investment Association's Public Register, there has been a year-on-year decrease in the number of contested items at the UK FTSE All Share AGMs. Sixty-four director election/re-election resolutions appeared on the register of contested items in 2021. This dropped to 35 items in 2022, an impressive development feat for the UK market. It is worth noting that issuers generally attempt to avoid having their items appear on the IA's public register as it increases the risk of shareholder activism.

Impressively, the UK continues to achieve higher diversity standards in the boardroom with **94.25%** of FTSE 100 constituents meeting the Parker Review target of at least one ethnic minority on the board as reported by the Parker Committee in March 2022.

UK Audit Regulatory Regime Transition

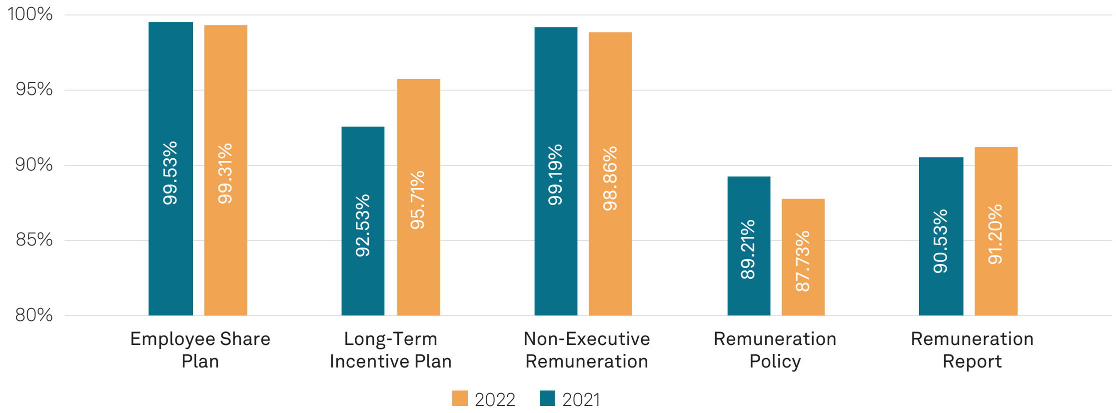
On 18 March 2021, the UK Government outlined proposals on reforms to restore trust in audits and corporate governance in the UK. One of their cases for reform includes the establishment of a new regulator in the form of the Audit, Reporting and Governance Authority (ARGA). It aims to work with existing professional bodies to improve auditing standards in the UK market. In May 2022, the UK audit bill came into effect, kicking off the UK's new audit and corporate reporting regime.

Average approval rates for auditor appointment proposals remained high throughout the last two seasons, with **99.31%** in 2022 and **99.17%** in 2021 (a slight **0.14pp** change). Although audit-related controversies and scandals are quite rare in the UK, we saw the largest fine in UK audit history handed out to KPMG after a former staff member forged documents and provided misleading statements concerning Carillion's audit in 2022. Events like this will certainly lead to scrutiny over how the new audit regime will mitigate such incidents from reoccurring and ensure better auditing standards going forward.

Remuneration Impressive, Despite Executive Remuneration Contention

Despite the British economy facing threats of recession and increased costs of living, support for remuneration proposals has not dampened. Additionally, it appears as though the heightened scrutiny due to the pandemic has gradually waned, with average approval rates for remuneration reports increasing by **0.84pp**. Voting behaviour in 2022 has indicated a return to the more familiar voting patterns of the pre-pandemic era.

Remuneration Resolution Sub-Categories



On closer inspection, we can see little year-on-year development for the remuneration-related sub-categories, with the largest change coming from executive remuneration long-term incentive plans, which rose by **3.18pp** since 2021. This growth bodes well when considering the contentious nature of long-term incentive plans given that investors generally demand high-quality disclosure, appropriate quantum, consideration of ESG factors, and factoring in of stakeholder experience before supporting these resolutions.

New TCFD Reporting Framework Mandate

In April 2022, firms in the UK became required to disclose climate-related financial information in accordance with TCFD's recommendations, making a significant step towards a unified ESG-related reporting standard. The UK became the first G20 nation to enshrine this approach into law, although throughout recent years, many companies have incorporated ESG-related provisions to their bylaws. As discussed in our ESG dedicated chapter, we identified 12 climate-related proposals (four in 2021) at the AGM of FTSE 100 constituents.

Spain

Spain

Overall, average capital presence of the IBEX35 remained stable, slightly decreasing from **71.41%** in 2021 to **71.37%** in 2022. The Index composition varied slightly year-on-year, as Spanish pharmaceutic **Laboratorios Rovi (ROVI)** entered the IBEX35 at the end of 2021, replacing the packaged food manufacturer **Viscofan (VIS)**.

Average Investor Support Increases in Almost Every Category

IBEX35 constituents have received on average more support from investors in 2022 than in 2021 in every category, except for board-related proposals, where average support decreased by **0.52pp**. Remuneration-related items remain a key focus area for shareholders, being the category that showed the highest dissent in both years. On average, remuneration items garnered dissent levels of **10.8%** from shareholders during 2022 AGMs, **2.26pp** less than in 2021.

Female Representation on the Board of Directors and Top Management

The Spanish Corporate Governance Code has set the threshold of women on board to **40%**, to be achieved by year's end 2022. Currently, **34.5%** of IBEX35 directors are women, but only eight of the examined companies have already met the diversity target. The Code also recommends companies have a significant amount of women representation in top management, although no quota has been established. At year-end 2021, women held **22%** of management positions in the IBEX35, up **14%** from year-end 2017.

Spanish Companies Secure the Possibility of Holding Virtual-Only Meetings

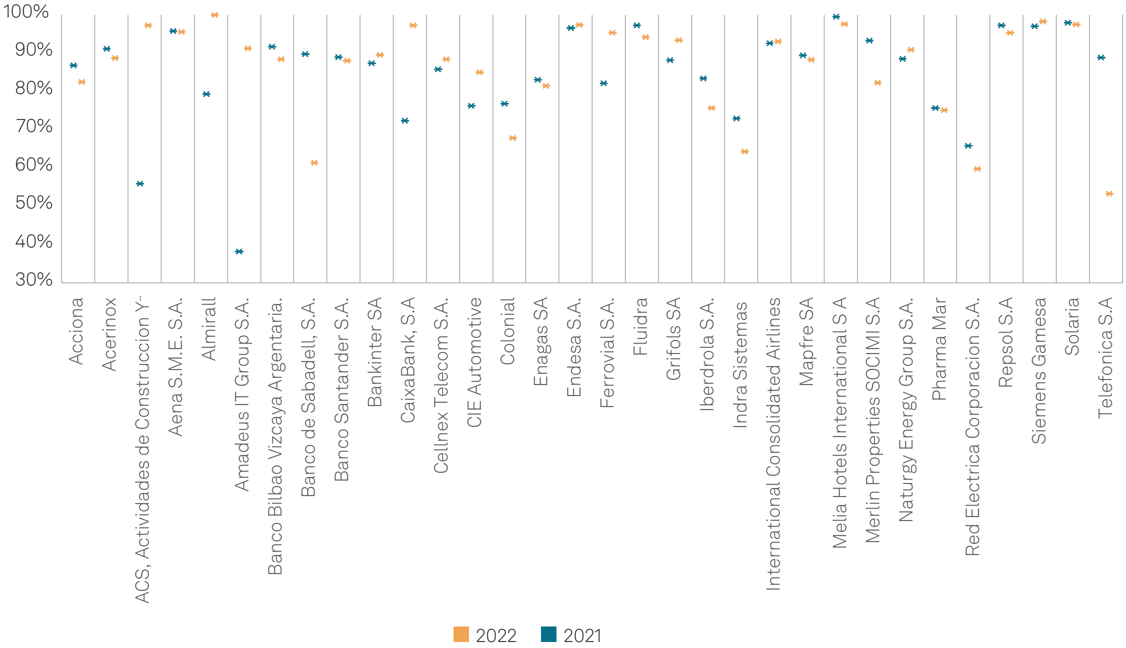
Since April 2021, Spanish companies have been allowed to amend their articles of association to introduce the possibility of holding virtual-only meetings. In view of the COVID-19 pandemic, 14 IBEX35 constituents amended their bylaws and general meeting regulations during the 2021 proxy season to introduce the possibility of holding virtual-only meetings. Likewise, 10 additional companies have asked shareholders to amend their legal texts to regulate virtual-only meetings during their 2022 AGMs. All the proposals reached the required approval rate of two-third of votes cast, with average support of **96.73%**. Investors that voted against these proposals did so mainly in the cases where they believed the company had not specified the exceptional circumstances under which the board would be allowed to hold a shareholder meeting via virtual means only.

Investors' Pay Scrutiny Remains High in Spanish Companies

The number of IBEX35 constituents that received at least **10%** dissent on their remuneration reports and policies during 2022 were **52%** and **38%**, respectively. Contested remuneration reports and policies decreased by approximately **19%** and **30%** in comparison to last year, respectively.

The following chart illustrates the evolution in the rate of approval of the remuneration report amongst the examined companies between 2021 and 2022. This analysis excludes two companies that were present in the index during only one of the two years under examination.

Rate of Approval of the Remuneration Report Evolution

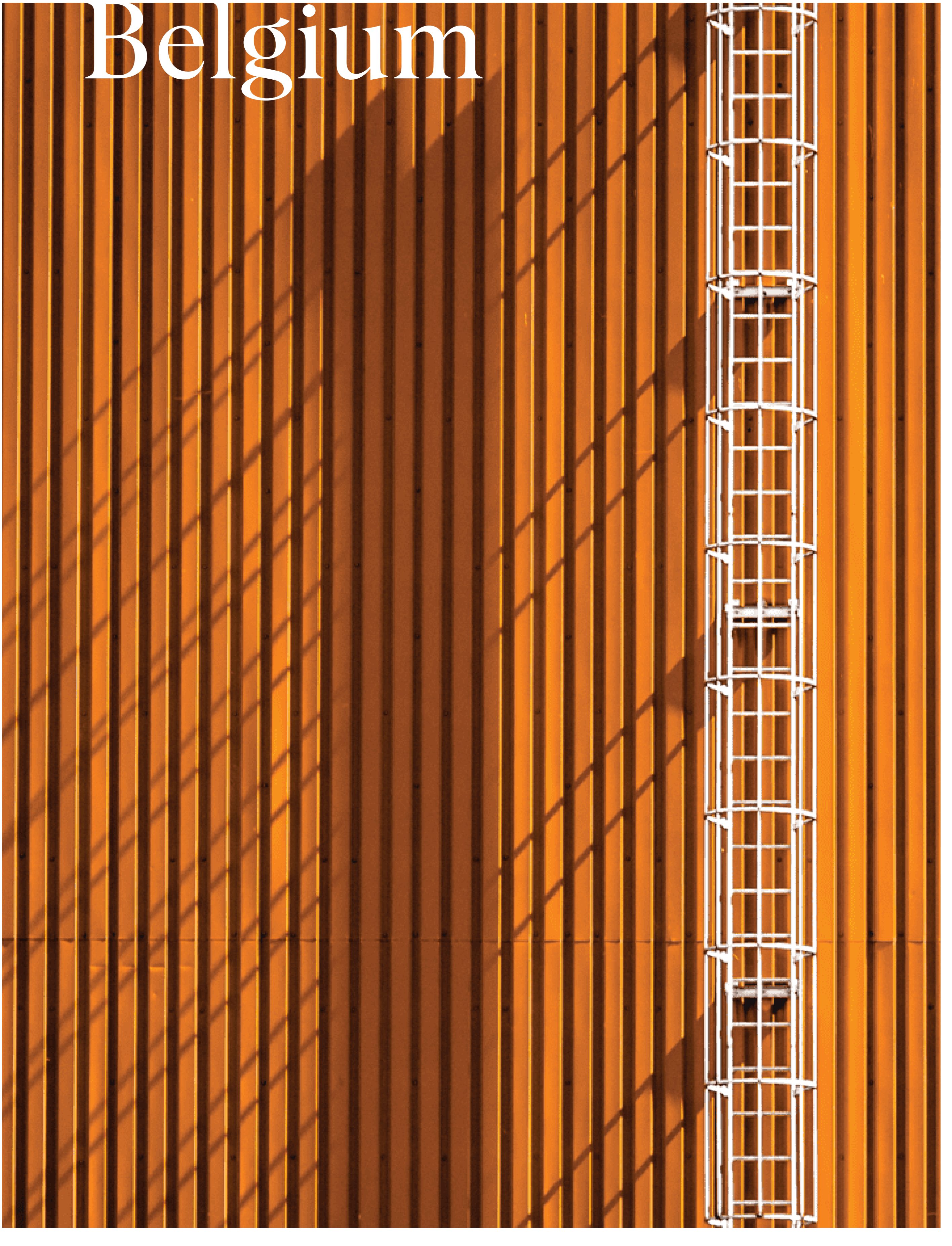


We can observe that only 13 out of 32 companies improved their approval rate in 2022. However, the remuneration report proposal passed for every company in 2022, whereas it was rejected at one company's AGM in 2021.

The improvement was particularly notable at two companies that increased their rate of approval by more than **40pp: Actividades de Construcción y Servicios S.A. (ACS) and Amadeus IT Group (AMS)**. ACS shareholders welcomed the Executive Chair's decision to waive 30% of his 2021 bonus, although remained critical with respect to other pay practices that were not considered in line with best practices, such as excessive pension contributions. AMS' remuneration report resolution did not pass at the 2021 AGM, as only **38.24%** of shareholders supported the proposal. The company's rate of approval jumped to **91.22%** in 2022 when the company addressed shareholders' concerns about the company's pay practices, including an increased level of transparency and disclosure in the remuneration report and the removal of the remuneration committee's right to exercise upward discretion to modify payments or grant extraordinary payments.

On the other hand, the remuneration report resolutions saw a marked decline of **28-35pp** at two companies in 2022: **Banco de Sabadell (SAB)** and **Telefonica S.A. (TEF)**. **SAB** shareholders were especially critical with respect to the former CEO's €24 million pension plan rights that vested in 2021 upon his resignation. TEF's remuneration report support fell to **53%** in 2022 mainly due to the payment of one-off awards linked to two significant transactions the company completed during 2021 in addition to the company's pay-for-performance misalignment in comparison with peers.

Belgium



Belgium

Overall, the average capital presence of the BEL20 has remained stable, slightly increasing from **65.51%** in 2021 to **66.07%** in 2022, a **0.56pp** increase. The Index composition did not vary from 2021 to 2022.

Average Investor Support Increases Across Most Categories

Average investor support has been high in every category for both years of our analysis except for remuneration proposals, where average support levels remained at **87%** during 2021 and 2022. Overall, there was an increase in support for almost every category, save for corporate structure and remuneration proposals. The decrease in corporate structure proposals, which comprises article amendment proposals, is explained by the **12.5%** dissent received by **VGP** at their 2022 AGM for an article amendment. The company proposed to amend the bylaws to allow VGP to repurchase and reissue **20%** of the issued share capital, which was considered excessive by some shareholders as well as a step backwards on corporate governance standards.

Shareholder Dissent Over Remuneration Stays High in Belgium

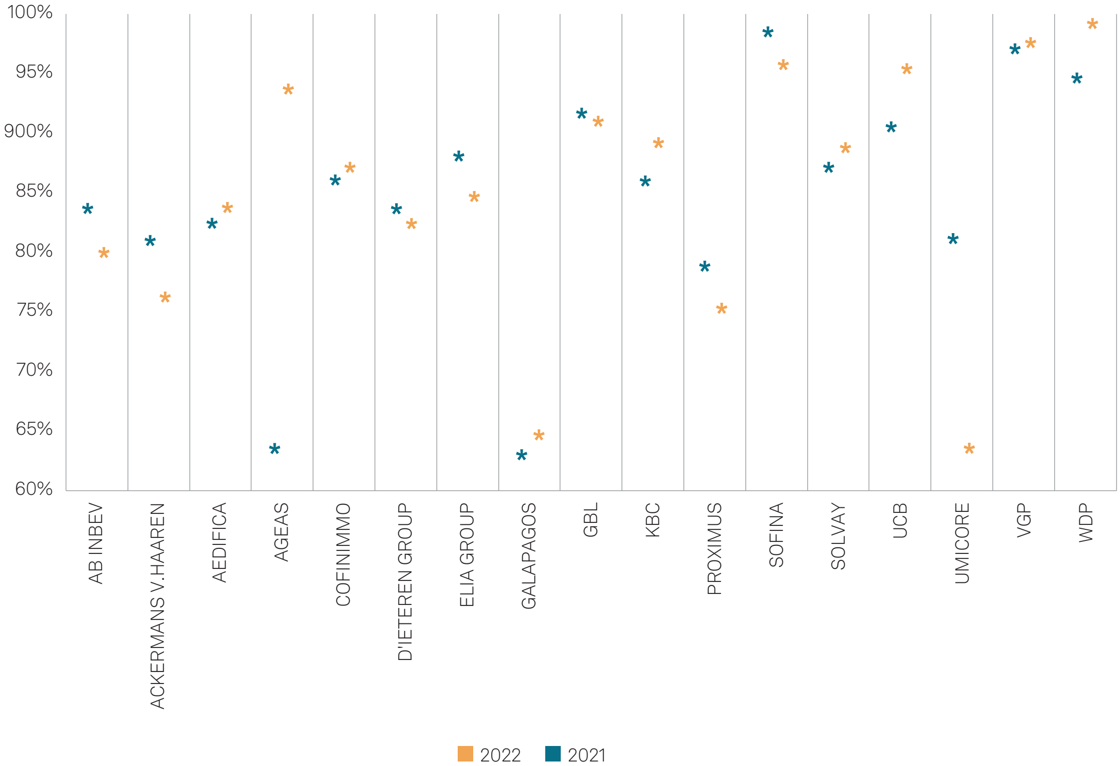
Among our sample of BEL20 companies, we can see an increase in the number of companies that received more than **10%** opposition in the remuneration policy proposal, as **67%** of companies had contested remuneration policies up from **60%** in 2021. On the other hand, this trend for the remuneration report proposal moved downwards in 2022 as **65%** of companies received at least **10%** of votes against their remuneration report proposal in 2022, as opposed to **71%** in 2021.

Approval Rates for Remuneration Reports Remain Broadly Stable

Although the number of contested remuneration report proposals decreased in 2022, the average support remained broadly stable. BEL20 companies received on average **85.17%** of votes in favour for the approval of remuneration reports in 2022, an increase of **0.65pp**. Likewise, if we observe the voting results per company, we can see that the level of support for the remuneration report has varied by **+/-5pp** at every company's AGM, with two exceptions: **Ageas** and **Umicore**.

In the case of **Ageas**, the remuneration report received **93.8%** of votes in favour, which improved from **63.66%** in 2021. The company demonstrated responsiveness to their 2021 vote on the remuneration report and improved disclosure on the retrospective performance assessment under the incentive plans. Furthermore, the remuneration policy that shareholders voted on at the 2021 AGM included several improvements such as shareholder ownership requirements for executive directors and longer holding periods for performance shares. In the case of **Umicore**, the level of support received by the remuneration report proposal during 2022 was **63.48%**, a drop from **81.09%** in 2021. The level of dissent was already high in 2021, mainly due to insufficient disclosure of performance targets under variable pay plans; dissent increased in 2022 as the former CEO received a termination package that was considered excessive by shareholders and the company awarded a sign-on bonus to the new CEO.

Rate of Approval of the Remuneration Report Evolution



Moderate Increase in CEO Compensation in 2021

According to an article published by L'Echo in 2022, during 2021, BEL20 CEOs received on average €3.02 million, up by **14.4%** compared with 2020. Michel Doukeris, who replaced Carlos Brito as AB Inbev CEO, received a total pay of €8.37 million — an increase of more than **550%** compared to the €1.28 million that Brito received in 2020 as he waived part of his fixed pay and did not receive any bonus. The sharp increase that took place in AB Inbev explains the rise in average pay during 2021. Excluding AB Inbev, the average remuneration of BEL20 CEOs during 2021 was €2.74 million, which represents a moderate increase of **3.7%** compared to 2020, considering that many pay cuts were applied during 2020 in view of the COVID-19 crisis.

The average compensation of Belgian CEOs has not changed much over the years: in 2006, the average remuneration amounted to €2.19 million, compared to €2.15 million in 2017. The average remuneration started to increase in 2018, mainly due to the growing importance of variable components of CEO remuneration and the increasingly common use of share-based remuneration. The need to align CEO compensation with the levels paid in neighboring countries also explains this average increase, as the "market" for CEOs has become international.

In 2021, the average total remuneration of CEOs of BEL20 companies increased by **38%** compared to 2006. After adjusting for inflation during this period (**33%**), the real increase in bosses' salaries do not exceed **5%**.

ESG

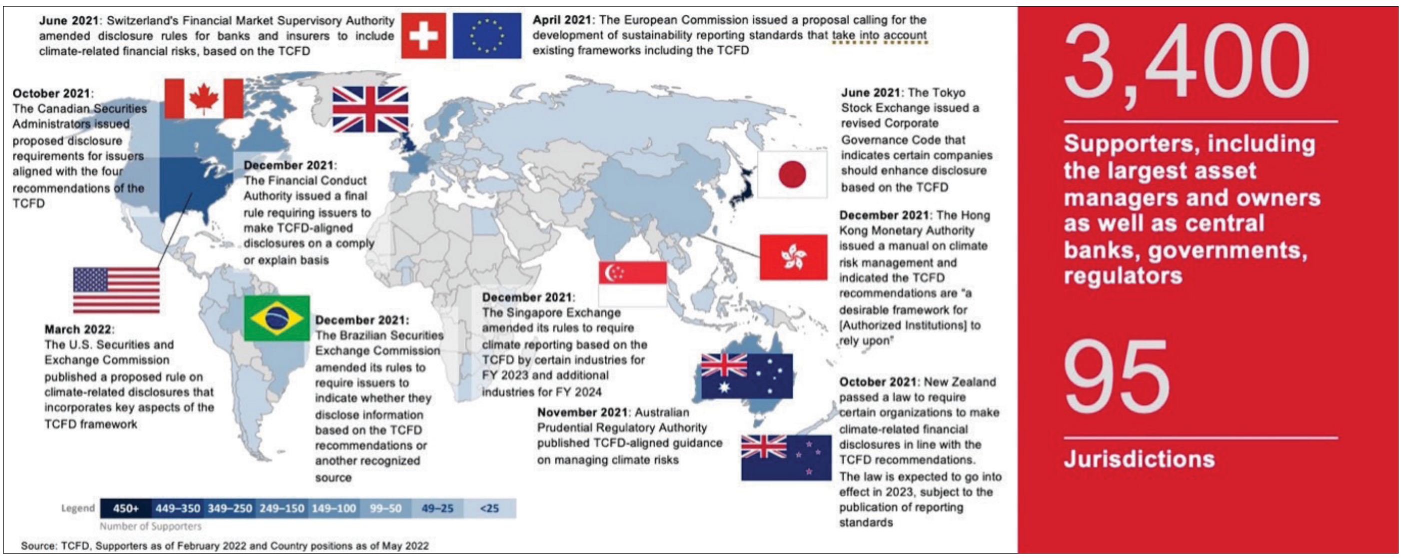
Climate change is a significant market disruptor and poses challenges to all market practitioners. As the energy transition takes hold and work to replace fossil fuels with low-carbon energy sources gains momentum, issuers are faced with critical decisions on business model transformation, capital allocation and capital access.

Global Capital markets' support of the Paris Agreement's long-term temperature goal to keep the rise of mean global temperature to well below 2 °C (3.6 °F) above pre-industrial levels (and preferably limit the increase to 1.5 °C (2.7 °F)) is firmly the norm in regard to tackling climate change.

Post-COP26 action to limit global warming to 1.5 °C updated from previous 2 °C guidance has sent a strong market signal on the expected minimum standards for a climate action response from issuers, investors and governments.

Climate Regulation

The recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD) are voluntary, but they are fast gaining traction within sustainability/ESG policies. Global governments, alongside global markets, are wholeheartedly moving towards mandatory TCFD disclosure requirements.



Investor Action

Coupled with global legislation and regulatory framework response, the investor community is also taking action. Asset manager investment strategies covering assets under management also adhere to Paris Agreement ambitions through deployment of exclusion policies, the mandating of active engagement programs, and other mechanisms. Investee companies are required to put in place short-, medium- and long-term targets. Long-term targets (often referred to as Net Zero targets) usually use 2050 as the upper bound of their time frame. Companies are also encouraged to offer mid-term targets, usually with the expectation of them having been met by 2030 to match the expiration of the United Nation's sustainability goals.

Investor best practice suggests a science-based approach to target setting. Using the Science Based Targets initiative (SBTi), a collaboration between the UN, CDP, World Resources Institute and the World Wide Fund for Nature, is widely regarded as the gold standard for companies set reliable climate goals. Validation from the SBTi — which has a formalised process for evaluating a company's proposed targets — forms the cornerstone of many action plans and, ultimately, Net Zero roadmaps.

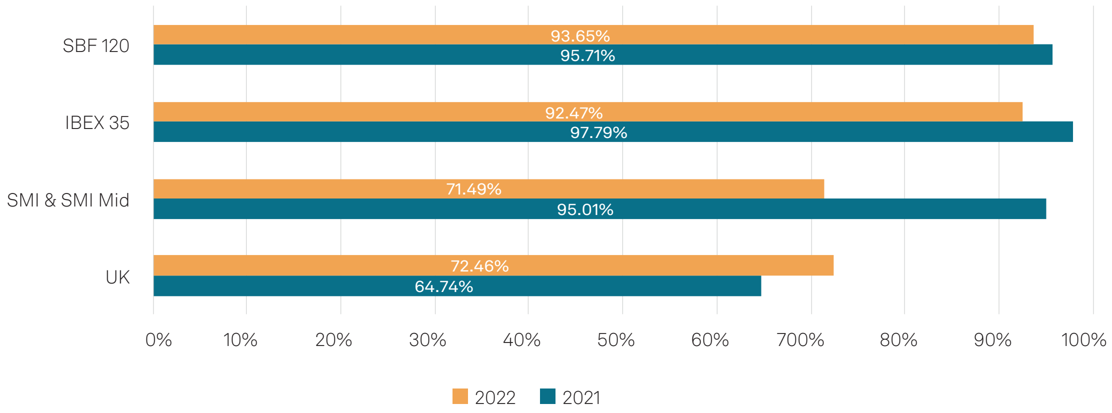
Shareholder Resolutions

Shareholder engagement on corporate issuer transition plans aligned to 1.5 °C or 2 °C may involve review/changes of remuneration policy, corporate strategy, capital expenditure/allocation and climate policy. Engagement escalation policies offer a useful tool for asset managers to ensure their own portfolios are in line with decarbonization trajectories as mandated by their asset owner sponsors.

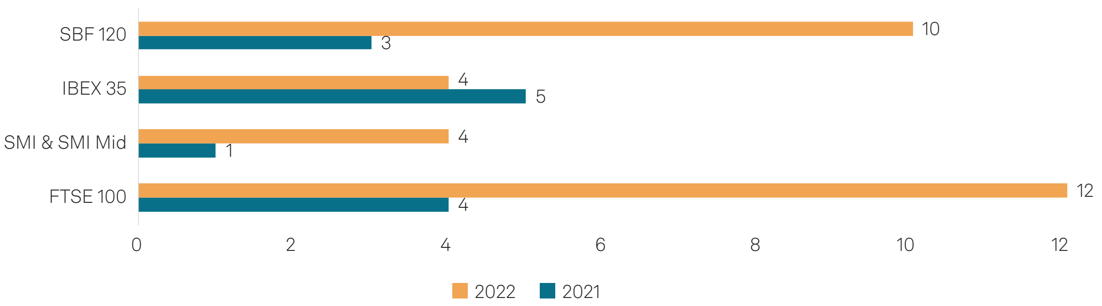
Say-on-climate shareholder resolutions advocating robust climate action have grown in popularity across multiple global listing authorities from 2021 to 2022. Investor climate action trends are expected to continue as global energy supply shifts away from fossil fuels and energy transition pathways are forged.

Say-on-Climate Resolutions – Europe

Say-on-Climate Average Approval Rates



Number of say-on-climate items



The data reflects the growing trend of say-on-climate proposals at AGMs across several European markets. Looking at the markets where say-on-climate proposals were identified in our sample, the FTSE 100, IBEX 35, and SBF 120 saw an increase in the volume of proposals submitted at AGMs. The majority of these proposals were welcomed by shareholders in these markets, although the UK market did experience the heaviest resistance with **72.46%** average support in 2022. Despite this, average support for FTSE 100 constituents did see a marked year-over-year increase of **7.72pp**, which was also likely influenced by the difference in the number of items between the two years.

Investor Intelligence

Having wrapped up 2022 AGM season, the Strategic Advisory team worked with our in-house Perception team to devise a few questions that we could ask investment analysts, to help us identify 2023 ESG focus areas.

The Perception team caught up with analysts working at eight key investment institutions, including an investment manager which launched responsible investing strategies in Europe focused on ESG factors earlier this year, and a US asset manager which strengthened its position in Europe in 2021 by acquiring the EMEA asset management arm of an investment bank.

Here are the ESG-related themes on the minds of these analysts as they look ahead to next year:

Climate Transition Score

"What we are taking more and more into account, and we are trying to monitor it as a score separate from the ESG global score, is the climate transition score, because we want to really focus on the efforts towards the transition of the company. That's in the perspective of a double matrix and it means that we really want to understand what is the external impact that climate change can have on the business and on the other side, what investments is the company making to face these risks. Those are the two points of view which we would put together to help us understand if the company has a good net climate transition score. It's something that we are going to monitor more and more, and we are trying to develop something interesting to detect it." **European Investment Manager (>$2B EAUM)**

Disclosure Pertaining to Good Corporate Governance

"We just spent an inordinately large amount of time looking at good corporate governance [...] I think there needs to be a lot more disclosure in terms of good corporate governance and companies need to work out how they can illustrate that. Pre-ESG, it was easier to focus on governance, and that has gotten pushed down with everyone focusing on carbon emission reduction, etc. Going back to providing good corporate governance is going to be a growing and important theme." **European Investment Manager (>$250B EAUM)**

Engagement-Focused Funds Aligned With the UN Sustainable Development Goals

"Engagement and the SDGs specifically is one area of focus. Engagement is something that is definitely gaining a lot of interest. We've just launched a couple of engagement-focused funds in the high-yield space, aligned with the Sustainable Development Goals." **North American Investment Manager (>$100B EAUM)**

The Materiality of Climate Change

"Climate change has been elevated over the past few years and has been particularly emphasised as part of our evaluation, but also as a reflection of broader market developments and the growing awareness and recognition of the materiality of climate change and the growing number of instances where it has been playing an important part of issuers' strategy and as part of their respective financial performance." **European Investment Manager (>$1B EAUM)**

Physical Risks Associated to Environmental and Social Factors

"In the recent period, there has been a growing emphasis on the social factors as well as broader factors and carbon risk in addition to climate change. That includes physical risk in relation to climate change. We are increasingly focused on broader environmental issues and climate change, including water waste and the circular economy or biodiversity, which tend to be at an earlier stage in terms of methodological development and data availability and quality. That's where we are monitoring the most important developments. Similarly for the social pillar, in addition to the more conventional research on human capital, safety, or sustainable sourcing, we are particularly focused on human rights at the moment as one of our key themes." **European Investment Manager (>$1B EAUM)**

Analysing companies from an ESG lens can be an overwhelming process. Below are some ways in which institutional investors are navigating the challenges that come with conducting ESG analysis on their investee companies:

Engaging With All Investee Companies on the Same E and S Topics

"We have a sector-by-sector approach, but for one environmental and one social issue, we decided to have a common language to have these two things always in mind. In environmental, we chose the trajectory of the path of reduction of greenhouse gas emissions. Of course, it's not the same intensity in each sector, but we at least want to engage with each company on the trajectory for the next few years and how they will do better. On the social agenda, it is decent work, either internally or throughout the supply chain. It depends on the sector. Sometimes you have all the labor force internally and sometimes you outsource a lot. This is the common language that we want to have for all the companies because it's two very basic and positive objectives. For the rest, we are quite balanced because it depends a lot on each sector, and we invest in all the sectors." **European Investment Manager (>$1B EAUM)**

Prioritising a Few ESG Criteria

"To have a fund that is ESG-compliant in France, you need to beat your benchmark on two important ESG criteria. For us, we decided one of them would be CO2 emissions. We use [data] to see what the CO2 emissions are on different scopes for companies and what the CO2 emissions are at the fund level. We need to then make sure that we can beat our benchmark on that point. The second criteria we haven't fully decided on yet, but our plan is to define a governance criterion there. The regulation in France is changing, and these two criteria will come into play soon, CO2 is one of them and the second will be about governance." **European Investment Manager (>$10B EAUM)**

Adapting ESG Focus Areas Based on Regulatory Changes

"Every month and every quarter there are new regulation ideas which are coming from the European and the German regulators. I think the emerging themes are energy security and affordability. Before the war, we were very focused on climate goals. Now we have turned to social things and there are more issues there. You have seen that already as there have been changes in the priorities and strategies of governments, and that's where you have to change your ESG focus, targets, and strategies. We can't do what we did one year ago. There are different aims and different targets now. For some companies, there is even an energy supply problem. Some of the nice climate saving ideas we had, like hydrogen, are simply far away now with the energy crisis." **European Investment Manager (>$1B EAUM)**

Encouraging Companies to Disclose Better Firsthand Data

"Now it's about getting additional details and also encouraging better, more transparent disclosure on those particular topics from our investee companies because in many cases the data points that we currently get are largely based on estimates or on very high-level due diligences that have been performed by third parties. There's a need in particular to get more access to better data provided by the companies first-hand." **European Investment Manager (>$7B EAUM)**

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About S&P Global Market Intelligence

S&P Global Market Intelligence integrates financial and industry data, research, and news into tools that help track performance, generate alpha, identify investment ideas, understand competitive and industry dynamics, perform valuation, and assess risk.

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