

Georgeson's 2018 Proxy Season Review

Bridging the gap between Issuers and Investors



CERTAINTY | INGENUITY | ADVANTAGE

Georgeson

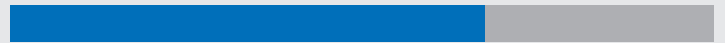


Denmark (Large Cap)

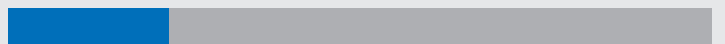


REJECTED BOARD PROPOSALS **3**

AVERAGE QUORUM **60.9%**



COMPANIES WITH OVER 10% OPPOSE **10.53%**



Highlights

- › The average quorum for the 38 OMX Large Cap companies surveyed has increased from 56.4% in 2017 to 60.9% in 2018.
- › In our OMX Large Cap sample, 3 board resolutions failed to gather sufficient support.
- › In the 2018 season, four companies saw at least one management resolution receive more than 10% shareholder opposition for a total of five resolutions. This is a decrease of 70.5% compared with 2014.
- › A total of four shareholder proposals were filed at the AGMs of Copenhagen Airports and Top Danmark. All four proposals were rejected due to insufficient support.
- › In the 2018 season, 18 of the OMX Large Cap companies surveyed received at least one against recommendation from ISS or Glass Lewis for a total of 23 management and shareholder resolutions.
- › During the 2018 AGM season, proxy advisors ISS and Glass Lewis issued a total of 29 negative recommendations which is an increase of 26% compared with 2016.
- › Increased activity on the AGMs from institutional investors and private shareholders with primary focus on remuneration, overboarding, diversity and transparency.

1 | Voting in Denmark

1.1 FOREIGN OWNERSHIP

In the past decade, foreign shareholders have come to play an increasingly important role in Danish listed companies. In 2008, 32.5% of the shares in Danish listed companies was registered to foreign shareholders, and in September 2018¹ 53% of the shares was owned by foreign shareholders.

As a consequence, foreign institutional investors have become much more active at Danish AGMs to exercise their voting rights. The increased activism is primarily due to general pressure on institutional investors to practice active ownership, stewardship codes for professional investors and new regulatory requirements encouraging the publication of voting records after the AGM.

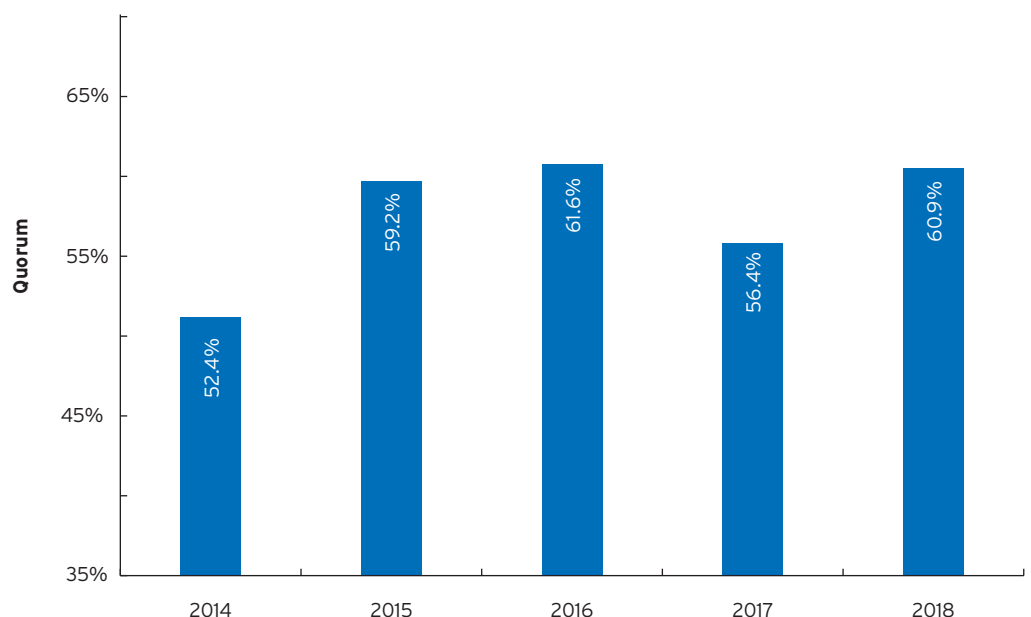
However, more than one third of the proxy votes are not approved, which is primarily due to the lack of approval of the Power of Attorney (PoA) granted by the beneficial owner to the custodian bank registered as a nominee in the company's share register. The implementation of the amended Shareholder Rights Directive (SRD II) is expected to simplify the proxy voting process and facilitate the exercise of shareholder rights and shareholder engagement including voting, which could have a major impact on voting results, especially for the Danish free float shares.

1.2 QUORUM OVERVIEW

We have reviewed the quorum levels of the OMX Large Cap² companies over the past five years. The survey includes the companies that were part of the index as of 1 July 2018, and which held their AGMs between 1 August 2017 and 31 July 2018.

The average quorum at the AGMs of OMX Large Cap companies has increased from 56.4% in 2017 to 60.9% in 2018.

Graph 1:
Average AGM quorum levels of the OMX Large Cap companies surveyed between 2014 and 2018.



1) Source: Danmarks Nationalbank

2) http://www.nasdaqomxnordic.com/index/index_info?Instrument=SE0001776667 not including GS4 and Nordea Bank as they are headquartered abroad.

1.3 REJECTED RESOLUTIONS

Among the surveyed OMX Large Cap companies that held their AGMs between 1 August 2017 and 31 July 2018, three resolutions proposed by the board failed to get sufficient support at the AGM of Simcorp.

Within our sample, a total of 4 shareholder proposals were also filed.

BOARD PROPOSALS

Simcorp

Three board resolutions at the AGM of Simcorp failed to gather sufficient support as less than 50% of the share capital was represented at the AGM³:

- › Reduction of the share capital of the Company.
- › Change of number of Board members from 3-6 Board members to 4-8 Board members.
- › Removal of maximum age requirement for Board members.

The Board of Directors successfully convened an extraordinary general meeting for final approval of the proposals⁴.

SHAREHOLDER PROPOSALS

In the 2018 AGM season, we only saw few shareholder proposals compared with previous years. However, the level of shareholder activism at the AGMs in general was more significant than previous years with an increasing number of institutional and private shareholders requesting to speak from the rostrum.

A total of four shareholder proposals were filed at the AGMs of Copenhagen Airports and Top Danmark.

Copenhagen Airports

At the AGM of Copenhagen Airports three shareholder proposal was filed regarding:

- › Make available information about bird movements in the past 24 hours on the Company's website
- › Conduct an ongoing scientific treatment and annual assessment of the bird movements
- › Include in the Chairman's Report at the AGM a conclusion on bird movements' impact on aviation safety.

Top Danmark

At the AGM of Top Danmark one shareholder proposal was filed regarding:

- › Recommend the Board to comply with and report on the UN's Climate Targets.

All four resolutions failed to gain a significant level of support from shareholders and were rejected.

Both ISS and Glass Lewis issued an 'against' recommendation on the shareholder proposals.

3) <https://www.simcorp.com/en/about/investor/presentations-and-events/annual-general-meetings>

4) <https://www.simcorp.com/en/news-and-announcements/2018/05/simcorp-as-business-transacted-at-the-extraordinary-general-meeting>

1.4 WITHDRAWN RESOLUTIONS

Pandora

One board resolution at the AGM of Pandora was withdrawn regarding the approval of guidelines for incentive-based compensation for Pandora's Executive Management and Board.

ISS had issued an 'against' recommendation, while Glass Lewis recommended in favour.

1.5 CONTESTED RESOLUTIONS

Among our sample of OMX Large Cap companies that held their AGM during the reporting period, not all companies provide a precise breakdown of vote results by resolution as this is not a legal requirement.

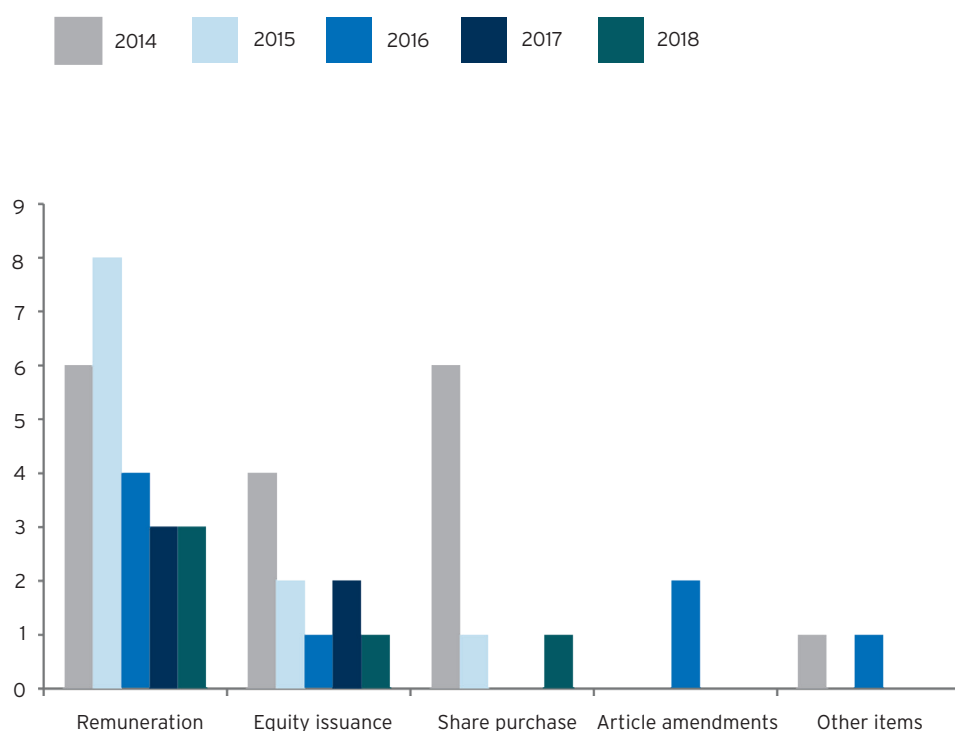
Of the companies which provided detailed vote results, four companies saw at least one management resolution receive more than 10% shareholder opposition for a total of five resolutions in 2018 at the AGMs of DSV Genmab, GN Store Nord and Pandora (compared to 17 in 2014, 11 in 2015, 8 in 2016 and 5 in 2017).

The most commonly contested resolutions were the approval of remuneration guidelines and remuneration of directors (three resolutions) followed by equity issuance authorities (one resolution) and article amendments (one resolution).

The graph below summarises the main categories of management resolutions that received more than 10% opposition from shareholders.

Graph 2:

Number of resolutions which received more than 10% against votes in the OMXC Large Cap companies (by resolution type) 2014-2018.



1.5.1 Remuneration

Under the Danish Companies Act (§139), the board of a listed company must prepare general guidelines for incentive based compensation for executive management and board members before entering into any specific agreement on incentive pay with a member of management. These guidelines must be considered and adopted by the AGM.

Among our sample the companies with the lowest level of support on remuneration resolutions were:

- › Genmab, remuneration of directors (41% against)
- › Genmab, guidelines for incentive based remuneration of directors (18% against)

In the case of Genmab's remuneration of directors resolution both ISS and Glass Lewis recommended an 'against' vote. For Genmab's remuneration guidelines both ISS and Glass Lewis recommended a vote in favour of the resolution.

1.5.2 Equity issuance

Among our sample the companies with the lowest level of support on approval of equity issuance were:

- › GN Store Nord, approve creation of DKK 116 million pool of capital without preemptive rights (26% against)

For the GN Store Nord resolution, both ISS and Glass Lewis recommended shareholders vote in favour of the proposal.

2 | Proxy Advisors

The increasing number of foreign shareholders in Danish listed companies has led to increased use of proxy advisors as many institutional investors rely on proxy advisory firms, such as ISS and Glass Lewis for meeting agenda analysis and vote recommendations to inform their voting decisions. A negative recommendation from a proxy advisor can have an adverse impact on the vote outcome of a given resolution.

In the 2018 season, 18 of the OMX Large Cap companies surveyed received at least one against recommendation from ISS or Glass Lewis for a total of 23 management and shareholder resolutions.

2.1 Institutional Shareholder Services (ISS)

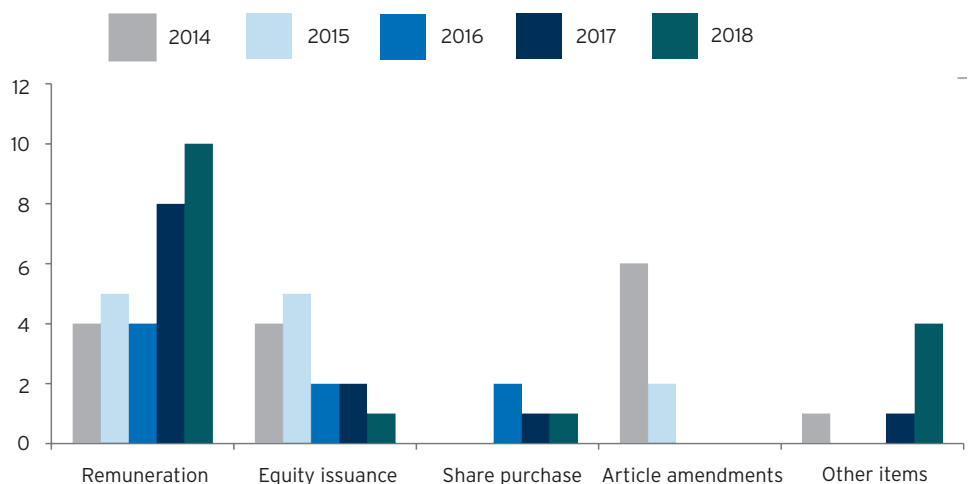
Institutional Shareholder Services⁵ (ISS) is a leading provider of corporate governance solutions for asset owners, hedge funds, and asset service providers.

Between 1 August 2017 and 31 July 2018, 14 of the OMX Large Cap companies surveyed received at least one against recommendation from ISS.

A total of 16 negative recommendations were issued by ISS on resolutions put forward by management. Remuneration-related resolutions received 10 of the 16 against recommendations, followed by equity issuance and share repurchase authorities.

Below is an overview of the number of against recommendations by ISS at the OMX Large Cap AGMs we surveyed over the past five years. In 2018 the number of against recommendations amounted to 16 compared to 12 in 2017.

Graph 3: Overview of the number of against recommendations by ISS at OMX Large Cap AGMs over the past five years



5) <http://www.issgovernance.com/about/about-iss/>

2.2 GLASS LEWIS

Glass Lewis⁶ is a leading provider of governance services that support engagement among institutional investors and corporations through its research, proxy vote management and technology platforms.

Between 1 August 2017 and 31 July 2018, 13 of the OMX Large Cap companies surveyed received at least one against recommendation from Glass Lewis.

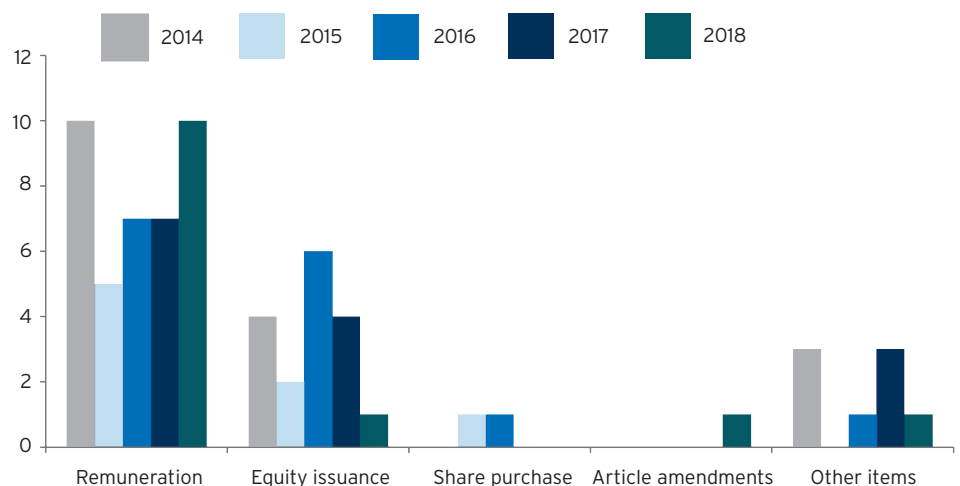
A total of 13 negative recommendations were issued by Glass Lewis on resolutions put forward by management. Remuneration related resolutions received the highest number of against recommendations followed by Supervisory Board or Management Board elections and Article amendments.

It should be noted that Glass Lewis routinely recommends against on the agenda item 'Other business' which cannot be subject to a vote. These against recommendations have not been included in our survey.

Below is an overview of the number of negative recommendations by Glass Lewis at the OMX Large Cap AGMs we surveyed over the past five years. The graph shows that overall the 2018 proxy season saw 13 against recommendations from Glass Lewis compared with 14 in 2017.

Graph 4:

Overview of the number of against recommendations by Glass Lewis at the OMX Large Cap AGMs over the past five years



6) <http://www.glasslewis.com/about-glass-lewis/>

2.3 VIRTUAL SHAREHOLDER MEETINGS – VOTING GUIDELINES

The move toward online shareholder meetings is gaining increasing attention among companies, investors and corporate regulators. At the same time, we see a trend towards reduced physical attendance at shareholder meetings and the participant level has decreased with 10% annually for the past three years. An average Danish AGM in the Large and Mid Cap segments has 180 participants (less than one percent of the shareholder base).

Combining the traditional physical shareholder meeting with online participation will most likely increase attendance as familiarity and comfort with digital interactions grows amongst the shareholder population. In Denmark, legislation allows for the use of virtual and hybrid shareholder meetings, however only few companies have become sufficiently confident to go ahead. ISS A/S was the first Danish listed company to convene their AGM (2018) as a hybrid meeting.

2.3.1 ISS EMEA voting guidelines

ISS generally vote in favour of proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs. Generally vote against proposals allowing for the convening of virtual-only* shareholder meetings.

2.3.2 Glass Lewis Continental Europe voting guidelines

Beginning in 2019, Glass Lewis will generally recommend voting against governance committee members where the company plans to hold a virtual-only* shareholder meeting and the company does not provide robust disclosure in its proxy statement that assures shareholders that they will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

7) <https://corporategovernance.dk/recommendations-corporate-governance>

8) https://corporategovernance.dk/sites/default/files/180921_positivliste_aktivt_ejerskab_170918_002.pdf

*) "Virtual-only" shareholder meeting refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. "Hybrid" shareholder meeting refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

3 | Corporate Governance developments

3.1 RECOMMENDATIONS FOR CORPORATE GOVERNANCE

The Danish Recommendations on Corporate Governance are aimed primarily at Danish companies whose shares are admitted to trading on a regulated market. The objective is that the Recommendations are appropriate for such companies and comply with Danish and EU company law, the OECD's Principles of Corporate Governance and recognised best practice.

The Recommendations are based on, and supplement, company law and stock exchange regulation. The Recommendations enable the individual company to organise its governance optimally in accordance with the "comply or explain" principle.

On 23 November 2017, the Corporate Governance Committee published new, revised Recommendations on Corporate Governance⁷. The updated Recommendations enter into force for the financial years starting January 1, 2018 or later. Thus, the 2017 Recommendations will apply for the first time at the Annual General Meeting, which will consider the Annual Report for 2018. Accordingly, in connection with the presentation of the Annual Report for 2018, the companies must account for compliance with the updated Recommendations, so reporting will reflect the situation at the reporting date.

7) <https://corporategovernance.dk/recommendations-corporate-governance>

8) https://corporategovernance.dk/sites/default/files/180921_positivliste_aktivt_ejerskab_170918_002.pdf

3.2 STEWARDSHIP CODE

On January 1, 2017 the new Stewardship Code issued by the Corporate Governance Committee entered into force. The 7 stewardship principles aim to promote companies' long-term value creation and thereby contribute to maximizing long-term return for investors. Thus, the Recommendations on Corporate Governance and the Stewardship Code are mutually reinforcing in serving a common purpose. The Stewardship Code should result in increased transparency as to how the individual investor chooses to exercise stewardship activities. Accordingly, the Code is not meant to establish a uniform approach for investors' exercise of stewardship activities.

Like the Recommendations on Corporate Governance, the stewardship principles are "soft law" to be applied on a "comply or explain" basis. Thus, investors can choose either to comply with a given principle or not, in which case the investor should give an explanation as to why and how the investor has chosen to act in that particular regard.

The Corporate Governance Committee has published a list of institutional investors who have stated that they will apply the Stewardship Code. In September 2018, a total of 35 institutional investors was included on the list⁸.

Danish investors - both institutional and private - are very aware of their ability to exercise active ownership. In the 2018 proxy season, the Danish institutional investor, ATP, has been active at 19 of the largest Danish AGMs including the ones of Genmab, A.P. Møller-Mærsk, Vestas, Pandora and GN Store Nord. As in previous years, it is usually remuneration that meets most resistance with ATP and other investors, a subject that has also received a great deal of attention in the Danish press. Institutional investor MP Pension has also been very active during the 2018 AGM season addressing primarily ESG issues.

Foreign shareholders continue to exercise active ownership via proxy votes. Numbers from Computershare Denmark show that the level of the attendance represented by proxy votes has reached a level around 25%, which is a significant increase from 13.9% in 2014.

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