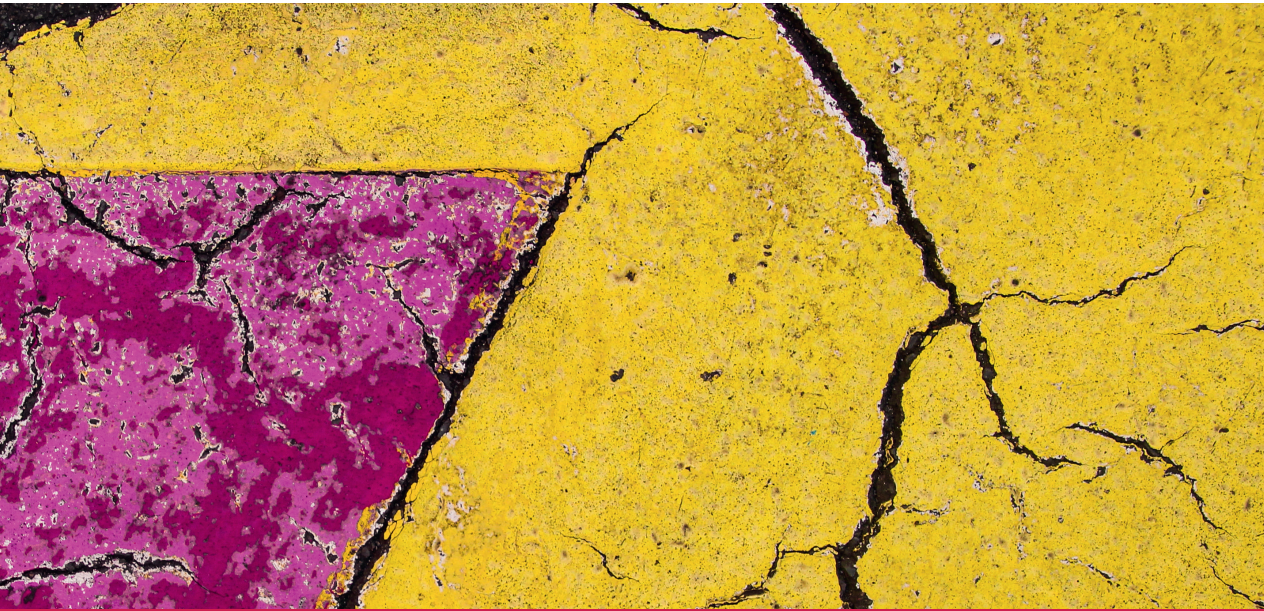




HOSTETTLER & COMPANY
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July 2020



Compensation Study for Swiss Boards of Directors

HCM Swiss 100

hcm.com

Executive summary

TOTAL DIRECT COMPENSATION

stable over 2011-2019 among

61% of firms for the Chairperson

63% of firms for ordinary members

at median in 2019

CHF 440k for the Chairperson

CHF 149k for ordinary members

2.8 times higher for the Chairperson than for ordinary members

FEE STRUCTURE

base fee for Chairperson

base & committee fee for ordinary members

PAY MIX

31% of firms pay in **cash only**

68% of firms pay in **cash & equity**

1% of firms pay in **equity only**

EQUITY INSTRUMENTS

72% of plans are in **blocked shares**

17% of plans are in **restricted shares**

8% of plans are in **immediate free shares**

3% of plans are in **options**

Compensation level

Compensation levels for members of the Board of Directors ("Board") continue to attract close public attention. Noticeably though, from 2018 to 2019, no evidence for compensation growth for the members of the Board was found. When taking a closer look at the development of total direct compensation over the past eight years (from 2011 to 2019), the market reveals that total direct compensation for the Chairman has remained relatively stable in 61 percent of companies. That of the average ordinary Board member has also remained relatively stable in 63 percent of the sample companies with fluctuations ranging between +/- 3 percent.

Our continuous analyses have shown that compensation levels are very much dependent on the size of the company. For example, in 2019, the median Chairperson pay at SMI companies was 4.1 times higher than for smaller mid-caps. Cross-industry differences in total direct compensation, however, have proven to be less significant.

Lastly, the ratio between the Chairperson's and the ordinary Board members' compensation is on average less affected by company size and is slightly higher among financial companies.

Compensation design

The composition of an individual Board member's pay package primarily depends on the position held within the Board. Chairpersons are commonly paid an all-inclusive base fee (Type A), whereas ordinary Board members are generally compensated by means of a combination of base and committee fees (Type B). Less common attendance fees were paid by 12 percent of the HCM Swiss 100 companies.

Total direct compensation for Board members is typically composed of a fixed cash and non-performance-based components. In 2019, the average portion of equity made up 42 percent of total direct compensation.

Of these 42 percent equity awards, a clear majority (72 percent) was granted in the form of fully taxed blocked shares, with a typical blocking period spanning over three years.

Data sample and methodology

This study is based on publicly available data published in compensation reports of the largest 100 Swiss-listed companies, i.e. constituents of the Swiss Performance Index (SPI), in terms of their respective market capitalization as of December 31, 2019 (“HCM Swiss 100”). In total, 98 companies of the HCM Swiss 100 – which published their reports before May 31, 2020 – were analyzed.

To provide more structured insights, the data is segmented by size and industry. The following three size groups are applied:

- SMI – the Swiss blue-chip index that includes the 20 largest stocks in the SPI with a market capitalization between CHF 10.0 and 311.8 billion.
- SMIM – the Swiss mid-cap index that includes the next 30 largest stocks not already included in the SMI index, or 27 companies if dual listings are not considered. Market capitalization for this group varied between CHF 2.9 and 25.9 billion.
- Smaller mid-caps – 53 smaller companies of the SPI not included in the SMI or SMIM. Market capitalization of smaller mid-caps lied between CHF 1.1 and 6.8 billion.

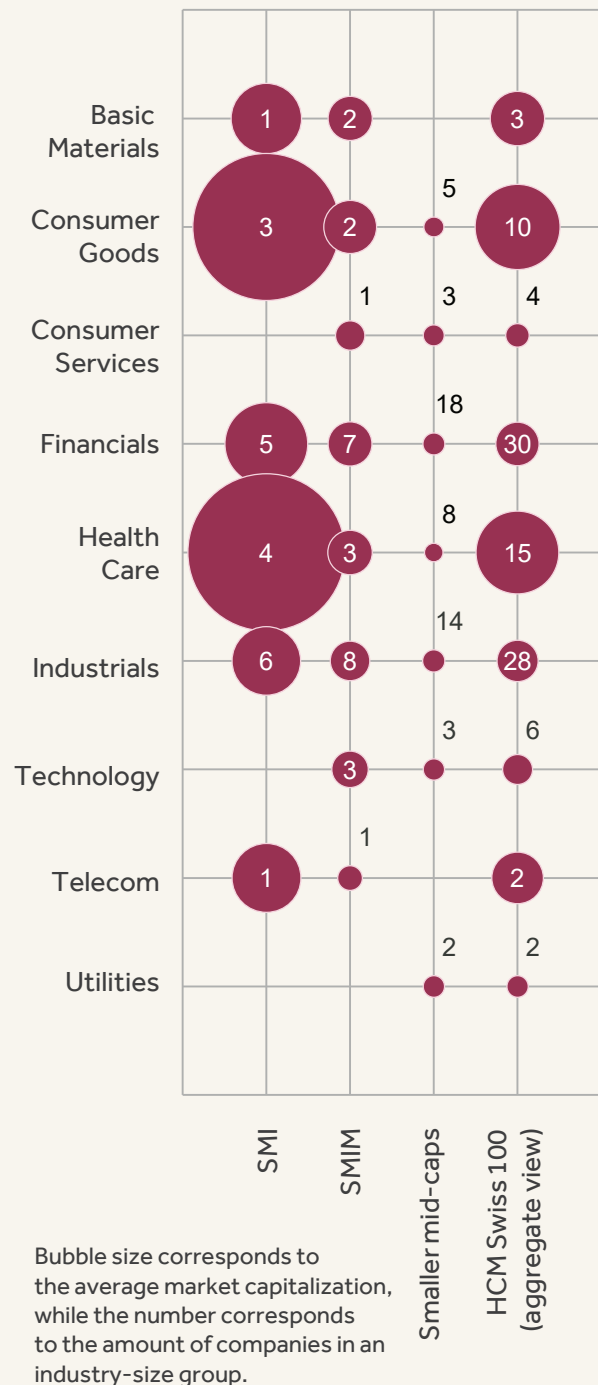
The industry groups are based on the Industry Classification Benchmark. Separate assessments are shown for the four most significant industries: consumer goods, financials, health care, and industrials, accounting for 93 percent of the HCM Swiss 100 in terms of market capitalization.

This study addresses compensation packages attributable to non-executive¹ Chairpersons and non-executive¹ ordinary (all members other than the Chairperson) Board members on average. For Board members with a dual role, i.e. occupying an executive as well as a non-executive function, compensation is considered for the non-executive function only (or excluded from the analysis if such a separation was not possible). Non-full-year Chairpersons are analyzed on an annualized basis wherever possible.

The analysis is based on a total direct compensation view – attributable to the year under review – excluding expense allowances, social security, pensions, other benefits, and replacement awards. Equity awards are considered at their fair value at grant. Absolute values are converted into Swiss Franc amounts at the respective year-end exchange rates, if disclosed in other currencies.

Some companies were excluded from the analysis due to disclosure and comparability reasons. The sample sizes applicable per data point are reported throughout the study.

Figure 1: Sample of companies by industry and size (n=100)



¹ We define a “non-executive” member of the Board as someone, who is not an employee or affiliated with the company in any way.

Compensation level

Chairperson

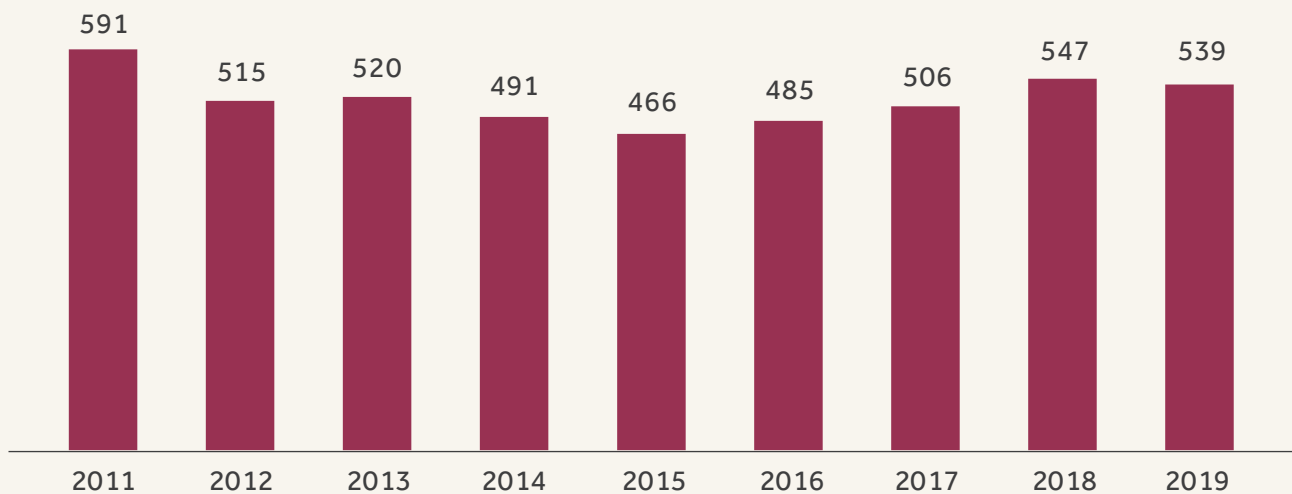
For the purpose of identifying long-term trends, compensation data was analyzed for the same sample of companies over the period of 2011 to 2019 (cross-size and cross-industry group of 28 companies). **The amount of total direct compensation for the Chairperson has remained stable over the past eight years for every three out of five companies.**

Some year-to-year fluctuations were noted yet remained constrained between +/-3 percent on average among 61 percent of firms. On the other hand, 28 percent of companies experienced increases greater than 3 percent

in the Chairperson's pay level. Moreover, in the period to date (since 2011), 11 percent of Chairpersons experienced decreases of more than 3 percent in their pay.

A closer look at each company reveals that **changes in the Chairperson's compensation levels were often caused by share price movements** when equity grants were based on a fixed number of units. In other cases, pay packages were adjusted due to outcomes from performed compensation benchmarking, a review of responsibilities, or the appointment of a new Chairperson, to name a few.

Figure 2: Historical median total direct compensation for the Chairperson, HCM Swiss 100 (n=28, comprising the same companies over the period illustrated, CHF thousand)



Recent compensation developments were analyzed by means of a larger sample of companies with pay data available for the past two years. Figure 3 provides an overview of the median total direct compensation for 2018 and 2019, split by size and industry groups.

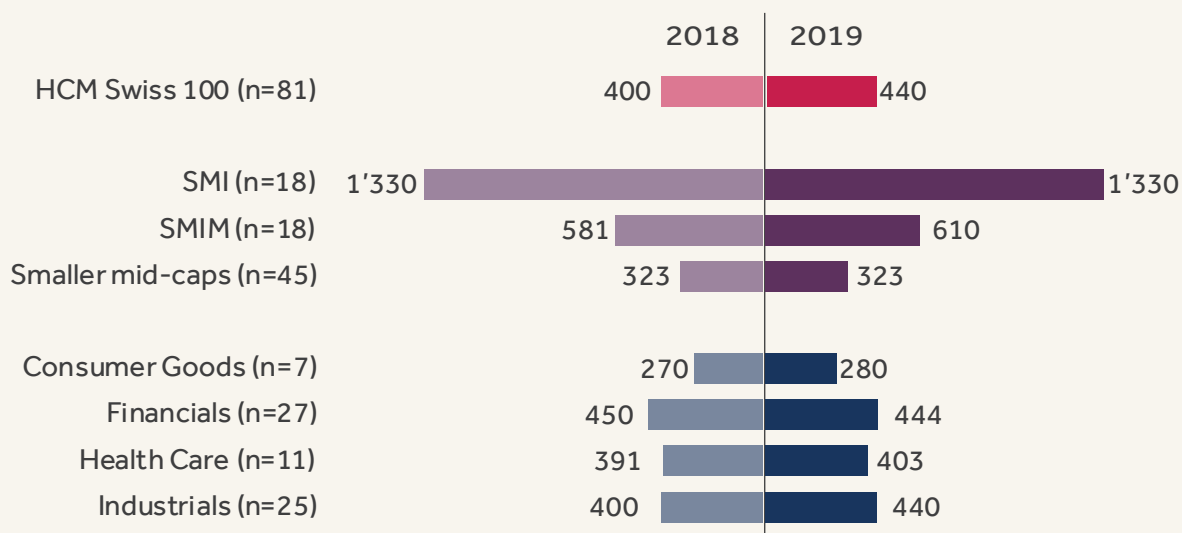
Company size is a key factor for compensation levels, as illustrated by the large gaps between median levels of total direct compensation for different size groups. For example, in 2019, the median pay of CHF 1'330 thousand among SMI companies was more than two times higher than the median of CHF 610 thousand witnessed among SMIM companies. The respective gap between SMIM and smaller mid-cap firms is 1.9 times the total direct

compensation, as observed when looking at the median for 2019.

A year-to-year comparison does not show any considerable differences across the size groups, with the exception of an increased shift in the median of SMIM companies' from CHF 581 thousand in 2018 to CHF 610 thousand in 2019.

Cross-industry variation in the median total direct compensation is less significant. Pay levels for the industry groups are mostly driven by the size of companies included in the sample and reflect differences in the median market capitalization for selected industries.

Figure 3: Median total direct compensation for the Chairperson (CHF thousand)



The highest change in median compensation levels for non-executive Chairpersons was noted in industrial companies where the median pay rose to CHF 440 thousand in 2019 from CHF 400 thousand in 2018.

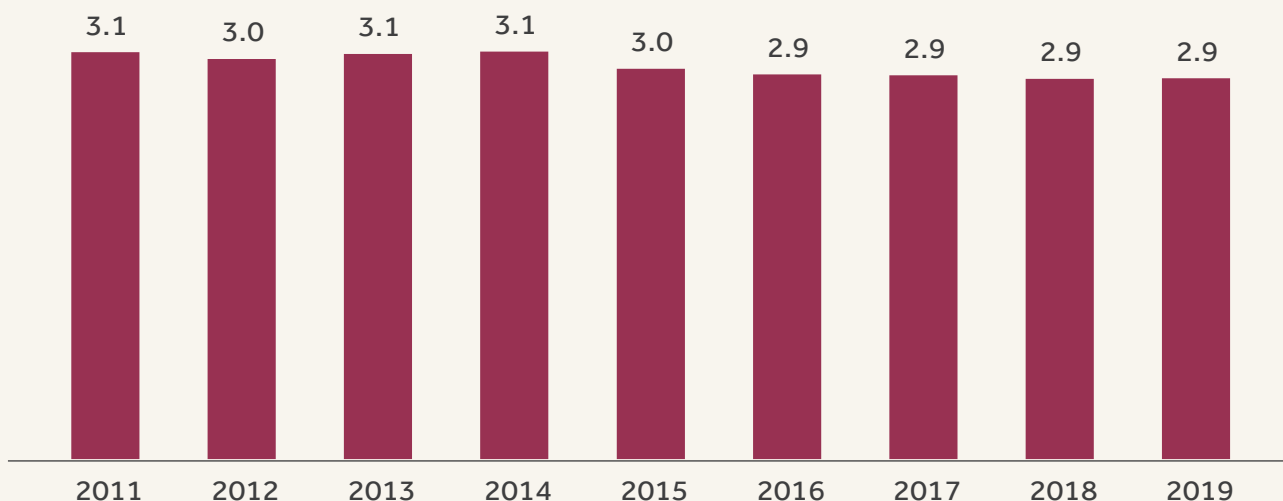
Another means of approaching the pay level analysis is by considering **the pay ratio – the ratio between the**

compensation of the Chairperson and the average compensation of ordinary Board members.

Generally, an individual's compensation level depends on their position occupied within the Board. From a corporate governance perspective, the Chairperson has the overall responsibility for the successful functioning of the Board as the company's oversight body.

Figure 4: Historical median pay ratio, HCM Swiss 100

(n=28, comprising the same companies over the period illustrated, total direct compensation for the Chairperson divided by average total direct compensation for an ordinary Board member)



In addition to a greater responsibility, the Chairperson is also exposed to higher personal risk and hence, is commonly paid a higher compensation compared to an ordinary Board member.

The median pay ratio has not significantly changed over the past eight years. Figure 4 shows that while a high of 3.0 to 3.1 times the median pay differential was observed between 2011 and 2015, it has since remained at a constant 2.9 times over the past four years.

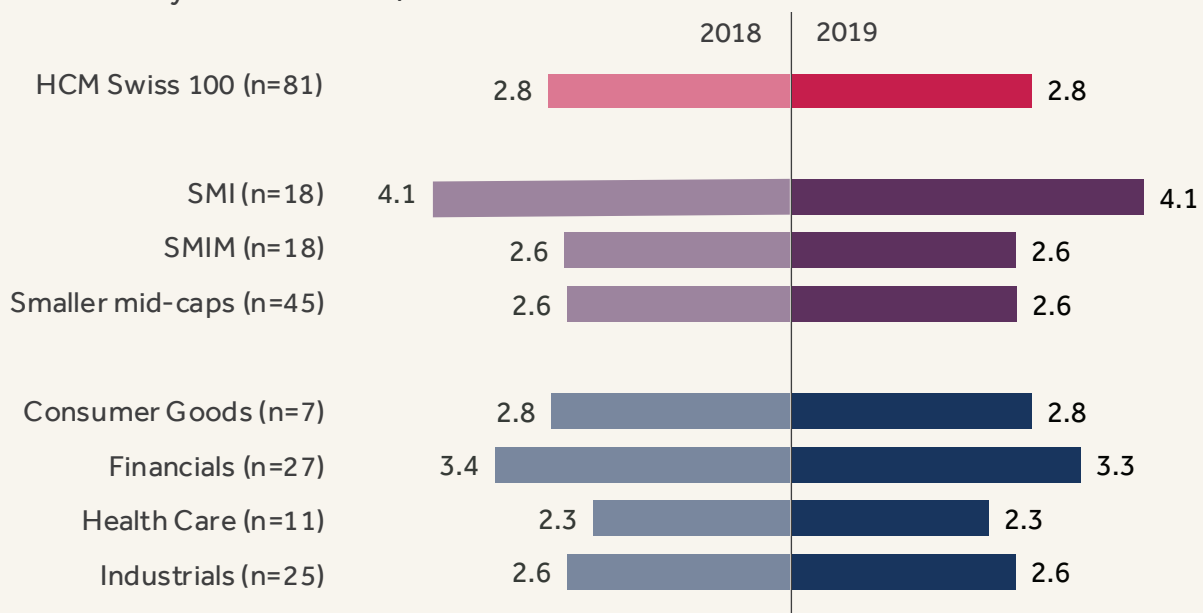
This trend was also confirmed when looking at a larger sample of companies over the past two years. At median, the Chairperson’s total direct compensation in 2019 was 2.8 times higher than that of ordinary Board members, as depicted in Figure 5.

As opposed to the compensation level, the pay ratio correlates less strongly with the company’s size. The pay gap was larger for blue-chips (4.1 times at median), whereas it was more homogeneous among SMIM and smaller mid-cap companies (2.6 times at median).

As for the industry groups, the pay difference tends to be smaller among non-financial companies, varying between 2.3 times and 2.8 times at median in 2019. Contrarily, total direct compensation of Chairpersons in financial firms exceeded that of ordinary Board members by 3.3 times at median in 2019.

Figure 5: Median pay ratio

(Total direct compensation for the Chairperson divided by average total direct compensation for the ordinary Board member)



Ordinary Board members

To better understand the long-term development of the compensation of ordinary Board members, the same sample of companies has been analyzed over the period from 2011 to 2019 (cross-size and cross-industry group of 56 companies).

The median total direct compensation has gradually increased since 2011, as shown in Figure 6. However, a closer look at the sample of companies shows that these

exhibited both drops and increases. The developments at a majority of companies however, remained relatively stable (63 percent of the analyzed sample), whereby fluctuations ranged between +/- 3 percent on average for the period of 2011 to 2019. Such changes are in part attributable to share price movements, changes in time involvement (e.g. changes in committee membership or number of meetings held), or the review of compensation systems.

Figure 6: Historical median total direct compensation for the ordinary Board member, HCM Swiss 100 (n=56, comprising the same companies over the period illustrated, CHF thousand)



Focusing on the past two years, compensation levels were analyzed for a larger sample of companies with pay data available for 2018 and 2019, as reflected in Figure 7.

Overall, the median total direct compensation levels for ordinary Board members remained stable on a year-on-year basis at CHF 151 thousand in 2018 and CHF 149 thousand in 2019.

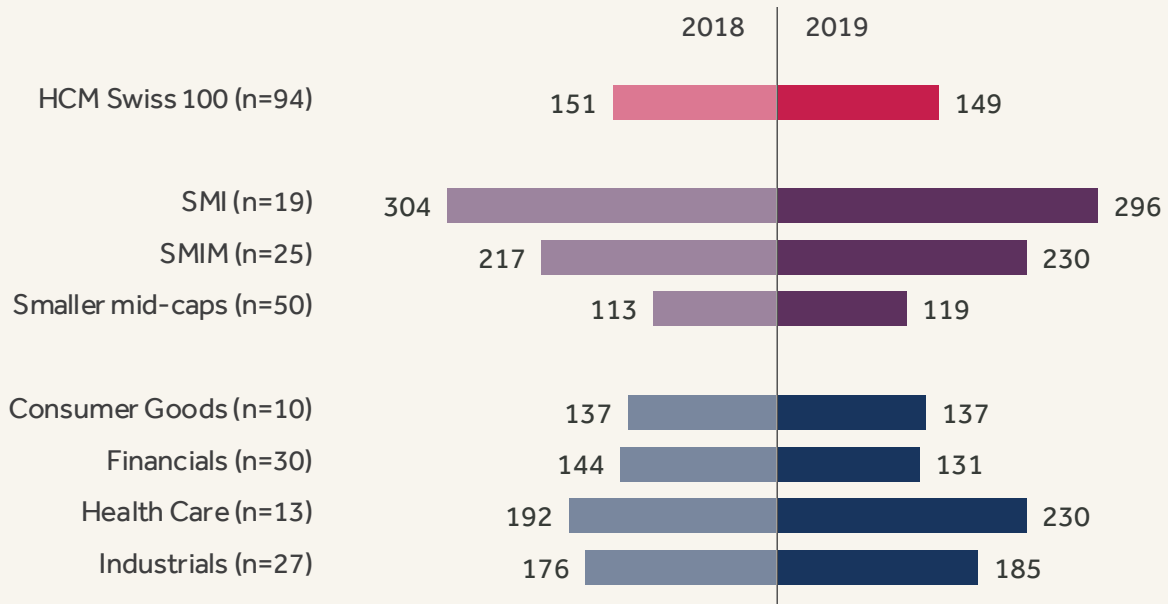
Similar to the findings for the Chairperson, **compensation levels for ordinary Board members are closely related to the size of a company**. In 2019, the median level of total direct compensation for an average ordinary Board

member varied from CHF 119 thousand for smaller mid-cap companies to CHF 296 thousand for SMI companies.

Consequently, an average ordinary Board member was paid 1.3 times more in larger SMI companies than in SMIM firms, whereas the same position was compensated 1.9 times more in SMIM companies when compared to smaller mid-caps.

Cross-industry differences were mostly driven by sample size and composition. The health care sample specifically, may have a larger median value mainly due to a concentration of larger players.

Figure 7: Median total direct compensation for the ordinary Board member (CHF thousand)



Compensation design

Composition

A holistic approach to the analysis of compensation practices implies the consideration of pay package composition in addition to pay levels. The composition of a compensation package varies depending on, among others, Board structure, company strategy, and also the state of business, business context, and partially also the industry affiliation.

Overall, a Board member's compensation may comprise three different components: a base, committee, and attendance fee. The base fee is a core element of compensation for Board membership or chairpersonship. The committee fee constitutes compensation that rewards involvement in committee-related work, and the attendance fee means compensation that is paid for attendance at Board or committee meetings.

As depicted in Figure 8, these three components may be used in different combinations, resulting in four types of Board compensation package types:

- Type A: Compensation packages include a base fee only. In this case, all-inclusive base fee levels differ per functional level, responsibility and time commitment among Board members.
- Type B: Compensation packages comprise base and committee fees. Different levels of responsibility and time commitment are distinguished through a base fee and additional committee chairpersonship and/or membership fees.
- Type C: Compensation packages comprise base, committee, and attendance fees. A more granular approach to compensating the effective workload by considering Board and/or committee meeting attendance.
- Type D: Compensation packages comprise base and attendance fees. The base fee reflects the different functional levels and responsibilities. In addition, attendance fees are paid for participating in Board and/or committee meetings.

Figure 9 provides a more detailed look at the composition of a Chairperson's compensation. **Nearly two thirds of the companies compensate their Chairperson with a base fee without paying any additional fees (Type A).** In such cases, it is assumed that a base fee fully reflects the

Chairperson's involvement in terms of responsibilities, tasks, and duties. In another 27 percent of companies, Chairpersons were paid committee chairpersonship and/or membership fees in addition to a base fee (Type B). When analyzing the typology of Board compensation package in relation to the size groups, Type A is more common among larger companies, notably being used by almost 85 percent of SMI firms. Contrarily, smaller mid-caps commonly combine base fees with additional compensation either for committee activities or meeting attendance (Types B, C, or D among 45 percent of the companies).

The composition of compensation for ordinary Board members significantly differs from that of Chairpersons, as is depicted in Figure 10. **A combination of base and committee fees (Type B) was employed by 74 percent of companies.** Type B clearly prevailed among the largest companies, observed in 90 percent of SMI firms. Additional compensation for committee work intends to recognize the extra time spent by committee members in the pursuit of their duties as compared to Board members without any additional functions. Smaller companies, however, do not always distinguish between base and committee fees, paying an all-inclusive base fee (Type A) as can be observed for 23 percent of smaller mid-cap firms.

Attendance fees, as part of Type C and Type D, are rarely observed, since participation in such meetings is typically regarded as one of the basic duties of Board members to complete as part of their role in the Board. Yet special circumstances (e.g., turnaround, merger, spin-off, etc.) may require increased time commitment from the Board and could explain the use of attendance fees.

Figure 8: Four types of Board compensation compositions

	Type A	Type B	Type C	Type D
Flat base fee	•	•	•	•
Additional committee fee		•	•	
Additional attendance fee			•	•

Figure 9: Types of compensation packages to the Chairperson
(Percentage of companies)

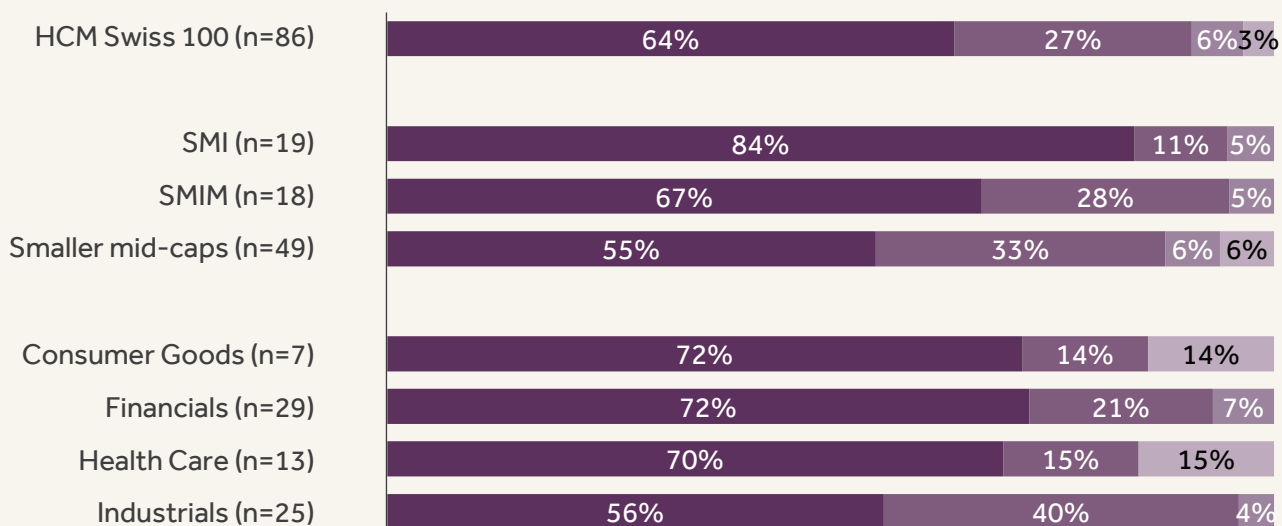
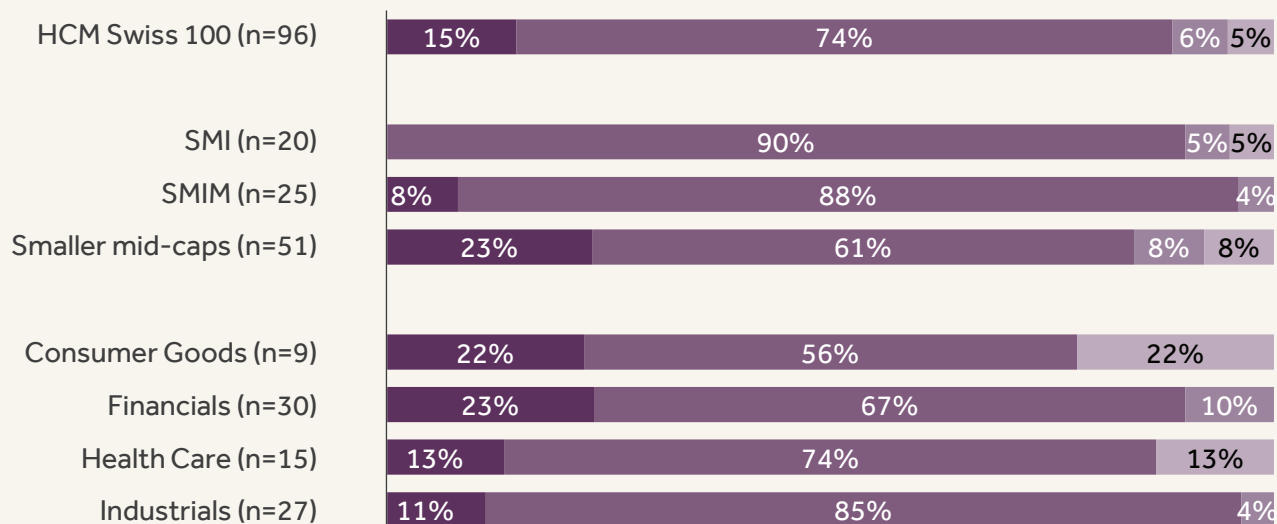


Figure 10: Types of compensation packages to the ordinary Board member
(Percentage of companies)



Committee fee

In this study, we focused on the levels of the fees paid for the following three key committees: Audit, Compensation, and Nomination. Figure 11 summarizes the fees for the committee chairpersonship as well as membership, split by size and industry groups.

In general, the committee chairpersonship fee is higher than the committee membership fee, whereby in rare cases, the fees may be the same. **The committee Chairperson was typically paid twice as much as an ordinary committee member in 2019.** Overall, median rates were similar across the committees analyzed. The median fee for chairing a committee ranged between CHF 40 thousand and CHF 45 thousand, and median membership fees reached between CHF 20 thousand and CHF 25 thousand.

Most commonly, fees are paid additively wherever Board members served in more than one committee capacity. Nevertheless, some companies offered a single fee for working in all standing committees.

Notably, committee fees are usually higher in larger companies and lower in smaller companies. Across the industry groups, **financial companies stood out with the highest median fees for Audit committees** of CHF 58 thousand for chairpersonship and CHF 35 thousand for membership. On the contrary, the Audit committee fees were the lowest among health care companies with a median of CHF 40 thousand for committee chairpersonship and CHF 20 thousand for committee membership.

Attendance fee

Generally, attendance fees aim to compensate the additional time commitment, as the Board compensation level grows with the number of meetings and consequently with the increasing workload. Such fees may also be viewed as an instrument to pay for meeting attendance.

Overall, in 2019 **the median attendance fee amounted to CHF 1.2 thousand per Board meeting and Board member and ranged between CHF 1.1 thousand and CHF 1.5 thousand per committee meeting.**

Attendance fees may differ with respect to the individual position held within the Board, being higher in case of Board or committee chairpersonship. However, **it is more common to set a unified fee** irrespective of the individual responsibilities or meeting type, i.e. similar to Board and committee meetings as well as physical and virtual meetings, etc. Nevertheless, some companies accounted for the duration of meetings paying a higher fee for full day meetings and lower fees for half-day meetings. Moreover, it is important to note that in some cases attendance fees are paid only for meetings additional to those usually required for the pursuit of usual business.

Overall, many companies do not see a need to necessarily incentivize attendance to meetings, since Board members not attending a sufficient or minimum number of meetings are deemed to not be fulfilling their obligations in full or due care. This results in a **relatively low utilization of such fees among HCM Swiss 100 companies (12 percent).**

Figure 11: Median annual committee fees
(CHF thousand)

	Audit		Compensation		Nomination	
	Committee Chairperson	Ordinary members	Committee Chairperson	Ordinary members	Committee Chairperson	Ordinary members
HCM Swiss 100	45	25	40	20	40	23
SMI	95	40	70	40	60	40
SMIM	40	25	40	23	40	20
Smaller mid-caps	30	18	30	13	30	15
Consumer Goods	43	23	30	18	30	18
Financials	58	35	50	25	43	25
Health Care	40	20	40	20	45	23
Industrials	45	20	40	20	40	20

Pay mix

Another important aspect of Board compensation packages are the instruments in which compensation is paid. This significantly impacts the incentivization power of the pay package and further alignment of Board members' and shareholders' interests.

With regards to pay mix, total direct compensation for Board members is typically composed of cash and equity awards (68 percent of the companies), as shown in Figure 12. Another 31 percent of companies compensate their Board members solely in cash. Furthermore, only one company (1% of companies) rewarded its Board members solely in equity in 2019.

Among companies compensating Board members in both cash and equity, the average portion of equity in total direct compensation amounted to 42 percent in 2019. Furthermore, Chairpersons were generally compensated with a higher portion of equity than ordinary Board members.

The share of equity was also quite similar across the size groups, with averages ranging from 41 percent for smaller mid-caps to 46 percent for SMIM companies.

When looking at the industry groups, a greater difference in the weight of equity compensation was observed in 2019. On average, a lower portion of equity (36 percent of total direct compensation) was awarded to Board members in financial companies. In contrast, consumer goods and health care firms compensated their Board members in an almost equal split of cash and equity.

While the portion of compensation to be paid in equity is commonly fixed by the remuneration policy, in some companies Board members may choose to receive a higher portion or even all of their compensation in equity awards.

Typically, the equity awards are allocated based on a fixed monetary amount (definition in value and not number of awards), whereby only 9 percent of companies granted a fixed number of equity awards.

Independent of the allocation approach, equity awards are commonly granted annually for the previous period of office (i.e. in arrears).

In general, the remuneration for members of the Board is not bound by company performance. The Swiss Code of Best Practice for Corporate Governance recommends that remuneration to non-executive Board members should be comprised of only fixed elements since performance-based pay has the potential to be in conflict with their fundamental role as the independent representative of shareholders. Nevertheless, though, two companies (two percent) paid a cash bonus to non-executive Board members in 2019.

Equity instruments

Generally, no differences were observed in terms of equity-based instruments granted to Chairpersons as compared to ordinary Board members.

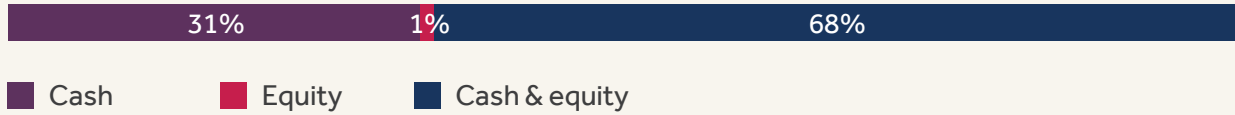
As shown in Figure 13, the majority of equity plans (72 percent) is granted in fully taxed blocked shares. The limited use of restricted shares (17 percent) may result from the current governance and regulatory environment in Switzerland (with annual Board re-elections) and taxation considerations.

Equity-based compensation in form of stock options was relatively rare among Swiss companies in 2019 (two firms amounting to 3 percent). Arguably this could be due to the adverse effect of this instrument on Board members' independence, as noted by institutional investors and proxy advisory firms.

Generally, blocked share plans had an average duration of three years, with the majority of the blocking periods varying from one to six years. As for restricted shares, the typical vesting period lasted either one or three years.

Figure 12: Total direct compensation structure

Percentage of companies



Average percentage of total direct compensation for companies with cash & equity

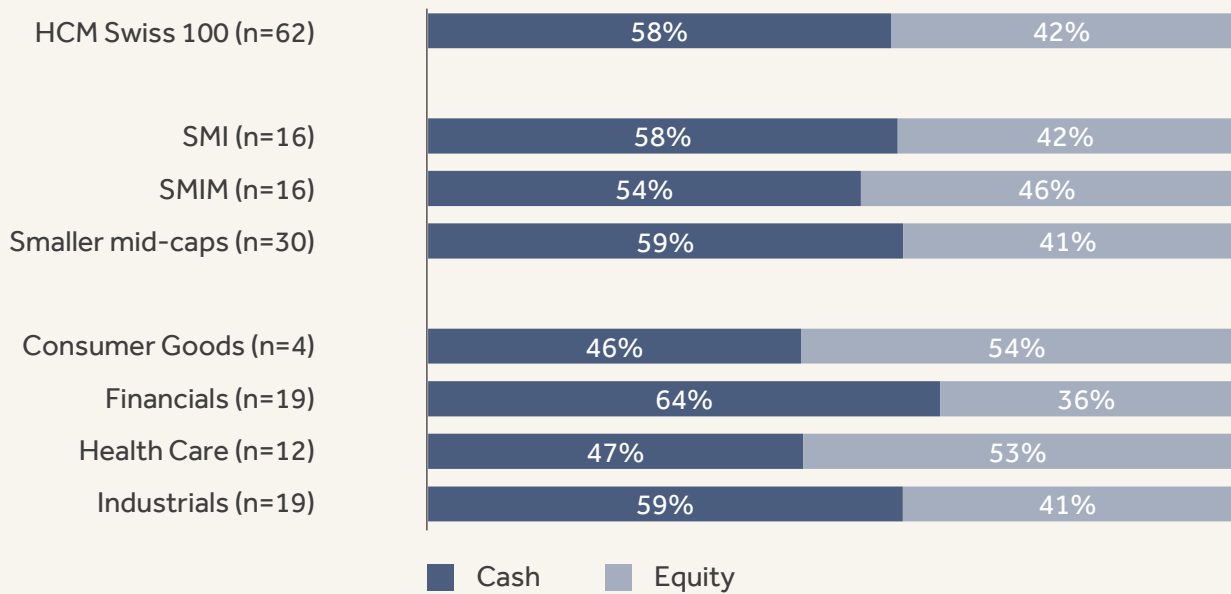
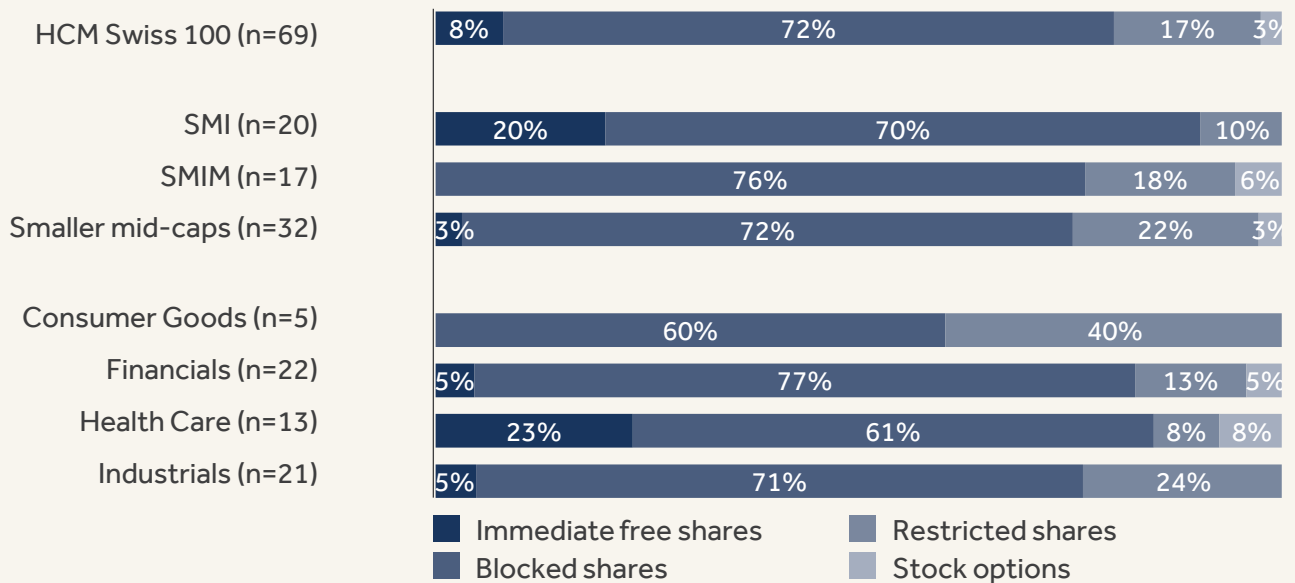


Figure 13: Equity instruments
(Percentage of plans)



Overall view on Board compensation

In order to allow for a more holistic view and heightened comparability of Board compensation packages, HCM has developed an approach, comprising estimated time horizons to realize the entire pay package (weighted average duration) as well as the relative alignment of pay with shareholders' experience.

The weighted average duration of total direct compensation is measured in years, based on the unblocking/vesting schedule for each award. Any compensation payable within 12 months is considered to have zero duration.

The alignment is assessed using a rating system that accounts for the type of pay instruments. Thus, any immediate cash compensation is deemed to have zero alignment. All other compensation instruments are rated with zero to 350 points. As a reference, 100 points are assigned to fully taxed blocked shares, to reflect the position of an ordinary shareholder.

Figure 14 depicts the relationship between the size of an average Board compensation package, its weighted average duration and weighted average alignment with shareholders' experience.

In general, an observed "duration-alignment" relationship is mostly driven by the portion of equity in the Board compensation package. The observed equity portions of Board compensation packages among HCM Swiss 100 companies were clustered into four groups.

Group 1, with the lowest duration (0.0 to 0.5 years), included almost half of the HCM Swiss 100 companies. These companies offered their Board members pure cash compensation or a mix of cash and relatively low share of equity awards (around 20 percent of total direct compensation on average). Equity was mostly granted in the form of immediate shares or shares blocked/restricted for one year.

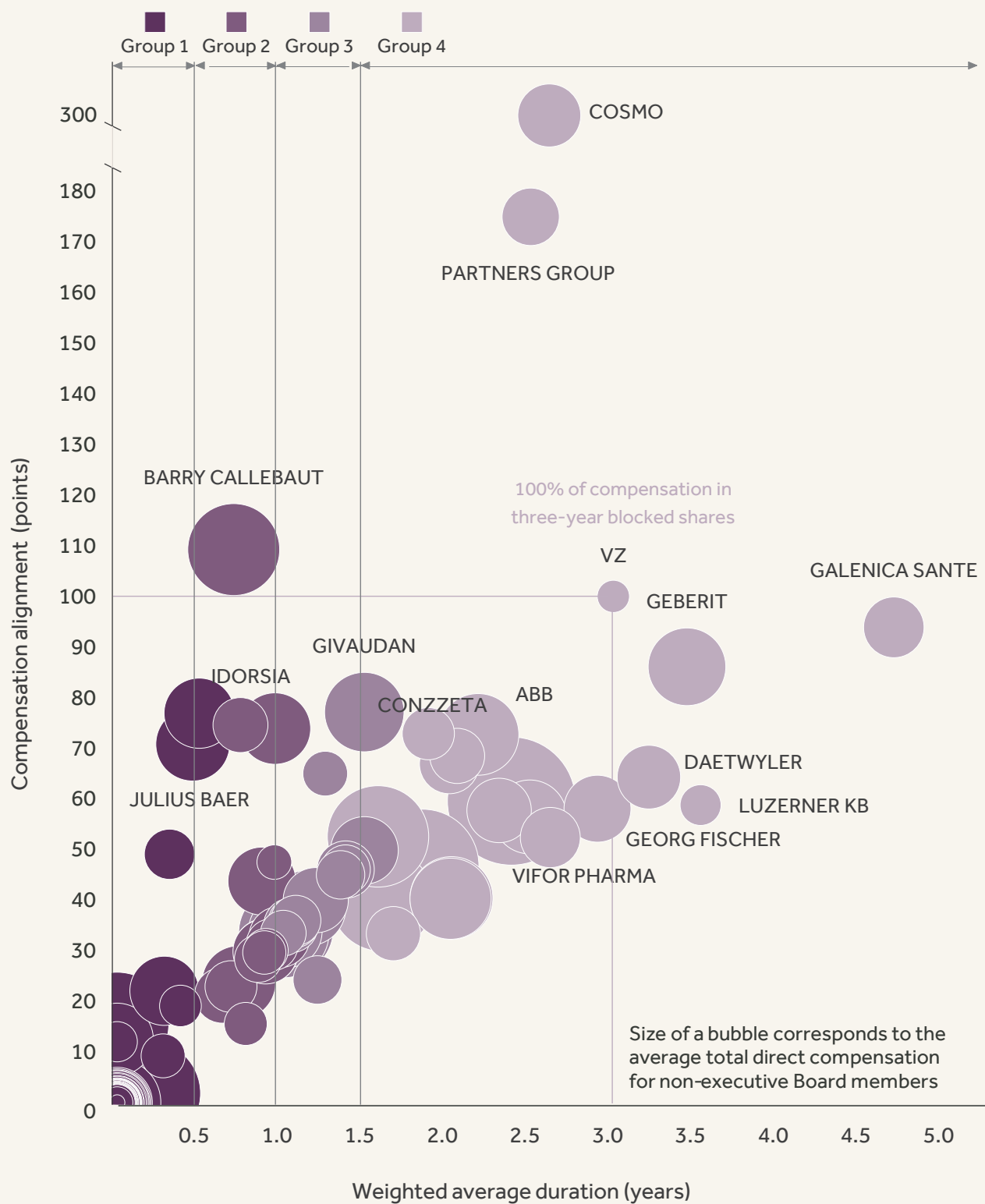
Group 2, with a weighted average duration of 0.5 to 1.0 years, consisted of companies which granted their Board members a combination of cash and a moderate share of equity (ranging between 20 percent and 35 percent),

which commonly was blocked/restricted for more than one year.

Group 3, with a weighted average duration of 1.0 to 1.5 years, was mostly comprised of companies that offered their Boards between 35 percent and 50 percent of total compensation in equity awards subject to three-year blocking periods.

Group 4, with a weighted average duration of 1.5 and more years, was the second largest group, including a quarter of HCM Swiss 100 firms. These companies offered their Boards either larger portions of equity (above 50 percent) with at least a three-year blocking/restriction period, or comparably smaller portions of equity (between 30 percent and 50 percent) with longer blocking/restriction periods (amounting to four or five years).

Figure 14: Positioning of HCM Swiss 100 companies (n=98)



About HCM International Ltd.

HCM is a leading independent international advisory firm specialized in the strategic and more challenging aspects of **corporate governance & compliance, finance & risk, and compensation.**

Since our founding in 2001, we have advised hundreds of companies – from global multinationals to locally-focused small enterprises – across multiple industries and geographies. We also support public and governmental institutions.

HCM is part of and chairs the Global Governance and Executive Compensation Group (GECN) (www.gecn.com) which enhances our worldwide reach. With our strategically located offices, we service our clients across time zones and provide solutions that are informed by expertise, market practice, research, analytics, and surveys across Europe, North America, Asia, Australia and the Gulf area.



Strategic and innovative: We understand business strategy and the need for agility and innovation. We are highly skilled and tactful at working on the most sensitive and pressing matters directly with boards, board committees, CEOs, heads of group functions, and other decision-makers.



Highly skilled: We possess deep expertise in board practices, compensation design, performance management and HR matters, finance, governance, corporate culture, ESG, and compliance and regulatory management.



Thought leaders: We are actively involved in research, publishing, speaking, and teaching (e.g. University of St. Gallen, Zurich, etc.) in Switzerland and abroad. Our studies and publications are well-known in the marketplace.

About the authors



Olga Beregova is a partner with over 15 years of experience in compensation and compensation governance consulting, working with large, publicly traded firms, privately held enterprises, and emerging growth companies across multiple industries.

Olga's engagements include advising Compensation Committees on Board and executive compensation issues, developing compensation and governance strategies that support the organizational strategy and drive long-term value creation to a company and its shareholders, (re)designing incentive plans also as a result of mergers and acquisitions, initial public offerings, and regulatory requirements.

Olga holds a Master of Finance and Capital Markets from the University of Zurich and of Linguistics from the Kyiv State University of Foreign Languages.

olga.beregova@hcm.com

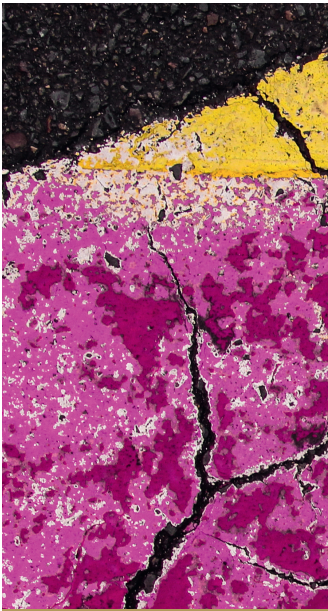


Ludmila Gunchenko has over 10 years of professional experience in research and analytics, corporate finance, and compensation.

At HCM, Ludmila Gunchenko specializes in performance analysis, analysis and evaluation of executive compensation frameworks, including the assessment of risk/payout profiles, and calibration of short- and long-term variable compensation plans. Her primary field of expertise is executive compensation in the financial industry.

Ludmila holds a Bachelor's degree in Banking and Finance and a Master's degree in Slavonic Studies from the Taras Shevchenko National University of Kyiv.

ludmila.gunchenko@hcm.com



HCM International Ltd. Phone: +41 44 450 33 33
Muehlebachstrasse 23/25 contact@hcm.com
CH-8008 Zurich hcm.com

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