D.F. KING

General Meeting Season Review

October 2018

Part of **Link Group**

An Orient Capital Company | Corporate Markets

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Founded in 1942 in the United States, D.F. King is one of the world's oldest proxy solicitors, and has since been playing a leading role in proxy solicitation and M&A globally since the group's incorporation. North America and Europe are home and core, historic markets where D.F. King has been securing shareholder support for decades. In the past three years, our D.F. King Ltd team have worked on over 500 mergers, offers, general meetings and/or contested situations across EMEA.

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Together, we have worked on numerous sophisticated AGM/EGM & M&A campaigns by providing our clients with combined solutions that have consistently delivered successful results.

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The 2018 UK and European proxy season demonstrated that corporate governance continues to evolve toward greater accountability by boards, not only toward their shareholders but also toward the wider stakeholders affected by them.

In all the major corporate governance topics that one encounters across the region such as board elections, listed companies have strived to reinforce their *corporate governance capital* by becoming more transparent, explaining how their boards operate and interact with executive management, listening to the expectations of their investors, and by engaging with both their internal and external stakeholders.

We've also seen institutional investors increase their stewardship responsibilities through more regular engagement with issuers and with a far greater number of companies across the region. These minority investors want to be heard and leave an indelible mark on the shape of corporate governance on almost every subject of the day. Whether it be through increased staffing of their corporate governance departments, an increased emphasis on ESG, or simply a bespoke voting policy with proxy advisory firms, institutional investors have become more independent and individual in their voting decisions and about the subjects that are important to them.

The corporate governance debate has expanded to a wider audience too. With less faith in Adam Smith's agent/principal model and the limits of self-policing, the conversation has opened up to stakeholders, and regulations have become far more prescriptive. Certainly, some of the impetus relates to the gradual implementation of the EU Shareholder Rights Directive, but this movement remains rooted locally in a general desire to see the creation of shareholder value through improved transparency and greater accountability.

If corporate governance is healthier today, the demands on listed companies continue to grow, especially in a more prescriptive environment.

Now more than ever, it is essential for companies to lever all the corporate governance tools at their disposal to tell their story, explaining their governance so that investors and stakeholders alike understand how their model creates growth for shareholders and why they are good corporate citizens.

For more information, please feel free to contact me directly.

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INTRODUCTION: HOW CORPORATE GOVERNANCE REGIMES EVOLVE IN EUROPE

Following the financial crisis, it became imperative for investors to ensure that corporate boards could manage systemic risk and that they were accountable not only to all their investors but to their broader stakeholders as well. The decision in several European countries to enable shareholders to take a more active role in a company's decision making became the hallmark of the corporate governance movement. When the public did not see the anticipated decrease in executive compensation, many governments came under pressure to give more teeth to corporate governance regimes. They began to move away from a self-governing model to a prescriptive one.

The implementation of the Shareholders Rights Directive (SRD II) is a sea-change for companies, shareholders, custodians, and proxy advisors alike. And while national governments still maintain substantial flexibility in how they transpose SRD II into national legislation, we are starting to see the impact of some of the changes. For example, France's Sapin II law created binding votes for both remuneration reports and remuneration policies, motivating French businesses to improve their processes.

We are also seeing several markets roll-out further changes to their domestic corporate governance codes.

But if the aim of further regulation is to better align investor and issuer perspectives on corporate governance, how well have previous national attempts on legal intervention faired?

To answer this question, D.F. King selected four European countries with different regulatory regimes on corporate governance overall and executive remuneration in particular. These were the United Kingdom and Switzerland, two countries with early but very different legal implementations of binding compensation; France, which enacted their remuneration policy vote legislation only in 2017, with full implementation in 2018; and Germany, the only one of the four without a binding vote on remuneration.

Separately, we also cast our eyes over the Belgian and Spanish markets, assessing the key trends for issuers.

SHAREHOLDER RIGHTS DIRECTIVE II - IMPLICATIONS FOR STAKEHOLDERS

EXECUTIVE SUMMARY: AN OVERVIEW OF THE EUROPEAN MARKET PLACE

PARTICIPATION INCREASING

- Across the major European markets, participation has increased by 1% over the past 12 months. This is driven primarily by the UK, which has seen participation rise from 72.07% to 74.34%
- This year, both the UK and Germany have seen participation in AGMs among shareholders higher than in any of the previous three years
- While all four markets have seen participation increase since 2015, the last three years have seen it fall in Switzerland
- Average participation levels at AGMs of Swiss companies was just 64.53% in 2018.

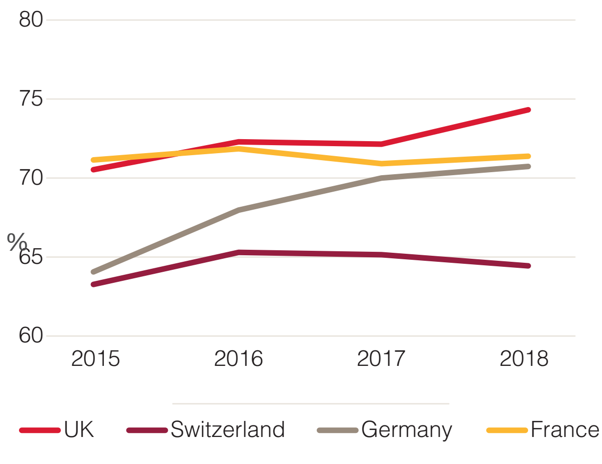
CORPORATE GOVERNANCE

- The vast majority of proposals at 2018 AGMs passed with strong shareholder support
- On average, items are passed with 95.67% support
- While the UK has the highest rate (96.27%), the lack of a binding remuneration law means that Germany has the lowest (92.18%)
- The UK led all four core markets surveyed in approval rates across all categories, as well as on all items combined. This superior performance can be explained by many factors, but at the core, modern corporate governance was invented there and its value has permeated the DNA of most Plc's.

REMUNERATION BEING SCRUTINISED

- Across Europe, remuneration is likely to see the weakest support from shareholders, with an average among the core four of 90.23%
- Support for remuneration proposals is almost 6% lower than the average for all items
- The disparity between the core four markets relates to the stage at which their executive pay regulations currently sit
- It is the third year in a row that proposals related to remuneration policies in France increased, going from 74.05% in 2016 to 90.63% approval in 2018
- Germany is the only country in this selection without a binding vote on remuneration.
- The Sapin II law made France one of the most, if not the most, stringent "say on pay" systems in the world.

AVERAGE AGM PARTICIPATION 2015-2018



CAPITAL AUTHORISATIONS GIVEN GREEN LIGHT

- Across the UK, Germany, and France, support for capital authorisations has increased. The average stands at 93.3%
- There are, however, variations across the type of item in relation to the degree that they are perceived by investors to be in their interests. In Germany, for example, while the general authorisation approval rate sits at 89.91% due to investors wanting to avoid the risk of their investment being diluted, employee share plans are approved at a rate of 99.20%. This is because investors understand the importance of creating staff motivation and loyalty.

DIRECTOR ELECTIONS SUPPORT WANES

- While support for Director proposals remained strong, there has been a slight fall in the overall average from 2017 (95.48% to 95.27%)
- In the UK, the average approval of Director proposals has remained around 98% over the last three years, while in France, Director-related items saw a slight decrease in approval from 93.39% in 2017 to 92.98%
- Of the 219 supervisory board election items in Germany, 11 received less than 75% approval
- In 2018 there were a total of 34 items which received less than 80% support from Swiss shareholders. Over half of these items were related to the Board of Directors, followed by remuneration proposals (13).

A SPOTLIGHT ON: THE UNITED KINGDOM

AGM PARTICIPATION ON THE RISE

AVERAGE SHAREHOLDER AGM PARTICIPATION AMONGST FTSE 100 COMPANIES

Increased approximately **2%**

FROM **72.27%** IN 2017

TO **74.34%** IN 2018

Three companies increased their participation by double digits: Admiral Group, Centrica and BP, with BP experiencing the biggest leap of 32.54%, from 43.63% in 2017 to 76.16% in 2018. This sharp rise appears to be the result of the company's decision to break with a 100-year precedent by holding the 2018 AGM in Manchester, rather than London.

The UK led all four markets in approval rates across all categories and on all items combined. Modern corporate governance was invented there, and its value has permeated the DNA of most Plc's.

CORPORATE GOVERNANCE REMAINS STRONG

Average shareholder support across all items has remained stable since 2015 at approximately 97.5%, with approval rates in each proposal category remaining relatively flat.

In our analysis, only one management proposal failed to secure 50% support in 2018. This was in relation to Royal Mail's remuneration report, which secured 29.83% votes in favour vs 70.17% against as shareholders rejected higher pay for the company's new CEO.

Under the new UK Corporate Governance Code, which will be effective from the 2019 AGM season, should votes against any item exceed 20%, company boards will be expected to explain the action they intend to take to address the relevant shareholder concerns.

In cases where support is lower than 80%, companies will also be expected to provide an update in the following six months on shareholder views. Companies also will need to disclose the actions set out in the annual report and AGM notice, outlining how this action has impacted the board's decision-making and any actions or resolutions the board proposes moving forward.

LESS THAN 80% SUPPORT = BOARD WILL BE EXPECTED TO EXPLAIN

INVESTORS KEEP THE PRESSURE ON

"Investors have repeatedly highlighted their concerns with excessive CEO pay, so it is frustrating that the message does not appear to be getting through to some FTSE 100 boardrooms. This year we have seen more FTSE 100 companies get significant votes against their remuneration reports than in previous years."

Andrew Ninian, Director of Stewardship and Corporate Governance, The Investment Association, August 2018

Shareholder revolts against remuneration items rose in the last year of AGMs. This year has seen 17 receive less than 80% support, the highest in the last three years. This constituted 12 remuneration report items, three items on remuneration policy, and two equity plans for executives' proposals. Low approval rates are increasingly significant; as of the new code effective from the AGM 2019, companies will be expected to address these low rates.

AstraZeneca, Old Mutual, Informa and WPP stand out, having received less than 80% approval on remuneration items for two consecutive years.

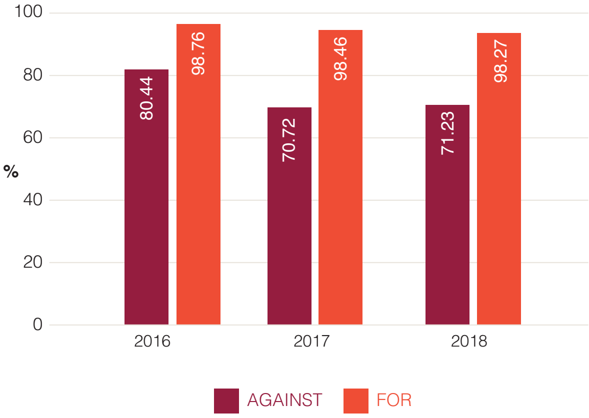
Votes on remuneration remain the most likely to see shareholders challenge companies' plans. Over the last three years, eight of the 10 lowest-approved items (all under 58%) were related to remuneration report proposals.

> "Despite a quieter AGM season last year, the 2018 season has shown that executive pay remains an area of shareholder focus. We have seen a much more challenging voting season, in particular for FTSE 30 companies, despite it not being a policy year for the majority. This reflects a tougher stance taken from proxy agencies in respect of the largest companies, as well as continued pressure on repeat offenders."

Stephen Cahill, Vice-Chairman, Deloitte

August 2018

AVERAGE DIRECTOR APPROVAL RATES ON ISS 'FOR' AND 'AGAINST' RECOMMENDATIONS



CAPITAL AUTHORISATIONS RISING STEADILY

Capital authorisations for approvals remain robust. This year British American Tobacco, Anglo American and International Consolidated Airlines Group all received less than 80% support for items related to the issue of equity with pre-emptive rights. Considering both share issuance types (those with and those without pre-emptive rights), average support for capital increases has steadily risen from 94.35% in 2016 to 95.80% in 2018.

Issuance of equity by FTSE 100 companies secured the consistent support of proxy advisors ISS and Glass Lewis whether with or without pre-emptive rights. This excellent score should be examined with the caveat that often individual investors' voting policy on capital increases has been more demanding than what the proxy advisors consider to be best practice. While it is to be confirmed at publication, we expect certain proxy advisors to modify their policies to be closer in-line with institutional investors' perception of best practice on this subject.

DIRECTOR ELECTIONS SUPPORT STABLE

Average approval of Director proposals has remained around 98% over the last three years. We continue to see average support for Director elections trailing that of Director discharge. The difference indicates shareholders are more inclined to support the stepping down of a Director/CEO in light of inevitable negative media and publicity surrounding particular activities/decisions/policies/ reckless behaviour than exercise a vote in favour of electing or re-electing a board member.

Over the last three years, ISS has been less critical in its recommendations, recommending a vote against seven, four, and two Director proposals in 2016, 2017, and 2018 respectively. There is a correlation between ISS's favourable recommendations on Director proposals and a consistent average approval rate of 98% from shareholders year on year.

KEY TAKEAWAYS FOR 2019

- Substantially increasing shareholder participation from one year to the next is possible, as BP demonstrated this year.
- The number of remuneration items receiving less than 80% support nearly doubled year on year. This trend will need to decrease in 2019 if companies want to avoid the expectation under the revised UK Corporate Governance Code for them to address shareholder concerns.
- The new UK Corporate Governance Code will need to be implemented by all companies from the 2019 AGM season onwards.

"A company's culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders."

UK Corporate Governance Code, 2018

The 2018 UK Corporate Governance Code has added to and updated the 2016 Code, in an effort to simplify the Code and shift the focus from prescriptive compliance with the Provisions, to the application of the main Principles.

Key changes that UK issuers should be aware of:

Nomination Committee

Boards are expected to disclose more information on their composition, the board evaluation, and how the board engaged with the evaluator. The nomination committee's responsibilities and reporting requirements have been expanded to include reporting on its approach to succession planning and overseeing the development of a diverse talent pipeline.

The annual report should also include the work of the nomination committee regarding the policy on diversity and inclusion, how it has been implemented and progress on achieving set objectives, as well as the gender balance of those in senior management and their direct reports.

Stakeholder and workforce engagement

The chair should ensure that the board as a whole has a clear understanding of the views of shareholders. In addition to formal general meetings, the chair should seek regular engagement with major shareholders in order to understand their views on governance and performance against the strategy. Committee chairs should seek engagement with shareholders on significant matters related to the chairs' areas of responsibility.

For engagement with the workforce, one or a combination of the following methods should be used: a Director appointed from the workforce, a formal workforce advisory panel, or a designated Non-Executive Director. If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

The board should keep engagement mechanisms under review so that they remain effective.

Audit, risk, and internal control

Currently, very few companies disclose information on their emerging risks. But this will change as the Financial Reporting Council has introduced a requirement for companies to carry out a robust assessment of emerging risks as well as principal risks, explain what procedures are in place to identify emerging risks, and explain how these are being managed or mitigated.

The 2018 Code will apply to accounting periods beginning on or after 1 January 2019, and companies need to begin planning now how to put the new processes into practice, ready for implementation.

A SPOTLIGHT ON: FRANCE

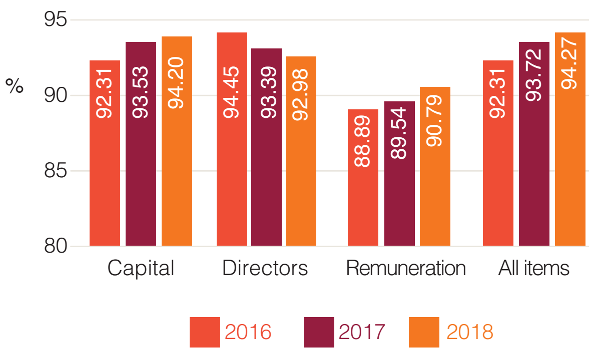
PARTICIPATION ON THE UP

Participation in French AGMs slightly increased from 71.09% in 2017 to 71.51% this year, primarily due to the increase of participation in CAC 40 companies.

While the participation in the SBF 80 remains steady, the CAC 40 AGM participation rose from 64.51% in 2017 to 66.98% this year. Indeed, Michelin saw its quorum increase from 46.44% in 2017 to 61.34% this year, and Safran's quorum increased from 69.65% to 80.05% due in part to the completion of its acquisition of Zodiac earlier this year.

Despite the significant increase of participation in the CAC 40 index this year, the SBF 80 participation remains much higher than the participation of the CAC 40 index with a quorum around 74% as opposed to 67% for the CAC 40, reflecting the higher propensity of large minority investors.

AVERAGE APPROVAL RATE BY PROPOSAL TYPE



CORPORATE GOVERNANCE APPROVAL RISING

France's Corporate Governance codes and practices have been rigorous and sophisticated for many years. This general health is reflected in the average approval rate for all items combined which continued its upward trend to an average of 94.27%. This is compared to 93.72% in 2017 and 93.61% in 2016. Similarly to 2017, the approval rates of remuneration- and capital-related resolutions increased, while Director-related resolutions continued to decrease, falling to 92.8% from its 94.45 level in 2016 due to a certain number of elections of Directors with the combined role of Chairman and CEO.

REMUNERATION FACES REGULATORY IMPACT

SAPIN II LAW

Subsequent to contentious remunerations that occurred in France, the Sapin II law was enacted in December 9, 2016, and made France one of the most, if not the most, stringent "say on pay" systems in the world.

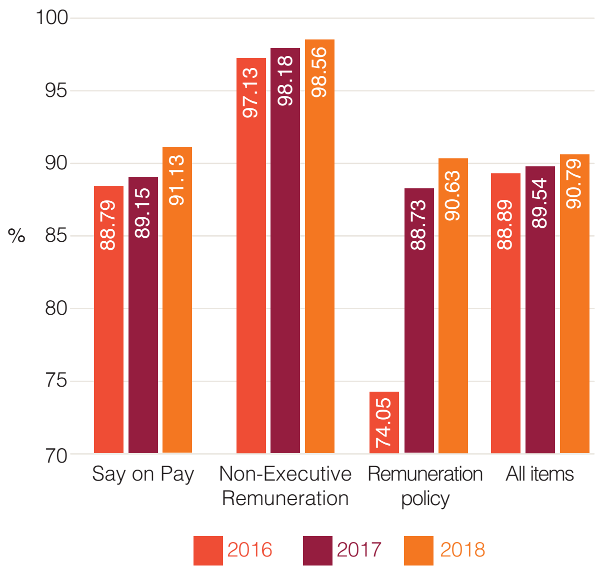
ACCORDING TO THE SAPIN II LAW, FRENCH ISSUERS SHOULD PRESENT EACH YEAR BINDING VOTES ON SAY ON PAY EX-ANTE (REMUNERATION POLICY) AND SAY ON PAY EX-POST (REMUNERATION REPORT) FOR CORPORATE OFFICERS.

The “say on pay” vote, initially introduced in 2013 in the AFEP-MEDEF code, appears to have been transformed into a “decide to pay” vote this year. It is somewhat ironic that the most stringent, prescriptive rules exist in a country where executive pay is amongst the most tempered in absolute terms.

Indeed, a negative vote for the say on pay ex-ante would mean the proposed remuneration policy is rejected and the remuneration policy previously approved by shareholders would remain in force. In the event of a negative vote for the say on pay ex-post, the variable and exceptional remuneration will not be payable to the concerned executive.

Despite the improvement of remuneration practices in France, this extremely rigid remuneration system may raise some concerns from a corporate point of view. In order to comply with the requirements in place, companies may weaken the remuneration packages offered to their top executives and as such, create a competitive handicap for them in the international market, where companies in other markets would have more flexibility.

SAY ON PAY REMUNERATION POLICY SUPPORT



EXECUTIVE REMUNERATION PACKAGES

In France, it is rare to find examples where corporate officers were paid excessively in absolute terms in relation to Anglo-Saxon markets such as the UK or the US. Nevertheless, this new prescriptive system has led French companies to improve the transparency and explanations around their remuneration practices.

IT HAS BEEN THE THIRD YEAR IN A ROW THAT PROPOSALS RELATED TO REMUNERATION POLICIES INCREASED, GOING FROM

74.05% → **88.73%** → **90.63%**

IN 2016 **IN 2017** **IN 2018**

DUE TO IMPROVEMENTS IN THE TRANSPARENCY AND EXPLANATIONS

It is worth noting that some companies such as LVMH, Danone, and Peugeot decided not to present any remuneration policy resolution this year, which is allowed under Sapin II.

Despite the general improvements in the remuneration practices in France, there remain some weaknesses with regard to remuneration packages of executives, including severance packages, non-compete clauses, modifications to pension plan design, and unemployment and health insurance.

Approval rates of resolutions related to severance payments as well as unemployment and health insurance significantly decreased. While resolutions related to severance agreements have had a lower approval rate in recent years than other remuneration items, some companies have been slower to modify their positions. This is the case even in the face of discontent from some of their shareholders. For this reason, those dissatisfied with such agreements have raised their voices when actual payments are issued.

CAPITAL AUTHORISATIONS SLIPPING SLIGHTLY

Capital-related items all remained quite steady, except for the capital increases with or without pre-emptive rights where the approval rates decreased from 93.14% in 2017 to 92.73%.

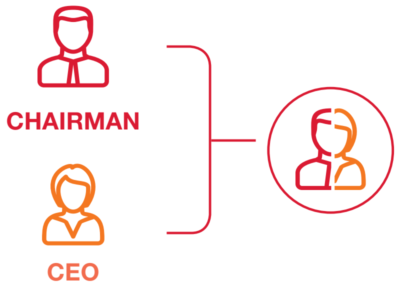
The main issues were mainly due to companies going beyond the legal limit of 5% discount for share issuance or exceeding the acceptable limit of 10% of share issuance without pre-emptive rights. The approval rate of anti-takeover related capital items has risen by around 10% since 2016.

BOARD OF DIRECTORS BEING CHALLENGED

France saw 92.98% approval of board of Director-related proposals. While high, this figure is significantly lower than approvals in the other major markets and reflects a high degree of combined roles of Chairman and CEO in that country.

This decrease is partly due to Director elections, which also saw a slight decrease in support this year with an average approval rate of 93.08% this year, compared to 93.39% in 2017. The resolution to renew Olivier Mistral, a supervisory board member at Rubis, was rejected, with a support of 47.17% due to repeated low attendance. In Icade's AGM, many Directors saw their elections narrowly rejected due to lack of independence in the company's board of Directors.

THE ROLE OF CHAIRMAN AND CEO IS COMBINED IN FRANCE, WHICH REDUCES THE OVERALL LEVELS OF SUPPORT



The role of Chairman/CEO is still very much anchored in the French traditions and explicitly permitted in the French Corporate Governance Code. The combined role has worked in France, but this structure has historically received vocal criticism from certain investors and proxy advisors who believe that in all cases the roles of the Chairman and the CEO should be separate. On the decision to combine the two roles, French companies are fully in their right to explain their boards' decision not to comply with this practice. The average approval rate for the Chairman/CEOs up for re-election this year was only 85.01%, with the lowest approval rates being for Antoine Frérot (Chairman and CEO of Veolia) and Xavier Huillard (Chairman and CEO of Vinci) with respectively 69.45% and 71.96% approval rates.

Following the conclusions of the Senard-Notat report, commissioned by the French government earlier this year, a number of themes are expected to come to the forefront of the corporate governance landscape next season.

The extent to which these recommendations will become law remains to be seen. In what has been described by some as an attempt to avoid further legal regulation, the AFEP-MEDEF has provided another update to its corporate governance code, covering a number of these points in addition to further limits on executive packages upon departure (non-competes/supplementary pension schemes), independence requirements for Lead Directors and further responsibilities from the board of Directors on corporate governance engagement with their shareholders.

Reinforcement of employee representation at board level.

Enshrine in company by-laws a duty to wider stakeholders (environment, society, employees, etc…), not just shareholders.

Create CSR strategy committee at board level (or attach these functions to an existing committee).

Add ESG metrics to variable remuneration.

A SPOTLIGHT ON: GERMANY

PARTICIPATION UNCHANGED

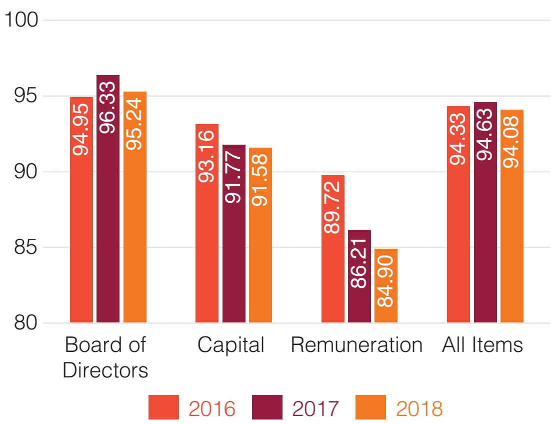
Shareholder participation in AGMs of Germany-based companies that make up the DAX or MDAX index remained fairly constant at 70.2% compared to 2017. The participation rates vary somewhat, however, by share type and by index.

CORPORATE GOVERNANCE COMING UNDER PRESSURE

Shareholder support for management proposals at AGMs of German DAX and MDAX companies remained high overall at an average of 94.08% support. The only proposal that failed to garner a requisite simple majority was the re-election of Norma Group's Chairman Stefan Wolf (which saw an approval rate of 49.59%).

However, the average approval rate of items related to a company's remuneration, capital, or supervisory board, as well as the average approval rate for all items combined, decreased slightly from prior years. The continued decrease in the approval of remuneration items warrants particular attention.

AVERAGE AGM SUPPORT PER PROPOSAL TYPE



REMUNERATION UNDER THE MICROSCOPE

OF THE 30 REMUNERATION PROPOSALS
PLACED BEFORE SHAREHOLDERS IN 2018

HALF RECEIVED SHAREHOLDER APPROVAL OF **90%** OR ABOVE

HOWEVER, SEVEN OF THE 30 RECEIVED **70%** APPROVAL OR LESS.

The concerns ISS and Glass Lewis expressed most frequently regarding these proposals were that there was too much board discretion to increase payouts beyond what a company's remuneration system dictates and poor levels of disclosure with regard to performance criteria and/or targets. Other concerns these proxy advisors expressed included special bonuses for extraordinary events, insufficiently independent remuneration committee, executives not required to own equity in the company, no disclosed comparator group for LTIP performance criteria, excessive maximum payouts relative to peers, and pay not linked to long-term growth in share value.

> "While the new German Code of Corporate Governance will not be released until the SRD [Shareholder Rights Directive] has been transposed into German law, the next edition also seems set to include an overhaul of the recommendations on executive pay for corporate issuers, with a consultancy period expected to open in January 2019."

Silvia Gatti, Senior Research Analyst, Glass Lewis August 2018

SHAREHOLDER APPROVAL OF PROPOSALS RELATED TO REMUNERATION OF A COMPANY'S EXECUTIVES IS

79.03%

WHICH IS LOW COMPARED TO GLOBAL BEST PRACTICE WHICH IS

80%

There continues to be a substantial gap between shareholder approval of proposals related to remuneration of a company's executives (79.03%) and proposals related to remuneration of a company's Non-Executives (98.54). As non-executive Director remuneration typically has no variable component, where there is a significant difference, it indicates that German companies are not clearly demonstrating the alignment between variable remuneration of corporate officers and investor return. The absence of binding remuneration policy naturally creates leeway for board discretion related to remuneration and remuneration design for the variable portion. With the implementation of the Kodex and SRD II, the discrepancies will shrink in relatively short order.

CAPITAL AUTHORISATION SUPPORT STILL STRONG

Support for proposals related to a company's share capital remained fairly constant relative to prior year approval rates, although approval rates decreased from the previous in each category as investors seek to limit capital dilution where possible. Support for the use of derivatives fell significantly since 2016, from 95% down to 89%, while the data shows support for the issuance of Debt Securities rising from 88% to 91% over the same period.

Of the 67 capital-related proposals up for vote, four garnered approval rates of less than 80%, with all four relating to exclusion of pre-emptive rights when creating a pool of capital or when issuing debt securities. While ISS and Glass Lewis recommended voting for all four proposals, Glass Lewis's German subsidiary IVOX issued *against* recommendations due to concerns over potential dilution to share value.

BOARD OF DIRECTORS' SUPPORT HISTORICALLY HIGH

In Germany's two-tier board system, seen as corporate governance best practice, a shareholder-elected supervisory board consisting of Non-Executive Directors appoints the members of a management board consisting of executives. Shareholders are often asked to discharge separately the members of the supervisory board and the members of the management board from their duties fulfilled in the previous year. The data reveals that discharge approvals are historically high overall, with discharge of supervisory board members (96.66% in 2018) lagging behind discharge of management board members by 2%.

Of the 219 supervisory board election items, 11 received less than 75% approval. Note, however, that five of these votes occurred at one AGM, that of Ströer SE & Co.

CASE STUDY

Norma Group's supervisory board Chairman Stefan Wolf received only 49.59% approval and thus was forced to leave the board. This unusual case of a failed Director election appears to have been the result of a confluence of factors. Firstly, Norma Group's shareholder base consists entirely of free float shareholders who are more likely to vote according to their internal voting policies or those of their proxy advisor. Secondly, Wolf's nomination carried multiple concerns. ISS recommended against his re-election due to his outside commitment as CEO of ElringKlinger, while Glass Lewis opposed the re-election due to concerns over a lack of transparency around Norma Group's nomination process. Shareholders who were not deterred by one of the concerns may have still voted *against* due to one of the other concerns.

The low approvals of the other election items appear to have been due to concerns over insufficient independence of the supervisory board and/or of its key committees. Supervisory board members of German companies are typically up for re-election only once every five years, something that motivates some voters to apply greater scrutiny to Director elections when they do arise because the tenure is outside international best practice.

"Within Europe, board accountability is weakest among German companies, where Directors stand for election only once every five years."

State Street Global Advisors, Board Accountability in Europe: A Review of Director Election Practices Across the Region, May 2018

KEY TAKEAWAYS FOR 2019

Elections of supervisory board members are at continued risk of low approval rates if the Directors do not meet proxy advisors' strict overboarding and board independence standards.

Companies should consider limiting board discretion to increase payouts beyond what a company's remuneration system allows and enhancing disclosure of performance criteria and/or targets.

From February 2019, ISS will apply a lower maximum threshold of 10%, in line with the 10% threshold applied in other major European markets such as France and the United Kingdom.

A revised German Corporate Governance Code is expected around June 2019. This will likely issue more stringent standards around executive pay.

A SPOTLIGHT ON: SWITZERLAND

PARTICIPATION FLAT

Average participation levels at AGMs of Swiss companies on the SMI and SMIM indices remained relatively flat at 64.53% in 2018.

Both SMI and SMIM average AGM participation levels have been dropping slightly year on year. However, this is likely due to reduced participation among majority shareholders. Average free float participation increased by 1.69% in 2018, with the mid-cap and smaller companies increasing their average participation by 1.26% and 2.08%, respectively.

CORPORATE GOVERNANCE SUPPORT AT 4YR HIGH

Average investor support at Swiss AGMs returned to levels witnessed prior to 2017, increasing by 1.13% and reaching a four year high of 95.93%.

The data also reveals a 4.27% increase in support for remuneration proposals.

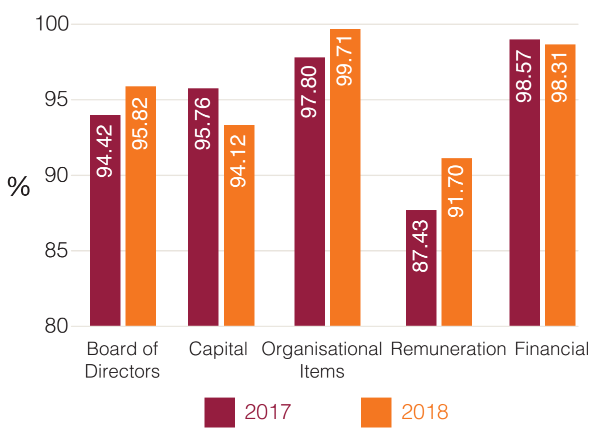
REMUNERATION GIVEN THE GREEN LIGHT

THE INCREASE IN AVERAGE REMUNERATION SUPPORT FROM

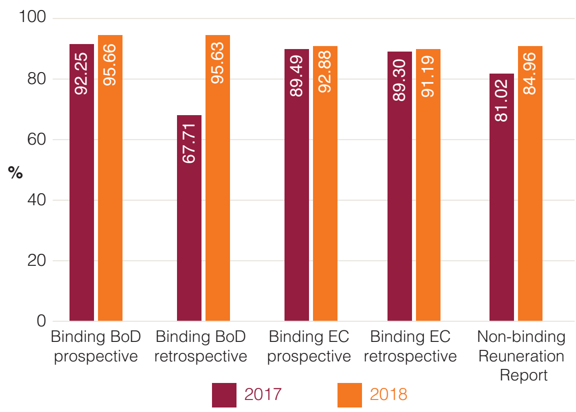
TO 91.7% WAS LINKED TO INCREASED SUPPORT ACROSS ALL CATEGORIES.

A sharp increase in binding, retrospective, board of Directors' remuneration proposals equated to 27.91% year on year; however, this is not due to any significant event in 2018.

AVERAGE AGM SUPPORT PER PROPOSAL TYPE



AVERAGE AGM SUPPORT FOR REMUNERATION PROPOSALS



BOARD OF DIRECTORS GIVEN BACKING

Average shareholder support for board proposals remained high and increased year on year by 1.39% to 95.82%. This was underpinned by an uptick in average shareholder approval for Director elections and for discharge of Directors from their duties for the previous year.

However, in 2018 there were 34 items which received less than 80% shareholder support. Over half of these items were related to the board of Directors (19), followed by remuneration proposals (13) and one item for each capital and financial categories.

While remuneration is the most disputed category on average, a larger number of proposals related to the board of Directors received less than 80% support.

KEY TAKEAWAYS FOR 2019

- Swiss AGM participation has remained stable since 2016 but considerably lower than many other European markets.
- Stronger shareholder support for binding remuneration votes.

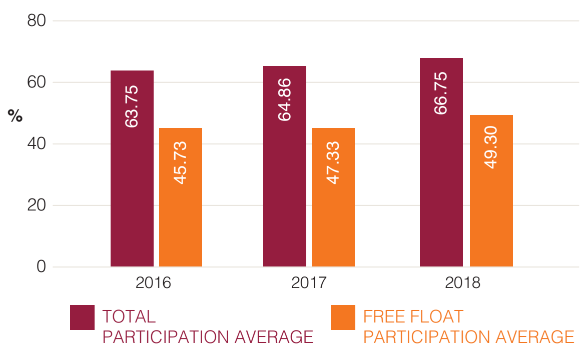
A SPOTLIGHT ON: BELGIUM

PARTICIPATION SLOWLY INCREASING

During this year's voting season, quorum levels in Belgium increased. In 2018, the average shareholder participation rate was 66.75% for the BEL20, compared to 64.86% in 2017 and 63.75% in 2016.

The increase is driven by free float investors across all companies. Over the past four years, the free float participation of the BEL20 has been continuously increasing and stands higher by 10.52% than the average free float participation levels in 2015.

AVERAGE AGM PARTICIPATION BELGIUM 2016 - 2018



CORPORATE GOVERNANCE SUPPORT STEADY

The average shareholder approval rate for management resolutions has been consistent between 2017 and 2018, with an average support of 94% within the BEL20.

Average approval for board-related proposals slightly increased from 94.81% in 2017 to 95.19% in 2017 for Belgian companies.

The average support for remuneration-related resolutions in the 2018 season was 86.58% at all BEL20 AGMs. This is broadly unchanged from last year where the average shareholder approval level was 86.26%, but is still below the 90% level of 2016.

The data reveals that there has been a slight drop in the level of support for capital-related resolutions, with on average 93.08% support, compared to 93.93% in 2017. However, this is up from 88% in 2016.

REMUNERATION BEING TESTED

Support for equity plans dropped significantly for the second year in a row, with average shareholder approval rates falling to 84.15%.

The decrease is also reflected in the recommendations made by the largest proxy advisors ISS and Glass Lewis. Of the 12 resolutions to approve equity plans put forward in 2018, ISS recommended against seven items, while Glass Lewis advised their subscribers to vote against eight. Proxy advisors clearly view practices regarding equity plans as a concern, and it would be advisable for issuers to review them.

In cases where issuers may encounter repeated dissent over several years, it may be due to a failure by them to address certain concerns of their minority shareholders as was the case for Ontex. Proxy advisors ISS and Glass Lewis have raised structural concerns regarding executive remuneration, focusing on the absence of a performance-based long-term incentive plan.

Reasons for voting against remuneration-related items this year were primarily linked to the poor overall design and disclosure of the remuneration structures. The key factors were:

- poor disclosure of performance metrics, potential awards, and caps under compensation plans
- short-term incentives prevailing
- accelerated vesting of stock options in the event of a change-of-control
- stock options awards for Non-Executive Directors
- severance package greater than 12 months

Approval rates for Non-Executive remuneration remained stable, with a slight increase of 0.07% compared to the previous year.

Local Belgian governance standards lag behind those of other European countries. Listed Belgian companies are conscious of the need to accelerate improvements in the structure, design, explanation, transparency and alignment of corporate officer remuneration. The advent of the Shareholder Rights Directive can only emphasize further the need for Belgian boards to improve them to be in-line with generally accepted governance standards.

CAPITAL AUTHORISATIONS FALL OF LITTLE CONCERN

After last year's increase in average support, the approval rate for capital-related proposals in 2018 fell 0.85%.

The explanation of the lower average approval rates in 2018 within this category may lie in the general increase of shareholders' expectations regarding issuers' practices. Continued pressure to reduce potential dilution as well as the dislike by international investors of certain capital increases related to conditional capital that are seen to be anti-takeover devices were likely key. This displeasure is illustrated in the 3.91% fall on average for general authorisations for the Board of Directors to issue shares.

Approval of items related to share buyback, reissuance and cancellation have also experienced a minor decrease in 2018, falling from 99.36% in 2017 to 98.72%. This is still significantly above the 86% approval rate in 2016.

BOARD OF DIRECTORS SUPPORT GROWS

Average support for Director election proposals at BEL20 companies continues to increase slightly year-on-year, hitting 98.27% during this year's voting season.

Regarding shareholder support of non-independent Director elections, levels of support remained similarly low to 2017. Across the BEL20, board independence issues remain the main cause for low election approval rates. Proxy advisor ISS has recommended against 18 out of the 24 resolutions proposed, and the negative recommendations were driven by the lack of sufficient independence among board members.

Investors and proxy advisors have stronger views on Director independence than those set by the Belgium Corporate Governance Code, which requires at least three independent Directors. Generally, majority independence of board members is a standard for most international investors. Low support levels for Director elections demand increased attention from issuers.

KEY TAKEAWAYS FOR 2019

Belgian corporate governance best practices lag those of their European peers. This gap has led to higher levels of votes against on key topics such as remuneration and capital authorisations.

Remuneration resolutions receive lower results because remuneration structures, design and transparency are below the standards of those in neighbouring countries.

With the implementation of SRD II looming, the Belgian market should make vigorous strides to implement important changes to its corporate governance code.

A SPOTLIGHT ON: SPAIN

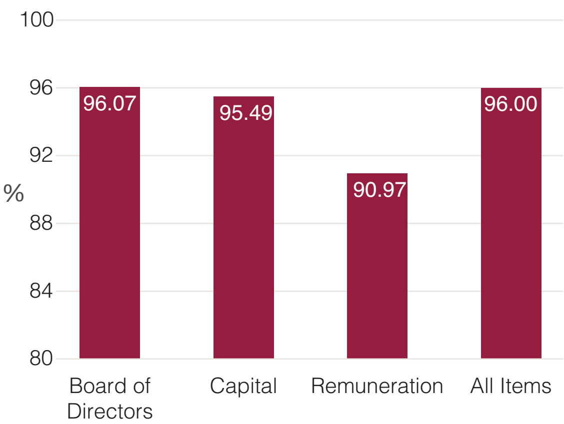
PARTICIPATION VARIED

When looking at the 2018 AGMs of Spain-based IBEX 35 companies, we see a wide range of participation levels. CIE Automotive had the highest participation and free float participation at 94.92% and 89.42%, respectively; Enagas had the lowest participation rate at 45.69%; and Tecnicas Reunidas had the lowest free float participation rate at 35.96%.

CORPORATE GOVERNANCE SUPPORT HIGH

The Spain-based IBEX 35 companies enjoyed high levels of support, on average, regardless of category, with an average approval rate of 96% for all agenda items. Remuneration proposals received an average of 90.97% shareholder approval, proposals related to the company's share capital received an average of 95.49% approval, and board-related proposals received an average of 96.07% approval.

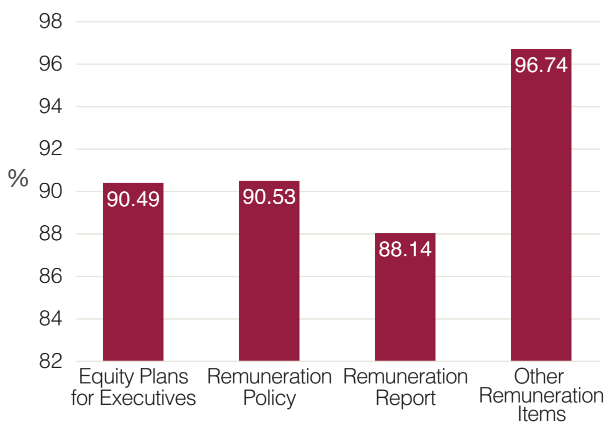
AVERAGE AGM SUPPORT BY PROPOSAL TYPE



REMUNERATION QUESTIONED

Remuneration items generally received high levels of support, although the average support for the approval of a company's remuneration practices in the previous year (remuneration report) was below 90%.

AVERAGE AGM SUPPORT: REMUNERATION



Four of the companies received 71% support or lower on their remuneration reports.

ISS recommended against all four of these remuneration reports, and Glass Lewis opposed three of the four. The reasons ISS and Glass Lewis offered for their recommendations to vote against included: insufficient responsiveness to shareholder concerns; significant payouts relative to company size; Non-Executive Chairman's receiving performance-based remuneration; insufficient disclosure on LTIP performance requirements; absence of a clawback/malus provision; poor remuneration disclosure; absence of a mandatory LTIP, and poor design of the overall remuneration structure.

"Compensation packages should be structured to attract, motivate and retain existing employees and qualified Directors; however, they should not be excessive. For advisory votes on compensation we generally support management proposals unless we have specific concerns about compensation at a particular company. If we are dissatisfied with a component of the overall compensation policy we generally vote against these proposals in order to deliver a consistent message to company management."

Capital Research & Management Co.

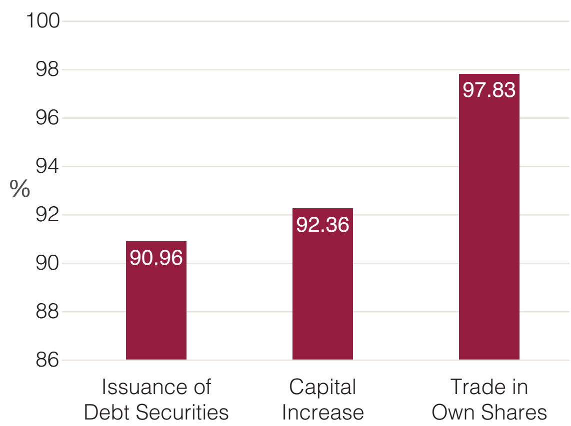
January 2018

Prospective votes on a company's remuneration practices (remuneration policy) were held 23 times in 2018. The three lowest approval rates were 59.42% (ACS), 70.66% (Mediaset España) and 87.53% (Amadeus IT Group). Concerns expressed by ISS and Glass Lewis included: poor or inconsistent remuneration or LTIP disclosure; pay not linked to performance; size of retention bonus; lack of mandatory LTIP; excessive increase in pay; undue leeway in implementation of the policy; lack of a ceiling on payments for extraordinary events; excessive termination benefits to an outgoing executive; continuation of poor remuneration practices from previous years; uncapped salary and pension contributions; significant board discretion in granting termination benefits; and poor overall design of the policy.

CAPITAL AUTHORISATIONS WIN BACKING

The three most frequent proposals related to a company's share capital were those relating to capital increases, trading in the company's own shares (including decisions to reduce capital), and issuing of debt securities. Each of these subcategories of capital authorisation received over 90% support.

AVERAGE AGM SUPPORT: CAPITAL AUTHORISATIONS

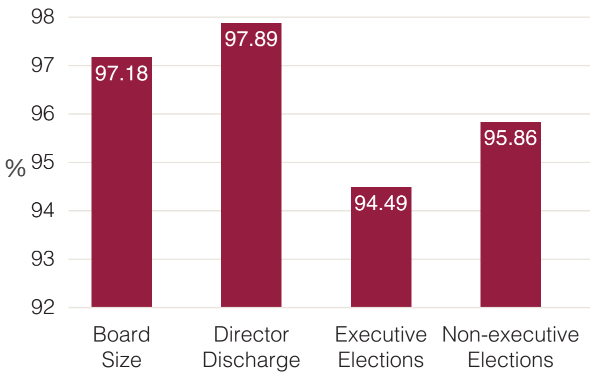


Only two of the 54 capital-related proposals received below 80% approval. Acerinox's proposal to authorise the board of Directors to increase share capital (73.69% approval) was opposed by both ISS and Glass Lewis due to concerns over the dilution the increase could cause to share value. Amadeus IT Group's proposal to empower the board to issue bonds, debentures and other fixed-income securities was opposed by 22.29% of voters (excluding abstentions), despite the fact that ISS and Glass Lewis both supported this proposal.

BOARD OF DIRECTORS SUPPORT OVERWHELMING

Proposals related to a company's board of Directors received high levels of support, on average, regardless of proposal type. The lowest level of support for any Director election item was 75.90%. ISS recommended against the election of 26 of the 146 Directors who were up for vote at the Spanish IBEX 35 companies, and in 19 of those cases, their concern being that the company maintained insufficient board independence. In another five cases, ISS's opposition was due to the CEO's service as board Chairman.

AVERAGE AGM SUPPORT: BOARD OF DIRECTORS



"Boards have an important role in assessing management's performance and holding them to account. It is important that companies which fail to achieve a satisfactory level of performance should review the performance of senior executives. It is an inevitable part of any organisation that there will be changes of staff – people might not have, or no longer have, the right skills, abilities or attitude to properly and successfully fulfil or continue in their role. This applies at all levels in an organisation."

Schroders, Environmental, Social and Governance, Policy for Listed Assets, March 2018

While overall shareholder support for management proposals at AGMs is generally high, issuers should continue to engage with shareholders to ensure concerns are heard, particularly regarding remuneration and board structure.

Issuers should consider improving disclosure in their remuneration reports and policies, particularly on how pay is tied to performance. LTIPs that are tied to challenging performance metrics are a must for many shareholders and proxy advisors.

Engagement with shareholders, through roadshows for example, can help companies demonstrate remuneration is appropriate for company size and incentivises long-term growth in share value.

Issuers must ensure that their boards always meet market standards for board independence. Proxy advisors and many investors have very rigid voting policies on the matter and will automatically vote against a non-independent Director's election if the board is not sufficiently independent.

METHODOLOGY

The data used in this General Meeting Season Review are built on the voting results published by issuers in each market. The analysis was restricted to the companies listed on the index of the largest companies in each market. When compiling data from the appropriate index in each market, D.F. King excluded companies incorporated in a foreign market (that is, a market other than where the index is based). Such foreign companies typically follow different corporate governance regimes and thus the types of items proposed at their general meetings are not always comparable to those proposed at meetings of domestic companies.

D.F. King looked at three years of vote results for each company, in order to look for trends throughout each market and across markets. All votable management proposals were assigned categories (Board of Directors, Financial, Remuneration and Capital Authorisations) and then various subcategories. The analysis then looked at the trends within each category and compared and contrasted approval rates across categories, paying particular attention to items that received low approval rates to investigate the causes. Finally, participation rates were calculated by summing the number of For, Against and Abstain votes for each item at a meeting, taking the maximum of those sums from the meeting, and then dividing that sum by the number of voting rights at that company as of the meeting date.

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