

# Voting policy at Annual General Meetings

Swisscanto Asset Management International S.A. | April 2020

## 1 Principles-based exercise of voting rights is efficiently implemented

In the decision-making process for the voting behaviour at Annual General Meetings, Swisscanto Asset Management International S.A. ("Swisscanto") uses the services of an independent, recognised proxy voting adviser and the expertise of its asset manager Swisscanto Invest. This enables Swisscanto, with a high degree of competence and efficiency, to cast all the relevant votes in domestic and international equity investments in the best interests of investors.

## 2 Active and independent exercise of voting rights in investors' interests

As one of the leading asset managers in Switzerland, Swisscanto invests in equities globally through its investment funds and, responsibly, safeguards shareholders' rights in the interests of its investors<sup>1</sup>. By actively and independently exercising its voting rights, Swisscanto aims to promote and enforcing best-practice corporate governance<sup>2</sup> in accordance with recognised principles at these companies.

With direct equity investments in companies domiciled in Switzerland, Swisscanto exercises its votes comprehensively across all investments.

With direct registered equity investments in companies domiciled outside Switzerland, Swisscanto exercises its votes at the shareholder meetings if the position of the shares held

- exceed/s the market value<sup>3</sup> of CHF 10 million, respectively
- exceed/s the market value of CHF 5 million, if the shares are included in a sustainability<sup>4</sup> fund, or
- exceed/s 1% of its/their market capitalisation.

The voting on behalf of the share positions held is made across all fund products<sup>5</sup>, i.e. throughout active<sup>6</sup>, passive and Private Label fund products.

Below are the key guidelines that Swisscanto uses when exercising the voting rights.

## 3 Sustainable increase in the enterprise value of the equity investments of our investment funds

Sound corporate governance reduces the asymmetry of information between shareholders and the management board (principal-agent problem). This is central to a corporate strategy that aims to secure the going concern and focuses on continuously improving the enterprise value. Swisscanto's exercise of voting rights is based on Swiss and international corporate governance rules and sustainability standards, which incorporate a comprehensive set

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<sup>1</sup> Fiduciary duty according to Art. 20 para. 1 lit. a CISA and Art. 23 para. 1 CISA.

<sup>2</sup> In accordance with the "Swiss Code of Best Practice for Corporate Governance" for Swiss companies and "UK Corporate Governance Code" for foreign companies.

<sup>3</sup> Number of shares held multiplied by the individual share price at the record date of the Annual General Meeting.

<sup>4</sup> Investment funds from the "Responsible and "Sustainable" product lines generally qualify as "sustainability funds". For

further information, please check: [swisscanto.com](https://www.swisscanto.com) > About us > Sustainability.

<sup>5</sup> Due to the subject of the building of organized groups (pursuant to art. 121 FinMIA in connection with art. 12 FMIO-FINMA), the exercising of voting rights does not comprise asset management mandates of the group companies.

<sup>6</sup> The present voting policy does not include the companies Swisscanto Private Equity CH I AG and/or Swisscanto (CH) Private Equity Switzerland Growth I KmGK.

of environmental, social and corporate governance (ESG<sup>7</sup>) principles into the decision-making process. Together with our values, these rules and principles form the Swisscanto Sustainability Guidelines, which are revised annually together with an independent, recognised proxy voting adviser and our asset managers Swisscanto Invest.

### 3.1 Our behaviour concerning the most important voting items

The following remarks relate to some of the most important agenda items, which are often controversial, and which frequently give Swisscanto cause to vote against the recommendations of the Board of Directors. There are situations or items on the agenda in which we deviate from our guidelines on a case-by-case basis (especially for reasons to better safeguard the interests of our investors or to secure the continuous improvement in the enterprise value). In our decision-making process, we rely on the advice and expertise of Swisscanto Invest, our asset managers, to ensure that investors' interests are safeguarded in the best possible way, even in special cases.

#### Dividends

The dividend represents the financial participation of shareholders in the company's earnings and should therefore be distributed to them. Swisscanto votes in favour of a dividend pay-out ratio of at least 30% in each case. Exceptions apply in the case of companies that are in a growth phase and that reinvest their earnings accordingly in the company or use them to reduce debt. In addition, we do not expect a distribution if the financial situation of the company does not allow it.

#### Compensation

The remuneration system of a company can result in adverse management incentives, which are not in the best interests of the company and the shareholders. For this reason, we focus on sustainable and long-term value generation and take the following into account:

- positive share price performance and dividends (total return) compared to the previous year and
- improvements in return metrics (i.e. ROE / ROIC / EVA, inter alia) over three years.

A comparative consideration of these key figures is performed considering regional listed peers companies (industry). All these elements are closely related to our fundamental investment and analysis process.

The compensation must be aligned to match the company's performance and should be focused on long-term value creation for shareholders (pay-for-performance). Payments which are guaranteed or subject to a large margin of discretion must be avoided.

The objectives for remuneration must improve the enterprise value and be made public in a transparent and measurable manner in the remuneration report so that any assessment by shareholders can be made in advance of the shareholder meetings<sup>8</sup>. The Board of Directors' remuneration should, only include non-variable elements such as monetary payments and share allocations. The remuneration for the executive management primarily should consist of a basic, non-variable remuneration component, a performance-based, short-term component and a long-term component based on an improvement in shareholder value.

Swisscanto will refuse to re-elect the former members of the Remuneration Committee to this Board if Swisscanto repeatedly rejects the remuneration or the remuneration report.

#### Board independence

Conflicts of interest may result in decisions being made against the interests of shareholders. The majority of the Board of Directors should, in principle, consist of independent members. When casting votes, Swisscanto takes care to ensure that the ratio of non-independent and independent members of the Board of Directors is equal<sup>9</sup>.

An exception is made for listed companies with significant shareholders. In this case, their proportional representation in accordance with their equity stake is consented, if the company has a uniform capital structure and the "one share, one vote" principle is respected.

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<sup>7</sup> Following the "Goals for Sustainable Development" of the resolution "Transformation of our World: Agenda 2030 for Sustainable Development" of the United Nations General Assembly.

<sup>8</sup> In accordance with the "Swiss Code of Best Practice for Corporate Governance" para. 30 ff.

<sup>9</sup> To ensure the continuity and quorum of the Board of Directors, Swisscanto elects a total of at least three of the nominees to the Board of Directors.

Provided that shareholder value has been created, we pursue a family-shareholder and founder friendly policy in the elections of the Board of Directors.

### Diversity of the Board of Directors

In the election of the members of the Board of Directors, attention is paid to professional diversity as well as industry expertise on the Board of Directors. Moreover, Swisscanto supports in the long term an allocation of seats for women of 30 % in Swiss Boards of Directors. In by-elections or extension elections a point is made that at least one female candidate is nominated for the Board of Directors

### Dual mandate

"Checks and balances" are a proven method for better decision-making and exercising effective control over the management. In principle, Swisscanto votes against dual mandates, i.e. those who are nominated as a member of the Board of Directors and who are members of the executive board at the same time.

In exceptional circumstances and on an interim basis, a dual mandate may be approved if the company is in financial distress or is in a turnaround.

With Swiss and international<sup>10</sup> target companies we vote against the nomination of the former CEO as chairman of the Board of Directors in cases where no two-year cooling-off period has been observed.

### Discharge

The granting of discharge restricts "recourse" by the company and shareholders to members of the Board of Directors. Swisscanto therefore refuses to grant discharge in cases of gross misconduct by a member of the Board of Directors or where criminal acts are suspected. Discharge is also refused in the case of significant and repeated earnings adjustments by the management.

### Limited duration of service of the auditing firm

Auditors with a duration of service that is too long can result in a non-critical audit. Swisscanto will therefore reject

any vote for the auditor if there has been no rotation for more than 20 years<sup>11</sup>.

### Corporate action and capital structure

Capital increases without subscription rights for the present shareholders dilute their stakes. Swisscanto empowers the Board of Directors to carry out a capital increase of up to a maximum of 50% of the existing capital at their discretion provided that the subscription right is guaranteed for existing shareholders. Without subscription rights, the upper limit is 10%.

Unequal participation rights mean that certain shareholders receive a disproportionate return in relation to the invested capital. Swisscanto votes against the introduction of share classes with different voting powers and/or other unequal rights.

### Mergers and acquisitions

Acquisitions form part of a dynamic economy but they can also lead to large losses. Mergers and acquisitions are assessed on a case-by-case basis. In the first instance, a merger should be strategically appropriate, and the valuation should be reasonable.

## 3.2 Support for sustainability resolutions<sup>12</sup>

At AGMs, we support resolutions designed to improve good corporate governance in the long term in accordance with recognised principles or to enforce environmental, social and governance (ESG) aspects, as long as these are appropriate and sensible for the company's current value creation (along its value chain) or fit the strategic orientation of the company. Among other things, Swisscanto supports shareholder proposals that promote measures and introduce guidelines and reports with respect to:

- the responsible handling of resources (e.g. increasing resource efficiency or the promotion of renewable energy and recycling)
- mitigating climate change (e.g. reducing greenhouse gases)

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<sup>10</sup> Similarly, the proxy voting markets in Germany, Austria and the Netherlands are implementing an appropriate cooling-off period.

<sup>11</sup> The maximum duration will be reduced to 11 years in 2023 (in accordance with EU Regulation 537/2014).

<sup>12</sup> As a signatory to the "Principles for Responsible Investment" (UNPRI) in 2009, our parent company, Zürcher Kantonalbank, acknowledges the financial relevance of the ESG criteria and thus contributes to a solid and sustainable financial system.

- the improvement of human rights standards (e.g. the promotion of fair working conditions and transparency to promote equal pay)
- the promotion of data privacy
- improving product safety and compatibility
- the promotion of best practice for corporate governance (e.g. increasing the transparency of remuneration or disclosing the results of votes casted at AGMs)
- the avoidance of conflicts of interest (e.g. disclosure of political contributions)

### 3.3 Dialogue with companies (engagement)

We take our responsibility towards the public listed companies seriously through dialogues (engagement). Swisscanto Invest, our asset managers, hold these engagement meetings as part of their investment activities with the following objectives:

- constructive dialogue and active discussions with companies
- sustainable increase in shareholder value and risk minimisation, in particular by promoting best practice in corporate governance and social or environmental issues through dialogue
- informing the public companies at an early stage of potential problems within the framework of our voting policy
- timely and fair decision-making for shareholders in the run-up to the AGMs.

As part of our UNPRI engagement<sup>13</sup>, we also take our social responsibility seriously and exert influence on medium-term ESG issues that affect the companies and/or entire sectors/industries.

## 4 Transparency and information for investors on voting behaviour

The "Swisscanto Sustainability Proxy Voting Guidelines" are available at [swisscanto.com/voting](https://www.swisscanto.com/voting). These are applied to the collective investment schemes of Swisscanto (including private label funds). After an AGM, our actual voting behaviour is also disclosed on this page.

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<sup>13</sup> See footnote 12.

## 5 Information and dialogue with listed companies

Swisscanto maintains contact with listed companies and provides information on its voting policy and related ESG issues. Enquiries from companies about "engagement" should be emailed to [engagement@swisscanto.ch](mailto:engagement@swisscanto.ch)<sup>14</sup>.

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<sup>14</sup> Discussions regarding voting should be held at an early stage, i. e. in the Annual General Meetings' "low season" (second half of the year).