EARLY INSIGHTS INTO 2022 PROXY SEASON VOTING TRENDS

MAY 2022

Early Insights into 2022 Proxy Season Voting Trends

With the 2022 AGM European season in full swing, what early trends are we seeing in shareholder voting? What types of proposals are the most contested? And why are shareholders voting the way they are? This paper aims to answer these questions by examining the completed AGMs of the constituents in the major European indices.

Unsurprisingly, and as set out in CMi2i's 2021 Season Review and Outlook for 2022, executive compensation is one of the most prominent trends of the season. Post pandemic, several CEO's pay have been further re-adjusted and are now back on the rise, much to stakeholders' dismay, particularly given sky-rocketing inflation.

As a result, Say-on-Pay proposals are at the fore of those being most challenged, with some failing to reach the required approval threshold. Of the companies examined in this review, listed below, remuneration opposition was the most common AGM trend, with 5 of the 6 companies witnessing a lack of shareholder support or approval.

- Bayer AG (Germany)
- Credit Suisse (Switzerland)
- GN Store Nord (Denmark)
- Akzo Nobel (Netherlands)
- Future PLC (UK)
- Stellantis NV (Netherlands)

It is important to note the ever-increasing influence of the proxy advisors, where one can see a correlation between their recommendations and the approval rates which can lead to a high-level of dissent and rejection of a resolution when these advisory firms are opposed.

Bayer AG – Remuneration Report, 24% support

On April 29th 2022, Bayer AG announced that the proposal requiring shareholders to approve the 2021 remuneration report failed to be approved, gaining only *24% support*[1]*.* Although the vote is non-binding (advisory vote), it marks another setback in Bayer's shareholder relations afterin the 2019 vote in which investors disapproved of how Chief Executive Werner Baumann and his top team had been managing the company.

Ahead of the meeting, ISS and Glass Lewis had issued a negative recommendation on the proposal, citing **Bayer's stripping out the effect of major litigation on the management pay-out component which is contingent on group cash flow**.

Bayer's largest shareholders, including Allianz and Amundi, voted against the proposal, citing such concerns as *"discretionary adjustments to the short-term components", "legacy contribution-based*

[1] https://www.bayer.com/sites/default/files/voting-results-asm2022.pdf

pension entitlements", "LTI performance metrics not sufficiently challenging", and *"overall disconnection between pay and performance".*

Credit Suisse – Ratification of Board Acts 2020, 37% support

Credit Suisse' proposal to discharge the members of the boards of their duties for FY20 failed to be approved, gaining only *37% support*[2]. The opposition can be linked to the company's biggest ever trading loss after the collapse of Archegos Capital and other scandals dating back to 2020.

ISS and Glass Lewis had recommended a vote against the resolution, mentioning that shareholders could **reasonably hold the board and executives accountable for the identified deficiencies in the company's risk and control framework**.

Shareholders including DWS and L&G, voted against the proposal mentioning "*performance concerns", "range of risk and control issues revealed by investigations and settlements, which have entailed substantial monetary and reputational costs for the company, and by extension its shareholders"* and *"discharge vote resolutions should not be bundled into one single item".*

While not a remuneration vote, this vote is yet another example of shareholder discontent this season.

GN Store Nord – Remuneration Report, 38% support

GN Store Nord's 2021 remuneration report was rejected by shareholders, with over 62% dissent[3] votes.

Similar to the other issuers above, both ISS and Glass Lewis recommended that shareholders vote against the Say-on-Pay Ex- post as the company's remuneration practices were deemed to be not aligned with shareholders' best interests.

Some of the concerns raised by GN Store Nord's major shareholders were *"level of salary increase granted to executives", "poor pay for performance alignment", "incentive vests for below median performance", "lack of ESG KPIs", "in-flight adjustments result in less disclosure",* and *"lack of retrospective disclosure".*

---

[2] https://www.credit-suisse.com/about-us/en/events/annual-general-meeting.html
[3] https://www.gn.com/Investor

Akzo Nobel – Remuneration Report, 42% support

On April 22, 2022, Akzo Nobel announced that the proposal requiring shareholders to approve the 2021 remuneration report failed to be approved gaining only 42% support[4]. While the vote is non-binding, it marks the second consecutive year the proposal is rejected.

ISS and Glass Lewis noted that the issuer failed to address shareholders' dissent over the 2021 result and failed to implement a better remuneration disclosure.

Some of the concerns raised by Akzo Nobel shareholders such as abrdn and Aegon were *"excessive board discretion to evaluate performance targets", "one-off grant offered to the CEO", "lack of board responsiveness", "excessive risk taking"* and *"lack of transparency".*

Future PLC – Remuneration Report, 44% support

Future PLC's 2021 remuneration report was rejected by shareholders gaining only 44% support[5]. The proposed pay package offered to the CEO could be worth approximately £40m if the target of a 10% TSR growth by 2025 is met.

The leading proxy advisors, including the local firm PIRC, issued negative recommendations for the proposal, citing the company's failure to address shareholders' dissent at the previous AGM,and that the proposed bonus was not aligned with best practice.

Some of the concerns raised by Future's major shareholders were *"excessive CEO pay and excessive CEO/workforce pay ratio", "inappropriate discretionary payments", excessive discretion", "lack of shareholder responsiveness",* and *"excessive severance payments".*

Stellantis NV – Remuneration Report, 47% support

Stellantis NV's 2021 remuneration report faced a high level of dissent and was rejected by shareholders at the 2022 AGM, gaining only 47% support[6]. The pay package included a 17% pay raise for the CEO. The AGM, which took place just few days before French presidential elections in a campaign dominated by concerns over the inflated cost of living, received a high amount of media coverage and Mr Tavares' pay was called "shocking" by presidential candidate, Marine Le Pen.

[4] https://www.akzonobel.com/content/dam/akzonobel-corporate/global/en/corporate-governance/shareholder-meeting/annual-general-meeting-of-shareholders-2022/voting-results-agm-2022.pdf
[5] https://www.futureplc.com/shareholder-info/
[6] https://www.stellantis.com/en/news/press-releases/2022/april/results-of-stellantis-2022-annual-general-meeting

All proxy advisors, including the domestic advisory firms AFG and Proxinvest, opposed the company's remuneration report due to the introduction of a 5-year additional LTI plan valued at approximately $45m, bearing **the risk of excessive pay outcomes**.

Amongst the issues raised by stakeholders were *"lack of disclosure", "poor overall governance practices", "LTI vest below performance", "poor overall pay for performance link", "performance hurdles not enough challenging",* and *"failure to mitigate ESG risks".*

As mentioned in the incipit of this document, CEO pay is once more at the top of investors' priorities and scrutiny. The link between pay and performance, the lack of disclosure and the excessive use of discretion have been common issues identified in all the failed compensation proposals CMi2i reviewed. With many AGMs yet to take place, **this trend could further develop, with more companies facing critiques of their executive pay packages.** The **risk will be particularly high for those companies that saw a 20% shareholder opposition at the 2021 AGM as they will have additional expectations to address this dissent and demonstrate tangible improvements by their 2022 meeting**. With the peak of the season still to come, we will be closely watching stakeholders' behavior and how the proxy season unfolds.