orient capital

INSIGHT

Thinking sustainably

Views on approach, risk mitigation and practical pointers on AGM engagement and planning

An Orient Capital interview with Swiss Re

In the second of Orient Capital's Insight interviews, we move from Italy to Switzerland, to bring you the wisdom and insights of two key players in the Swiss corporate markets space.

We are delighted to be joined by **Felix Horber**, Group Company Secretary and **Chris Menth,** Head of Shareholder Engagement at Swiss Re.

In our interview, Dirk Vermehren, Orient Capital's Director for the DACH region explores with Felix and Chris, the theme of sustainability, long-term value creation, governance frameworks and how Swiss Re are tackling the challenges that they raise.

"Felix and Chris, firstly thank you so much for spending some time with us. Perhaps I can start with you Felix, sustainability continues to be a topic with extremely strong momentum and investors are increasingly focused on the impact of climate change on long-term value creation. Could you share some of your thoughts with us on this?"

We have all seen and heard about it. The effects of climate change and global warming are clearly evident and shaking up our risk landscape; with increasingly extreme weather patterns such as warmer average temperatures; rising sea levels; melting ice caps; longer and more frequent heatwaves.

The COVID-19 pandemic is a strong reminder of how global threats can impact our lives and can only be addressed by a global, coordinated response. This is, even more, the case when it comes to climate change.

Against the backdrop of the pandemic, climate change has become even more prominent in the public consciousness and, at the same time, a key risk management issue. This is something that everyone has had to take into account as financial markets began to price climate risk into their valuations which started a fundamental reallocation of capital.

Not only have people been protesting in the streets but business leaders and politicians recognise that, if not mitigated, climate change will have disastrous effects on society and the global economy.

Swiss Re Institute's recently published Climate Economics Index shows that climate change poses the biggest long-term threat to the global economy. If no mitigating action is taken, global temperatures could rise by more than 3°C and the world economy could shrink by 18% in the next 30 years. However, the impact can be lessened if decisive action is taken to meet the targets set in the Paris Agreement. This will require more than what is being pledged today; buy-in from both public and private sectors will be required to accelerate the transition to net-zero.

Therefore sustainability, and in particular the topic of climate change, is no longer hype, but a trend of fast-growing importance, with huge risks and significant opportunities, producing many innovations and attracting talent.

"As a follow up for you Chris, how is Swiss Re positioning itself here?"

Tackling climate change and advancing the transition to a low-carbon economy are key topics and a strategic priority for Swiss Re's business as a risk knowledge company.

In other words, sustainability to us means taking precautions and limiting future losses. The global protection gap, namely the difference between insured losses and actual total losses, is huge and still growing. Our very early commitment to sustainability is greatly benefiting Swiss Re today and through our products and services we can narrow this protection gap and increase global resilience. This is why sustainability is an integral part of our strategy and our day-to-day business.

Our Group Sustainability Strategy focuses on three principles: embedding sustainability in all our activities, leading sustainability-linked solutions and quantifying our sustainability performance, including the impact we have on society and the environment.

We have developed a Climate Action Plan, with the aim of becoming the leading re/insurance on physical climate risk, a leading provider of re/insurance solutions for low-carbon transition opportunities and partnering to develop scalable solutions to mitigate and adapt to climate change.

As a company, we are focused on building a truly sustainable business. As a founding member of the UN-convened Net-Zero Asset Owner Alliance, we have committed to reaching net-zero emissions from our own operations by 2030 and made the pledge to transition our investment and underwriting portfolios to net-zero by 2050.

At Swiss Re we are already 100% powered by renewable energy and are the first multinational company to introduce a triple-digit real internal carbon levy which we will gradually increase from USD 100 per tonne in 2021 to USD 200 by 2030.

Strategic capital allocation is at the heart of what we do and as such, we are well positioned to accelerate the transition to a low carbon economy and help societies adapt to the consequences of global warming to make the world more resilient.

If no mitigating action is taken, global temperatures could rise by more than 3°C and the world economy could shrink by 18% in the next 30 years

"Felix, how is sustainability reflected in your Corporate Governance Framework and why has engagement on sustainability topics become so important?"

Sustainability is a long-term value driver aimed at securing a company's survival. The board plays a decisive role in embedding sustainability into the strategy and core business of a company.

At Swiss Re, we updated our Group Sustainability Strategy in 2019. In doing so, sustainability moved closer to the core and purpose of our strategy. Several of our Board Committees are already charged with overseeing the implementation and execution of Swiss Re's Group Sustainability Strategy.

We also strengthened our Sustainability Governance Framework in 2020, by adding a number of sustainability-related key performance indicators (KPIs) and targets to the assessment process that determines compensation across the Group, including for the Group Executive Committee.

"So Chris, how does Swiss Re tackle this engagement?"

Due to the increased focus on sustainability topics, including the impact and mitigation of climate change, more and more investors and asset managers are recognising the power of engagement practices in creating shareholder value. They consider it their duty and responsibility to address ESG issues in an open dialogue with companies they are invested in.

To do so, many of them have, in recent years, established dedicated stewardship/active ownership teams. The goal of these teams is to influence companies on sustainability issues through active engagement, which means maintaining a permanent dialogue and exchange on ESG and other non-financial topics. If they do not agree with a company's approach, voting against the Board of Directors at the AGM is a consideration for a weapon of last resort.

Therefore, constructive engagement is mutually beneficial. It helps companies to make advancements in their sustainability-related activities and will have a beneficial impact over the medium to long term on valuation and investment returns.

We remain highly committed to enhancing transparency on these topics. This is done in the form of our annual Sustainability Report, our Corporate Governance and Compensation Report, as well as specific publications on our ESG approach. These efforts are being recognised by many external organisations and by investors.

Our direct engagement and dialogue with investors as well as ESG rating agencies and proxy advisors throughout the year is a top priority. On a regular basis we organise discussions with our technical expert teams as well as key decision-makers.

A prominent example of such engagement is our annual Chairman's roadshow. An established practice, which we started many years ago, when we visit major Swiss Re shareholders with our Chairman to discuss sustainability topics and to engage on key issues.

"Based on this Chris, what challenges do you face when deciding which sustainability standards to follow or which reporting framework to adhere to?"

In times when transparency, speed and agility are becoming increasingly important investors want to know more about a company's sustainability strategy and how it is linked to the long-term vision, purpose, core values and culture.

It becomes crucial that companies can better and consistently identify, quantify and disclose all their sustainability efforts for their different stakeholders, to build trust, reliability and enable the assessment of the risks and opportunities as well as the impacts on financial performance.

Currently, ESG rating agencies, proxy advisors and investors all have their own definitions and approaches to measure sustainability. Companies disclose their sustainability information in non-standardised reports, which makes it a huge challenge for many investors to navigate through the sheer volume of unstructured data.

Despite frameworks like TCFD, GRI, SASB, etc. there is still a lack of widely accepted, global sustainability standards. There is a real requirement for a stronger alignment of standards for non-financial information, balanced regulation and constructive dialogue regarding best practices.

Transparency and visibility need to further increase, to benefit all stakeholders, including investors. The focus must be on consistent sustainability risk disclosures, strong and transparent governance as well as sustainable business practices – a framework that makes implementation easier and allows for putting the right incentives into place. Various actors such as the IFRS Board and the EU are currently working on standardizing sustainability disclosures. A global, harmonized approach is key in our view.

As an important step in the right direction, a decisive move towards integrated reporting would be sensible. Embedding and quantifying sustainability and detailing how strategy, governance and performance lead to value creation in the short and long-term helps to highlight a company's purpose. Doing this can help demonstrate the full impact of a company's activities through greater transparency and accountability. Integrated reporting creates a comprehensive link between the sustainability report and the financial report and allows investors to make better-informed decisions on their investment in your stock.

In the last part of our interview, we turn our attention to the event where investors can make their views felt more openly, the AGM. We ask Felix for his expert views and thoughts on effective corporate governance and how to prepare for better shareholder engagement in the months leading up to the AGM itself.

"From our annual D.F. King team post AGM research [1], we have been observing a continued growth in average participation in the Swiss market since 2018. What do you think are the drivers behind the generally higher AGM voting participation in Switzerland and the increased focus on certain proposals and more volatile voting results?"

Our direct engagement and dialogue with investors as well as ESG rating agencies and proxy advisors throughout the year is a top priority

There is a real requirement for a stronger alignment of standards for non-financial information, balanced regulation for best practice reporting

As in many countries, the AGM is high profile. In Switzerland, it is seen as the highest governing body because it has key competencies that can solely be performed by itself, including for instance the election and discharge of the members of the Group's Board of Directors or the approval of the compensation for the Board of Directors and the Group Executive Committee.

Large asset managers and pension funds are increasingly under pressure from their clients to make use of their right to vote and explain how they voted to assure an ideal board composition, effective oversight of company strategy and risks, aligned pay for performance and to build sustainable shareholder value.

As Chris already mentioned, more and more investors are holding the board directly accountable for their sustainability efforts. Therefore, the focus is shifting from "say-on-pay" to "say-on-climate".

Following the publication of a company's annual report and the agenda for its AGM, new ESG-related concerns may arise regarding sustainability, corporate governance or compensation that require shareholders to seek more clarification and to take action to support a well-informed voting decision.

For a company that focuses on proper shareholder engagement and dialogue throughout the year, there should be no surprises, hence why proactive engagement is so critical.

Those companies who undertake early and sustained engagement throughout the year know a long time before an AGM if and why large shareholders agree or disagree on a particular issue and therefore have the time to clarify their position and adjust their proposals accordingly.

"Finally, 2021 was the second year running when most AGMs had to take place without any physical presence of shareholders due to the COVID-19 pandemic. Felix, in your opinion, is the virtual AGM now here to stay? And will it be the way most companies operate their AGM in the future?"

Due to the pandemic, 2021 was the second time we held our AGM without any physical presence. However, from a Swiss Re perspective, indirect electronic voting via the independent proxy has been an option for shareholders for several years.

At this year's AGM, which was held on 16th April, we organised for the first time a post-AGM information event where we provided updates to our shareholders on current focus areas via a live webcast.

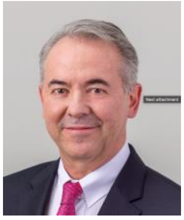
The event was well received and attended and included speeches from board members and a panel discussion with management where pre-submitted questions from our shareholders were discussed. In addition, selected AGM agenda items were explained, and the voting results announced.

This may set a precedent for the future of conducting AGMs in Switzerland generally. Last year's revision of the Swiss company law allows purely virtual AGMs to be held without any physical presence. However, to introduce this on a company level, it would require a change in company bylaws, as we have seen in the UK and other countries.

When it comes to our AGM planning, we recognise that the physical event is an important platform for retail shareholders, and for us, it is too early to conclude in which form we will organise our AGMs in the future. We are looking at the idea of a hybrid event combining the advantages of a virtual platform with the option to attend physically.

[1] D.F. King AGM Season Review 'A year like no other' – October 2020
https://insights.linkgroup.com/insights/?page=DF-King-General-Meeting-Season-Review-2020

Meet the experts



Felix Horber has been Group Company Secretary and Managing Director at Swiss Re since February 2007. He started his professional career with UBS in 1993 and was their Head of Policy & Corporate Governance from 2005. He is the author of several books and articles in the field of Swiss corporate law and stock exchange law and is a Lecturer in Law at the University of St. Gallen, Switzerland and since 1998 he has been serving as an additional judge at the Superior Court of the Canton of Zug.

Chris Menth joined Swiss Re's Finance Division in 2000 before becoming Senior IR Officer in 2009, where he was responsible for ESG related activities with investors and ratings firms. Since 2019 he has headed up the newly created position of Shareholder Engagement. In this role, he leads the ESG dialogue with top investors and manages the proxy campaign ahead of the AGM. He has, in addition, been a serving member of the board of the Swiss IR Association since 2014 and in 2019 took on the role of Vice-President. (www.IRclub.ch).

Contact us

Alison Owers
Global CEO & Director, D.F. King Ltd
Orient Capital
E: owers@orientcap.co.uk

Dirk Vermehren
Director, DACH
Orient Capital
E:dirk.vermehren@orientcap.co.uk

New business enquiries

For EMEA:

Gustav Pegers
Head of Sales & Marketing
E: gustav.pegers@orientcap.co.uk
T: +44 207 776 7574

For Australia & New Zealand:

Luke Allshorn
Business Development Manager
E: luke.allshorn@orientcap.com
T: +61 2 9375 7867

For Asia:

Vivek Aranha
CEO, Asia
E: aranha@orientcap.com
T: +852 3953 7200

Part of **Link Group** | Corporate Markets