EXPERIENCE
COMES AS STANDARD

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2025 European AGM season: observations

Presentation to Six Group

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Part of Link Group | Corporate Markets

2025 European AGM season: general observations

- Companies demonstrate general mastery of CG issues that are key at AGMs
  - CG engagement between boards and investors is well established for more than a decade
  - Business consensus in Europe to improve corporate governance in meaningful ways:
    - Some form of binding decisions on key topics (remuneration policy)
    - Continuous improvement on governance but also environmental and societal issues
    - Consciousness regarding a company’s other stakeholders
- Companies use transparency to demonstrate alignment with shareholders more and more
  - Has taken time to federate internally on these topics
  - Those who provide clear explanations of decisions and their direction of travel tend to receive investors’ support
- Investors’ demands on ESG topics have grown over time but their core focus, whatever their investment style, remains:
  - Company’s ability to deliver on its strategy over time
  - Company’s ability to improve its operational performance
  - Company’s ability to generate shareholder value regularly and over time
  - Minority investors are losing patience with companies' refusal to listen to their expectations over the medium term

Eternal challenges: remuneration policy – securing shareholder support (salary and bonus)

Possibility of a welcome bonus?

Salary:

- What positioning goals are sought in relation to peers?
- What is the increase in relation to the existing policy and why is an increase required?
- Is the increased salary to be held in place for a number of years?

Bonus (short-term variable remuneration):

What challenges is the board addressing with these changes?

Performance criteria:

- Financial and extra financial
- Quantifiable > qualified
- Published targets – ex ante and/or ex post?
- Weighting
- Floors and ceilings
- Pertinence and difficulty to meet criteria – are they clearly linked to the group strategy and the ESG strategy?
- “Compensation” structural risk?

Eternal challenges: remuneration policy– securing shareholder support (LTIPs, severance & non-compete)

LTIPs:

- What challenges is the board addressing with these changes?
- Performance criteria:
  - Financial and extra financial
  - Quantifiable > qualified
  - Published targets – ex ante and/or ex post?
  - Weighting
  - Floors and ceilings
  - Pertinence and difficulty to meet criteria – are they clearly linked to the group strategy and the ESG strategy?
  - Vesting: 3 + 2 years is the typical expectation

Pensions:

- Demonstrate alignment with general best practices

Exceptional payments:

- Provide clarity about the situations that would permit such a payment

Severance and Non-compete agreements:

- Are there any performance criteria?
  - Demonstrate that there is no pay for failure
- What is the duration?
- Can the Board decide whether they are enacted?

Eternal challenges: remuneration report: alignment through transparency

- Getting to Yes = making it easy for investors to understand
  - Amounts
  - Results vs. Targets
  - Rationale of BoD' choices
- Demonstrate alignment between performance and pay-out
  - Facilitate understanding of key components through tables
  - Goal: illustrate the challenging nature of compensation
  - Use tables; make sure that per criteria targets and results are clear
  - Explain any aggressive interpretation in the policy
- Quantum: sense check versus reality
  - Highlight compensation equity vs. employment base
  - If a large payout has been earned, explain why it's deserved
    - Results vs. Targets
    - Quality of criteria used (connection back to financial and ESG strategies)
    - Highlight how this award reflects how shareholders and stakeholders have benefited by the performance that underpins the award
- Avoid any risk of a « pay for failure » accusation

Eternal challenges: elections & governance

- Board elections
  - Overboarding: far less tolerance for exceptions
  - Skill set and gravitas have to fit the company's current needs
  - Diverse skills/experience/expertise to allow board to manage systemic risks
  - Independent members need to demonstrate that they are impactful and can challenge management

- Governance topics that are « sticky »:
  - Intercompany agreements that are opaque or lack clear explanation
  - Combined role of chair and CEO
  - Multiple voting rights

Changes in US voting landscape since January

- **US investor behavior** relating to their European investments
  - Largest investors manage them from outside the US
    - A certain amount of leeway and an obligation to adhere to local market rules
  - **Engagement:**
    - Section 13D/13G changes led to a modification in how shareholder engagement occurs
    - Greater focus on « G » vs « E » and/or « S »
    - 2025: a year to demonstrate their « G » bonafides
    - Practically, harder to be attacked on governance topics than the two others
    - Passive investors may go into « listening mode » but engagement remained impactful
    - European investors retained their investment models and still actively concerned about E & S along with G
  - **Voting:**
    - Lower tolerance for supporting pay structures that were poorly designed or rewarded poor performance
    - Overboarding: far greater percentage of votes against – a « pure » G issue
    - Active pushback on other true governance issues on topics like intercompany agreements or combined roles
    - Investors may be less willing to inform on voting decisions

- **US proxy advisors**
  - Under a good deal of pressure in the US in a similar manner as had been the case from 2017 – 2020.
  - In **Europe**, more nuanced situation:
    - Developed countries have specific national voting policies that reflect their clients' desires in the given market
    - While of limited impact, many developed European economies have independent local proxy advisory firms that can impact voting results (Ethos)
  - If **negative recommendation** published
    - Company needs to lobby more actively to ensure that investors make an exception
    - Sense that given the pressures against E & S, investors had less willingness to accept diverging from the recommendations on G topics
    - Compelling arguments and transparency are key

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