August 2022

HCM International
a GECN GROUP company

Governance.
Finance.
Compensation.

Compensation Study for Executives in Switzerland

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SPI COMPANIES AT A GLANCE

Review of the year

The following is the summary of the main trends in executive compensation we witnessed during the 2022 AGM season. Details of actual pay quantum, pay structure, and variable pay design can be found later in this report.

Pay quantum

Looking back to 2021, the median SPI chief executive total direct compensation increased to CHF 1.27 million (CHF 1.07 million in 2020). The median total direct compensation for other executives on average increased by 16% to CHF 0.64 million (CHF 0.55 million in 2020).

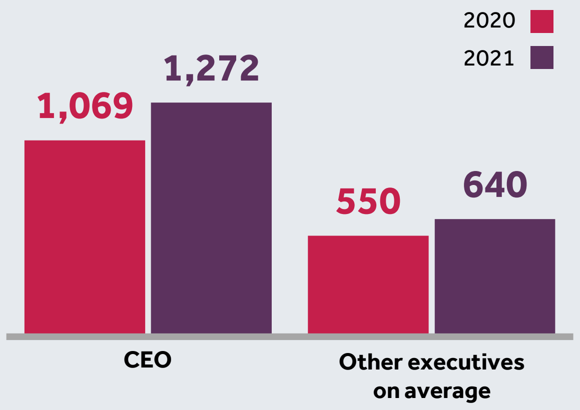
In the SPI Large companies, the median total direct compensation for the chief executive increased by 21% year on year (CHF 7.01 million in 2021 compared to CHF 5.81 million in 2020). The SPI Large other executives on average median total direct compensation for 2021 was CHF 2.75 million (CHF 2.44 million in 2020).

ESG performance in compensation decisions

36% of SPI companies have included ESG performance metrics in their incentive programs, with the majority including ESG metrics in their annual incentive programs.

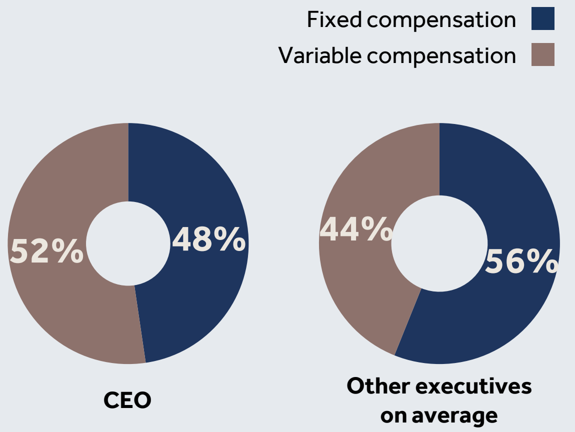
Pay quantum

(median total direct compensation, TCHF)



Pay structure

(% of total direct compensation on average)



ESG performance in compensation

Use of ESG performance metrics
(% of companies)

Annual incentive programs (AIP)

Bonus opportunity generally remained unchanged.

A blend of financial (with a clear emphasis) and non-financial metrics remained a common market practice.

Overall, the level of detail regarding the achievement of the targets set at the beginning of the compensation cycle has improved, even though performance targets are generally not disclosed.

Long-term incentive plans (LTIP)

Award levels typically remained the same as the prior year.

Almost half of the companies operated a Performance Share Units Plan as their sole long-term incentive.

With regard to performance conditions:

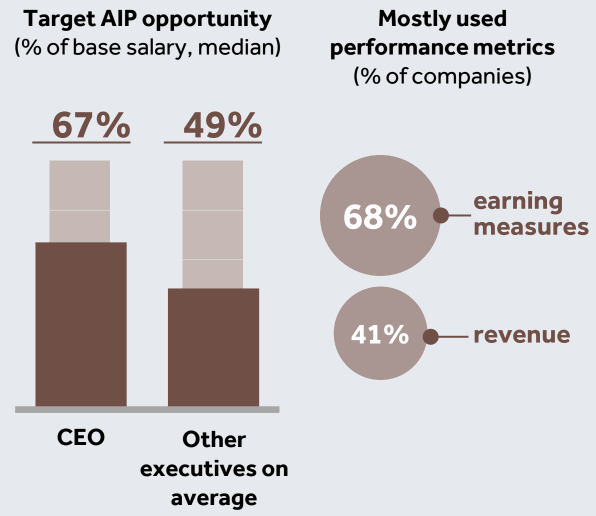
- The performance period remains three years in virtually all cases.
- A blend of two or three measures tends to be used.
- TSR combined with operating financial performance remains the most prevalent with EPS and return metrics (e.g., ROCE) the most commonly used metrics.

Post-vesting holding periods requiring shares delivered under LTIPs not to be sold for a further two years, were implemented by 11 SPI companies (16% of PSU plans).

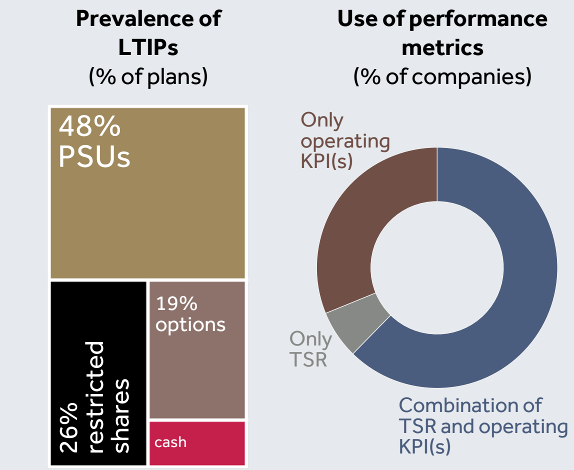
Share ownership guidelines

Approximately 24% of SPI companies articulated share ownership guidelines for their executives. Target share ownership levels were commonly set at 300% of base salary for chief executive and 150% of base salary for other executives, with a five-year timeframe to meet the guideline being most common.

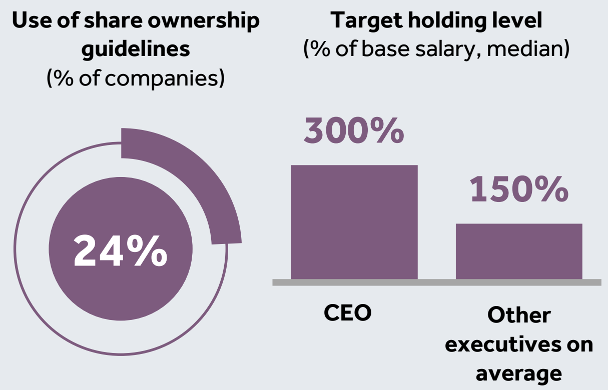
Annual incentive program (AIP)



Long-term incentive plans (LTIP)



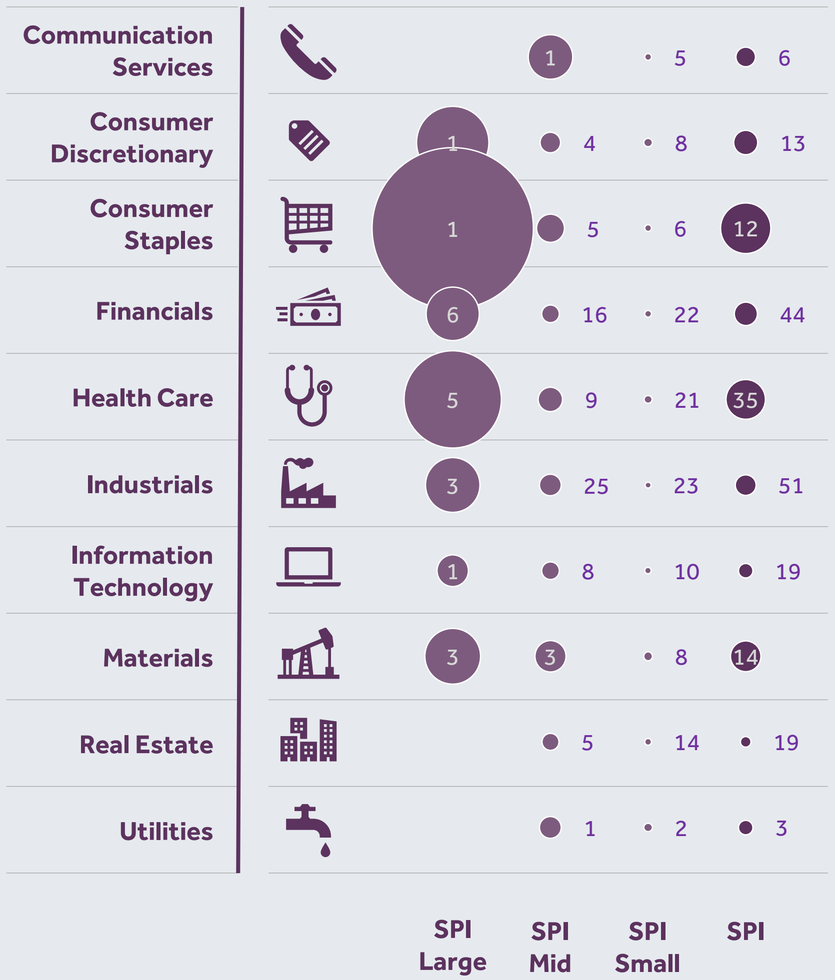
Share ownership guidelines



DATA SAMPLE

This study is based on a sample of 216 Swiss Performance Index companies as of December 31, 2021 divided among small-, mid-, and large-cap size segments following the methodology applied by SIX Stock Exchange and further classified into ten sectors: Materials, Industrials, Health Care, Financials, Consumer Discretionary, Consumer Staples, Information Technology, Real Estate, Communication Services, and Utilities based on Standard & Poor's Global Industry Classification Standard ("GICS") codes. Market capitalization as of December 31, 2021 is summarized below:

Sample of companies by industry and size



Bubble size corresponds to the average market capitalization, number corresponds to the number of companies in an industry-size group.

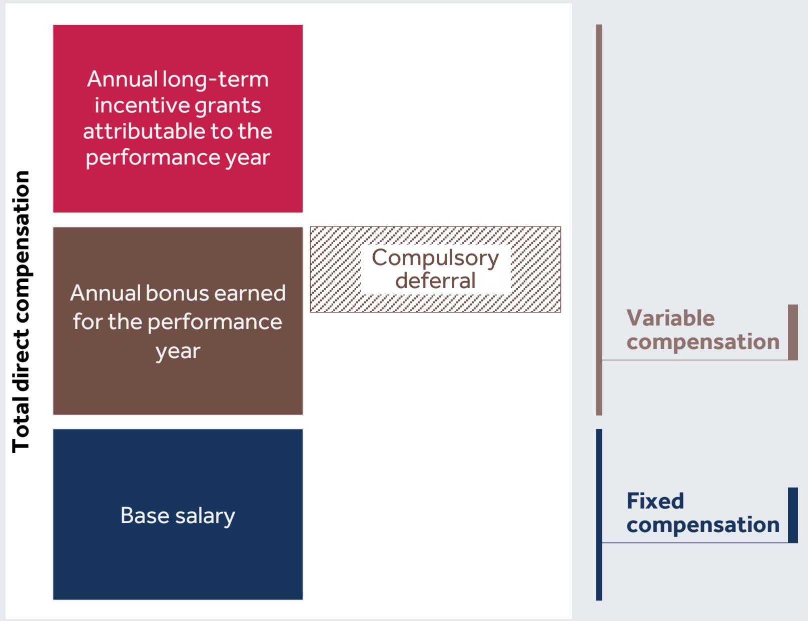
METHODOLOGY

While the compensation of the CEO (or more precisely: the highest-paid executive member) is disclosed separately, lump-sum disclosure in relation to the compensation of other executives is a prevailing market practice and the level of detail is further required by law in Switzerland. Therefore, compensation packages are analyzed individually for CEOs and on average for other executives. To ensure comparability, CEOs not in office for the full year are excluded from any trend analysis.

The scope of this study is limited to the components of total direct compensation: base salary, annual incentives earned for the performance year under review, and long-term incentives granted in the performance year under review. Where possible, long-term incentive awards are estimated at their fair value at grant. Social securities, pensions, other benefits, replacement awards, and gains from share purchase programs are omitted from the analysis.

All absolute values are reported in Swiss Franc amounts (CHF), converted at the respective year-end exchange rates where needed.

Components of total direct compensation



PAY QUANTUM AND STRUCTURE

Total direct compensation levels continued to be influenced by company size. At the median, large-cap companies provided total direct compensation of CHF 7.01 million per chief executive (CHF 2.75 million per other executive on average) versus CHF 1.74 million at mid-cap companies (CHF 0.86 million per other executive on average) and CHF 0.84 million at small-cap companies (CHF 0.45 million per other executive on average).

TOTAL DIRECT COMPENSATION ("TDC") is the sum of base salary, annual bonus earned for the performance year, and annual long-term incentive grants attributable to the performance year.

Year-over-year, total direct compensation levels increased, evidencing a recovery to pre-Covid-19 or even higher levels. Increases of median total direct compensation were similar among mid-cap and small-cap companies ranging from 10% to 13%. For chief executive at large-cap companies, the increase of median compensation amounted to 21%.

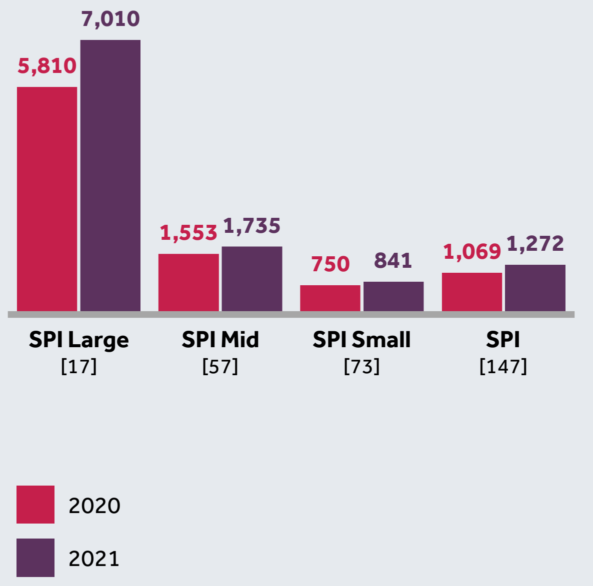
Consumer Discretionary companies continued to provide the highest median total direct compensation (CHF 2.39 million) per chief executive and Materials companies per other than chief executive officer on average (CHF 1.23 million). Communication Services companies have provided the lowest median total pay compared to other sectors (CHF 0.78 million per chief executive and CHF 0.42 million per other than chief executive officer on average).

Year-over-year changes were more varied at the industry level, e.g., Consumer Discretionary companies had the largest median increase in total direct compensation (+43.5% for chief executive and +20.5% for other than chief executive officer on average mostly due to structural changes in the pay packages, e.g., introduction of new elements or changes in the plan's design) while Utilities and Real Estate companies had the smallest increases (+0.1% to +0.2%) in executive pay.

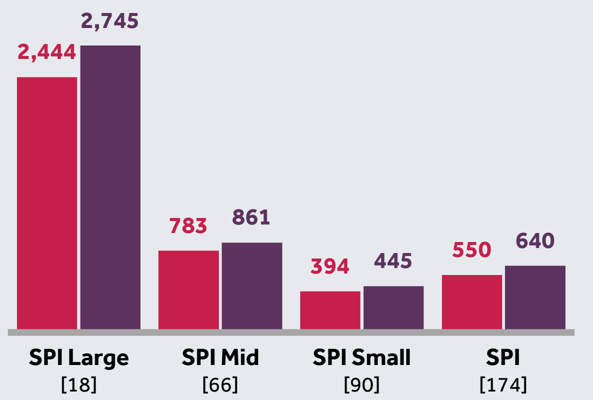
Across all size segments, companies provided at least 25% of total direct compensation in base salary on average, with the weighting on variable pay and in particular long-term incentive awards increasing as company size and total direct compensation increase.

Health Care, Materials, and Information Technology companies tended to place a greater weighting on deferred and longer-term oriented awards (i.e., bonus deferrals and/or LTIPs) providing 30% to 35% of total direct compensation in the form of long-term incentive awards on average. Real Estate and Communication Services companies placed the lowest emphasis on long-term incentive awards, on average providing approximately 5% to 8% of total direct compensation in the form of longer-term incentive awards.

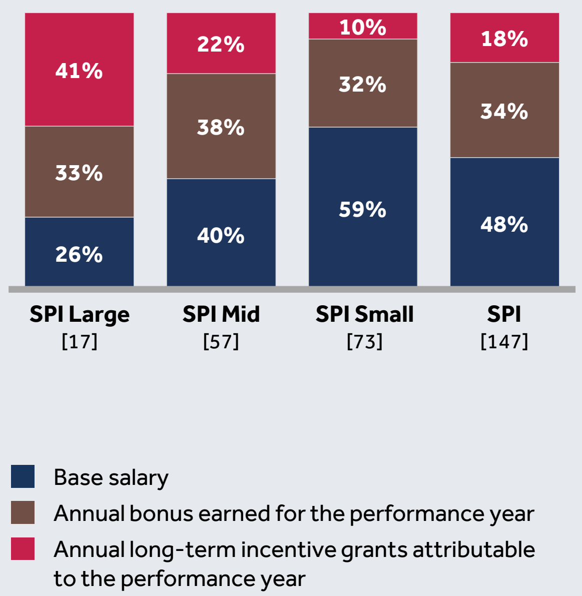
Chief executive officer
(median, TCHF)



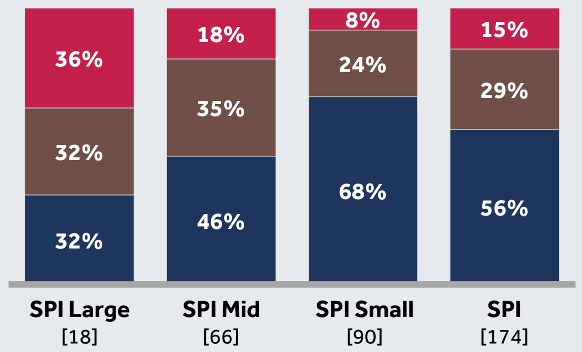
Other executives on average
(median, TCHF)



Chief executive officer
(% of total direct compensation on average)



Other executives on average
(% of total direct compensation on average)



Chief executive officer

Compensation level 2021
(median, TCHF)

	Median increase from 2020	Compensation level 2021 (median, TCHF)
Consumer Discretionary [9]	43.5%	2,394
Health Care [24]	9.8%	1,507
Industrials [39]	19.6%	1,257
Consumer Staples [8]	9.4%	1,224
Utilities [2]	0.2%	1,200
Real Estate [11]	6.7%	1,132
Information Technology [11]	20.5%	1,130
Materials [10]	6.4%	1,096
Financials [30]	7.2%	1,041
Communication Services [3]	6.3%	775

Chief executive officer

Compensation pay mix 2021
(% of total direct compensation on average)

	Base salary	Annual bonus earned for the performance year	Annual long-term incentive grants attributable to the performance year
Consumer Discretionary [9]	44%	39%	17%
Health Care [24]	39%	33%	28%
Industrials [39]	49%	34%	17%
Consumer Staples [8]	53%	30%	18%
Utilities [2]	61%	29%	9%
Real Estate [11]	58%	34%	8%
Information Technology [11]	38%	36%	25%
Materials [10]	44%	31%	25%
Financials [30]	51%	37%	12%
Communication Services [3]	70%	30%	

Other executives on average

Compensation level 2021
(median, TCHF)

	Median increase from 2020	Compensation level 2021 (median, TCHF)
Materials [11]	6.7%	1,225
Consumer Discretionary [12]	20.5%	793
Health Care [28]	12.4%	764
Utilities [2]	6.5%	730
Financials [32]	4.1%	655
Information Technology [15]	10.2%	623
Industrials [44]	17.1%	584
Consumer Staples [12]	7.0%	560
Real Estate [13]	0.1%	548
Communication Services [5]	4.3%	418

Other executives on average

Compensation pay mix 2021
(% of total direct compensation on average)

	Base salary	Annual bonus earned for the performance year	Annual long-term incentive grants attributable to the performance year
Materials [11]	49%	28%	23%
Consumer Discretionary [12]	49%	37%	14%
Health Care [28]	51%	24%	26%
Utilities [2]	67%	22%	11%
Financials [32]	58%	31%	11%
Information Technology [15]	53%	33%	15%
Industrials [44]	57%	29%	14%
Consumer Staples [12]	66%	22%	12%
Real Estate [13]	63%	32%	5%
Communication Services [5]	66%	26%	8%

ESG PERFORMANCE IN COMPENSATION DECISIONS

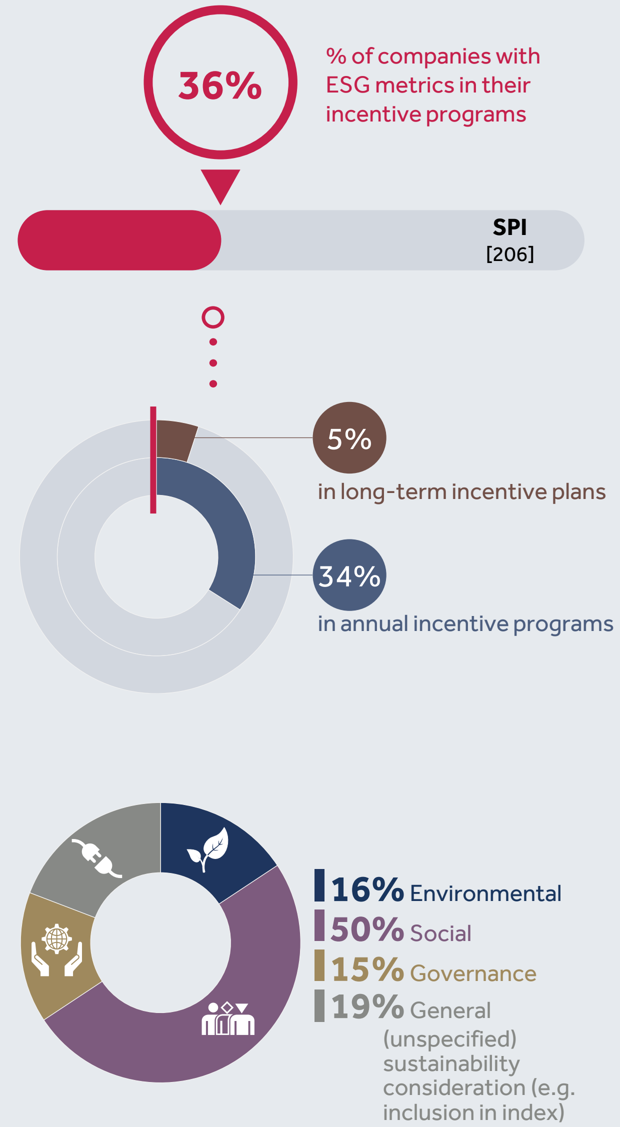
Environmental, social, and governance (ESG) factors were increasingly embedded in executive compensation arrangements with 36% of SPI companies having included ESG performance metrics in their incentive programs.

Use of ESG metrics in executive incentive plans was more prevalent in Materials, Financials, and Consumer Staples companies. Amongst the companies that used ESG metrics in executive incentive plans, most had one or more focused on social aspects of ESG. Specifically, the most prevalent category was People and People Development, which included metrics related to leadership, talent development, employee engagement, and company culture.

There were also some noticeable differences in the usage of environmental and governance metrics. Materials companies were more likely to link environmental categories to executive compensation decisions, while Financials companies rather focused on governance.

Overall, most of the companies including ESG metrics in executive compensation were using them in annual incentive programs.

Prevalence of ESG metrics in executive compensation



ANNUAL INCENTIVE PROGRAMS

Bonus opportunity generally remained unchanged. Median on-target bonus opportunity in 2021 ranged from 50% to 100% of base salary for chief executive and from 40% to 78% for other executive officers increasing with company size and total direct compensation. The possibility to reach 1.5 times (to double for SPI Large) the on-target bonus amount in case of outperformance remained a common market practice.

Unchanged to previous years, companies mostly operated a bundle of measures: some 88% of SPI companies used two or more KPIs and 26% used five or more performance measures.

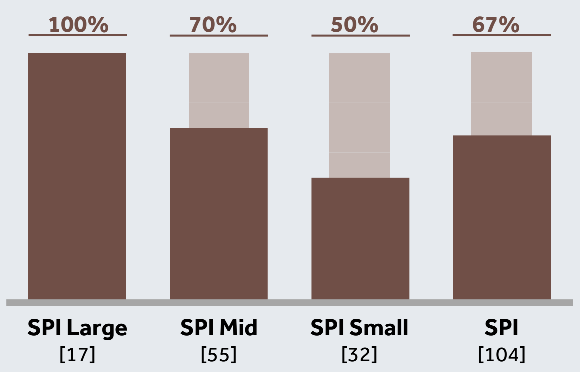
The most commonly used annual incentive measure continued to be profit. There are different definitions of profit that are used, ranging from EBITDA (earnings before interest, tax, depreciation, and amortization), EBIT (earnings before interest and tax), PBT (profit before tax) and PAT (profit after tax). When companies that used EPS (earnings per share) in their annual bonus are also taken into account, a profit measure was almost universally used.

The use of non-financial measures has increased compared to the last year, with almost 46% of companies considering these in their bonus decisions. Further, there has been an increased use of ESG metrics, which are now incorporated into roughly 34% of annual incentive programs.

Local and international proxy advisors have continued to emphasize in their guidelines transparent disclosure of variable incentive targets and actual performance against those targets. In line with current Swiss regulations, which focus on the disclosure of performance measures and their weighting, performance targets have generally not been disclosed. Nonetheless, communication of performance achievements in relation to set targets (also with regard to non-financial measures) has become more widespread.

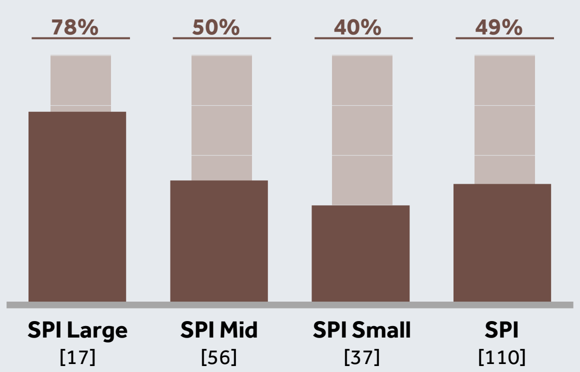
Chief executive officer

(bonus opportunity in % base salary, median)

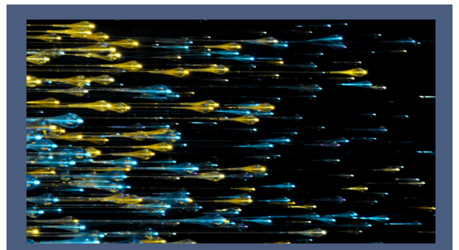


Other executives on average

(bonus opportunity in % base salary, median)



Overall, actual payouts were higher compared to the prior year. For example, chief executives bonus payouts were above the on-target level among almost 75% of companies with disclosed on-target opportunities.



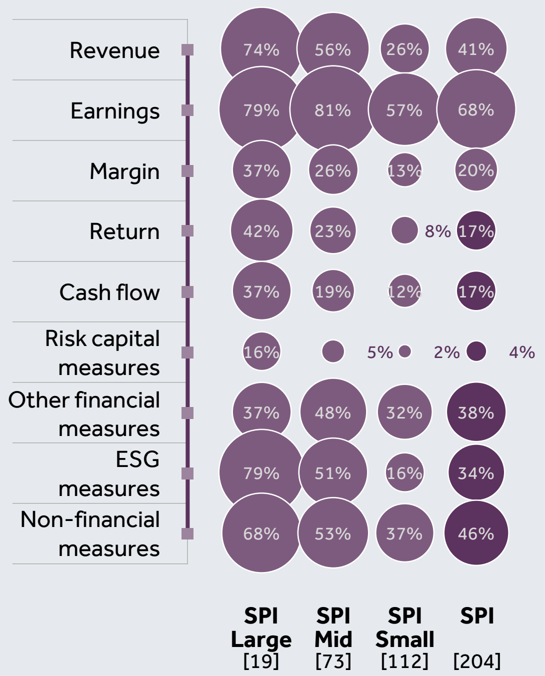
COMPULSORY DEFERRAL
requires a portion of the annual bonus to be deferred with payout occurring at a later date (subject to continued employment and, in some cases, additional performance condition).

Bonus deferral was in place at around 33% of the SPI constituents. Next to companies with a compulsory deferral rate, 25 companies (37% of SPI companies using bonus deferrals in their compensation schemes to executives) encouraged executives to voluntarily defer an additional portion of annual bonuses earned (mostly supported by preferential access to company shares).

Most frequently, a portion of the annual bonus to be deferred was converted into fully taxed but restricted for sale shares, to be released after three (60%) or five years (17%). With the exception of Financials companies, no additional performance condition was generally required under the deferral agreements.

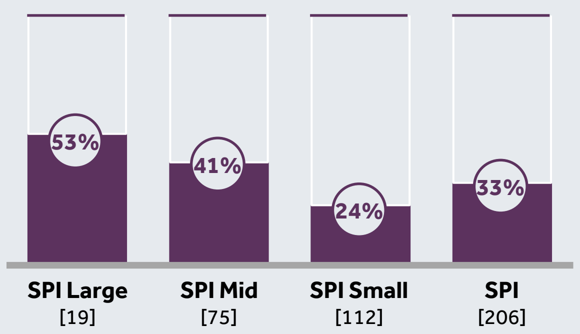
Performance measures

(% of companies)



Companies with bonus deferral

(% of companies)



LONG-TERM INCENTIVE PLANS

84 SPI companies (41%) chose not to have an LTIP and either opted for compulsory deferral to allow for longer-term alignment of variable compensation elements or relied solely on AIP (57% of companies not having any LTIP in place).

RESTRICTED SHARES are (contingent) shares that are subject to a restriction on sale or vest only upon continued employment (i.e., without performance conditions).

PERFORMANCE SHARE UNITS ("PSU") are contingent rights to shares (or their cash equivalent) with the vesting subject to continued employment and the achievement of performance conditions.

(PERFORMANCE) STOCK OPTIONS are contingent rights to buy shares at a specified price for a finite period of time with the vesting subject to continued employment (and the achievement of performance conditions).

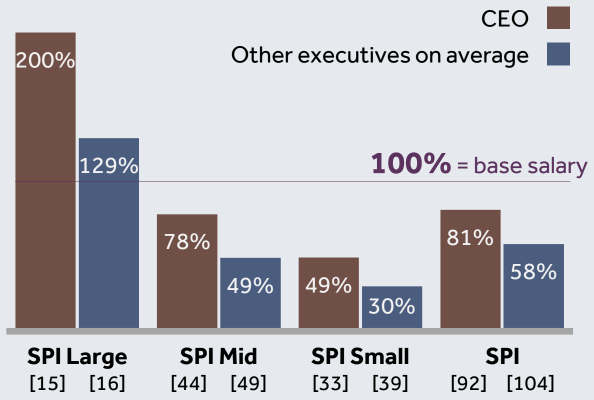
(PERFORMANCE) CASH LTIs reflect contingent rights to cash payments with the vesting subject to continued employment (and the achievement of performance conditions).

The median annual grant level for chief executive in SPI has largely remained the same as last year at approximately 80% of base salary. For other than CEO executive officers on average, the median grant policy has remained at approximately 60% of base salary.

The use of a PSU plan remained the norm (55% of companies had this structure), while 45% of companies operate an alternative structure without PSUs.

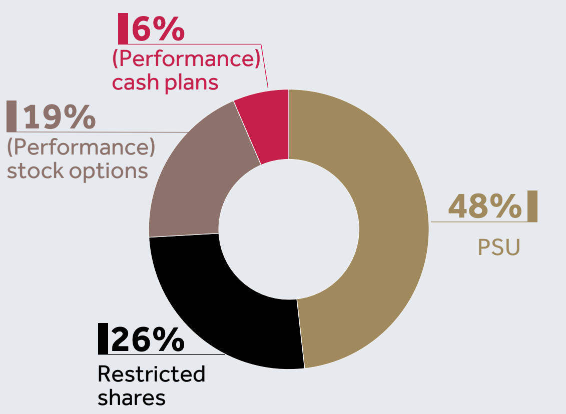
Almost 87% of LTIPs with performance conditions (i.e., PSUs, performance stock options, and/or performance cash plans) used multiple performance measures and about 40% used three or more performance measures. TSR (69% of companies) and EPS (26% of companies) remained the most common measures. Further there has been an increased use of ESG metrics, which were incorporated into roughly 9% of long-term incentive plans.

Grant policy (% of base salary, median)



Prevalence of long-term incentive plans (% of plans)

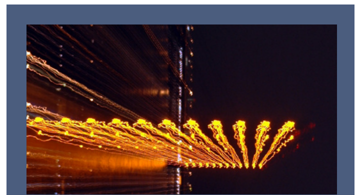
SPI [139]



Where TSR was used, it was usually measured on a relative basis, with just 19% of LTIPs measuring TSR on an absolute basis. Where TSR was measured on a relative basis, in 58% of plans it was measured against a group of companies (e.g., a bespoke group of performance peers or constituents of an index) and 42% against an (industry or general market) index.

Overall, performance was measured in a single tranche over three years in 90% of LTIPs with performance conditions. In relation to those using a different schedule, performance is typically measured over four or five years.

Recognition of outperformance through additional award units at vesting remained a common market practice. The majority of companies set the maximum performance factor (expressed as a multiple of the number of awards granted) at 2.0. Unchanged to previous years, only a few companies have additionally limited LTIP leverage due to share price increases by means of a CHF cap on the LTIP payout.

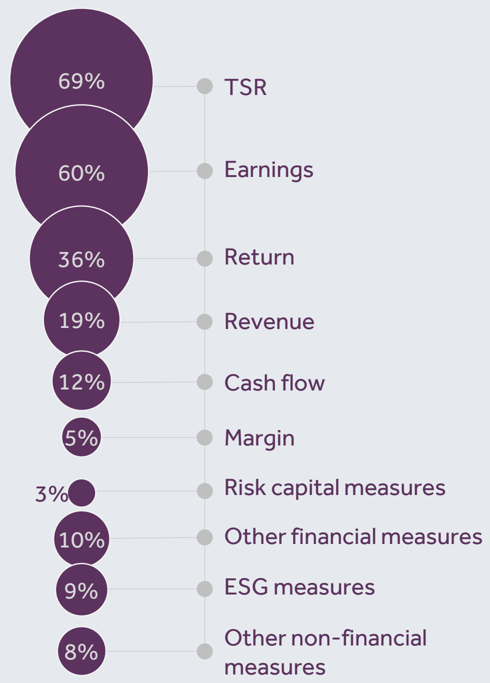


POST-VESTING HOLDING requires executives to retain shares for a period after they vest.

The duration of 16% of PSU plans in 2021 was extended by applying post-vesting holding periods. The majority of companies practicing such post-vesting holding periods required shares to be held for two years.

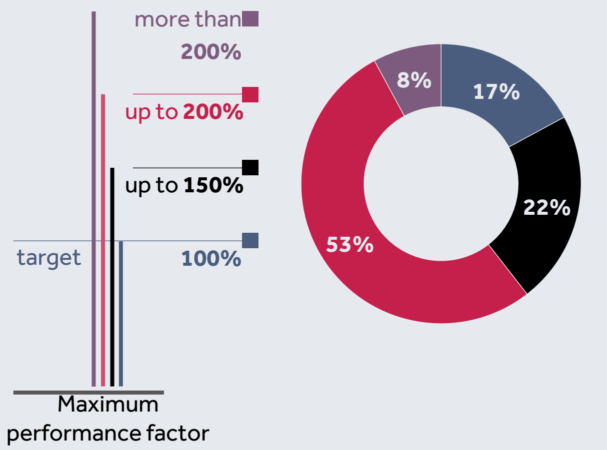
Performance measures (% of companies)

SPI [77 companies]



Prevalence of maximum performance factors (opportunity in % target)

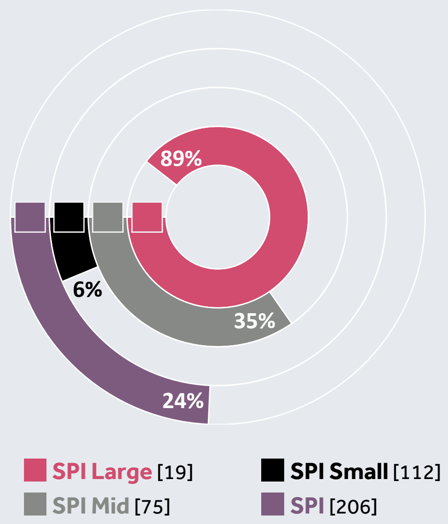
SPI [76 plans]



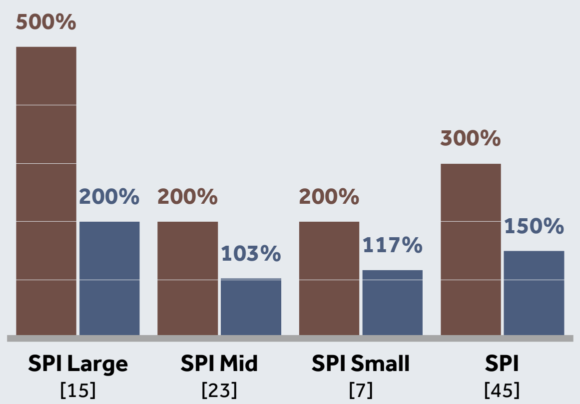
SHARE OWNERSHIP GUIDELINES

24% of SPI companies have disclosed details on their share ownership guidelines for executives in their Compensation Reports 2021. Target share ownership levels were commonly set at 300% of base salary for the chief executive and 150% of base salary for other executives on average. A maximum timeframe within which the required level has to be built is typically a five-year period (72% of companies).

Disclosure of share ownership guidelines (% of companies)



Share ownership guidelines
(% of base salary, median)



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GECN GROUP
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