

IIIPREO

THE EFFECT OF THE IMPLEMENTATION OF THE EUROPEAN SHAREHOLDER DIRECTIVE ON INSTITUTIONAL SHAREHOLDER PARTICIPATION AT AUSTRIAN GENERAL MEETINGS

AN ANALYSIS OF TRENDS BETWEEN THE 2009, 2010 AND 2011 GENERAL MEETINGS

SPECIAL REPORT APRIL 2012



After the change in legislation in Austria due to the implementation of the European Transparency Directive and subsequently Austria's "Aktienrechtsänderungsgesetz" (ARÄG) in 2009, for the first time it was possible to analyse the voting patterns of investors participating in Austrian general meetings. After Ipreo's initial study last year (2009/10), the following analysis builds on the previous results but also widens the transparency and categories to show more in-depth results and granularity.

METHODOLOGY

Ipreo, together with HV-Veranstaltungsservice GmbH¹, analysed data of 29 AGM and EGMs from meetings of 26 unique ATX Prime-listed issuers². All general meetings took place in the first season (2010 and 2011) after the implementation of the ARÄG using the record date and Ipreo adjusted historic figures for issuers that previously did not participate in the study. The data was analysed using the "one share – one vote" principle, with more than 15,000 individual fund-accounts being analysed, classified and anonymized for general analysis. In addition to the individual accounts analysed, we incorporated public information on the capital presence of issuers as well as direct questionnaires to uncover historic and unavailable data³ in particular.

For the general analysis of investors participating at ATX Prime issuers' meetings, we analysed all available data irrespective of investor type covering over 1.2 billion individual shares in more than 15,000 individual accounts. For the institutional voting analysis, company-related investments⁴ or strategic holdings⁵ were omitted from the voting analysis, as Ipreo wanted to isolate the behaviour of "independent" institutional free float investors and their voting behaviour in the Austrian market. Shares of retail investors were also excluded, as were accounts which could be linked to management⁶ or employee-related or treasury investments. As base data for the institutional analysis, Ipreo utilised 8,097 (6,669) independent institutional accounts owning 458,408,783 (426,380,348) shares in Austrian issuers, each of which were classified with the following criteria:

- Account type⁷ of investment vehicle
- Investment region⁸ (geographic location of fund)
- Proxy advisory status⁹ and voting guidelines (how the voting decisions are being made)

¹ Previously known as Erste Bank (Group Zählservice)

² Among the participating issuers that granting Ipreo access to AGM/EGM participant lists as well as voting results and wanted to be named were AT&S, BWIN, BWT, Cat Oil, Conwert, Erste Group Bank, Flughafen Wien, Immofinanz, Intercell, Kapsch TrafficCom, Österreichische Post, Palfinger, Raiffeisen Bank International, RHI, Rosenbauer, Scholler Bleckmann Oilfield, Uniqa, Verbund, Voestalpine, Warimpex, Wienerberger, Vienna Insurance Group, Zumtobel.

³ E.g. for issuers that did not want to supply information or that were not clients of Ipreo/HV Veranstaltungs GmbH.

⁴ One example would be the exclusion of Mr. Androsch's Privatstiftung as a major investor in BWIN or AT&S, Sparkassen as holders of Erste Group, Cembra of RZB, Oberbank at Voest etc.

⁵ e.g. OIAG holdings.

⁶ e.g. New Media Holding for BWIN.

⁷ Mutual Fund, Pension Fund, Insurance Fund, Sovereign Wealth Fund, Hedge Fund, Investment Trusts & Mandates (incl. Segregated Accounts, Investment Mandates, Separately Managed Accounts) and "Other" (Trading Positions).

⁸ Austria, Europe, UK & Ireland, North America (incl. Canada), Rest of World (ROW)

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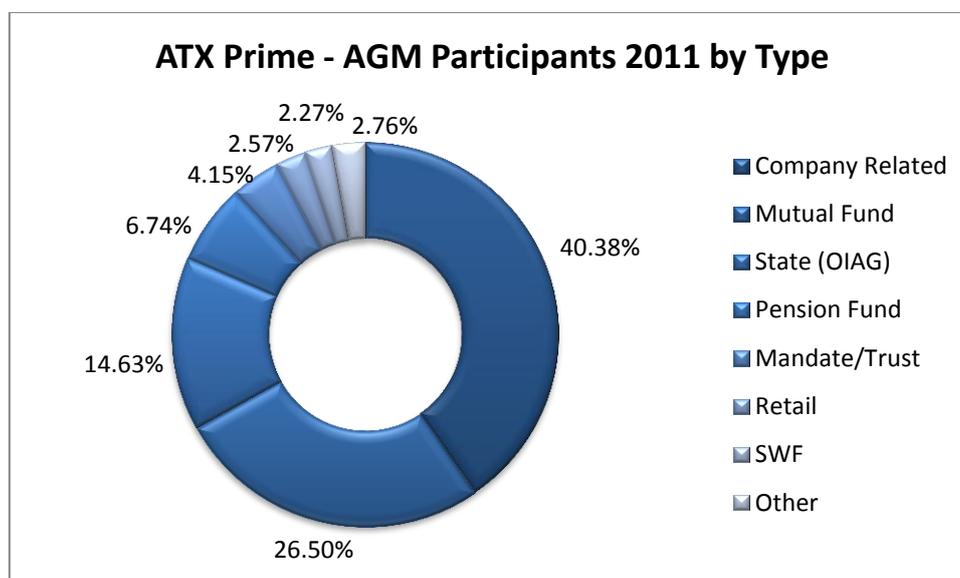
- Analysis of Voting Results on Agenda Items and/or Agenda Item Types¹⁰
- Custodian chain¹¹

Additionally, Ipreo and HV-Veranstaltungsservice GmbH analysed the development of trends between pre- and post ARÄG general meetings (2008/09 vs. 2009/10 vs. 2010/11) AGM seasons including the following:

- AGM / EGM – presence numbers (institutional and retail presence) as % of O/S and free float
- Proxy representation (Stimmrechtsvertreter) numbers
- Registration, attendance and voting numbers

GENERAL RESULTS

With the introduction of the ARÄG and subsequently the record day voting system¹², the Austrian general meeting landscape changed significantly and is still undergoing change as investors and banks continue to struggle with the specific requirements in the Austrian marketplace.



Overall, company related and strategic investors account for the largest part (40.4%) of all identified shares present at the general meetings of ATX Prime issuers. Mutual fund (26.5%) and pension fund (6.7%) accounts are the largest institutional holders present, with

⁹ Proxy advisory status refers to which Proxy Advisory Agencies are utilised by investors and how their vote recommendation reports influence the final vote decision making process. The following criteria has been used:

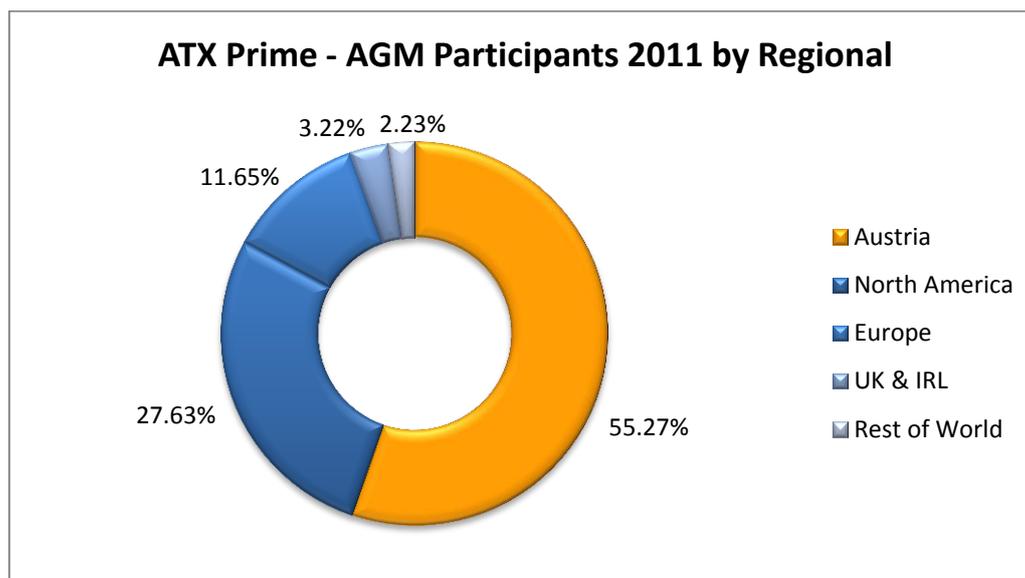
- Internal decision making (decision of vote is fully undertaken internal by the Corporate Governance Department or the Fund Manager), Influenced and/or dependant on external proxy advisors (e.g. ISS, Glass Lewis, Proxinvest, Manifest, IVOX, and others.)
- Accounts for which it was not possible to fully assign a decision-making status (not clear)

¹⁰ Distinction between corporate governance items as Board-related Items (Discharge & Vote), Capital Issues, Auditors, Say on Pay, etc.

¹¹ For international funds, analysis of which are the most-used international and local custodians

¹² Replacing the share-blocking system where shares had to be deposited for numerous days, during which time they were untradeable

investment mandates¹³ (4.2%) and holdings managed by sovereign wealth funds (2.3%) following in descending order. Austria's state owned ÖIAG accounted for 14.6% of all identified holdings that were voted. Retail holders were only responsible for 2.6% of the present capital at general meetings. Other holders including hedge funds, trading accounts, endowments, banks or insurance holdings accounted for 2.8% of all accounts.



In terms of total present capital, Austrian investors dominate all holders, voting 55.3% of all shares present at the analysed meetings. North American (27.6%) and Continental European (11.7%) holders are the largest international regions represented, followed by UK & Ireland investors (3.2%) and Rest of the World¹⁴ (2.2%) based institutions.

The regional composition analysis of all general meetings was done for the first time, hence no representative comparable data is available. The following general trends are visible though when analysing the entire marketplace.

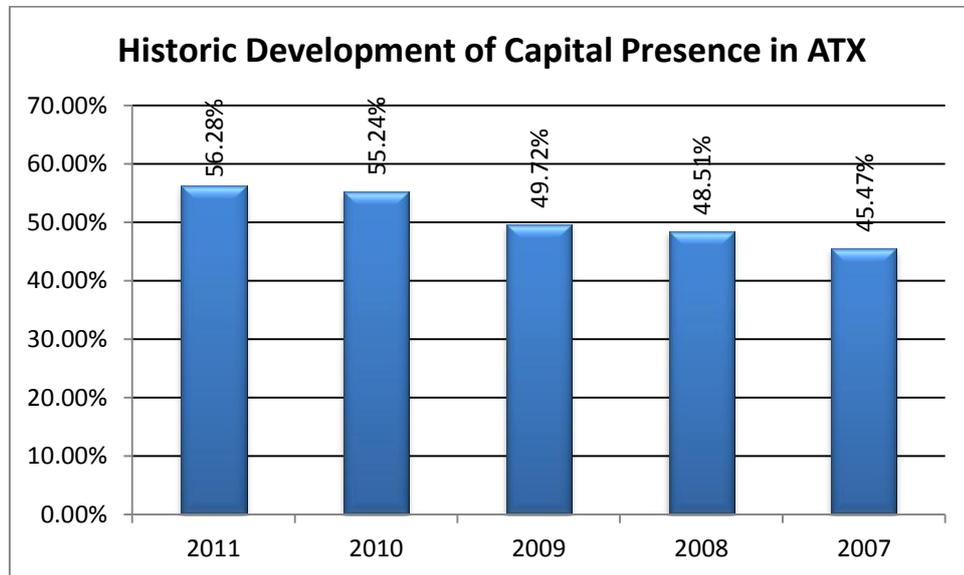
- 1.) Increase of total registered capital presence: Over the previous years a significant increase of investors registering for and voting at general meetings in Austria took place. From 2007 to 2009 the capital presence steadily increased from 45.7% to 49.7%. The most drastic change happened after the implementation of the transparency directive in 2009, which resulted in an 11.1% increase of capital represented, mostly driven by the international shareholders who now applied international standards and registered for meetings¹⁵. Despite the unique requirements for shareholders and banks to register for general meetings in

¹³ Usually managed externally by larger global investment advisors (e.g. retirement plans, segregated accounts etc.)

¹⁴ Incl. Asian, Latin American, African, Middle Eastern investors.

¹⁵ This change mostly was driven by the implementation of the record day and removal of blocking restrictions.

Austria¹⁶, presence even increased in the last year, though by a mere 1.9% compared to 2009.

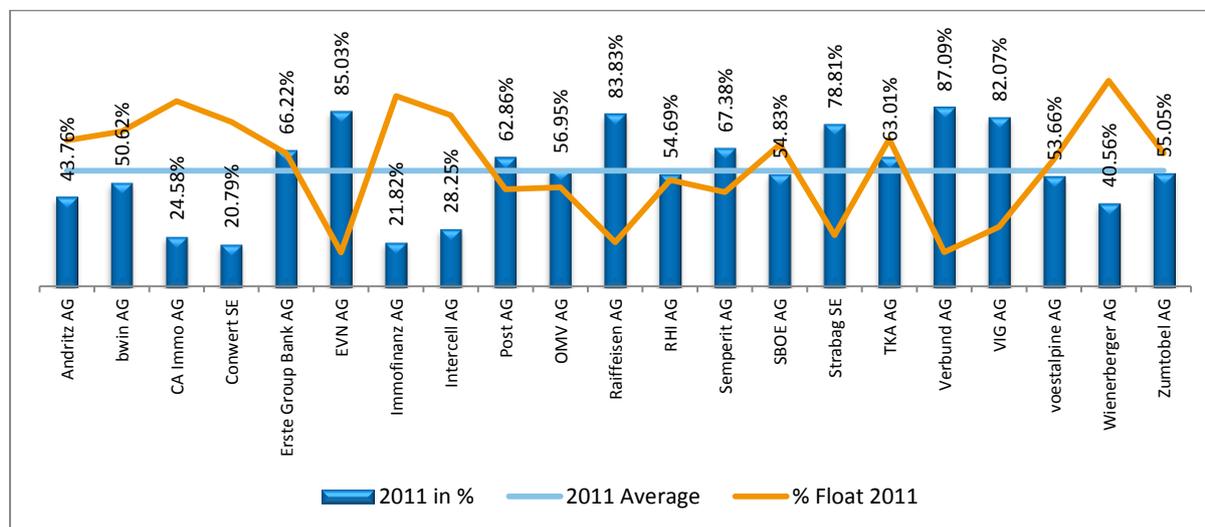


- 2.) Significant increase in registered institutional share capital as a percentage of shares outstanding¹⁷ and free float: After a significant increase of registered institutional capital of over 70% in the first year after implementing AktRÄG, the increase in registered institutional shareholders at general meetings further increased by 2.1% in the Austrian market. Participating institutional investors for the first time made up more than 25% of the present capital at 13 general meetings; in the case of issuers having a free float over 70%, institutional investors controlled more than 50% of all votes at 5 general meetings.

¹⁶ E.g. Meeting specific power of attorney and confirmation of ownership on beneficial level.

¹⁷ Institutioneller anwesender Anteil als % des Grundkapitals

Ipreo's institutional analysis of the dataset of 29 AGM/EGM's shows the following additional trends¹⁸:



3.) Significant increase of attending (represented) institutional shares as percentage of AGM-presence¹⁹

Another important finding was the further increasing percentage of institutional shares represented and voted in 2011 versus 2010 and the years before ARÄG. Specifically Ipreo found that after institutional shares voted at the meetings as a percentage of the AGM/EGM-presence(s) increased from 15.0% in 2009 to 25.6% in 2010 (+70.7%), they climbed another 4.7% to 26.8% of all participating votes.

Ipreo sees the higher ratio of institutional shares represented and voted at meetings, compared to retail or strategic and company-related accounts participating as the result of a number of factors:

- More active voting of domestic and international institutional investors due to implementation of record day system
- Increase in importance of corporate governance (ESG) issues for large pension, mutual and insurance funds due to commitment to their beneficial owners as part of their (renewed) investment policies which include active engagement and voting of shares, also in Europe as this has been already historically prominent in the US and UK
- Increase of free-float as well as shift of shareholder structures²⁰

¹⁸ All data is based on the 29 AGM/EGM's analysed

¹⁹ Signifikanter Anstieg anwesender institutioneller Investoren im Verhältnis zur Präsenz

²⁰ Retail shareholders and Austrian institutional holdings increased, but generally do not vote as actively, whereas international institutional investors have declined slightly, though through the record day most of them now actively participate at general meetings. A few companies also had capital increases / decreases over the evaluation period, which Ipreo accounted for (only used institutional part, hence should be representative).

The combination of these trends remained also a major factor for several contested results at numerous general meetings with the Austrian issuers, who again were confronted with negative voting results for specific agenda points. A number of Austrian issuers withdrew agenda items or had agenda items fail due to a lack of shareholder support. In several cases negative votes of institutional holders present exceeded 80% but did not have an overall impact as in these cases the issuers did have a core or anchor investor in their support.

4.) Trend to in-source vote-Decision making and advisory process

Ipreo has identified a clear shift back from outsourcing voting decisions by beneficial owners to their asset managers or speciality providers, to taking their fiduciary duty more seriously and insourcing the vote-decision making process more. This goes hand in hand with international legislations and drafts²¹ to have investors actively engage and vote their shares, hence this general trend is true for domestic and foreign investors, across all account types. In total Ipreo identified an increase of 18.8% of internal “guidelines” compared to last year. Also, the dependencies and complete outsourcing to external advisory companies has significantly fallen²², but exact figures are not available as several accounts were reclassified or previous holdings and dependencies were not available.

5.) Continued increase and trend of local institutional investors participating in meetings

One major change identified compared to last year’s analysis was the stronger engagement of domestic institutional investors at Austrian general meetings. In the analysed dataset, local holders have increased their presence and voting by 48.6% compared to last year, now accounting for 12.8% of all casted “institutional” votes. This significant interest is due to several reasons including more engaged activity and participation, a larger domestic institutional ownership (especially triggered by the crisis) as well as a general ownership shift from foreign to domestic owners²³, with large chunks also held by private households and retail, which generally do not vote as actively.

6.) Significant increase in registered shareholders²⁴, retail participation and proxy voting

In 2011 the average number of registered shareholders for the analysed general meetings has further increased from 802 in 2009, 839 in 2010 (+4.6%) to 1,089 registrations in 2011 (+29.8%). While this increase is significant, it is also blurred as especially Immofinanz and BWIN engaged in successful retail campaigns to solicit the votes of retail holders. The relatively high average is also driven by large retail ATX members as Erste Group Bank, Immofinanz, Raiffeisen Bank International, BWIN or Voestalpine, all of which have more than 1,000 shareholder accounts registered for their meetings in the second season after the ARÄG implementation. In total, the percentage of shares represented by retail has increased on average by 12.13%, while the number of physically present account holders

²¹ E.g. The Stewardship Code in the UK, the Green Book of the European Union etc.

²² Insourcing has increased by more than 100% while direct outsourcing has dropped significantly. A detailed analysis can be found in the vote behaviour section in the second part of this study.

²³ Known as home-market bias

²⁴ Anzahl der Anmeldungen

has significantly dropped. Both institutional and retail holders take advantage of proxy voting offered by issuers, hence on average less than 50% of all capital is present at the AGM's, for the largest Austrian issuers the figure is even below 30% of all registered capital that is actually present. It is not possible to make a valid comparison with institutional and/or retail accounts represented in 2009, as prior to ARÄG most institutional investors were represented via proxies behind nominee of owner accounts ("Legitimationsaktionär").

INSTITUTIONAL INVESTOR ANALYSIS

As part of this study Ipreo has analysed more than 15,000 institutional accounts which were represented and cast votes at the analysed issuers in the year 2011. We identified 8,097 (6,669) unique beneficial owner accounts and linked these accounts to their correct advisors, but more importantly also tried to verify the accounts' voting behaviour and decision-making dependencies²⁵ on certain agenda items. The analysis has only been done on accounts and issuers that submitted the datasets of the last two years for review, in order to ensure comparability. As a next step, Ipreo reduced the sample set to institutional accounts that have voted "against" any agenda item and analysed the relationship of these accounts to their investment advisors, external proxy advisors, custodians and geographic location. Ipreo also reviewed previously existing voting behaviour with the most recent status and changed several large mandates as numerous large institutional investors have adapted their voting policies in the last year. The following figures are solely based on these accounts and the dataset analysed²⁶.

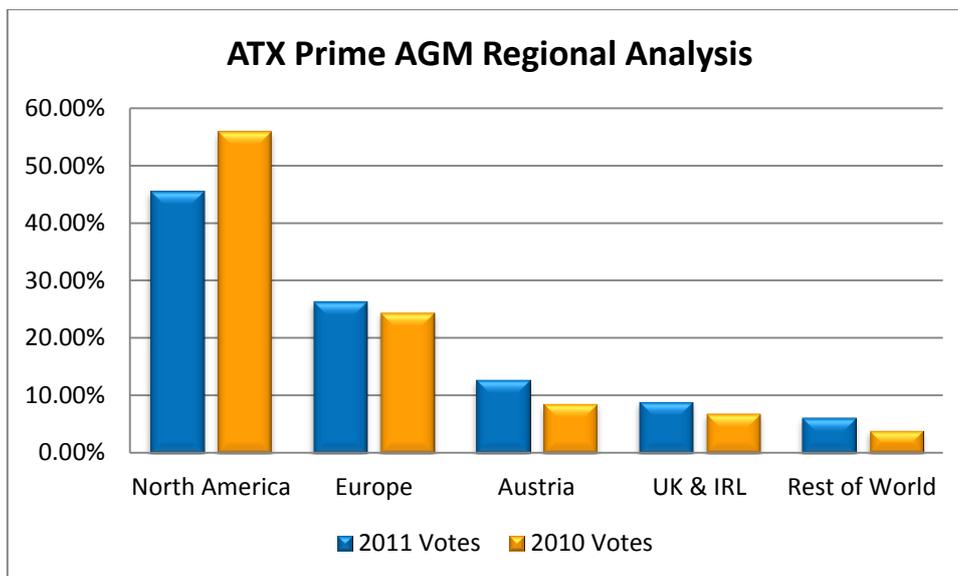
Regional Voting Analysis:

The distribution of present ownership at the analysed general meetings in Austria has undergone significant changes compared to previous years. The vast majority of institutional investors voting at Austrian general meetings remain North American mutual funds, but Austrian and all other international regions have actually increased significantly in terms of relative presence compared to previous years at the vast expense of US-based investors. US and Canada-based institutional investors accounted for 45.6% (-18.6% from 55.9%) of all accounts that have voted in the past year, followed by Continental European accounts excluding Austria (26.4% from 24.5%; +7.9%). Austrian institutional holders have increased their stake from 8.7% to 12.9% (+48.6%) and surpassed UK & Ireland-based institutions, which also increased slightly from 7.0% to 9.0% (+29.4%) for all identified accounts. Rest of the World based accounts²⁷ also increased strongly (+55.6%) from 4.0% to 6.2% of all present shares at the analysed general meetings.

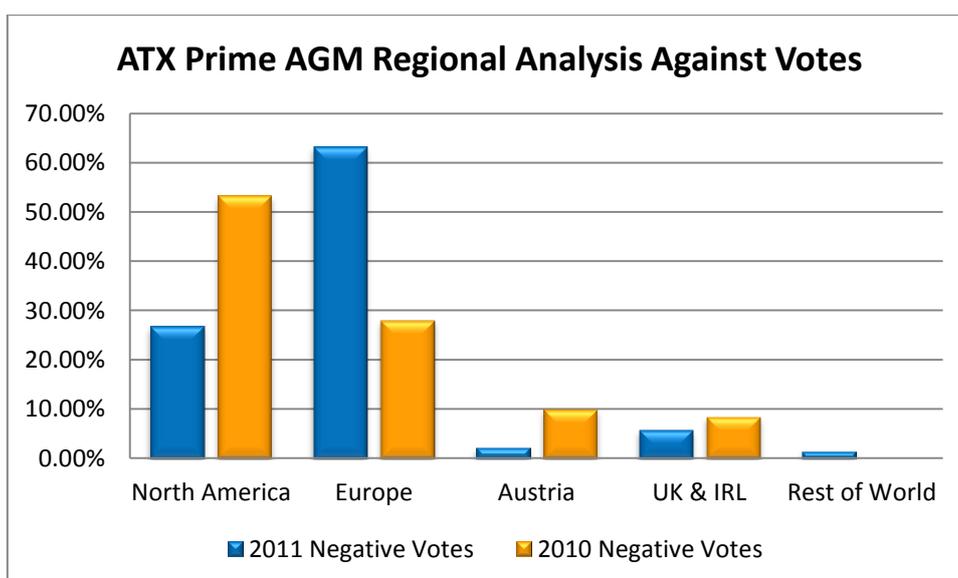
²⁵ With potential external proxy advisors

²⁶ While Ipreo believes that the dataset of 29 general meetings of 26 issuers is a representative, it should be noted that a few companies did (for some reason) not want to provide their data for analysis and hence this analysis has to be taken as a best-efforts indication for the entire Austrian ATX Prime market.

²⁷ ROW includes for example Asia, Africa, Middle East, Australia, Latin America.



The findings show a clear shift of more active voting coming from domestic and European investors, combined with a lower general ownership by previously dominant US-based mutual funds. As the analysis is done with comparable datasets it shows that more European and Austrian investors do engage in cross-border voting, but Austrian institutions, in which ATX Prime rank second²⁸ behind the North American region, still have predominantly non-voting policies over their major funds. This represents a very different finding compared to other European markets where the home market is often legally bound to vote all their shares in domestic issuers.



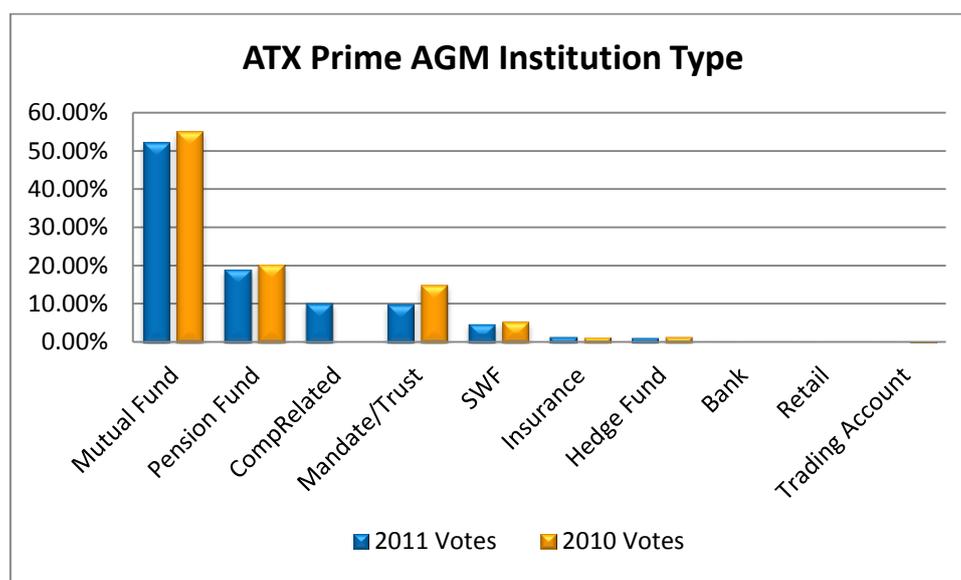
Another striking trend, which is linked to the general ownership change within Austrian issuers, becomes visible when analysing the “against” votes which were cast for issuers’ individual agenda items that were analysed in the last two years following the legislative

²⁸ Taken from the Vienna Stock Exchange study, February 2011/12.

change. While North American issuers were mainly responsible for votes against the management at Austrian general meetings in the past, their stake has significantly declined from 53.3% to 26.9% (-49.5%) in 2011. This has been picked up by Continental European investors (ex-Austria), which have more than doubled their “against” votes in the last season from 28.0% to 63.3% (+125.7%). Austrian institutional investors – while being more prominent at meetings – have significantly lowered their negative engagement from 10.0% to 2.3% (-77.0%), similar to the behaviour of UK-based holders (-31.4% to 5.9%) of all votes casted. Accounts from the ROW region – which were virtually non-existent last year – have become more active and critical, though at a still relatively low level (1.6% of all negative votes).

Fund-Type Voting Analysis:

In the second annual study that was conducted after the legislation change in 2009, Ipreo has widened its classifications on fund-types that vote, as well as on vote-behaviour to show more granularity on participants and give issuers more transparency. Historic numbers have been adjusted accordingly where possible.



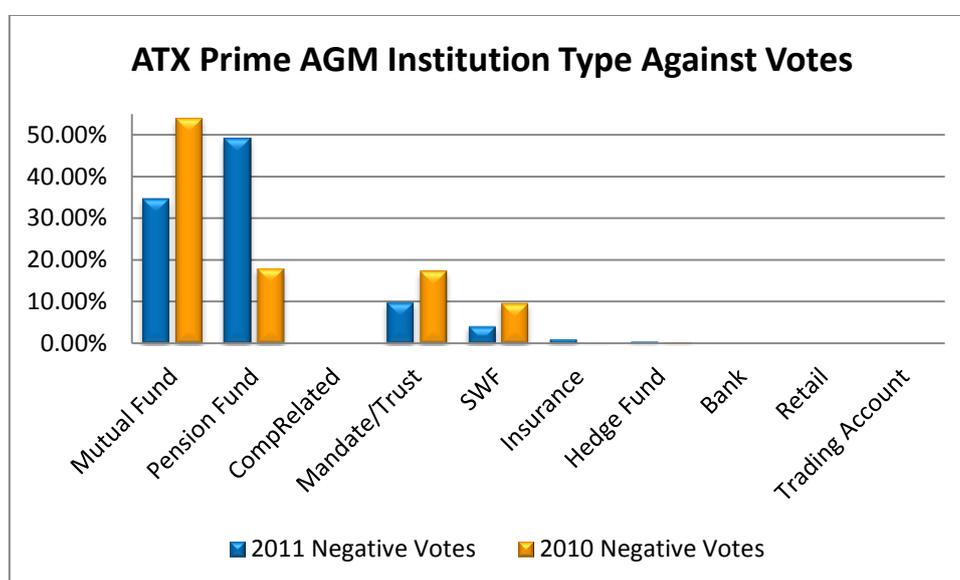
When looking at the “account types” mutual funds still represent the largest present institutional fund type group casting votes at general meetings, accounting for 52.3% (-5.2% from 55.2%) of all identified accounts. Pension funds come in second with 19.2% (20.5%) of all castvotes, followed by company related holders²⁹ (10.4%) and investment trusts 10.1% (-33.9% from 15.2%). Such trusts are often passive investors, usually giving their mandates to some of the largest global investment managers which also have numerous mutual and pension funds under investment discretion, but the voting discretion of these trusts³⁰ often

²⁹ E.g. treasury, employee, company employee endowment funds or traditional non-financial investors that are regarded close to the company’s management in terms of general support.

³⁰ Including mandates, separately managed accounts etc.

stays with the actual beneficial owner³¹ (and hence can differ in guidelines from the investment manager’s voting policy). These policies were analysed on a beneficial owner basis, which means that despite that fact that investment decisions³² might be outsourced to large fund houses, vote policies often remain in-house which is often applied by mostly US-based retirement plans, (super-)annuation funds or pension mandates.

Sovereign Wealth Funds account for 5.1% (5.6%) of all voting accounts, mostly driven by the active engagement and voting policies of Scandinavian-based and some Middle Eastern and French funds³³ followed by insurance holdings (1.6% from 1.5%), hedge funds (1.3% from 1.6%), and marginal holdings of banks, foreign retail nominees and trading accounts.



An interesting shift in terms of engagement can be seen when analysing account types and their negative votes. Pension accounts have actually surpassed mutual funds as the type casting the most negative votes on a “one share, one vote” basis, accounting for 49.3% (18.1%) of all “against” votes. Mutual funds are the second largest group of holders, accounting for 34.8% (54.0%) of all against votes, followed by investment mandates (10.0% from 17.6%) and sovereign wealth funds (-56.3% to 5.0%). Other account types as company related holders, insurances, banks, hedge funds or trading accounts have almost never voted against agenda items and hence generally supported the management of the respective issuers. While this finding is slightly blurred by some large investments of foreign pension funds in several Austrian issuers which voted against items this year, the trend of more critical engagement by foreign investment trusts, retirement and pension accounts is visible, as many of these types of investors have changed their policies from completely outsourcing asset management and voting, to at least retaining voting discretion and policies and engaging with issuers this way. As a result, more passive accounts are showing up on Austrian and European general meetings, which issuers’ management and investor

³¹ Some examples could be health benefit accounts, foundations etc.

³² This is often an “enhanced index-strategy” including ESG criteria for voting

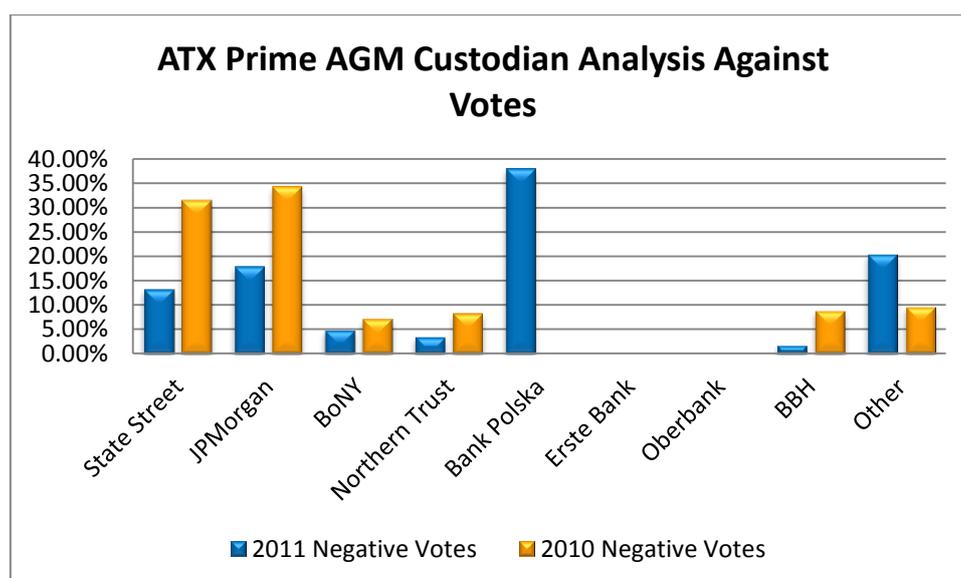
³³ Norges Bank, Swedish State Funds etc.

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relations might not have a) known to be invested before and b) never communicated with, as these holders previously were “IR-immune” as asset management was outsourced.

Custodian Chain Analysis:

Institutional investors registering and casting their votes at Austrian general meetings, for the most part can be linked to foreign holders, having to go through the clearing and custodian channel. As the Austrian legislation is unique in terms of administrative hurdles and documentation needed to fully ensure compliance with legal standards, it is interesting to monitor the custodian chain through which votes are casted or in which potential votes are actually getting lost, as banks and custodians do not/cannot process the information. The majority of last year’s accounts were tracked back through the local and international custodian chain and continue to show potential bottlenecks. In last years AGM season, 30.6% (35.2%) of all accounts were custodied at State Street Bank, followed by J.P. Morgan Chase (20.4% from 25.3%), Bank of New York Mellon/Bosafe (7.5% from 8.0%), Northern Trust (7.5% from 9.1%) and Bank Pekao (5.6% from 3.4%). Several custodians and/or institutional investors using these banks have significantly reduced their presence or opted to not process vote-instructions at all, mostly because of the administrative hurdles in place³⁴. Examples are Brown Brothers Harriman BBH (3.3% from 7.5%), BNP Paribas³⁵, Societe Generale and Morgan Stanley. Almost all of these global custodians have a sub-custodian agreement with Unicredit Bank Austria, hence these votes are almost exclusively represented by a proxy representative of Unicredit. Erste Bank Group, Raiffeisen Group, OeKB or other local custodians play a role but only with selective issuers in terms of representing international shares at general meetings.



³⁴ Meeting-specific power of attorney, Confirmation of Ownership, Beneficial Ownership disclosure

³⁵ BNP Paribas completely stopped processing any holdings.

Voting against agenda items analysed on custodian basis mirrors widely the regional ownership distribution of the issuers and also the general capital presence, with the exception of Polish holders, who were very engaged last year, voting against several agenda items while being invested strongly in issuers. Austrian issuers generally did not cast many “against” votes in general, hence no large domestic banks and custodians show up in that dataset.

VOTING BEHAVIOUR ANALYSIS

As previously mentioned, for this study Ipreo widened its classifications on vote-behaviour to show more granularity on participants and give issuers more transparency. Historic numbers have been adjusted accordingly where possible. Compared to last year, Ipreo was able to identify the vote dependencies of 95.4% (90.9%) of all shares represented in the analysed dataset. This means that Ipreo was able to analyse detailed intelligence on the vote behaviour, governance policies and dependencies on external advisors³⁶ on 7,022 accounts of beneficial owners. Several trends and changes we have listed below were identified compared to previous years.

In total 44.2% (previously 37.2%), of all identified shares have internal voting guidelines, meaning their decisions on how to vote on agenda items is based on internally developed corporate governance guidelines. Accounts also using external advice have generally dropped compared to last year. Only 22.3% (down from 40.5%), of all identified shares that voted reference and use the voting recommendations supplied by the external proxy advisor ISS³⁷ in addition to their own policies. While accounts referencing solely ISS have significantly dropped compared to last year (-44.9%), investors who reference both ISS and Glass Lewis in addition to their own internally developed guidelines have risen from 12.2% to 24.7% of all identified accounts making them the second largest group after “internal” voting guidelines. Lastly, around 0.6% of identified accounts referenced Glass Lewis as their advisor when developing their guidelines, slightly down from 0.9% last year. Together, these four groups which have their own voting and governance guidelines, but sometimes also reference external advisory research, make up 92.2% of all voting accounts, clearly demonstrating the importance of intelligence on internal guidelines but also the diversity thereof, as these guidelines depend on a variety of factors³⁸. The following categories were not displayed in the previous analysis, hence no previous figures were given. Ipreo’s analysis shows the emergence of several smaller players in the voting chain, that have an effect on advisory and proxy voting in Europe, though with a still relatively minor influence in Austria. In addition to 2.3% of identified shares voted automatically by the largest global advisory company ISS, 0.2% strictly follow Glass Lewis, as their investors have given the mandate to strictly follow these recommendations by virtually outsourcing the decision making. French local advisory company Proxinvest has influence over 0.6% of all voted accounts, Governance4Owners’s principles are referenced by 0.4% of all identified accounts, with

³⁶ E.g. proxy or governance advisors as ISS, Glass Lewis etc.

³⁷ Formerly called Risk Metrics

³⁸ E.g. Applicance of local market governance codex, country of investor, history of voting, size of position etc.

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Hermes (0.3%), Ethos (0.2%) and SdK (0.1%) being much smaller players in the market. The remaining 4.4% (9.1%) of shares could not be linked clearly to a specific voting policy.

These findings are of high interest, especially to companies with a predominantly foreign investor base and a relatively high free float (more than 70%), as this would suggest the need to clearly understand the respective corporate governance guidelines of both investors and external advisors to prevent negative voting results.

In terms of negative votes, several changes also occurred compared to the previous year, most of them mirror the development in the general vote-behaviour and governance shift to internal policies. In 2011, when looking at the “one share-one vote” principle, more than 67% (26.6%) of all negative votes were casted by institutions with an internal voting policy, which is a striking increase of 150%. This increase comes at the expense of investors referencing ISS, which were the largest group casting negative votes in 2010, which dropped from 54.0 to 15.2% this year. Beneficial owners who have internal guidelines but use both ISS’s and Glass Lewis’s research, account for 12.2% of all negative votes (down from 17.5% last year). Interestingly, Proxinvest, the French proxy advisor which was broken out separately for the first time in 2011, casted 3.0% of all negative votes this year. One reason their influence is relatively strong is due to the high ownership of French institutional investors in some Austrian issuers, and the fact that they apply the more strict French corporate governance code also to foreign meetings, resulting in more negative votes casted. Other accounts using policies as ISS (0.7%), Glass Lewis (0.1%), Hermes (0.3%) or with unknown guidelines (1.1%) have relatively low history on “against” votes in the previous year.

There is strong evidence that a few international trends are responsible for the changes identified around Austrian general meetings and they likely will also drive further developments in the future:

- a) International Institutional Ownership Shift³⁹: In recent years, the shareholder structure of institutional investors has changed significantly, driven by not only the financial crisis, but also by the relatively low attractiveness of the overall Austrian market compared to others. Investment regions North America and UK & Ireland still dominate the ownership, as some larger investors have concentrated large holdings, but there was a shift to increased retail and local ownership as well, especially in the last two years, meaning the types of investors changed with their voting behaviour & philosophy changing to match. With the implementation of AktrÄG Anglo-saxon holders generally do show up and cast votes at general meetings, even if they are passive investments, while retail and institutional domestic ownership remains relatively underrepresented, when it comes to actively engaging and voting at Austrian meetings.

³⁹ Data based on Ipreo’s semi-annual WBAG ownership study of the ATX Prime

- b) Corporate Governance Policy Trend: Most of the largest international institutional investors have established voting guidelines and corporate governance principles, which they apply for their local and foreign meetings where they have investments. Several things have changed in the last years.
- Trend to internal policies: While in the past several institutions have relied vastly on external research and governance advisors to decide on how to vote on agenda items, a trend to establish internal governance policies, applied by special ESG-teams within an organisation, can be witnessed. This is also reflected in the shifts in voting behaviour identified in Austria. One major reason for this was the increased pressure of beneficial owners in their investment managers, to not only invest in the right companies to generate returns, but also use shareholder voting rights more actively⁴⁰. This means also that proxy advisors such as ISS, Glass Lewis and others are still very relevant for investors in terms of cross-checking policies and reasoning around voting, but fewer investors “outsource” the entire decision-making to proxy advisors.
 - Beneficials keeping vote-discretion: Another trend can be seen in the fact that beneficiaries have started to engage directly in terms of corporate governance and voting, even if the investment management discretion is outsourced to large money managers. Numerous retirement and employee benefit or superannuation accounts, as well as institutional mandates have continued to retain their voting discretion – some by even also implementing specific guidelines – obviously reducing the voting (but not management) discretion of institutional money managers. This is true for active and passive funds⁴¹, which companies often have no means of meeting or speaking to, as they are facing the portfolio managers or buy-side analysts of the investment firm, which in this case is not responsible for voting.
 - ESG-Topics gain influence: Extra-financial topics, so-called “soft figures” in addition to general fundamental reporting numbers, get more importance within voting guidelines. Several international institutional investors have already integrated and applied such factors into their guidelines and hence topics as sustainability, board adversity, compensation, carbon footprint, etc. gain importance and will be discussed at general meetings, also with “against” votes possible even when general agenda items might be standard. These guidelines view management as responsible for being “good corporate citizens” as a result, e.g. their execution can be influenced by such votes.

⁴⁰ In certain legislations an “active voting policy” is even mandatory, sometimes even cross-border.

⁴¹ Examples are several funds managed by State Street, Blackrock, Fidelity, and many more which all of a sudden show up on AGM registers.

SUMMARY OF FINDINGS

In the second year of this analysis the findings clearly underline several trends that also apply internationally. There is a general ownership shift away from international institutional investors to domestic holders with a significant amount of shares held in non-institutional hands⁴². Despite the fact that Austrian institutional investors have clearly increased their voting compared to last year, their overall presence at general meetings is significantly underweight, as some of the largest money-managers still do not have active voting guidelines for their Austrian holdings, nor a legal framework to make voting mandatory.

International institutional investors on the other side become more active in their cross-border voting. US- and UK-based institutions already had a historic culture of active voting in non-blocking markets which was reflected in the significant increase in capital presence after the implementation of AktRÄG in 2009. What has changed is that also other regions start to more actively engage in cross-border voting which is shown not only in the increased presence of numerous large European investors at Austrian meetings, it also is visible in the critical reflection of their guidelines and votes in the vote behaviour analysis.

This is especially true for previously more “passive” investors as pension funds, insurance companies, retirement funds, or mandates, which often outsourced their voting completely. The fact that international pension funds, many coming from Europe and not the US, have outpaced mutual funds when it comes to “against” votes, shows that these previously “IR-immune” beneficial owners will show up and be represented increasingly at general meetings in Austria and internationally.

The shift to a development of more internalised and customised governance and voting guidelines, with an active inclusion of extra-financial indicators (ESG), resulted in a more diverse universe of voting policies. These can differ between markets, legislations and also beneficial owners under the same investment company⁴³. Proxy advisory companies as ISS, Glass Lewis, IVOX, Manifest or others remain highly relevant as they are still considered as governance experts, but as investors shift towards building internal guidelines with reference to some of these advisors, they are no longer fully outsourcing them to the extent it was done before. The fact that fewer against votes this season came from investors referencing advisor research shows that general meetings were not as contentious as in the years before, and also shows that internal guidelines are often more strict than the general policies of these advisors, making intelligence about individual policies more valuable.

The administrative burden on investors and especially custodians and banks to correctly cast and deliver votes in time to the general meetings has caused major concern in the investment community. Some investors and custodians are no longer fully applying the specifics of the law and do not follow the process in detail (meeting specific power of

⁴² Private Households, Retail investors, Non-Financial investors.

⁴³ E.g. Mutual fund, pension fund, mandate, hedge or index account could have different voting guidelines, even though the investment decision could be taken by the same investment manager.

attorney, confirmation of beneficial ownership etc.), or have stopped processing the instructions completely. While the law has increased transparency for investors and issuers, there is still the future risk of declining participation and legally incorrect voting instructions that could cause further AGM-related turbulence.

GENERAL MEETING TRENDS AND OUTLOOK FOR UPCOMING SEASONS

Ipreo continued to analyse the voting guidelines and policies of investment managers and their individually managed funds and accounts. While it is possible to divulge in-depth information for almost every account manager and its corporate governance policies, Ipreo only summarized the major trends with the focus on the (publicly available) key guidelines from proxy advisors.

Overall, the majority of corporate governance policies and voting guidelines are a combination of ESG factors; the most important of which are listed below.

- a) Environmental
 - a. Carbon Footprint (Carbon Disclosure Project)
 - b. Climate Change (Sustainability Measures)
 - c. Biodiversity
- b) Social & Ethical
 - a. Supply Chain Management
 - b. Corporate Culture
 - c. Political, ethical, gender issues
- c) Governance
 - a. Capital Resolutions (Capital Increase, Options, Financing)
 - b. Auditors
 - c. Board Structures, Supervisory Board
 - d. Board and Management Diversity
 - e. Compensation, Say on Pay

In 2011, as in the year before, the majority (around 90%) of agenda items that received “against” votes were governance issues concerning capital resolutions, independent board members, or auditors. Several Austrian issuers faced disapproval on numerous items, for a few issuers’ agenda items were removed from the agenda or failed to gain the required shareholder support, but not to the same extent as in 2009. Agenda items that were on the brink of reaching the required acceptance levels or failing were almost exclusively capital and supervisory board resolutions, dealing with items such as:

- Nominating independent members to the board
- Amendments of articles of association

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- Increasing capital leading to a dilution of existing share capital (focus on subscription and pre-emptive rights)
- Share-Buyback Programmes
- Issuance of stock options as part of executive remuneration packages

While internal corporate governance guidelines are usually more restrictive, as a benchmark it is important to understand the general policies of proxy advisors in respect to agenda items for Austrian issuers. For example, advisors often recommend to vote against Directors or a committee due to material failures of governance, stewardship or fiduciary responsibilities of a company, if they consider it a failure to replace management, if (non)-executive directors are considered not to be independent or if the actions of the management raise doubt that they serve in the best interests of the shareholders.

For capital issues the standard restrictions for capital increase are a limit of 100% or of 20% if pre-emptive rights are excluded. There are clear definitions to individual policy items available, but advisors also review and update their policies continuously.

For the AGM season in 2012, based on direct feedback from advisors and investors, Ipreo anticipates a focus on supervisory board election as well as remuneration. Companies are aware that adequate board pay can be a decisive advantage in attracting highly qualified and dedicated candidates for the increasingly important supervisory board work. The decision of several companies to focus only on fixed remuneration for supervisory board members will influence the European Corporate Governance Code Commissions to consider a change to the code in this respect. Institutional investors already eye-such a change and will monitor such agenda items closely, obviously in addition to the major topic such as capital resolutions. A more active engagement of investors even before general meetings to discuss ESG-topics will also likely become a main issue in 2012 and 2013, with the latter year also likely seeing more “against” votes if issuers fail to disclose practices, data or engage with investors on these extra financial matters.

CONCLUSION

Since the implementation of the EU Shareholder Rights Directive (2007/36/EC) and its transportation into Austrian law in the form of the Aktienrechtsänderungsgesetz (ARÄG) in 2009, Austrian issuers continue to see a change in the general meeting landscape. More active participation of international institutional shareholders, especially European, now proactively vote their shares. This represents a declining average number of non-institutional shareholders attending and voting at general meetings as well as more diversified voting policies as some of the most important trend shifts. The results have been a significant increase of foreign capital present, higher average voting presence, and a rise in dissent for agenda items as most of the represented capital is following internationally accepted corporate governance standards.

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About Ipreo

Ipreo is the global leader in providing market intelligence, data, and technology solutions to all participants in the global capital markets, including sell-side banks, publicly traded companies, and buy-side institutions. Our extensive suite of investor relations services provides our corporate clients with unparalleled cross-asset class surveillance, investor targeting, buy-side perception studies, transaction analysis and predictive analytics. Additionally, Ipreo's BD Corporate IR workflow platform offers the most accurate and comprehensive database covering global institutional contacts, profiles, and ownership data. Our critical insights and flexible solutions help our clients run more effective investor relations programs. Ipreo is a KKR portfolio company with more than 600 employees supporting clients in every major financial centre around the world.

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