# DSW

## Newsletter

***from Germany's No. 1 Shareholders' Association***

*December 2022*

# Green deal vs. geopolitics

The impact of the COVID-19 pandemic, the challenges from the dual transition as well as Russia's attack on Ukraine mark a turning point for Europe. Rising energy and food prices, continued supply chain disruptions and high inflation rates raise further pressure on the markets. The EU is facing a transformation with enormous financing needs that neither governments nor banks alone can provide. In these insecure times it is worth to take a close look at the **role of companies** – do we see a shift in priorities due to the current energy crisis? Do we see the importance of ESG slowing down? And what is ESG orientation good for? This huge transformation cannot take place without the financial industry. Here, the **role of the stock exchanges** and asset managers will be in the focus: what is the best approach by institutional investors to support this transformation? What about engagement and active ownership? And, what about the criteria for sustainability – are they really stable or do we see an ongoing assimilation? Yesterday, weapons were on the list for exclusion, today because of the war against Ukraine weapons are a guarantee for our internal security in Europe. Recent figures show that none of the large industrial countries comply with the 1.5-degree plan and the outcome of COP27 in Egypt was disappointing. At the same time, climate activists increase their activities, including more lawsuits against companies. Since the Paris treaty, the claims regarding climate change doubled. The lawsuit vs. Shell is a good example of what we call climate change litigation. It seems that also the **role of shareholders** will become more important since a **Say on Climate** is already seen as an international standard. But we also observe a growing anti-ESG movement in the U.S. pushed forward by several republican-led states which see a conflict of interest: better save the world or better increase the returns? In Europe the clash between stakeholder and shareholder interests is yet not as strong. If companies, stock exchanges, investors and politics act together, then this could be the chance to make Europe's economic basis more resilient, competitive and fit for the green transition. On top, the digital transition will support with technologies that contribute to achieving climate neutrality. To reach this goal, we need a functioning Capital Markets Union (CMU) but currently we are still far behind. It is high time to take action.

*Jella Benner-Heinacher*

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# Obstacles to shareholder engagement? Yes, unfortunately they still exist!

Christiane Hölz

When it comes to ESG regulation, the European Union likes to portrait itself as the international pace setter. Despite the great importance the EU places on Governance (the G part of 'ESG') and, in particular, on shareholder engagement, however, to date the exercise of shareholder voting rights is still facing substantial obstacles. Especially the second Shareholder Rights Directive (SRD II) and its Implementing Regulation in force since September 2020, did not yet manage to remove these obstacles and by that increase shareholder engagement. Where owners of listed companies cannot exercise their fundamental right, the right to vote, the governance at those companies lacks one important factor and impedes on the basic allocation of power between boards and shareholders in publicly traded companies with dispersed ownership.

In our second edition of BETTER FINANCE's and DSW's report on 'Barriers to Shareholder Engagement' we found that the European Union is still far away from a Capital Markets Union: **Two years after implementation of SRD II there is an urgent need to improve the information flow at intermediaries' level.**

44% of respondents were able to obtain an admission card and by that were enabled to participate in a general meeting. This is a significant progress compared to last year where only 22% of respondents obtained an admission card. **However, despite this positive trend, a significant percentage of processes have yet to reach full compliance with SRD II requirements (56% compared to 78% in 2021).**

We note, in addition, that in 7% of all cases, the successful requests to obtain an admission card were not pursued by respondents for various reasons, among them egregious costs for pursuing these requests.

The reported reasons for not having obtained an admission card vary but one reason was noted by more than half of the respondents: 56% reported that they received the information that should notify them about a general meeting in another Member State too late from their bank/broker, or not at all. In several cases, shareholders noted that even despite explicit requests to obtain an admission card, their bank/broker would not revert to them or would even ask shareholders to provide the information necessary to obtain an admission card. Cases were also reported where banks rejected to confirm the share ownership status, or the certificates were not accepted by the issuer/registrar. **All this evidence suggests that processes are still not working sufficiently effective, imposing a factual barrier to shareholder engagement.**

This is also reflected in the result to the question of responding shareholders: whether they were finally able to obtain a voting card that would allow them to vote at a general meeting abroad.

From all respondents across Europe, only 36% finally succeeded in ordering a voting card. An additional 12% of respondents did at least receive the option to vote their shares by proxy, meaning however that they were not able to make use of further shareholder rights at the general meeting itself such as the right to speak, to ask questions or to file a motion during the meeting, since these are not connected to proxy representation. Furthermore, in some Member States, e.g., in France, where a proxy is given to the chair of the meeting, instructions cannot be provided to the chair but will be executed under his or her discretion which is a severe obstacle to active shareholder engagement.

45% of all participating shareholders did not manage to obtain a voting card for a general meeting outside their home country. Even though this is a positive trend (in 2021, 66% of respondents noted that they were not able to vote at a general meeting), there is still a long way to go to enable full shareholder engagement.

**The problem of costs and charges**

Voting is one of the basic rights of shareholders because they are bearing the risk of economic loss. To exercise

the voting right efficiently, the cost of voting is a key determinant. Where costs are incurred by intermediaries to attend and vote at a general meeting, shareholders will be discouraged to exercise their voting right. This is especially true for individual shareholders, who on average hold smaller stakes in companies than institutional investors.

While last year, half of the respondents reported that the last intermediary invoked charges for general meeting-related services, this year the share increased to 84%.

Even more concerning is that some intermediaries have started proposing 'AGM service packages' to investors. Such packages for example include a 'notification service' for general meetings of companies covered by SRD II. For such a notification service, shareholders are invoked an annual fee of up to EUR 400 per account. The vote by proxy is not included in this service package but charged with an extra amount of up to EUR 250. The assistance of physical attendance in a general meeting is additionally charged with EUR 450. Where shareholders do not buy the 'notification service package', the fees for proxy voting per general meeting and for assistance of physical attendance in a general meeting increase to EUR 450 and EUR 750, respectively. **Such fee levels are egregious and a severe obstacle to shareholder engagement.**

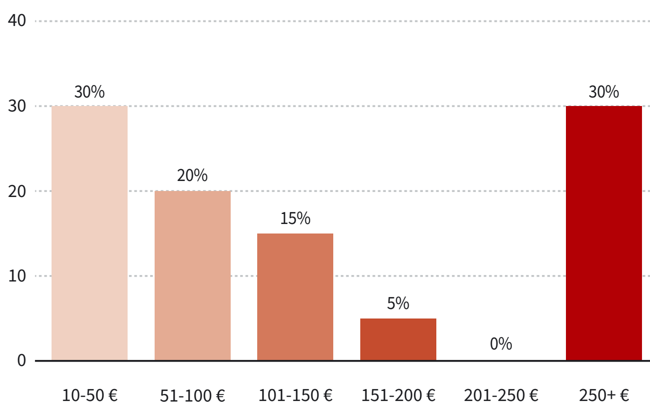
Even where banks did not sell packaged services to respondents, the fees incurred by the last intermediary (including third party fees) have increased compared to previous year's research.

**Problems… yes, but there are also solutions**
Shareholders nowadays are increasingly demanding corporate accountability on a variety of issues, including environmental, social and governance topics like reduction of $CO_2$ emissions, board diversity or executive compensation, among others. This shareholder engagement is crucial for good corporate governance. It is therefore important for the supporting mechanism to shareholder engagement, i.e., the intermediaries' chain, to be up to the important task it is meant to perform. As a matter of fact, intermediaries' chains perform valuable functions, but they also create a distance between the issuer and the shareholder which leads to a significant risk of voting rights and other important shareholder rights being compromised. Corporate governance is thus at risk of being distorted by process deficiencies. The internationalisation of shareholdings has not contributed to an intensified shareholder engagement as it makes information to and communication with issuers as well as casting votes and exercising shareholder rights more complex and costly.

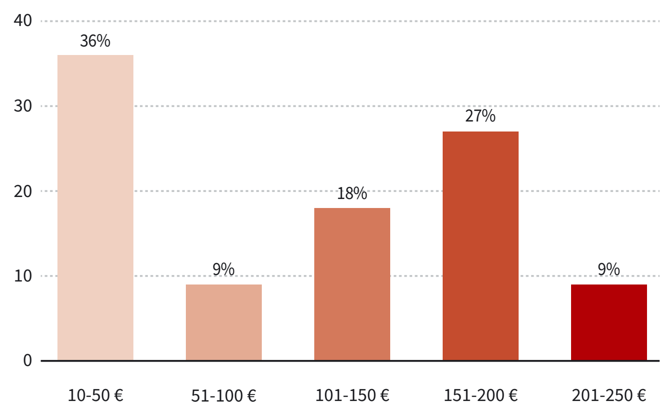
So, what needs to be done to ensure a better shareholder engagement?

- **Costs and charges: Exercising fundamental shareholder rights should therefore be free of charge for individual investors and any costs levied by intermediaries for their services should be borne by issuers. The EU Commission should undertake an in-depth analysis of whether general meeting-related costs and charges borne by intermediaries are indeed duly justified and reflect the variation in actual costs incurred for delivering their services. Furthermore, the EU Commission should investigate whether there is an unduly different cost treatment of shareholders between an issuer's home country and abroad, which would be contrary to the aim of the Treaty of Rome, of the single market and of the CMU. Last but not least, the upcoming review of SRD II should therefore take the opportunity to review regulatory oversight of costs and**

**Fees per AGM in 2022 amounted to...**




**Fees per AGM in 2021 amounted to...**



**charges connected to general meeting-related processes and harmonise it.**

- Not all participants in the intermediaries' chain are 'speaking with the same language' when it comes to general meeting-related processes. The format provided to achieve this purpose, ISO 20022, had been postponed and 'go live' is now planned for November 2023. While the original implementing timetable had been foreseen for November 2021, i.e. more than one year after SRD II had to be transposed to national laws, the postponement will hamper for a further general meeting season (2023) the communication between issuers and shareholders. The reason for the delay is unclear but may have to do with the market infrastructure's complexity or a lack of financial motivation for harmonisation. **The upcoming review of SRD II should therefore review regulatory oversight of general meeting-related processes, establish a harmonised supervisory regime, preferably within the remit of ESMA, and by that ensure that shareholder rights become enforceable more easily.**

- The inefficiency of the intermediaries' chain can have negative consequences for financial markets as it undermines shareholder confidence. Intermediaries' chains affect securities markets at a fundamental level. Shares contain shareholders' rights towards an issuer and these rights need to be enforceable. However, nowadays, neither investors nor issuers are able to control the length of the chain of intermediaries nor do they have any influence on the content of the legal (independent bilateral) arrangements that govern the intermediaries' chain: neither issuers nor shareholders are parties to the bilateral contracts between the intermediaries nor do these contracts normally provide direct rights to shareholders. **Technical platforms should serve the communication between issuers and shareholders and the chain of intermediaries should not obstruct the exercise of rights that investors have been granted.**

- The cross-border voting process must become simple, effective, and efficient. The easier and cheaper it is for shareholders to vote at the general meetings of their companies on a cross-border basis, the more they will exercise their voting rights also abroad. The SRD II Implementing Regulation (IR) offers minimum standards in that respect. It also enables a direct communication between shareholders and issuers. In practice, the direct communication between shareholders and listed issuers in a cross-border environment is yet still the exception to the rule. **Direct communication between issuers and its owners, however, is the best means to ensure a high level of shareholder engagement and should therefore be fostered by European legislators.**

- Omnibus accounts have been introduced in particular to reduce costs for intermediaries and streamline processes. They are used by intermediaries to pool various clients' holdings. While information regarding corporate action processes (e.g., dividend payments or capital measure announcements) are flowing smoothly through the intermediaries' chain, for general meeting processes these omnibus accounts still create obstacles. **The current EU regulatory framework (esp. CSRD) however needs to be reassessed to ensure that omnibus accounts do no longer hinder the processing of information between issuers and shareholders.**

- The lack of a harmonised definition of the term 'shareholder' in the EU results in varying 'shareholder concepts', two of which are predominant. One model understands the shareholder as being the beneficial owner of the shares, another model divides between beneficial owner and nominee holder of the shares. The different concepts have caused an unlevel playing field since, for example, communication from issuers to shareholders under the nominee concept may end at nominee level, or even with shareholders being deprived from exercising their rights. This leads to the unintended consequence that intermediaries can act on behalf of the shareholder when it comes to voting at general meetings as they are considered as legal owner of the shares. The fact that intermediaries may decide on a shareholder's right by restricting his voting options to proxy voting is concerning. **A clear and harmonised definition of the term 'shareholder' at EU level would therefore be beneficial to shareholders in terms of general meeting-related processes like voting at general meetings, shareholder identification, but also other corporate actions. Any such definition should ensure that the 'final shareholder' (i.e., the one who bears the financial risk, receives the dividends and is entitled to corporate actions) is considered as shareholder.**

More policy recommendations and the full results of the 2022 BETTER FINANCE and DSW survey can be found here:
**https://betterfinance.eu/publication/barriers-to-shareholder-engagement-srd-ii-revisited/**

# The EU Strategy for retail investors must not drop its own key objectives

*Guillaume Prache, Managing Director, Better Finance*

Since the launch of the Capital Markets Union Action Plan (2015), much has been said about better outcomes for investors and increasing retail investments into capital markets. Two Action Plans and three high-Level reports later, EU households – as the main source of long-term and sustainable funding for the Green Transition and EU economy – see no real improvement of their situation.

Financial repression at a historical high, widespread and highly damaging biased advice (both for retail investors and for capital markets), inadequate disclosures, and lack of enforcement characterise the "retail" investors' journey through EU capital markets.

The EU Strategy for Retail Investments announced by the EU Commission in 2020 set out very relevant objectives to improve investor protection, and to ensure:

- "that rules are coherent across legal instruments", and that retail investors benefit from:
- adequate protection,
- bias-free advice and fair treatment,
- open markets with a variety of competitive and cost-efficient financial services and products, and transparent, comparable and understandable product information.

### EU Commission pressured to give up the main Objectives of the Retail Investments Strategy

However, it all seems now just a noble wish without any chance to see the light of day given the strong backlash from a large number of stakeholders including influent Member States. In particular, the crucial objective of ensuring "bias-free advice" will most likely be replaced with another soft promotion of adult financial education.

Indeed, EU policy makers too often turn back to financial education as a panacea to improve investor protection. Instead of identifying and reprieving practices that are harmful to non-professional savers, EU decision-makers promote financial literacy to empower investors to make "informed investment decisions". As such, responsibility is shifted from providers to non-professional investors as the latter are asked to get educated and fend for themselves. Also, it not realistic to assume that adults will go back to school for getting investment education.

Being a "retail" investor is not a full-time job, nor is it expected from consumers in any other market to level the expertise or knowledge of traders in order to filter products and challenge services that are not suitable for them. Moreover, investment services and products have the particularity of being credence goods, meaning that consumers must trust that the provider is competent and acts in their best interests.

The EU Commission seems to be now exploring an alternative option: to introduce value for money in the product governance and distribution processes of retail investment products. It is an interesting approach already used by the UK FCA and being looked at by the EIOPA. But it may be too late, as the long overdue review of the major EU investor protection rules cannot be postponed much further.

To avoid consumer detriment, the retail investor strategy - likely failing to get closer to its most critical goal of ensuring bias-free advice – must at least better protect "retail" clients' interests by:

- ensuring a coherent standard of investor protection across all sectors, by harmonizing the rules from investment products within MiFID scope (a minority) to those (the majority) in the scope of other EU sectoral rules;
- achieve its goal of ensuring clear and comparable key disclosures, in particular by at last disclosing

the long-term real returns (net of the impact of inflation), and the investment objectives of the provider alongside the largely fictitious nominal returns;

- ·enabling supervisory authorities to enforce value for money, by eliminating regulatory loopholes with clear definitions of key concepts (best interests, undue costs, greenwashing, etc.);
- improving the enforcement of existing conduct of business rules by the ESAs, in particular by using their product intervention and "breach of EU Law" powers – very seldom if at all used for investor protection so far, and actually fulfil their duty of promoting simplicity, i.e. simple products;
- and enabling investors to obtain compensation and redress against breaches of their rights.

"Putting people at the heart of the financial system is part of my vision"

*EU Commissioner Mairead McGuinness*

How many mis-selling scandals, financial crises or other harmful practices do we need until we take action to truly protect EU "retail" savers? In 2022 alone, EU savers are likely to lose more than one trillion euros in real value (purchasing power) due mainly to the "financial repression" orchestrated by policy makers, but also due to their over reliance on fixed income-linked, intermediated and fee-laden packaged products, that are selected with biases.

The time to learn has passed, the EU needs swift and impactful measures to attract and motivate households to invest and stop destroying the real value of their pension savings.

## DSW's active engagement services

Active shareholders discuss environmental, social or corporate governance concerns with the company in which they invest, in order to preserve long-term shareholder value and enhance long-term returns. Effective institutional investor engagement programmes can provide the company with a better understanding of the views and concerns of its shareholders and provide investors with a more nuanced understanding of the company's business, strategy and governance. The intensity of engagement will depend on the priorities and resources of the investor but has clearly become a year-round strategic endeavor.

DSW supports institutional and professional investors from all over the world by offering broad engagement services.

**Our services include:**

- Engagement in key ESG issues, including direct exchanges with management and supervisory boards
- Voting advice for all listed companies in Germany and Europe
- Vote execution at all listed companies in Germany
- Preparation and support by taking shareholder actions such as countermotions or special audits
- Reports on all German general meetings
- Reports on data such as voting outcomes and turnouts
- Training programmes for investors
- Class action claim filing and information service

**Interested investors may wish to contact DSW for further information.**

# Executive compensation – new rules, new trouble … more pay and more ESG

Photo: www.freepik.com/8photo

The year 2022 was expected to mark a turning point with regard to reporting on executive remuneration in Germany. For the first time, shareholders could vote on the remuneration report of executive and non-executive directors thanks to the implementation of the 2nd Shareholder Rights Directive. This vote significantly increased the influence of the shareholders on executive directors' remuneration, one of the most controversial annual general meeting (AGM) agenda items for many years.

## New rules, new trouble

However: in the practical implementation of the remuneration reports of German companies, the new regulations have not reached its aims – on the contrary: Instead of increased transparency and better comparability based on a "clear and comprehensible" remuneration report (the legal requirement after all) investors are confronted with a barely transparent jungle of data that an average shareholder certainly can no longer understand.

As a result, the reports still lack transparency and the comparability between the individual companies in the DAX has declined considerably.

Investors voiced their concerns by rather low approval rates for the remuneration reports: In the DAX these received an average approval of around 84% and at eight DAX companies the rate even fell – in some cases significantly – below the 80% mark. In the future, we expect a significant deterioration of the voting results and noticeable pressure if the industry does not urgently improve.

As in 2022, voting on remuneration reports was also new territory for investors and companies got a kind of grace period. Even though the DSW went into opposition at ThyssenKrupp right at the beginning of the year, we also tended to be lenient overall in 2022. This will not be the case anymore in 2023.

Issuers should also be aware that in many cases the vote on the actual remuneration has a stronger impact and hurts more than the discharge of the boards. Shareholders therefore have a new starting point to put their finger in the wound. Pay for performance becomes visible, tangible and sanctionable.

This goes hand in hand with the certainty that the shareholders will have to vote again on the remuneration system after four years at the latest. And then, at the latest, the circle closes. Companies are therefore well advised to do their homework today: after the general meeting is also before the general meeting and shareholders traditionally have a good memory.

So what can be done? One's gaze could turn to Brussels. Before the end of this year, the European Commission is expected to introduce uniform standards for remuneration reports across Europe. This is an important step towards achieving best practice across Europe and thus creating the transparency and comparability of EU-based companies that investors need.

In view of the pandemic and initial uncertainties with regard to the new law, companies were allowed a certain "finding phase". But the message is clear: from now

**DAX 40:**
**TOP 10 average total executive board member compensation in 2021 (incl. CEOs) compared to the average personnel expenses per FTE**

| company | Ø total compensation [k€] | Ø personnel expenses/ FTE [k€] | employee-to-executive-pay ratio |
|---|---|---|---|
| Adidas | 4.553 | 40 | 114 |
| Linde | 8.789 | 82 | 108 |
| Volkswagen | 6.456 | 65 | 99 |
| Delivery Hero | 2.952 | 35 | 84 |
| Deutsche Post | 3.051 | 40 | 76 |
| Qiagen | 7.488 | 101 | 74 |
| Continental | 3.671 | 49 | 74 |
| Henkel | 4.775 | 65 | 73 |
| Fresenius | 3.552 | 49 | 72 |
| Puma | 3.023 | 44 | 68 |
| **Ø DAX** | **3.921** | **74** | **53** |

*table 1*

on, investors will take a closer look at how transparently companies adapt the regulations and will insist massively on clear and comprehensible reporting on remuneration, as required by the law.

## More pay

Executive directors' remuneration at the 40 DAX companies rose sharply by 24% last year. This is the first year with an increase after three years of decline in a row. And it shows that executive compensation is correlated to business development: operating profits in the DAX increased by 122% in 2021. The difference between the remuneration of average employees on the one hand and executive board members on the other hand has however increased even more significantly. On average, executive directors earned 3.9m EUR, 53 times more than their employees, compared to 47 times in 2020 (table 1).

The executives of Linde come in first place with an average total remuneration of 8.8m EUR. Qiagen follows in second place and Deutsche Bank in third. The picture changes, however, if pensions and one-off payments are included. Then Volkswagen moves up to second place before Deutsche Bank due to a high pension expense of 1.2m EUR on average. Linde also takes first place in terms of pension costs with an average of 2.5m EUR.

The three companies with the strongest increase in remuneration were Adidas, Covestro and MTU. At Adidas, total remuneration increased by 191% year-on-year. The strongest negative development was recorded by the executive directors of Puma (-29.7%).

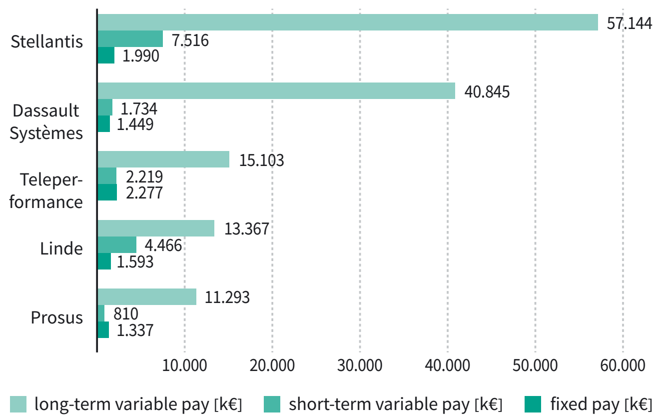
The DAX CEOs received an average of 6.085m EUR, which is significantly more than their colleagues on the executive board, whose average remuneration was 3.5m EUR (excluding CEOs). However, compared to the compensation of the CEOs of companies listed in the DJIA, the EuroStoxx 50, the CAC40 and the SMI, German CEOs find themselves at the very bottom (table 2). With an average remuneration of 6.085m EUR, DAX CEOs are slightly below the salaries paid in Switzerland in the SMI, which average 6.563m EUR. The CEOs of the CAC40 companies received 7.814m EUR in annual remuneration in 2021 – this is an increase of 76.5% compared to the previous year. The average remuneration paid in the EuroStoxx 50 (ex-DE) of 8.531m EUR is also significantly above the German level. However, it should be noted that the remuneration in the CAC40 and also in the EuroStoxx 50 was driven by a significant one-off effect: The CEO of Stellantis, highest paid CEO in Europe (graph 1) received a so-called transformation bonus of 44.560m EUR, which significantly increased the average remuneration in CAC40 and EuroStoxx 50 (ex-DE). Excluding Stellantis, however, the average CEO remuneration in the CAC40 would still be 6.273m EUR and in the EuroStoxx 50 (ex-DE) 6.723m EUR and thus still above what the CEOs in the DAX earned on average. The CEOs of the companies listed in the DJIA in the US are paid in other dimensions. They received an average remuneration of 27.340m EUR – an increase of 41.3% compared to the previous year. The highest paid CEO in the DJIA in 2021 was Patrick P. Gelsinger from Intel, whose pay amounted to more than 97m EUR.

**Average CEO compensation in selected indices in 2021**

| CEO pay 2021 | fixed pay [k€] | short-term variable pay [k€] | long-term variable pay [k€] | total pay [k€] |
|---|---|---|---|---|
| DJIA | 1.729 | 4.725 | 20.886 | 27.340 |
| EuroStoxx 50 ex-DE | 1.590 | 2.168 | 4.773 | 8.531 |
| EuroStoxx 50 | 1.668 | 2.247 | 4.233 | 8.147 |
| CAC40 | 1.278 | 1.880 | 4.656 | 7.814 |
| SMI | 1.722 | 1.398 | 3.444 | 6.563 |
| **DAX 40** | **1.470** | **1.828** | **2.787** | **6.085** |

*table 2*

### Highest paid CEOs in Europe 2021




*graph 1*

## More ESG

The topic of ESG is playing an increasingly important role in the capital market, and will do so in the future. Since 2 August 2022, for example, advisors must explicitly ask their clients about their sustainability preferences, provide advice and, if necessary, offer and explain corresponding products (see also p. 10). But is the EU goal of advancing climate protection also reflected in executive remuneration?

DSW's study shows that the role of non-financial ESG criteria is becoming more important. After all, 90% of the DAX companies use at least one of the three ESG criteria (environmental, social and governance) and in the MDAX it is 72%. In the DAX there are thus only four companies that did not take any ESG criteria into account in the remuneration of their executive boards in 2021. These were Delivery Hero, Porsche Automobil Holding, Sartorius and Zalando.

Of the 36 companies that map ESG criteria, three do so without providing details or a clear focus on E, S or G, respectively (Hannover Re, Henkel and Merck). These companies also do not disclose which indicators were actually taken into account. Where these indicators are considered, the focus is on environmental and social criteria such as CO2 reduction or employee satisfaction, which can be found at 31 and 29 of the 40 DAX companies, respectively. Six companies have integrated criteria from only one of the three categories, twelve have comprehensibly considered two and 15 all three categories. 13 companies incorporate ESG criteria in both the short-term incentive (STI) and the long-term incentive (LTI); four only in the LTI and 19 exclusively in the STI (graph 2).

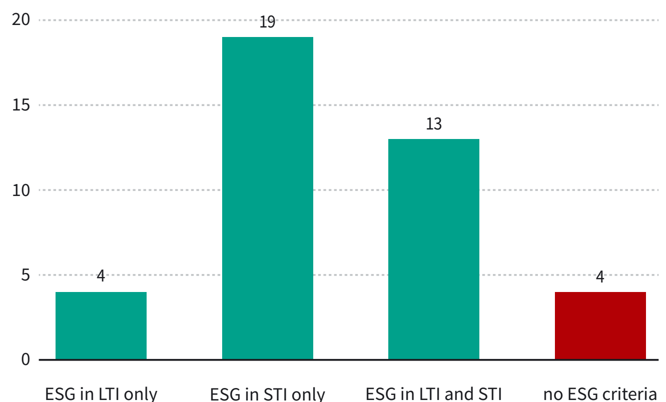
However, the transparency dilemma continues in the all-important sustainability field. The concrete quantification of the percentage of ESG parameters in the remuneration often remains difficult. Only 13 of the 40 DAX companies provide quantifiable information in the STI and 14 in the LTI. Based on these companies, the average share in the STI is 14% – with a range of 5 to 33.3%. The ESG share in the LTI amounts to 28% for these companies, with a range of 20 to 50%.

DSW considers a company-specific consideration of ESG targets in the STI and at the same time in the LTI to be reasonable. While ambitious CO2 targets should be anchored in every company, preferably in the LTI (they are actually a must-have), we recognise a certain necessary flexibility in the formulation of new, company-specific ESG targets by the supervisory board. Also, not every ESG target necessarily has the same time horizon. With ESG targets, the supervisory board can constantly and consistently set impulses. It should and must use this tool. Then, however, it must also explain in a comprehensible way why the goals are located differently and why they are relevant to the company in a differentiated way, also with regard to the time horizon. Here, too, transparency is key.

It is important that the sustainability goals have a noticeable effect and do not merely play a subordinate role in the remuneration assessment. As with the financial targets, the ESG remuneration targets should also be derived from the corporate strategy, be relevant for the respective company and be measurable and thus comprehensible for investors.

ESG has arrived in the remuneration systems, but there is still a lot of work to be done. Due to the different approaches of the companies and also the still missing data in some remuneration reports, a really valid comparability of the share of ESG criteria in the variable remuneration of many companies is only possible with difficulty, but all the more desirable.

### ESG criteria in DAX 40 CEO compensation in 2021




*graph 2*

# Investment advice on sustainable products: Investors cautiously sceptical

Since 2 August 2022, investment advisors have been required to ask their clients about their sustainability preferences. DSW took this as an opportunity to ask experienced investors in more detail. Here are the interesting results:

First of all, the answers showed that "semi-professional" investors are cautiously sceptical about possible investments in ESG products and pay particular attention to their portfolio's risk diversification.

Around 36% of private investors said they had followed the advisor's advice; around 64% said they had not. More than half of the respondents stated that the advice had rather not met their own expectations. If the private investors were willing to invest in sustainable products, almost half (46.7%) considered a share in their own portfolio of less than 20% to be reasonable. Another 28% wanted to invest at least 20%, about 13% at least 4%, 7% at least 60%, and only about 4% wanted to invest at least 80% in sustainable products.

These are the summarised results of a survey conducted by DSW among around 150 private investors in August/September 2022.

"Investment advisors will face considerable challenges with the new requirements. Not only do they have to have the appropriate products available, but they also have to inquire about the respective preferences and ideas of their clients. Moreover, there are still no uniform standards for green products or a corresponding, generally valid label. If classic products are simply re-branded, this may easily lead to greenwashing," says Jella Benner-Heinacher, Deputy Chief Executive of DSW.

## EU taxonomy still a distant memory

To date, the investors surveyed were most frequently offered products according to the exclusion approach, i.e. products where asset managers deliberately do not invest in certain business areas such as weapons technology or the coal industry (23.5%).

This was followed by recommendations for products with targeted investments, for example in the field of renewable energies or green mobility (19%), as well as

Photo: www.freepik.com/8photo

## Checklist for sustainable investing: 9 golden rules for investors

1. What actually is a sustainable investment?
2. Check carefully which investment approach and which product suits you!
3. How does the investor recognise a sustainable investment?
4. Let your consultant explain the sustainability approach to you in detail and be aware of greenwashing
5. What about the potential return on the investment?
6. What exactly are the risks and opportunities of this investment?
7. What about the costs/fees for investing?
8. Is there a rating from an independent agency?
9. Does a reputable sustainability label exist?

products that avoid negative impacts on the environment, for example with regard to greenhouse gas emissions (17.5%). At the lower end of the products offered were only those to which the EU taxonomy requirements are fully applied (10%).

The main sources of information for all respondents were the internet, the key information document or other documents referred to by the advisor. Of those respondents considering a green investment after the consultation with the financial advisor, 65.7% were informed about the achievable return, 59.7% about general risks and 56.7% about costs.

“In general, we think it is right and important that the financial market is used for transformation with a view to climate protection and the other ESG factors. However, we also think that the greatest leverage lies in the so-called ‘old industry’ by setting ambitious goals and pursuing them consistently. Investors should never disregard returns, costs and risks in any engagement. Recent studies show that green investments do not perform worse than conventional ones from a return perspective. So it is worth taking a close look,” says Jella Benner-Heinacher.

DSW will continue to conduct surveys on this topic in 2023 in order to determine the extent to which the topic of ESG will be anchored in daily investment advice in the future.

## DSW Voting Guidelines

The German Corporate Governance Code sets standards for Corporate Governance in Germany. It is at the same time the basis for DSW’s voting recommendations. Beyond the official Code, DSW developed its own Voting Guidelines to be transparent towards investors how we exercise voting rights for our members and other investors.

DSW’s Voting Guidelines are updated annually and cover recurring proposals at German General Meetings, like for instance the discharge of management and supervisory board, capital measures, executive remuneration or board elections.

If you are interested in the DSW Voting Guidelines, please contact us via E-Mail:

jella.bennerheinacher@dsw-info.de

# Invest sustainably

Investing based on sustainability criteria is currently on everyone’s lips. In the case of financial products, for example, it must be made clear whether they are pursuing sustainable goals, and investment advisors must ask their customers whether they would like to invest sustainably. But even investors who want to invest directly in companies, be it via shares or bonds, are increasingly looking at sustainability aspects in addition to yield aspects.

However, sustainability can mean many things when it comes to investing, so ESG is often referred to in this context. This is about the interaction of environment (E), social (S) and good corporate governance (G). Due to climate change, the focus – also in investment advice – is currently on the topic of the environment (E). From the shareholders’ perspective, the issue of climate change is primarily about understanding, measuring and reducing risks. Unfortunately, companies do not yet have sufficient sustainability data, which makes it difficult for private investors, but also for analysts or rating agencies to compare companies or financial products. Also, it increases the risk of greenwashing, i.e. the misleading marketing of a “green” image or product.

DSW therefore offers investors assistance in the sustainability jungle. The “green corner” (www.dsw-info.de/en/esg) on our website contains a checklist for sustainable investing in funds or ETFs. This checklist should be read together with the DSW questionnaire “False investment advice” and the “DSW checklist for investment funds”.

In addition, we have put together a Sustainable Engagement Guide that investors can use to question the current status or progress of companies in their climate strategy and the implementation of regulatory requirements.


## Imprint

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# International Investors' Conference 'The Green Deal vs. Geopolitics'

## 6 of December 2022 in Frankfurt am Main / Germany

DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

EURO SHAREHOLDERS

BF BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

Co-funded by the European Union

## Conference Schedule

***Date:*** 6 of December 2022
***Venue:*** Literaturhaus
Schöne Aussicht 2
60311 Frankfurt am Main

*9.00* *Registration*

*9.15* **Welcome address**

*9.30* *Opening Speech*
Verena Ross, Chair of ESMA, France

*10.00* *CEO/CFO Talk:*
**'How can companies succeed in the ESG jungle?'**
- Stefan Klebert, CEO GEA Group, Germany
- Melanie Kreis, CFO, Deutsche Post DHL, Germany
- Burkhard Lohr, CEO K + S, Germany
- Ralf Thomas, CFO Siemens, Germany

*Moderation: Marc Tüngler, DSW, Germany*

*11.10* **Coffee Break**

*11.40* *Keynote Speech:*
**'Sustainable Finance from the auditors' perspective'**
Christoph Regierer, Mazars, Germany

*11:50* *Panel:*
**'Sustainable Finance and the future role of investors'**
- Vincent Kaufmann, Ethos, Switzerland
- Wiebke Merbeth, Member of the German Sustainable Finance Advisory Committee, Germany
- Claus Stickler, Allianz Investment Management, Germany
- Tomas Thyblad, NASDAQ

*Moderation: Christiane Hölz, DSW, Germany*

*12.50* **Lunch**

*2.00* *Panel:*
**'Do we need a Say on Climate for Shareholders?'**
- Loic Dessaint, Proxinvest, France
- Jacqueline Duiker, VBDO, Netherlands
- Gianluca Ferrari, Clearway Capital, Germany
- Matthias Nau, Georgeson, U.K.
- Mckenzie Ursch, Follow-This, Netherlands
- Klaus von der Linden, Linklaters, Germany

*Moderation: Christof Schwab, Computershare, Germany*

*3.00* *Panel:*
**'Sustainability in the new World Order'**
- Matthias Kopp, WWF, Germany
- Ulrike Sapiro, Chief Sustainability Officer, Henkel, Germany
- Daniel Schmid, Chief Sustainability Officer, SAP, Germany
- Ingo Speich, DEKA Investment, Germany

*Moderation: Jella Benner-Heinacher, DSW, Germany*

*3.50* **Coffee Break**

*4.20* *Keynote Speech:*
**'The Capital Market Union in light of the new geopolitical reality'**
Stephan Leithner, Board Member, Deutsche Börse, Germany
*Followed by panel:*
- Paulina Dejmek-Hack, DG FISMA, EU Commission, Belgium
- Markus Ferber, Member of the European Parliament, Belgium
- Guillaume Prache, Better Finance, Belgium

*Moderation: Rainer Riess, FESE, Belgium*

*5.30* *Keynote Speech:*
**'Is Company Culture a success factor for Sustainability?'**
- Norbert Winkeljohann, Chair Bayer, Germany

*Followed by panel:*
- Christina Bannier, University of Giessen, Germany
- Elke Eller, Member of Supervisory Boards, Germany
- Michael Rüdiger, Chair, Blackrock Germany

*Moderation: Angelika Huber-Strasser, KPMG, Germany*

*6.30* *Closing remarks by DSW*

*6.40* **End of conference**
**Reception**

*7.20* **Exclusive Dinner** *(on invitation only)*
*Dinner with special guest:*
Friederike Rotsch, Lead Independent Director SAP, Germany