



SWIPRA Update

KGAST Meeting, Zurich, November 12, 2015



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1. SWIPRA Business Update - general

SWIPRA, established in 2013, is an independent Swiss Proxy Advisor.

With the objective of long-term shareholder value generation and based on principles of value-based management and empirically relevant criteria, SWIPRA provides voting recommendations for the 50 most highly capitalized shares listed on the SIX Swiss Exchange, composing the SMI Expanded® index.

SWIPRA also supports research and education in the area of Corporate Governance and has established research collaborations with teams of the University of Zurich.

SWIPRA offers

1. High level recommendations in terms of quality and reliability
2. Independence and transparency
3. Dialogue and engagement with corporate issuers
4. Cost effective online advisory tool on the "Sherpany" platform: online research reports, recommendations, voting, individualized reporting (compliance)



1. SWIPRA Business Update Unique Approach

1. No "one size fits all approach"

- **Value-based «Principle»**- instead of «Rule-based» Approach, following objective, economic and empirical criteria focused on the long-term value generation, aligned with the interest of the insured or invested persons
- **Individualized** research analysis respecting company specific situations

2. Independence and multi-level decision-taking process

- Scientifically-based research analysis and primary recommendations by Department of Banking and Finance of University of Zurich ("DBF") with support of the Department of Law (Private and Corporate Law, "DL")
- Continuous dialogue and engagement with companies to ensure higher level of transparency and improved communication between stakeholders
- No consulting services, asset management, no proxy representation/solicitation

3. "One-Stop-Shop"

- Affordable, efficient and **user-friendly platform solution**, addressing compliance requirements (**voting and reporting**)



1. SWIPRA Business Update Details (I)

- April 2013: start with donation capital of CHF 300,000 and 1.4 FTE (+free work)
- 3 major partnerships established
 - **Sherpany:** SWIPRA “Advisory Tool” on Sherpany Shareholder Platform
 - **Department of Banking and Finance:** Scientifically-based Policy Considerations and primary recommendations for 50 companies (Prof. Dr. Alexander F. Wagner)
 - **Department of Law,** chair for private and corporate law of University of Zurich (Prof. Dr. Hans-Ueli Vogt)
- Successful 2nd AGM season 2014/2015 covering SMI[®] Expanded stocks (SMI50):
 - Building track record, increased market recognition, improved product
 - SWIPRA process with formal company dialogue / engagement with issuers established: Dialogue with ALL COMPANIES DURING AGM PERIOD!
 - Several contributions to regulatory and legal projects and proxy advisory discussion in general
 - Positive feedback from institutional clients using SWIPRA recommendations
- Select pre-examinations and sale of individual recommendations to companies



1. SWIPRA Business Update Details (II)

- SWIPRA Services AG (SSAG) established in 2015:
 - Separation of (i) scientific content / approval of recommendations (foundation) and (ii) operational business/client relations (SSAG)
- SWIPRA team
 - Board of Trustees and Advisory Board support SWIPRA on a pro bono-basis
 - Operational support by Prof. Wagner and Prof. Vogt
 - Barbara Heller, CEO (60%)
 - Dr. Christoph Wenk, PhD, Senior Research Associate (100%)
 - Since Oct 1, 2015: Dany Luetolf, Director Client Relations SSAG (50%)
 - Since Sep 1, 2015: Sascha Behnk, Junior Research Associate at DBF (100%)
 - Sherpany collaboration: mutual support on a pro bono-basis
 - 3-4 Interns at DBF during AGM season (100% Jan-May)



1. SWIPRA Business Update Details (III)

- Several contributions to regulatory and legal projects and proxy advisory discussion in general, such as
 - Yearly Corporate Governance Survey, 3rd edition 2015: participation again increased, includes all Swiss issuers (SPI), institutional investors/pension funds in CH and international asset/fund managers
 - Yearly research-based analysis of AGM season, public presentation and discussion of key results and interpretation
 - Input and engagement in ongoing revision of Swiss corporate law (and other regulatory projects), based on empirical results and findings from surveys (CG survey, AGM season, economic literature and new international research as reflected in the SWIPRA Policy Considerations)
 - Exchange with important organizations such as SFAMA, ASIP, KGAST, economiesuisse, SwissHoldings, SIX Swiss Exchange, ICGN
 - SWIPRA recognized by media, invited for event presentations, lectures, panels as an expert in the field
 - Roundtables with international investors (UK, Scandinavia)

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2. Proxy Advisory Market (I) Competition

- Highly competitive environment with limited pricing flexibility
- SWIPRA covering SMI[®] Expanded (competitors do cover min. SPI100)
- Main competition in CH Proxy Advisory market
 - Ethos: approx. 25-30 employees during AGM season
 - zRating/CGAS: effective size/structure unknown
 - ISS: global
 - Glass Lewis: global

With exception of Glass Lewis, main competitors have other revenue sources, all have a less intense process and no research approach

- Customer universe and target clients
 - Small, local pension funds
 - Collective investment pension vehicles
 - Large, professional pension funds and corporate pension funds
 - CH Institutional Asset and Fund Managers
 - International Institutional Asset Managers

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2. Proxy Advisory Market (II) Regulatory Environment

➤ Legal / regulatory framework regarding Proxy Voting in CH

- Only pension funds with directly held investments affected by OaEC (as interpreted by Ministry of Justice)
- Current legislative process does not seem to change this view
- According to our recent corporate governance survey, Swiss investors, in particular pension funds, tend to avoid proxy voting and/or do not attach value to voting rights.
- Surprising in light of recent cases like SIKA, LafargeHolcim and the acceptance of the Minder initiative.

➤ Consequence

- ☞ Pension Funds move into indirect investment schemes to avoid voting obligation
- ☞ Large CH funds or collective investment schemes are not required to cast votes and have a limited interest to do so
- ☞ International funds do recognize, however, the value of voting rights, *in particular in passively managed vehicles*, and understand the impact of corporate governance on long-term value generation as well as the potentially harmful impact of Tick-the-Box-approaches on long-term shareholder value
- ☞ Swiss investors leave decision power largely to foreign asset managers!



3. Outlook

- Overall influence by foreign asset/fund managers as well as proxy advisors in Swiss companies will increase further
- Swiss regulatory situation even supports this development
- Whereas, international regulatory environment does strengthen shareholder rights and increases responsibility of fund managers/asset managers as well as duty of care of Proxy Advisors
 - ☞ EU Shareholder Rights Directive, amended
 - ☞ US regulatory discussions re Proxy Voting responsibilities
- **Clarification needed regarding:**
 - The role of a Proxy Advisor (See discussion in Annex 2)
 - The responsibility of a Proxy Advisor
 - The responsibility of fund managers and asset managers



Annex

- A1. SWIPRA organization
- A2. The role of Proxy Advisors



A1. Organization

Board of Trustees

Prof. em. Dr. Rudolf Volkart, Chairman
Prof. em. Dr. Peter Forstmoser
Prof. Dr. Bruno Gehrig
Fritz Pfiffner, lic. rer. pol.
Prof. Dr. Alexander Wagner, Department of Banking und Finance, University of Zurich
Prof. Dr. Hans-Ueli Vogt, Department of Law, University of Zurich

Management and Team

Barbara A. Heller, lic. oec. publ., Chief Executive Officer
Dany Luetolf, Director Client Relations
Dr. Christoph Wenk, Senior Research Associate
Sascha Behnk, Junior Research Associate
Temporary support through junior researchers (MBA / PhD-level)

The team combines long-term experience as board members and executive management of listed companies, corporate finance, corporate governance, legal advisory, investor relations, journalism and leading economic and legal research in the area of business law and corporate governance



A1. Organization

Founding Donors (2013)

Association of Swiss Investment Foundations (KGAST)
Joint-foundation Vita
Pension Fund of Credit Suisse Group (Switzerland)

Advisory Board

Dr. Werner Frey, Managing Director of AFME (Association for Financial Markets in Europe)
Adriano Imfeld, Vice-Chairman, Joint Foundation vita
Roland Kriemler, Managing Director, KGAST
Dr. Markus Steiner, Senior Vice President, Managing Director State Street Switzerland
Martin Wagner, Managing Director, Pension Fund Credit Suisse Group (Switzerland)

- SWIPRA supports the „Rules for Institutional Investors regarding the Execution of Shareholder Rights in Listed Companies“ of economiesuisse
- SWIPRA follows an internal Code of Conduct, in particular regulating potential Conflicts of Interest, see www.swipra.ch



A2. Discussion: Role of a proxy advisor Case study USA (I) - Situation

- A de facto duopoly of ISS and Glass Lewis
- Both these organizations work on the basis of a rule based approach
- Investors have limited resources and often blindly follow their recommendations
- Increased regulatory requirements of putting more items on AGM agendas continue to increase their influence
- In a newer US study, approx. 70% of companies do state that they calibrate their compensation systems with the rules or tools of proxy advisors just to avoid a negative outcome at their AGM; several studies even show that companies implement overall governance structures to be aligned with the requirements of proxy advisors. Companies do not do this because they think that this will generate any value to shareholders. Some empirical results even indicate that this behavior is potentially negatively influencing the value creation for the shareholder.
- Reasons: rules of most proxy advisors are not objectively based (i.e. not empirically based and are related to potential conflicts of interests, e.g. because a proxy advisor is offering consulting services and analysis tools for employee participation programs), and sometimes are based on certain ideological views



A2. Discussion: Role of a proxy advisor Case study USA (II) - Consequences

- US politics and SEC are working on regulations around proxy voting and advisory
- Regulations concern the voting organizations and processes of institutional investors and most likely will impact also the proxy advisors themselves over time
- SEC Regulatory Guidelines on Proxy Advisory Firms and Proxy Voting Responsibilities (June 30, 2014):
 1. Confirms that role outsourcing of voting rights discretion to proxy advisory firms without engaging in continual, ongoing and active oversight is inconsistent with an investment advisor's fiduciary duties to its clients → *Investor has to keep control of its voting rights*
 2. The SEC encourages investors to require as a compliance and oversight matter that any proxy advisory firms to whom they subscribe implement a standardized process for *advance issuer review and dialogue on proxy advisors reports* before their publication and to include the issuer's response in the final reports
 3. The SEC states that proxy advisory firms are subject to potential Rule 14a-9 *liability* for false or misleading statements involving material facts or omissions.
 4. The SEC clarifies that the investor has to vote in *the interest of its clients*. An investor may also opt not to vote on all agenda items. Respective policies and procedures have to be reviewed at least annually.