



WHITE PAPER | JULY 2024

VOTING FOR REMUNERATION LINKED TO NON-FINANCIAL KPIS

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Asset Management | Marketing communication



UNION BANCAIRE PRIVÉE

Executive Overview

In Union Bancaire Privée's Positive Impact Equity Investment Team, we leverage our influence as institutional investors to promote sustainability by advocating for executive remuneration tied to non-financial key performance indicators "(KPIs)". We actively vote on all companies within the Impact funds' portfolios, and in particular we vote on remuneration policies at Annual General Meetings (AGMs), opposing those without substantial links to sustainability. This reflects our commitment to fostering sustainable corporate behaviour among our investees and aligning their business practices with long-term value creation.

Strategic aim

As an impact investor, we want to see ambitious non-financial targets that underpin the company's long-term sustainability strategy, and that have sufficient weightings to influence behaviour. We also want to see these commitments disclosed transparently to ensure accountability and clarity.

Key highlights of our white paper:

- The current issue: insufficient linkage between remuneration and non-financial KPIs
- Importance of linking non-financial KPIs to remuneration for driving long-term sustainable and financial outcomes
- Ensuring ambitious and impactful remuneration targets
- Best-in-class market practices
- Outcomes of voting initiatives and strategic engagement

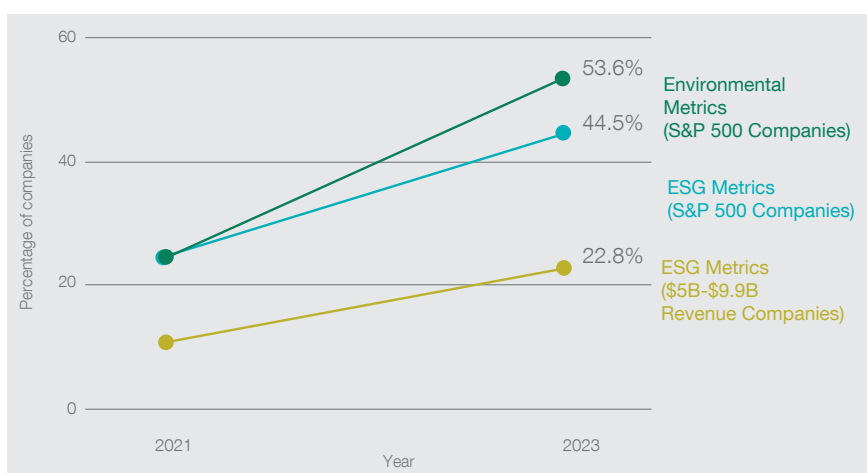


The current issue: insufficient linkage between remuneration and non-financial KPIS

The misalignment between executive remuneration and sustainability-related non-financial KPIS is a significant challenge. It often leads to missed opportunities in terms of fostering long-term sustainable and financial outcomes. Research confirms that companies that do not embed sustainability targets into executive remuneration strategies, struggle to motivate executives to adopt sustainable practices, leading to misalignment with societal expectations and stakeholder interests.

Recognising this issue, an increasing number of companies are integrating sustainability into their commercial strategies to better align with long-term growth objectives. Recent trends show a positive shift towards incorporating non-financial metrics more extensively across industries.

ESG Metrics Adoption in Executive Pay



Source: Harvard Law School Forum on Corporate Governance, 2023

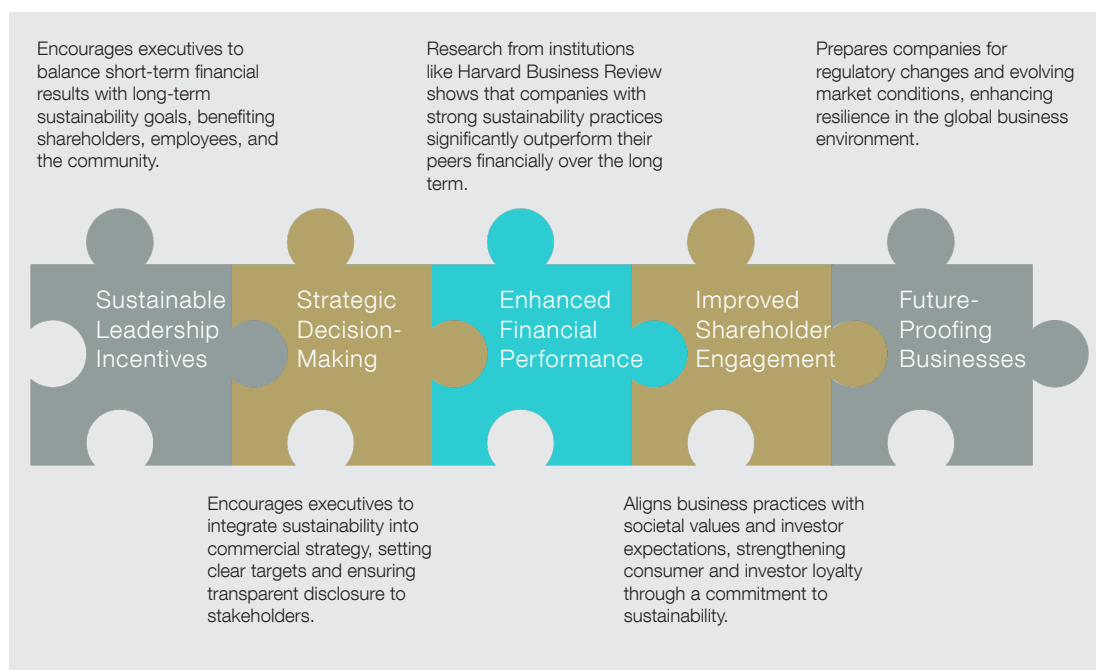
As shown in the graph above, the proportion of companies in the USD 5 billion to USD 9.9 billion revenue range that have adopted ESG metrics as modifiers in executive pay rose from 10.9% in 2021 to 22.8% in 2023. Moreover, for companies with revenues over USD 50 billion, 19.6% had integrated ESG modifiers by 2023. This reflects a broader movement towards sustainability, with S&P 500 companies more than doubling the inclusion of environmental metrics from 24.8% in 2021 to 53.6% in 2023, and the adoption of general ESG metrics surging from 25.4% to 44.5% in the same period.

While these trends indicate a **growing awareness** of sustainability, a **more widespread and deep-rooted commitment is essential** for sustainability to become a cornerstone of business operations. Despite the progress made, challenges remain regarding the complexity and effectiveness of these non-financial KPIS. Critics argue that without clear guidelines, metrics may serve merely as superficial nods to sustainability (greenwashing), failing to reflect truly material targets for the company and its stakeholders.

To address these concerns, the Impact team advocates for the implementation of transparent, robust, and strategically aligned non-financial metrics. This approach ensures that sustainability initiatives are not only integrated into corporate strategies but are also measurable and impactful, enhancing corporate performance and accountability, and mitigating risks associated with greenwashing.

Why linkage to non-financial KPIs is vital

Integrating non-financial KPIs into executive remuneration is key to driving sustainable leadership and ensuring long-term business success.



How does the Impact Team ensure that remuneration targets are ambitious enough?

- **Materiality assessment:** we advise starting by assessing the **non-financial factors most critical to the company and stakeholders**. Remuneration should be linked to **industry-specific** areas where the company can make significant contributions. These factors should also underpin the company's short-, medium-, and long-term strategies (e.g., 2030 and 2050 targets).
- **Beyond compliance:** we advise against choosing non-financial metrics solely based on regulatory demands. Instead, companies should focus on a broader range of material factors that truly reflect the company's impact potential.

What percentage of sustainability-linked remuneration is considered sufficient or ambitious? How do we balance financial returns with sustainability performance?

- **Meaningful weighting:** we recommend a **minimum 20%** weighting for non-financial KPIs in remuneration to **significantly influence executive behaviour**.
- **Progressive integration:** we advise starting with a lower weighting and increasing it as the company develops more quantifiable and measurable non-financial metrics.
- **Long-term and short-term incentives (LTIs and STIs):** LTIs encourage a long-term perspective, while STIs recognise annual progress. It is crucial that non-financial metrics are incorporated into both to ensure a comprehensive approach.

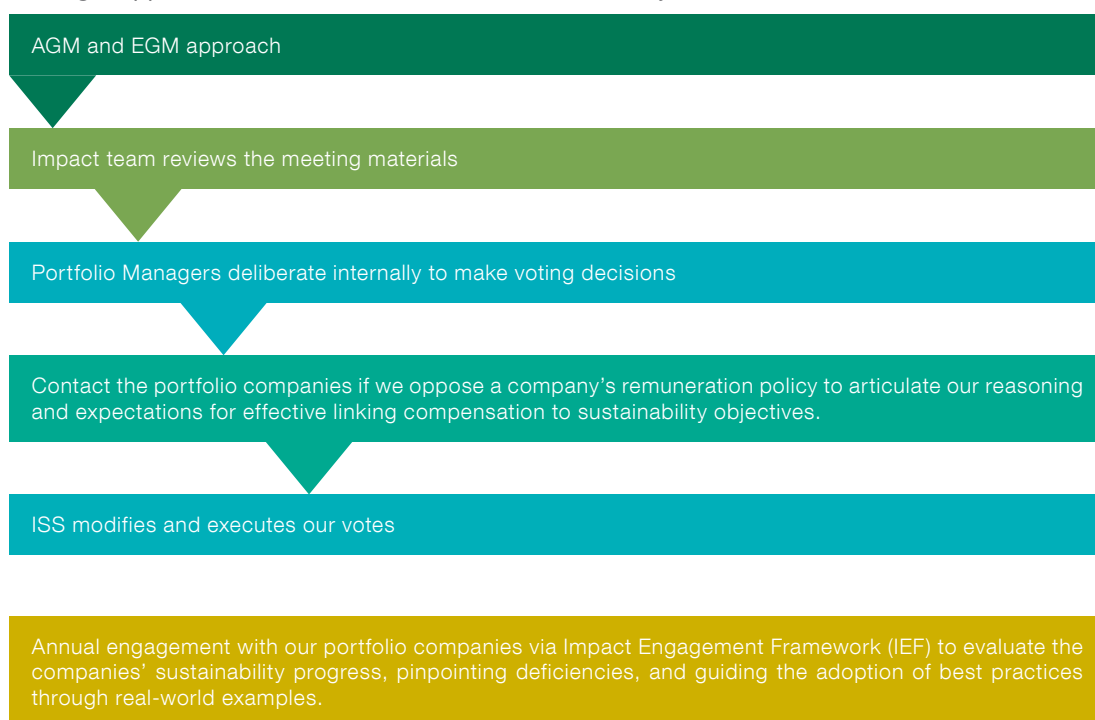
- Engagement and direction: looking beyond the percentages, we value the company's response to engagement and the progress of their metrics. A clear pathway to increasing the weightings of non-financial metrics is essential and well-regarded.

Examples of best-in-class market practices

<p>Schneider Electric</p> <p>Integrates sustainability directly into its incentive structures, with 20% of the annual variable compensation and 25% of the long-term incentive plan linked to its Sustainability Impact and External Relative Index.</p>	<p>Natura</p> <p>Dedicates 30% of short-term incentives and long-term incentives to social engagement, sustainability, and net-zero carbon objectives, showcasing a deep commitment to ESG commitments across its operations.</p>	<p>Orsted</p> <p>Aligns 30% its incentives with ESG targets, such as the CDP climate score and reductions in scope 1 & 2 emissions, highlighting the importance of sustainability in its strategic ambitions.</p>
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Note: The securities identified above should not be considered as recommended for purchase or sale.

Strategic Approach - How We Intend to Achieve These Objectives

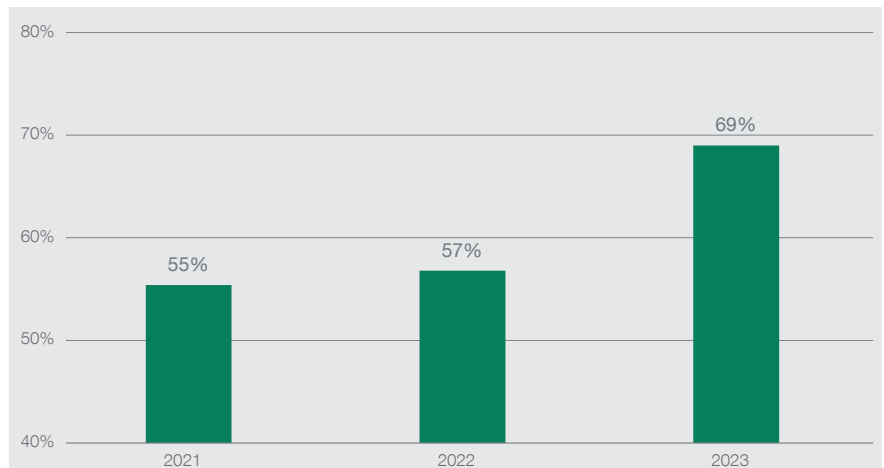


Notes: ISS is our proxy voting company; the IEF is an annual questionnaire that assesses and monitors the sustainability aspects of companies within our funds, facilitating systematic interaction and evaluation of our influence as investors. For more detailed information, please refer to page 16 of our latest 2023 Impact Report.

WHITE PAPER VOTING FOR REMUNERATION LINKED TO NON-FINANCIAL KPIS

Through continuous engagement and active voting, we have observed a positive trend: an **increasing number of companies in our funds are linking non-financial KPIs** with executive remuneration, reflecting a broader shift towards integrated sustainability practices.

Percentage of companies in our funds with sustainability-linked remuneration



Source: UBP Impact Team, Impact Engagement Framework, 2023

CONCLUSION

As an institutional investor, the Union Bancaire Privée Positive Impact Equity Investment Team is dedicated to advancing sustainable corporate practices and acting as a catalyst for systemic change among listed companies through strategic voting and engagement. We recognise the transformative power of collaboration and actively seek to exchange innovative ideas and strategies with stakeholders committed to integrating non-financial KPIs into executive remuneration. By fostering these initiatives, we aim to drive substantial and measurable impact, contributing to a more sustainable and prosperous future.



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