



# Voting Guideline

for exercising voting and participation rights in Swiss public companies

November 2018

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### Preamble

zRating offers shareholder services for over 170 Swiss public companies. All services are offered online. This Voting Guideline serves as the authoritative reference for the exercise of voting and participation rights. In doing so, zRating is based on the principles of sound corporate management, considering the legal foundations, the ongoing revision of stock corporation law, self-regulatory instruments (e.g. the "Swiss Code of Best Practice for Corporate Governance") and in particular the "zRating" rating system, which is based on its own database and our catalogue of criteria ("In-House Research"). zRating acts independently and acts neither as a fund manager nor as a corporate governance advisor for companies. We are therefore not exposed to any conflicts of interest. The specific voting behaviour as well as this voting guideline will be made publicly available on the website.

## **1 Scope of application**

This voting guideline applies to ordinary and extraordinary General Meetings of listed Swiss stock corporations.

## **2 General information on the exercise of voting and participation rights**

### **2.1 Institutional proxy voting**

Physical presence at General Meetings is usually waived and the independent proxy is appointed to act as proxy. Instructions may be issued in writing or electronically.

### **2.2 Voting recommendations**

As a rule, the proposals of the Board of Directors are voted "Yes/acceptance" or "No/rejection". "Abstentions" are predominantly avoided.

### **2.3 Convocation of Extraordinary General Meetings**

zRating reserves the right to convene an Extraordinary General Meeting in extraordinary cases and on behalf of its clients. zRating may join forces with other shareholders to form a group to meet convening hurdles. If an Extraordinary General Meeting is submitted, zRating is physically present at the General Meeting.

### **2.4 Submission of requests for inclusion of agenda items**

In exceptional cases and on behalf of its clients, zRating reserves the right to request an item for inclusion in the agenda. zRating may join other shareholders to form a group in order to meet the convening hurdles. zRating is physically present at the General Meeting if a request for inclusion of agenda items is submitted.

### **2.5 Proposals at the General Meeting**

zRating reserves the right to submit proposals for individual items on the agenda. In exceptional cases, the independent proxy may be appointed for this purpose as well.

## **3 Reporting, documentation**

The actual voting behaviour is usually communicated 14 days before the General Meeting.

## **4 Decision-making principles**

### **4.1 Basis**

The voting rights are exercised in accordance with the long-term interests of the stock corporation and the shareholders. In situations for which no decision-making principle is listed below, voting rights are assessed according to good corporate governance criteria. zRating reserves the right in this context to formulate voting recommendations, if necessary, that are not explicitly provided for in the voting guideline.

### **4.2 Approval of the management report**

zRating may reject approval if:

- a) serious deficiencies are known which are not published in the management report;

- b) the information presented in the management report does not meet the usual standard or is contradictory;
- c) there are obvious contradictions to the annual and consolidated financial statements;
- d) the information on the prospects is obviously incorrect;
- e) the management report has not been made available to shareholders at least 20 days before the Annual General Meeting.

#### **4.3 Approval of the annual and consolidated financial statements**

zRating may reject to approve the annual and consolidated financial statements if:

- a) the auditors recommend rejection;
- b) the auditors recommend approval with restrictions;
- c) the "SIX Swiss Exchange" complained about points in the last year's financial statements that have not been resolved;
- d) the comparability with previous years cannot be guaranteed;
- e) the remuneration policy is not transparent or entails excessive remuneration and it cannot be voted separately on the remuneration policy (consultative vote);
- f) the long-term financing of the company is not secured and the balance sheet ratios appear too weak.

#### **4.4 Approval of the remuneration report**

A holistic view takes place, whereby various indicators of the zRating are included in the assessment.

zRating may reject the remuneration report if:

- a) the auditors do not confirm, or only with reservations, that the remuneration report complies with the law, the Articles of Association and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (VegüV);
- b) there are indications that an obvious violation of the law, the Articles of Association or the VegüV has not been noticed by the auditors;
- c) there are indications that the approval would cause lasting damage to the company's reputation;
- d) the comparability with previous years is not guaranteed;
- e) the remuneration report has not been made available to shareholders at least 20 days before the Annual General Meeting;
- f) the information presented in the remuneration report is not transparent and unclear;
- g) the remuneration policy set out in the remuneration report is not comprehensible;
- h) the level of remuneration does not appear to be in line with the economic situation of the company;

- i) the level of the remuneration is not in line with the company's long-term prosperity;
- j) the level of remuneration is not in an appropriate relationship with the tasks, efforts and responsibilities of the recipients;
- k) the level of remuneration appears disproportionate in relation to the company's profitability;
- l) the level of remuneration appears too high in comparison with company or share performance;
- m) the level of remuneration appears too high in absolute terms in light of shareholder interests;
- n) the level of remuneration appears too high in comparison to other companies of comparable size and complexity;
- o) salaries in the double-digit million range exist;
- p) non-executive members of the Board of Directors receive variable compensation;
- q) the remuneration policy does not provide for an absolute or relative limitation;
- r) the remuneration policy allows the use of remuneration components with a strong leverage effect;
- s) the remuneration policy is too short-term;
- t) the remuneration policy allows the use of inappropriate allocation criteria;
- u) the remuneration policy is subsequently changed or adjusted;
- v) the remuneration components do not correspond to the budget submitted and the remuneration policy approved by the General Meeting.

#### 4.5 Discharge of the organs

zRating may reject to discharge ("Décharge") the executive bodies or individual members if:

- a) the auditors recommend that the annual and consolidated financial statements be rejected;
- b) the auditors recommend that the annual and consolidated financial statements be approved only with reservations;
- c) the auditors do not confirm, or only with reservations, that the remuneration report complies with the law, the Articles of Association and the VegüV;
- d) serious deficiencies can be attributed to the Board of Directors or the Executive Board, in particular regarding the non-transferable duties of the Board of Directors pursuant to Art. 716a CO, or to the Executive Board;
- e) insufficient supervision or a gross violation of shareholders' rights can be proven;
- f) there is concrete evidence of conduct that could harm the company;
- g) there are concrete indications of illegal or immoral conduct that could permanently damage the company's reputation;
- h) business failures for several years.

zRating may reject to discharge ("Décharge") the organs or individual members if one of the following points becomes significantly accentuated:

- i) the balance sheet carries considerable risks;
- j) the equal treatment of shareholders is violated;
- k) the frequency of meetings of the Board of Directors and/or corresponding committees is disproportionate to the strategic or operational challenges;
- l) the information frequency of relevant information in the internal control system (ICS) is disproportionate to the strategic or operational challenges;
- m) the management has a structure that facilitates the circumvention of disclosure requirements;
- n) the communicated objectives cannot be achieved.

#### **4.6 Appropriation of the balance sheet profit and determination of a dividend**

zRating may reject the proposal if:

- a) this has not taken into consideration all relevant factors and runs counter to the interests of the shareholders as well as the long-term stability of the company;
- b) the business value or the quality of the balance sheet are endangered;
- c) this results in changes in the capital structure that have a material negative impact on shareholders' participation rights;
- d) this means that share buyback programs can be launched, although the balance sheet ratios may at best jeopardize the long-term nature of management;
- e) the dividend payment is made by way of a par value repayment and the threshold for inclusion on the agenda is reduced by 20% or more.

#### **4.7 Election of the members of the Board of Directors**

##### **4.7.1 General assessment**

zRating requires expertise, experience, track record and sufficient time available. Candidates will be assessed on their suitability where an individual assessment allows. The information about the candidates must be made available to shareholders in time. zRating generally relies on the working methods of the Nomination Committee. If there are indications that the candidate cannot carry out the mandate with the necessary competence due to other mandates or functions, zRating reserves the right not to support the corresponding choice.

For the composition of the Board of Directors, zRating assesses the effects of the election of the following priorities:

1. Independence of the Board of Directors (Art.4.7.2);
2. Size of the Board of Directors (Art.4.7.3);
3. Other criteria, such as:
  - Competences;
  - Diversity;

- Number of significant third-party mandates and attendance at meetings;
- Term of office and age;
- Membership in relevant committees.

#### 4.7.2 Independence of the Board of Directors

At least half of the members of the Board of Directors must be considered independent. The independence of the Chairman is also considered if he has the casting vote. Only in special cases or where the current situation of the company does not permit otherwise, a temporary non-independence of the Board of Directors can be accepted. The company must plausibly demonstrate the temporary necessity. The independence of the Board of Directors is assessed from the perspective of the minority shareholders. zRating distinguishes three different statuses of independence.

##### 1. Independence

A member of the Board of Directors or candidate is considered "independent" if none of the criteria in items 2 and 3 below apply.

##### 2. Objective dependence

A member of the Board of Directors or candidate shall be deemed to be "objectively dependent" if:

- a) he is also a member of the Executive Board;
- b) he is a shareholder with more than 3% of the capital or voting rights;
- c) he is a representative of a shareholder with more than 3% of the capital or voting rights;
- d) he is related to the founding family or to a member of the management;
- e) he is a member of the management of another company in which members of the Board of Directors are members of the management of the company concerned (cross-involvement);
- f) he is a partner of the acting auditors;
- g) he does not represent the interests of the company's shareholders (representatives of other stakeholders, e.g. employee representatives).

##### 3. Subjective dependence

A member of the Board of Directors or candidate is considered "subjectively dependent" if:

- h) he has a conflict of interest with a mandate at another company;
- i) he was a member of the Executive Board in the past (also for a limited period);
- j) he was a partner of the acting auditors;
- k) in addition to the mandate, he maintains or has maintained significant direct or indirect business relationships with the company or one of its subsidiaries. In assessing the materiality of business relationships, zRating considers the volume and scope of transactions and whether they are within the scope of ordinary business activities;
- l) if it must be suspected that financial and social independence is not guaranteed.

#### 4.7.3 Size of the Board of Directors

The Board of Directors shall be small enough to allow an efficient decision-making process and large enough for its members to contribute experience and knowledge from different areas to the Board

of Directors in order to improve complementarity. For smaller companies (outside the SMI Expanded), zRating considers a maximum of 7 members to be appropriate. For companies of the SMI Mid or SMI the Board of Directors should consist of a maximum of 9 or 12 members. If the independence of the entire Board of Directors is already given before the election, zRating can reject elections for enlargement above the above-mentioned maximum sizes. If the independence of the entire committee is not given before the election, zRating weighs up the interests on a case-by-case basis.

#### 4.8 Votes on remuneration

zRating may reject compensation to members of the Board of Directors or the Executive Board if:

- a) there are indications that the acceptance would permanently damage the company's reputation;
- b) the proposal is not justified in a transparent and comprehensible manner with the necessary information;
- c) the level of remuneration does not appear to be in line with the economic situation of the company;
- d) the level of the remuneration is not in line with the company's long-term prosperity;
- e) the level of remuneration is not in an appropriate relationship with the tasks, efforts and responsibilities of the recipients;
- f) the level of remuneration appears disproportionate in relation to the company's profitability;
- g) the level of remuneration appears too high in comparison with company or share performance;
- h) the level of remuneration appears too high in absolute terms in light of shareholder interests;
- i) the level of remuneration seems too high in comparison to other companies of comparable size and complexity;
- j) salaries in the double-digit million range exist;
- k) non-executive members of the Board of Directors receive variable compensation;
- l) the remuneration report is subject to a prospective vote on variable remuneration without the possibility of a subsequent consultative vote on the remuneration report.

#### 4.9 Election of the Chairman of the Board of Directors

In principle, zRating assesses the proposal of the Board of Directors for the election of the Chairman from an overall perspective within the meaning of Art. 4.7.2 In the event of an acute corporate crisis, zRating may deviate from these principles.

zRating may reject the election if:

- a) the candidate is a member of the Executive Committee;
- b) the candidate has too many significant third-party mandates in the top management or administrative bodies of legal entities ("third-party mandates"), which are obliged to be entered in the commercial register or in a corresponding foreign register. These should not exceed five. Mandates in associations, charitable foundations, personnel welfare foundations or associations are not considered material. Mandates in own legal entities are not counted as third-party man-



dates. Several mandates in different legal entities of third parties under equal economic control are considered as one third-party mandate.

- c) company performance in recent years has been unsatisfactory or there are obvious shortcomings in supervision.

#### **4.10 Election of the members of the Compensation Committee**

zRating assesses the independence of the Chairman of the Compensation Committee. He must not be objectively dependent pursuant to Art. 4.7.2. However, members may be objectively dependent according to Art. 4.7.2.

zRating may reject the election of candidates for the Compensation Committee if:

- a) the candidate is an executive member or a member of the management;
- b) the candidate receives variable remuneration;
- c) the candidate belongs to the management of another company in which members of the Board of Directors belong to the management of the company concerned (cross-involvement);
- d) the candidate previously chaired the Compensation Committee and in this function was responsible for non-competition bans with bonus components for members of the Executive Board for longer periods;
- e) the candidate previously belonged to the Compensation Committee and the remuneration policy is inadequate, the level of compensation appears too high in the light of shareholder interests and/or shareholder rights are not adequately considered.

#### **4.11 Election of the independent proxy**

zRating may reject the election of the independent proxy and its deputy if:

- a) not sufficient information is provided to assess independence;
- b) there are indications of doubts about independence in the press or other relevant information channels;
- c) he deliberately violated the voting secrecy.

#### **4.12 Election of the auditors**

zRating may reject the election of the auditors if:

- a) material errors can be proven to the auditors;
- b) the mandate has existed for more than 24 years, considering the current mandate of the lead auditor or no evidence of change of the lead auditor in the last seven years is given; if there is evidence of a new invitation to tender for the mandate, zRating weighs up the interests on a case-by-case basis.
- c) the non-audit fees exceed 70% of the audit fees;
- d) the audit supervisory authority has imposed sanctions on the lead auditor or the management bodies of the auditors.

#### 4.13 Capital increase or reduction

zRating analyses the economic rationale and the purpose of an ordinary capital increase. In the case of an authorized or conditional capital increase, zRating analyses the total potential capital dilution. In principle, the authorized or conditional capital increase should not exceed 20% of the total ordinary capital if the pre-emptive rights are excluded. In justified exceptional cases, zRating reserves the right to deviate from this principle, in particular in the case of restructuring measures, planned or (known) takeovers. This exemption also applies to companies with extremely high growth potential or with a high business model-related cash burn rate, e.g. in biotechnology.

zRating may reject proposals for a capital increase if:

- a) there are various categories of shares and voting and/or registration restrictions that violate the synchronisation of capital and voting power;
- b) the potential dilution of capital exceeds 20% of the total ordinary capital;
- c) the intended use is for remuneration models whose amount seems too high or the dilution effect too great in the light of shareholders' interests;

zRating may reject capital reduction applications if:

- d) the potential capital dilution is passively increased and exceeds 20 %;
- e) the hurdles to the exercise of participation rights are passively increased;
- f) different share classes are available which violate the synchronisation of capital and voting power.

#### 4.14 Amendments and supplements to the Articles of Association

Proposals to amend and supplement the Articles of Association are approved if they are expected to improve corporate governance or strengthen the rights of all shareholders. If several congestion changes or additions are requested in a single vote, zRating weighs up the interests on a case-by-case basis.

##### 4.14.1 Composition and organization of the Board of Directors

zRating supports proposals to amend or supplement the Articles of Association, in particular if:

- a) the size of the Board of Directors is limited to 7 members for smaller companies (outside of SMI Expanded) and to 9 or 12 members for SMI Mid or SMI companies;
- b) Majority elections (principle of plurality) can be applied to a limited body size;
- c) the membership of the Board of Directors is made more difficult or prohibited for members of the Executive Board;
- d) the number of permissible, significant third-party mandates for members of the Board of Directors in the highest management or administrative bodies of legal entities ("third-party mandates"), who are obliged to be entered in the Commercial Register or a corresponding foreign register, is normally limited to a maximum of five third-party mandates. Mandates in associations, charitable foundations, personnel welfare foundations or associations are not considered material. Mandates in own legal entities are not counted as third-party mandates. Several mandates in different legal entities of third parties under equal economic control are considered as

one third-party mandate. Exceptions may be granted if there are credible reasons for a higher mandate limit;

- e) the number of permissible, significant third-party mandates for members of the Executive Board in the top management or administrative bodies of legal entities ("third-party mandates"), which are obliged to be entered in the Commercial Register or a corresponding foreign register, is normally limited to a maximum of one third-party mandate. Mandates in associations, charitable foundations, personnel welfare foundations or associations are not considered material. Mandates in own legal entities are not counted as third-party mandates. Several mandates in different legal entities of third parties under equal economic control are considered as one third-party mandate. Exceptions may be granted if there are credible reasons for a higher mandate limit;
- f) the remuneration acquired from the additional activities of members of the Executive Board is partially reimbursed to the Company;
- g) if the Board of Directors can appoint an interim Chairman for the period until the following Annual General Meeting in the event of vacancies on the Chairman position occurring during the year;
- h) if the General Meeting can elect the Deputy Chairman of the Board of Directors.

#### **4.14.2 Determination and approval of remuneration**

**I** zRating approves amendments or additions to the Articles of Association in particular if:

- a) the fixed remuneration of the Board of Directors and the Advisory Board is approved prospectively for the period until the next Annual General Meeting;
- b) the management's fixed compensation is approved prospectively for the next financial year;
- c) the variable remuneration of the executive members of the Board of Directors is approved retrospectively for the past financial year;
- d) the variable remuneration of the Executive Board is approved retrospectively for the past financial year;
- e) the approval mechanism differs from previous lit. c-d, if valid reasons for the deviation are given and if it can be voted retrospectively on the remuneration report;
- f) an additional amount of fixed remuneration components adequate to the management board structure can be granted to the Executive Board appointed after the General Meeting's vote on remuneration;
- g) an additional amount of compensation payments adequate to the management board structure can be granted to the Executive Board in connection with taking up a position (e.g. compensation for still running option or share plans of the previous employer);
- h) the Board of Directors is authorized, if the fixed remuneration for members of the Board of Directors, the Executive Board or the Advisory Board is not approved, to pay remuneration beyond the reference period approved by the General Meeting for a limited period;
- i) that the Compensation Committee or any other functional committee has a preparatory function and that the full Board of Directors remains responsible;

**II** zRating may reject amendments or additions to the Articles of Association if:

- j) the variable remuneration of the Executive Board and the executive members of the Board of Directors is approved prospectively for the period until the next Annual General Meeting or the next financial year, without the possibility of a consultative vote on the remuneration report and without adequate information on the target and performance indicators;
- k) non-executive members of the Board of Directors or the Advisory Board receive variable compensation;
- l) the associated remuneration policy does not provide for an absolute or relative limitation;
- m) the principles relating to variable remuneration are not sufficiently clearly aligned with the long-term interests of the company;
- n) the principles relating to the allocation of equity securities are not sufficiently clearly aligned with the long-term interests of the company;
- o) the associated remuneration policy is short-term oriented, whereas a minimum vesting period of three years for stock programs and five years for option or option-like programs are being considered appropriate;
- p) the associated remuneration policy provides for the use of incomprehensible target and assessment criteria;
- q) the associated remuneration policy can be subsequently changed or adjusted;
- r) the associated remuneration policy can be regarded as disproportionate in relation to profitability;
- s) the resulting level of remuneration appears too high in the light of shareholder interests;
- t) it must be assumed that the associated remuneration policy would damage the company's reputation or that social and ethical tolerability is no longer guaranteed;
- u) non-competing clauses last longer than 12 months or the associated compensation also includes variable remuneration components and is not in line with industry practice;
- v) non-competing clauses can be agreed with non-executive members of the Board of Directors.

#### **4.14.3 Participation and voting rights**

zRating approves amendments or additions to the Articles of Association in particular if:

- a) different share categories are unified to form one class of shares;
- b) registration restrictions are abolished;
- c) voting right restrictions are abolished;
- d) optional clauses in the case of restrictions on registration and/or voting rights are removed;
- e) grandfathering clauses are abolished;
- f) hurdles to put items on the agenda are lowered;
- g) deadlines for the inclusion of items on the agenda are specified;
- h) hurdles for convening extraordinary general meetings are reduced;

- i) the General Meeting can decide on a delisting;
- j) registration of nominees is limited or unlimited without the Board of Directors being able to grant exceptions;
- k) an electronic vote is made possible at the General Meeting;
- l) if a deputy of the independent proxy can be appointed;
- m) the quorum for resolutions is reduced to the legal minimum of Art. 704 para. 1 CO;
- n) the quorum for announced proposals, contrary to Art. 703 CO, requires an absolute majority of the votes cast (i.e. without abstentions);
- o) opting out or opting up clauses that do not protect the public shareholder are abolished.

#### **4.14.4 Corporate Responsibility**

zRating approves amendments or additions to the Articles of Association in particular if:

- a) the goal of sustainable corporate development is thereby anchored;
- b) transparency is thereby increased;
- c) the Board of Directors is thereby obliged to prepare a sustainability report;
- d) the Board of Directors is thereby obliged to set quantitative targets to reduce greenhouse gas emissions;
- e) the Board of Directors is thereby obliged to draw up a Code of Conduct;
- f) the Board of Directors is thereby obliged to draw up a diversity report;
- g) the Board of Directors is thereby obliged to set quantitative targets for the appropriate representation of both sexes.

#### **4.14.5 Other provisions of the Articles of Association**

zRating rejects proposals to amend or supplement the Articles of Association in particular if:

- a) the subsequent introduction of an opting up clause is requested which does not have a protective function for minority shareholders;
- b) the subsequent introduction of an opting out clause is requested;
- c) it must be assumed that the amendment or addition to the Articles of Association primarily corresponds to the particular interests of individual shareholders.

#### **4.15 Mergers, takeovers, delisting and other corporate actions**

zRating rejects proposals if:

- a) there are indications that the transaction is not in the long-term interest of the company;
- b) there are indications that management has inappropriately influenced;
- c) the targeted objectives cannot be achieved in the case of restructuring measures;
- d) the shareholder rights are diluted or not properly reflected (fairness opinion);

- e) a transfer of the registered office is not in the interest of the shareholders or the rights of the shareholders are worsened.

#### **4.16 Proposals by shareholders**

zRating supports shareholder proposals if they lead to improvements and strengthening of corporate governance.

#### **4.17 Amendments and unannounced items on the agenda**

zRating generally rejects proposals by shareholders at the Annual General Meeting that are not on the agenda before the Annual General Meeting.