

Umgang mit Nachhaltigkeit bei Vergütungsentscheidungen

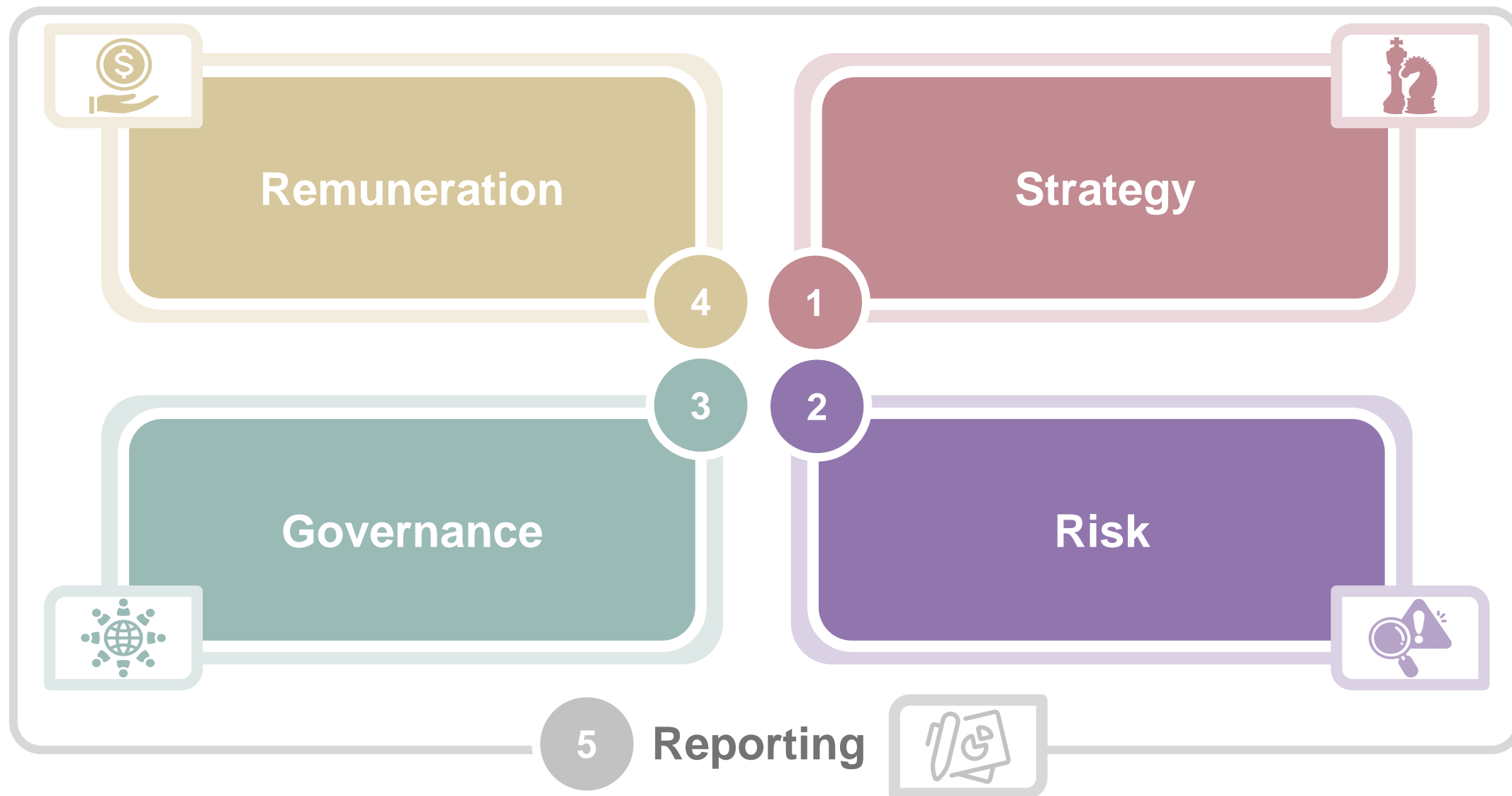
21. Juni 2022

Dr. Stephan Hostettler, Managing Partner
Lehrbeauftragter für Corporate Governance an der Universität St. Gallen (HSG)

Claudia Würstle, Senior Manager & Sustainability Lead

hcm.com

Relevant topics for decision-makers: HCM's ESG Framework



Opportunities of ESG



Recruiting



Cost



Capital



**Motivation &
productivity**



Regulator



Customers

Increasing pressure on companies and ESG market study

Why ESG?

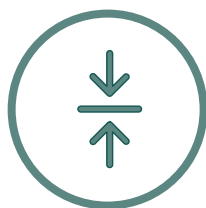
Society and regulators expect Say-on-Sustainability



Climate change and increased ESG awareness



Paris Climate Agreement



Societal pressure



Counterproposal Corporate Responsibility Initiative
(for Swiss companies as of 2024, i.e., for financial year 2023)

Indirect counterproposal responsible business initiative (KVI) as of 2023

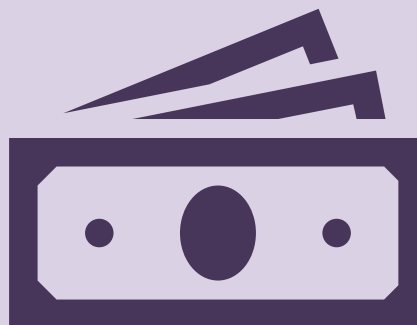
Public companies

Financial institutions regulated
by FINMA



500+ FTEs

&



Balance sheet total of CHF 20 million
or
Revenues of CHF 40 million

All companies

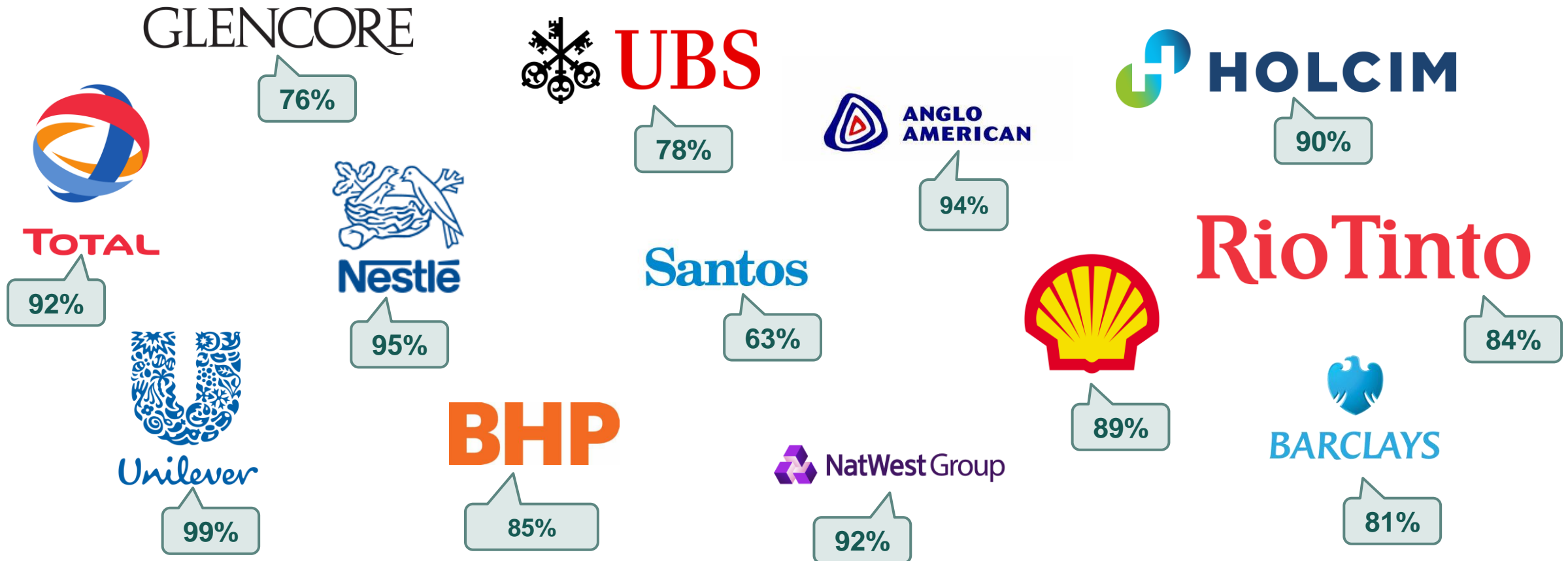
With minerals in conflict areas
*Above a set import and/or processing
amount*

In areas of child labor
*Exceptions:
“Low risk companies”
SMEs*

Why ESG?

Say-on-Sustainability

Selected examples of vote on Climate Action Plan since 2021



Why ESG?

Pressure is rising from proxy advisors – Diversity



*Women need to make up for **30% of the board members.***

AGAINST the nomination committee chair or other directors on a case-by-case basis when the underrepresented gender accounts for **less than 30 percent** of the shareholder-elected directors.



*From 2022 on, SMI & SMIM companies need to contain **at least 30%** of female members of the board.*



*The board needs to **contain more than 20% women**, unless there is a reasonable explanation.*

Why ESG?

Pressure is rising from proxy advisors – Diversity (ISS)



Key Takeaways

ISS has recommended AGAINST the reelection of the nomination committee chair (Item 7.10), Peter Voser, because the board is insufficiently gender diverse. However, shareholders may wish to note that the company has announced that it will propose one or more new female directors for election at the 2023 AGM.



ISS has recommended AGAINST the reappointment of the combined compensation and nomination committee chair, Klaus Tschuetscher (Item 5.15), as a signal of concern to the board because the board is insufficiently gender diverse.



Key Takeaways

ISS has recommended AGAINST the nomination committee chair, Sergio Ermotti (Item 5.1.a), as a signal of concern because the board is insufficiently gender diverse. Nevertheless, some shareholders' concerns may be mitigated based upon the announced commitment to reach a gender diversity level of 30 percent or more by the 2023 AGM.

79.48 %	Ja / Yes
20.35 %	Nein / No
0.17 %	Enthaltung / Abstention

5.15 Re-election of Klaus Tschuetscher as member of the Compensation Committee		
Yes in % in numbers	No in % in numbers	Abstention in % in numbers
80.00% 11'160'423	19.30% 2'692'152	0.70% 98'151

5.1.1 Re-election of Sergio P. Ermotti as a member of the Board of Directors and re-election as Chairman of the Board of Directors in the same vote		
	Votes	Percent
Votes validly cast	128 844 087	
Absolute majority	64 422 044	
Yes-votes	102 039 297	79.2%
No-votes	26 334 244	20.4%
Abstentions	484 546	0.4%

Composition		
Poor attendance	N/A	
Overboarding	No concerns	
Gender diversity	Insufficiently diverse	Peter Voser
Executive on a key committee	No concerns	
Combined Chair/CEO	No executive directors	
Length of term	No concerns	

Composition		
Poor attendance	N/A	
Overboarding	No concerns	
Gender diversity	Insufficiently diverse	Klaus Tschuetscher
Executive on a key committee	No concerns	
Combined Chair/CEO	Separate Chair and CEO	
Length of term	No concerns	

Composition		
Poor attendance	N/A	
Overboarding	No concerns	
Gender diversity	Insufficiently diverse	Sergio Ermotti
Executive on a key committee	No concerns	
Combined Chair/CEO	No executive directors	
Length of term	No concerns	

Why ESG?

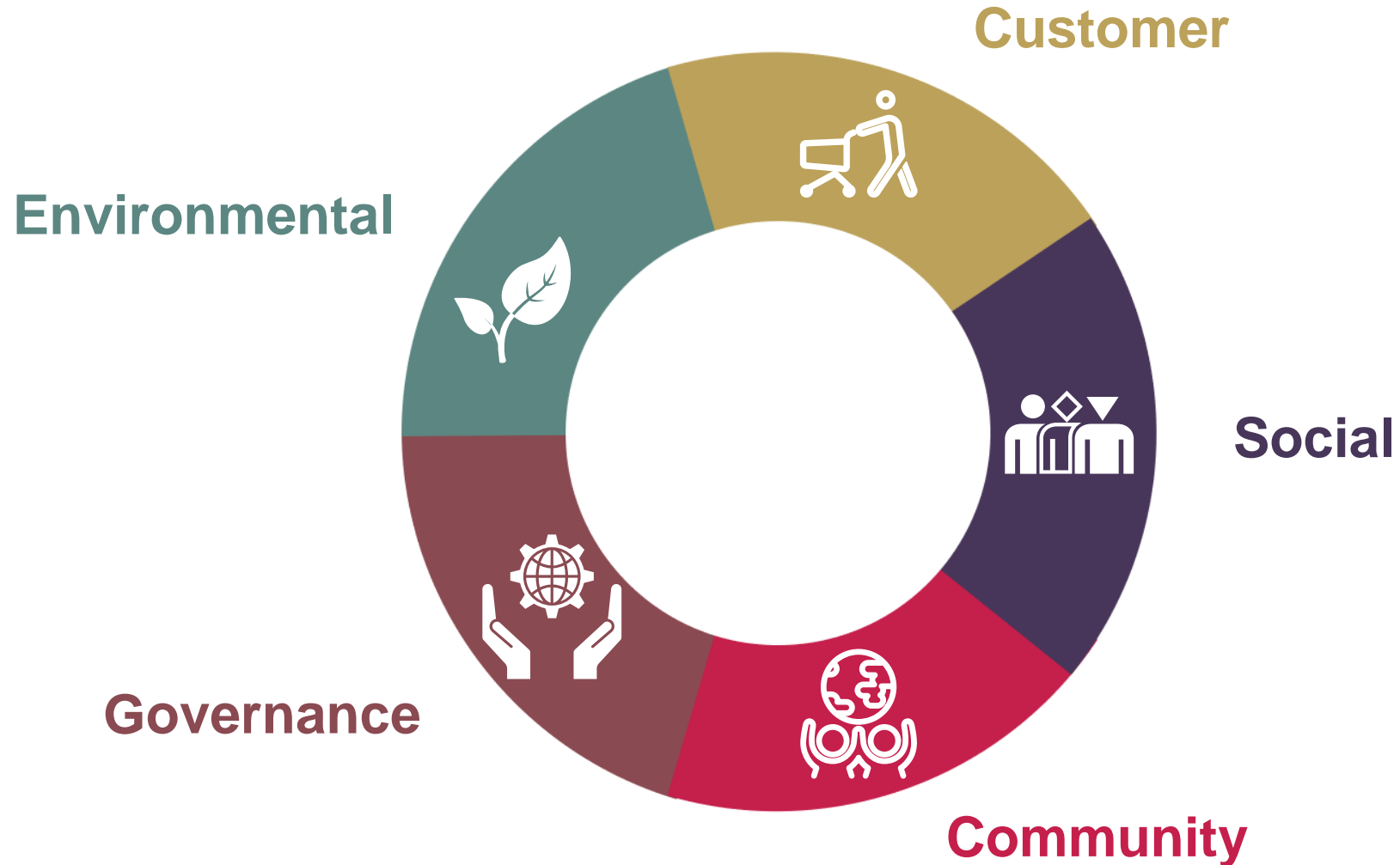
Pressure is rising from proxy advisors – also when it comes to pay



*There shall be a clear link between the company's performance and variable incentives. Financial and **non-financial conditions, including ESG criteria**, are relevant as long as they reward an **effective performance in line with the purpose, strategy, and objectives adopted by the company.***

E&S criteria in executive incentive plans (...), can serve to provide both executives and shareholders a **clear line of sight into a company's ESG strategy, ambitions, and targets.**
*Although we are strongly supportive of companies' incorporation (...) **in their long-term strategic planning**, we believe that the inclusion of E&S metrics (...) should be predicated on each **company's unique circumstances.***

*In addition to these purely financial criteria, key performance indicators (clearly defined and measured) should also be taken into consideration **reflecting the company's social and environmental performance**, such as safety in the workplace, job security, absenteeism, customer satisfaction, reduced greenhouse gas emissions and waste management.*



ESG market study

Latest international study covers over 500 companies



United States – S&P 100



Canada – TSX 60



Australia – ASX 100



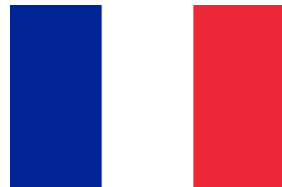
United Kingdom – FTSE 100



Singapore – STI 30



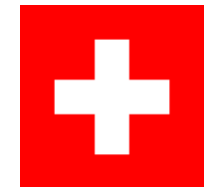
South Africa – JSE TOP 40



France – CAC 40



Germany – DAX 30



Switzerland – SMI 20

ESG market study

Globally: 71% link ESG to short-term incentives, 16% to long-term incentives



ESG market study

Switzerland: More than 40% of the SPI Top 100 reflect ESG in pay



42%

Swiss Market Index (SMI)
75%



30%

Social



16%

Governance



16%

Customer



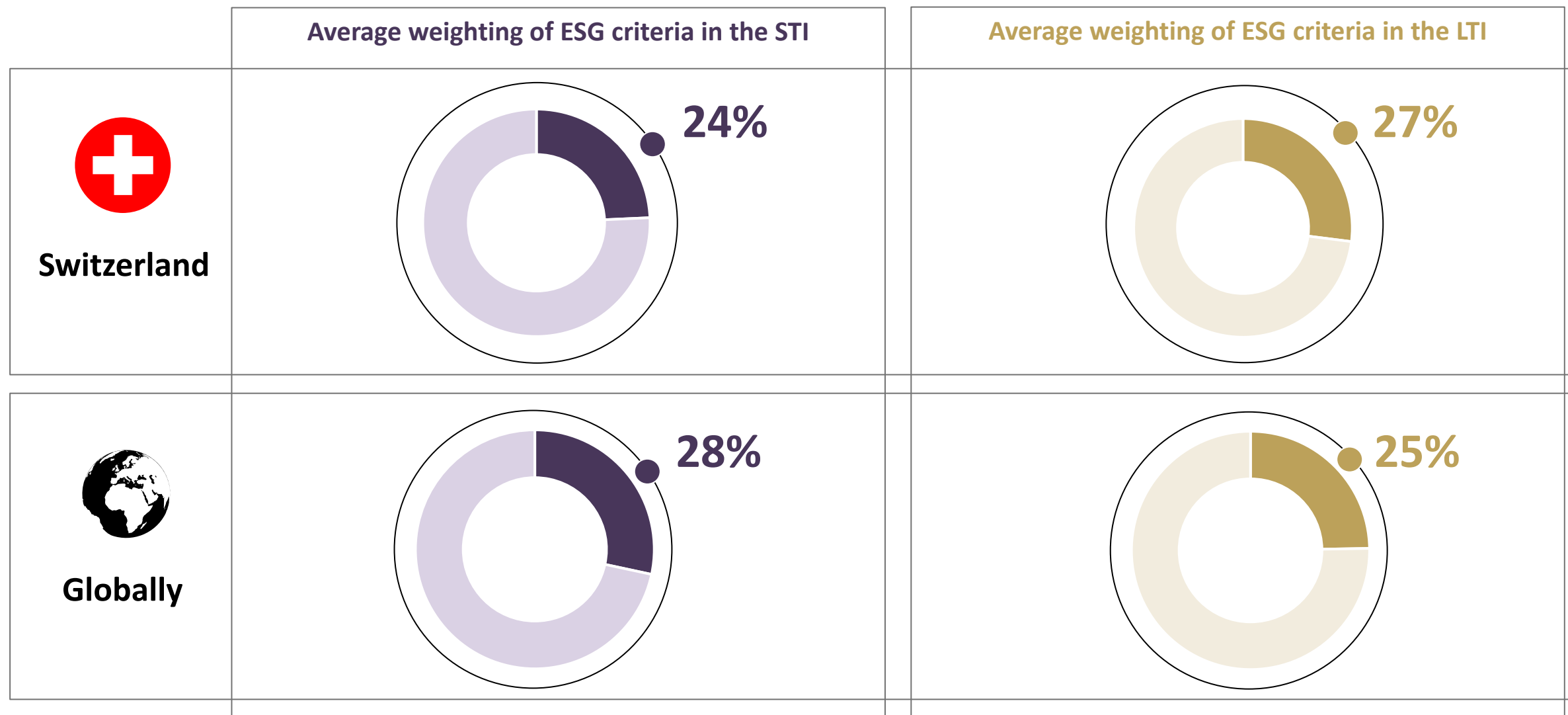
9%

Environmental



5%

Community



ESG market study

Companies often combine E, S and G topics

E

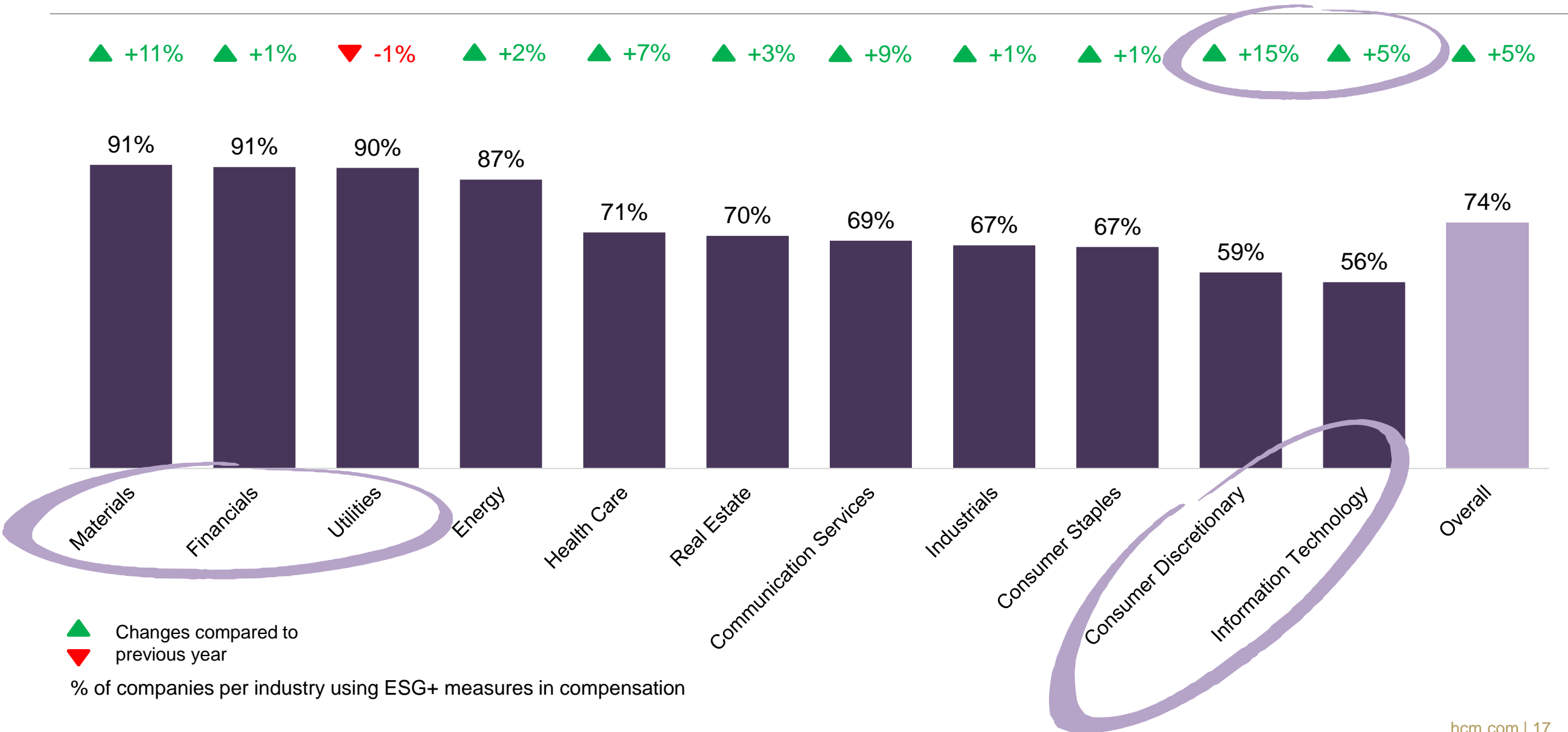


S



G





How to reflect ESG in pay decisions?

Targets

Trade-off moved to target (deviation)



Cost

Trade-off moved to same-currency metrics

Profit - CO₂ Cost

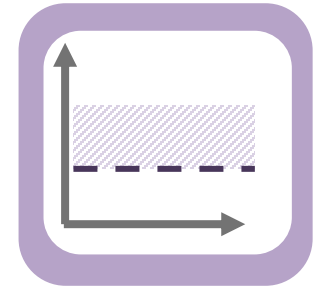
Assessment

Trade-offs discussed as part of holistic assessment

Thema	Kriterien & Details	Mitarbeiter	Vorgesetzter	Leitungsstelle	Gruppe		BU1		BU4	
					Beurteilung GL	Beurteilung GL	Beurteilung GL	Beurteilung GL	Beurteilung GL	Beurteilung GL
Nachhaltigkeit					Beurteilung	Kommentar	Beurteilung	Kommentar	Beurteilung	Kommentar
Mitarbeiter										
Wachstum										
Qualität und Kunden										
Produktion										
Qualitätsfaktor (nur Gruppe)					± 0-20 %					
Qualitätsfaktor für Gruppe resp. pro BU					± 0-20 %	± 0-20 %	± 0-20 %	± 0-20 %	± 0-20 %	

Gateway

Trade-offs solved via robust ambition levels



Qualitative assessment: Illustrative example

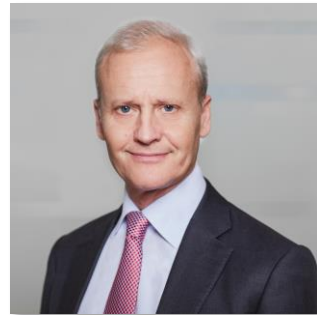
Illustrative

Performance topic	Performance criteria	Ambition level	Achievements			Evaluation CEO & ExB		Evaluation BoD	
			Multi-year average	Previous year	Current year	Assessment	Comment	Assessment	Comment
Sustainability	CO2 footprint								
	Energy targets								
	Recyclability products								
Employee	Employee satisfaction								
	Retention key employees								
Growth	Standardization (costs)								
	Innovation (invest)								
	New markets (expand)								
Quality & clients	Client satisfaction								
	Reclamation frequency								
	Certifications p.a.								
Production	Supply Chain								
...				
Proposal overall performance assessment									
Proposal total adjustment						+/- xx		+/-xx	

Your contacts

Dr. Stephan Hostettler
Managing Partner

+41 44 560 33 01
+41 79 652 34 58
stephan.hostettler@hcm.com



Claudia Wuerstle
Senior Manager

+41 44 560 33 12
+41 79 194 83 59
claudia.wuerstle@hcm.com



HCM International Ltd.

Mühlebachstrasse 54 | CH-8008 Zürich
Phone: +41 44 560 33 33

4 Rue du Commerce | CH-1204 Geneva
Phone: +41 22 339 88 50

international@hcm.com
hcm.com

