DSW

Newsletter

from Germany's No. 1 Shareholders' Association

November 2018

Editorial

10 years after Lehman – where are we heading to?

The financial crisis which started in 2007 shook the world of finances. But not only that, it caused total costs of EUR 5 trillion of State Aid to the financial sector between 2008 and 2015. For Europe, this was the beginning of a lost decade. Today we can at least say that the EU managed to put the banking union forward. That is the good news…

What happened to the European Capital Markets Union?
In 2015, representatives of DSW and Better Finance met with Lord Hill as the then new EU Commissioner to discuss details of the European Capital Markets Union (CMU). 17 measures were on the agenda and the enthusiasm was great on both sides of the table. Now in 2018, Lord Hill is history and from the 17 measures only three have been completed. The rest got stuck on the road.

Brexit worked as a full brake and really hit us back. Until early November 2018, we still had the hope to see an exit of the Brexit. But reality caught us back.

Also, national interests, and this includes the German Government, were not too supportive of the project CMU. If we want the CMU to not become a project of missed chances, but a show case for Europe, then we should not lose any time anymore.

If we want the CMU to become a success, we firstly need to **make the European Capital markets more attractive** for EU citizens as savers and investors. Therefore, we should use tax incentives instead of taxes as punishment such as the financial transaction tax. Also, we need to make the European Capital markets more attractive for companies – especially small and medium sized (SME) despite the Brexit. The next important milestone will be the establishment of a **strong and efficient supervision in the EU**. Furthermore, we need **performing European financial products** based on common standards which offer added value to investors. And, finally we need to establish a minimum **safeguard system for investors** just like we know it from the European banking and insurance system.

There is a lot to do for the **new EU-Commission and the next EU-Parliament** in 2019 to 2024 (see BETTER FINANCE Action Plan page 4 for more recommendations on how to make the Capital Markets Union more attractive for all market participants).

On the national level we are also facing major changes: We see the European Shareholder Rights Directive (SRD II) being implemented into national law and we only very recently received the draft of a review of the German Corporate Governance Code (see page 5 for more details) which invites all investors and stakeholders to give their comments and opinions. Both drafts are expected to change the way participants act in the market significantly: Be it the new legal rules for proxy advisors and institutional investors or the new Code recommendations on board independence and executive remuneration.

You will find more on this and all other important recent developments for individual investors in this 2018 edition of the DSW Newsletter.

Content

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Volkswagen Dieselgate – a never ending story?!

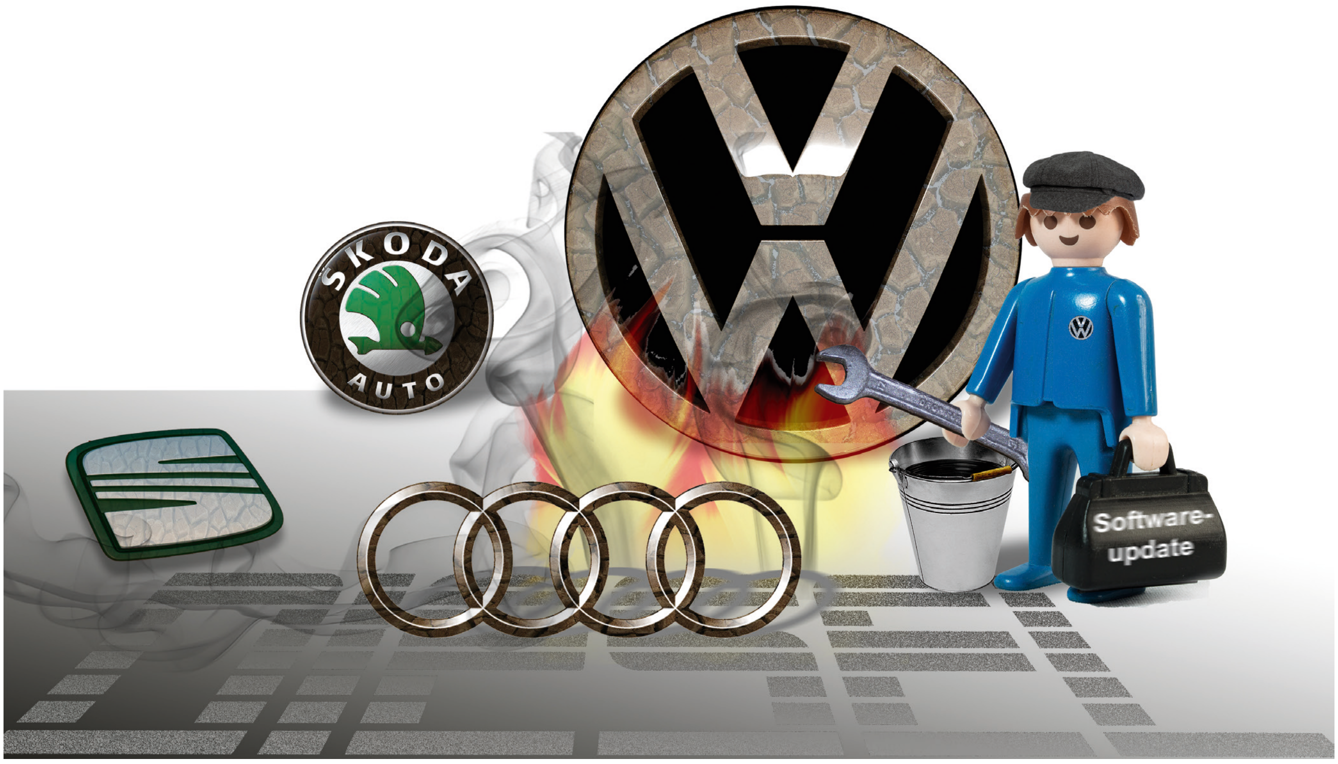


Photo: Bernd Kasper and pixelio.de

The US-American authorities Environmental Protection Authority (EPA) and California Air Resources Board (CARB) have investigated cars from Volkswagen AG and found that, among others, certain US emission standards have been violated. Emissions of nitrogen oxides (NOx) in engines of certain Volkswagen cars have been found to exceed EPA standards by a factor of up to 40. Volkswagen meanwhile acknowledged having installed so-called defeat devices in millions of diesel vehicles. These defeat devices served to reduce the effectiveness of the US authorities' emission control systems under testing conditions.

Since the scandal has been revealed in September 2015, DSW as Germany's largest investor association has supported all Volkswagen investors at various levels.

Special audit

Upon initiative of DSW, a special auditor for VW has been put in place to find out whether executive and supervisory board have violated their legal duties; specifically, at what point in time the executive board knew or ought to have known of the emission issues. Additionally, the special auditor is supposed to examine if VW has adapted its risk – and compliance management system subsequently.

After the major shareholders at the general meeting 2016 had expectedly refused to appoint a special and independent auditor, the Higher Regional Court of Celle gave in to DSW's claim, ruling that VW has to install the special auditor. VW brought the case to the Federal Constitutional Court which in a first priority decision denied VW's application for an interim measure against the special auditor. The results of the independent audit whose findings may also have a positive impact on the compensation claims filed by investors in Germany will have to be published at the general meeting following the completion of the auditor's report. This is, however, not to be expected before the general meeting 2020.

Model case procedure – the German KapMuG

Unlike the US, the German legal system does not offer shareholders a collective redress scheme but in principle requires every shareholder to pursue his or her own compensation claim individually. A hybrid model is the so-called model case proceeding (KapMuG). The model case proceeding gives shareholders seeking compensation for damages two options:

- Shareholders can file directly an individual claim at court and apply for the model case proceeding or

- Shareholders could join a model case proceeding by registering their claim and applying for a model case treatment. This opportunity is however no longer possible as a related statute of limitation meanwhile has expired.

The KapMuG procedure has been filed on behalf of institutional investors already in September 2015. The relevant court, the Higher Court of Brunswick started its first hearing only in September 2018, almost exactly three years after the diesel scandal was revealed. Given the cumbersome legal procedure, the KapMuG proceedings are not expected to end in the near future. A decision of the Higher Court of Brunswick, which is not expected before 2019, can be challenged by the active parties to the claims. A final ruling therefore will still take a lot of time.

Final opportunity to claim compensation

There is still a number of shareholders that has not yet filed a compensation claim against Volkswagen or Porsche for one reason or the other. DSW therefore raises awareness among investors that the final statute of limitation for all shareholders of Volkswagen and also Porsche to claim compensation will expire on December 31, 2018. Investors wishing to secure their rights must therefore file a lawsuit by the end of 2018.

In supporting also these shareholders, DSW, together with Financialright GmbH (“Financialright”), a leading service provider pursuing claims arising from the “Dieselgate” scandal, offers Volkswagen and Porsche investors the opportunity to assert claims for damages against the companies without any cost risk.

The investors do not have to bear any court, attorney and expert fees. The fee of Financialright consists of a profit share which amounts to 35%, incl. VAT, where applicable. Please see https://financialright.com/ for further details. Since any claims must be made legally pending until the end of the year, requests after November 30, 2018 will not be considered.

BETTER FINANCE ACTION PLAN for 2019-2024: A real renaissance of the CMU Project is key

Photo: Schmuttel and pixelio.de

It seems like yesterday that the newly elected European Parliament (EP) and the Juncker Commission announced important reforms to address the ongoing fallout from the 2008 financial crisis. In the 10 years since the financial crisis, decision makers in Brussels have introduced sweeping new financial rules and regulations, and under Juncker the crucial and ambitious initiative of a "Capital Markets Union" (CMU) was launched. Yet, EU citizens as savers and investors are left with a bitter aftertaste.

Whether as individual investors, shareholders, savers, life insurance policy holders, pension fund participants or borrowers, European citizens are all in one way or another, users of financial products and services. The financial crisis has affected every single household in the European Union. Yet, despite highlighting that households are the main source of funding for long-term investment in the European economy, policy makers, continue to sacrifice the wellbeing of European citizens in their quest for "financial stability". For too long now individual investors and savers have been gradually crowded out of equity markets and pushed into frequently under-performing packaged products. To ensure long-term growth it will be crucial to rehabilitate equity investment across the board and ensure a level playing field for all market participants. If the CMU can help reconnect those companies and projects that need capital with those who have it, then it may well succeed in what it set out to accomplish in the first place. But even the Commission's CMU flagship seems to be at risk of having the wind taken out of its sails by the latest tendency to put "Sustainable" Finance initiatives first. Whereas BETTER FINANCE firmly believes that it is essential to promote a cleaner and fairer economy, this should never happen at the expense of long-term and pension savers. The concept of sustainable finance should translate into products that are exemplary in complying with EU investor protection rules, especially in terms of fair, transparent, clear and non-misleading investor information.

With the current European Commission (EC) and European Parliament (EP) already wrapping up, BETTER FINANCE is looking ahead at the priorities in matters of finance for the next five years (2019-2024). For EU Citizens as Savers and Investors a real renaissance of the CMU Project - a CMU 3.0 as it were - will be key, even more so in light of a looming Brexit.

Increasing the attractiveness of EU Capital Markets for all market participants remains a challenge, but many things can still be done to regain the trust of EU Citizens. For a start, more should be done to tackle mis-selling. As shown by several studies by the EP and BETTER FINANCE, rules pertaining to the protection of financial services users are not being adequately and consistently enforced. The **European Supervisory Authorities (ESAs) must make it a priority to use their new product intervention powers**. In the same vein, it is essential that EU citizens that are investing in **capital markets** enjoy robust **protection**. To this end a CMU should go hand-in-hand with **fair and equal access to collective redress** for individual investors. The development of a Capital Markets Union is also the opportunity to forge a more direct and stronger link between the savings of European citizens and the real assets they are invested in. For the Capital Markets Union to succeed, European citizens, as individual investors and savers, should really be at the core of the project and benefit from a **direct and easy access to simple and transparent investment products** (such as equities, bonds, index ETFs and UCITS funds), instead of alienating them further and pushing them into more packaged, complex, opaque and fee-laden products.

It is important to remember that being an individual investor is not, and should not be, a full-time job. Providing simpler products is a first step towards investor empowerment but much more should still be done to provide individual investors with the necessary information and tools to make informed choices. Improving **transparency on performance and fees of all investment products** would go a long way towards achieving this. Comparable and simple information is also a prerequisite for reliable, independent and EU-wide web comparison tools for financial products.

To ensure a coherent and consumer-friendly approach to financial policy at EU level, it is imperative that the EU continue to improve its engagement with investors and other users of financial services in the EU financial policy making process. After all, "EU households are the main source of long-term financing for the real economy".

By Arnaud Houdmont,
Chief Communications Officer, BETTER FINANCE

BETTER FINANCE, the European Federation of Investors and Financial Services Users acts as an independent financial expertise centre to the direct benefit of financial services users. Those include individual and small shareholders, fund and retail investors, savers, pension fund participants, life insurance policy holders, borrowers, and other stakeholders who are independent from the financial industry. DSW is founding member of BETTER FINANCE.

The German Corporate Governance Code: Review 2019

After a long period of silence, the German Corporate Governance Commission in early November 2018 has published its draft of a significantly revised Corporate Governance Code for consultation.

The Code reform aims at "increasing both the relevance and the acceptance of the code by companies and investors alike by curbing the Code, providing it with a new structure and improving its legibility". The future Code will be principle-based: 30 principles that present accepted standards of good and responsible governance shall guide investors and companies alike through the governance process in Germany. The application of these principles shall be mandatory and the company has to explain in which way it applies the principles. This means that the current "comply or explain" approach will in future be supplemented by an "apply and explain" approach, known already in a number of other countries. Overall the new Code has been streamlined and designed to be more concise in order to enhance transparency, which forms the basis for a well-founded governance assessment.

Next to the Code's redesign, a large number of amendments has been proposed. Main attention of investors and companies is expected, however, to focus on two areas: board independence and executive compensation.

Board independence

For the first time, the German Corporate Governance Code provides a precise catalogue of indicators that it considers may compromise independence of shareholder representatives on the supervisory board (recommendation B.8).

From the Commission's perspective, indicators to be taken into account are given if the Supervisory Board member:

- was a member of the company's management board in the two years prior to appointment;
- maintains a material business relationship with the company (supplier, customer, lender, advisor, etc.);
- receives other material variable remuneration from the company;
- is in a close family relationship with a member of the management board;
- is a controlling shareholder; or
- has been a member of the supervisory board for more than twelve years.

Executive compensation

A second big area of review were the rules regarding executive compensation in order to create the right incentives for the actions of the management board, pay adequate remuneration for the performance rendered, respect social acceptance and explain clearly and understandably how much the individual management board member receives, and for what performance the remuneration is paid.

According to the Code, remuneration systems should therefore define the individual total remuneration target, the relative share of fixed and variable remuneration components, and the correlation between the targets agreed upon beforehand, together with the variable remuneration to be paid in this respect. Also, long-term variable remuneration should be variable at the time it is granted; above all, it should act as an incentive for implementing strategic measures.

This is in line with the requirement set out in the **EU Shareholder Rights Directive II**, pursuant to which the remuneration contributes to the promotion of the business strategy and of the company's long-term development.

In view of the **newly to be developed standards for the presentation of the remuneration figures in the annual report** that are currently worked on by the European Commission, the Code Commission has decided to abolish the model tables that have been in place.

The consultation is open **until January 31, 2019**. The full consultation document can be found at dcgk.de/en/. DSW urges all interested stakeholders to reply to this important consultation.

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 or representatives.

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, share repurchases or board elections.

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

jella.bennerheinacher@dsw-info.de

Euroshareholders Award 2018

Following a long tradition of the shareholders section of BETTER FINANCE (namely Euroshareholders), the 2018 award will be given to the German DAX 30 company which has proven to show the most shareholder-friendly pay system for their executive directors.

The Award Committee
The Euroshareholders' Award Committee which is composed of esteemed corporate governance experts with a lot of experience from Denmark, France, Germany, Iceland, Luxembourg, Romania, Slovenia, Spain and Sweden, selected the awardee after a thorough analysis of the DAX 30 companies' presentation of their executive pay systems.

The Award criteria
The award criteria were primarily derived from Better Finance's EuroVote 2018 Voting Guidelines. EuroVote is a unique European Voting Platform for European private investors. These Guidelines are striving for a transparent and understandable pay structure for directors with long-term variable elements which go in line with the performance of the company. And this is different to most institutional investors who are not as detailed in their vote recommendations and criteria for good pay systems.

And of course, the award criteria reward those elements the Award Committee believed are of utmost importance for the private shareholders:

- This is first and foremost a **regular approval of the remuneration system** at the shareholders' meeting, the important so-called say on pay. We expect a company to ask regularly for the approval and always ask for it in case of significant changes.

- And, as the last two years have shown, shareholders' approval rate is decreasing. Directors' pay systems are not easy to understand and sometimes one can get the impression that is this is done on purpose. Therefore, the approval rate for a say on pay was likewise taken into consideration, a **minimum support of 90%** was needed to comply with this criterion.

- Of course, companies can make mistakes but they can also learn from mistakes in the past, that is why an **extra bonus** has been awarded to companies which learn and correct mistakes.

- Beyond a convincing say on pay vote the analysis focused on **transparency and clarity of the systems and the general comprehensiveness of the pay system** for private investors:

Are the individual pay components such as the short term and the long-term incentives properly explained and comprehensively presented? Are the KPIs adequately disclosed so that shareholders can determine whether the compensation followed the pay for performance principle? And what about pensions? **Pension arrangements often still remain a blackbox** in the pay system. Therefore, the Award Committee also took into consideration if pension arrangements are explained in a sound manner.

As private investors urge for appropriate pay for performance, the Award Committee penalised pre- or post-management payments such as golden handshakes, golden parachutes or specific claw back arrangements.

- Next to comprehensiveness, the Award Committee took into consideration if the pay of **directors was capped** and if the **cap was clearly disclosed** in the annual compensation report.

- Finally, the appropriateness of the structure of the directors' pay was in the focus of the analysis: here, the ratio of executive pay compared to the employee pay has been analysed. This figure gives investors a strong indication on the potential acceptance in society and the right balance in order to avoid an extremely high gap between these two important figures.

And the winner is…?
DSW, as founding member of Euroshareholders/BETTER FINANCE, is honoured to host the award ceremony at the exclusive dinner of its International Investors' Conference 2018 in Wiesbaden.

ECGS's Engagement Services: Serving investors' needs

"The financial crisis has revealed that shareholders in many cases supported managers' excessive short-term risk taking. Moreover, there is clear evidence that the current level of 'monitoring' of investee companies and engagement by institutional investors and asset managers is often inadequate and focuses too much on short-term returns, which may lead to suboptimal corporate governance and performance." (Shareholder Rights Directive II – SRD II). While many investors made their best efforts to extend globally their voting universe, they probably failed because they focused too much on the quantity of meetings voted rather than quality of their votes and dialogue, specificities of different countries and companies.

Loïc Dessaint, CEO of Proxinvest

As a consequence, the SRD II Directive, which must be implemented in each EU country by June 2019, creates new obligations for both institutional investors and asset managers (§3g).

- Investors will have to develop and publicly disclose an **engagement policy** that describes how they integrate shareholder engagement in their investment strategy. The policy shall describe how they monitor investee companies, conduct dialogues with investee companies, exercise voting rights, cooperate with other shareholders and manage potential conflicts of interests.
- Institutional investors and asset managers will have, on an annual basis, to publicly disclose an **engagement report** to describe what they did in practice, including a description of voting behavior, an explanation of the most significant votes and the use of the services of proxy advisors. They will have to publicly disclose how they have cast votes in the general meetings of companies in which they hold shares.

Many campaigns from UK or US-based activist funds were led with a short-term view and Europe is trying to build an alternative model. It will be a challenge for European investors which have not devoted enough resources for voting and engagement activities (limited team size for example). To control cost while being successful, European investors will have to mutualize their efforts and to rely on dedicated engagement service providers.

These engagement service providers need a strong local expertise of their respective European country, their companies, and public affairs. They should also be fully devoted to investors and not accept any compromise by being also paid by the companies which would create the same types of conflicts of interests that hit the headlines for certain proxy advisors.

With partners in Germany (DSW), Spain (Corporance), Italy (Frontis Governance), the Netherlands (Nimexco), Switzerland (Ethos), the UK (Manifest) and France (Proxinvest), **Expert Corporate Governance Service (ECGS), a pan-European partnership of corporate governance and engagement experts, is best-placed to serve investors by providing engagement capabilities**. This engagement platform will help investors to fulfill their engagement duties, including ESG engagement.

Further information on ECGS's new Engagement Service can be found at **www.ecgs.net**.

ECGS's mission is to provide fully independent corporate governance research to institutional investors and to improve governance standards amongst companies in Europe and the rest of the world. ECGS provides harmonised research and advice that reflects local circumstances. All research is undertaken by experts with in-depth knowledge of the local norms and conditions.

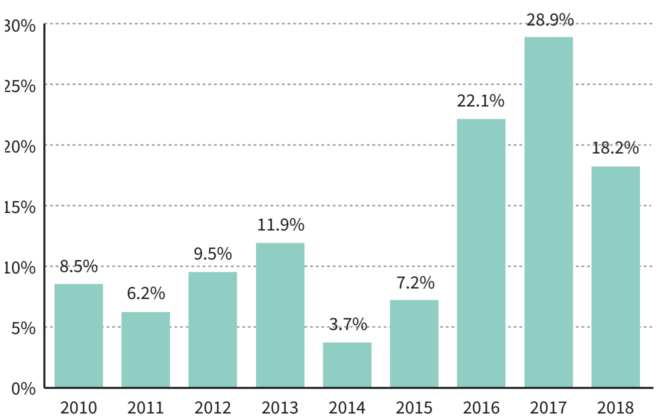
Executive pay survey 2018: Are there still fat cats around?

Executive pay is a permanently hot topic in public debates. While the discussions in previous years mainly centered on the absolute amounts, today the broader stakeholder view and here especially the question of the adequate relation between executive and employees' pay gets into the focus of public attention. But what exactly is this ratio about? Which employees should be included to derive to an informative and significant figure? The company employees, the group employees? Employees from the home country only or worldwide? And what does this figure finally tell the company's shareholders?

In DSW's view it is not the absolute amount of pay or the relation to the average employee salary that is relevant for shareholders. It is the development over a certain period of time. Is the pay gap between executives and employees getting wider or not? And what are the reasons for it? Apart from that, the most important question for shareholders still remains, of course, valid: Does the executive's pay follows the company's performance?

Shareholder critics at general meetings this season lowered down compared to previous years in Germany. No DAX company failed to get its pay system approved by shareholders and the average oppose rate dropped by more than 10 percentage points.

Say on pay opposition rates DAX 30



However, the advisory and non-binding say on pay vote still remains the most contested topic at German general meetings.

Most contested agenda items DAX 30 in 2018

TOP	FOR votes	OPPOSE votes
Say on Pay	81.9%	18,2%
Profit distribution	83.6%	16,4%
Capital measures	89.3%	10,7%
SB discharge	89.4%	10,6%
MB discharge	90.5%	9,5%
SB election	90.8%	9,2%
Auditor election	91.5%	8,5%
Share repurchase	91.8%	8,2%

And maybe for good reasons?

DSW since many years tries to shed some light on the pay of the executives of Germany's blue chip companies. In our annual study we survey, together with the Technical University of Munich, the development of executive pay already since more than 15 years.

Executive pay survey 2018: main results

On average, the pay of DAX 30 executives in 2017 rose by 4.5% to 3.6m EUR which was again significantly above the increase of gross wages and salaries in Germany (+2.5%). It has to be noted, however, that the pay increase came along with a massive increase in operating profit of DAX 30 companies which rose by around 25% to 148bn EUR. The DAX index, at the same time, rose by 11%. Given these figures, the increase in executive pay did not come as a surprise.

SAP again leads the pace. 5.7m EUR on average received an executive of the software company which was slightly more than the payments at Volkswagen (5.6m EUR). The highest pay increase was awarded to the executives of Deutsche Lufthansa (+43%) while the executives at Bayer, Deutsche Börse, and Munich Re had to face a pay reduction by more than 10%. These variances can mostly be explained by changes in operating company performance and thereby hint to a functioning pay for performance among DAX companies.

Total average executive pay (k€) DAX 30 in 2017

company	total pay 2017	total pay 2016	change
Adidas	3.544	3.241	9,4%
Allianz	3.608	3.783	-4,6%
BASF	3.586	2.990	19,9%
BMW	5.036	4.705	7,0%
Bayer	3.475	3.881	-10,5%
Beiersdorf	2.309	2.211	4,4%
Commerzbank	1.865	2.045	-8,8%
Continental	3.387	2.833	19,5%
Covestro	3.620	3.739	-3,2%
Daimler	3.935	3.729	5,5%
Deutsche Bank	3.166	2.691	17,6%
Deutsche Börse	3.048	3.556	-14,3%
Deutsche Lufthansa	3.229	2.266	42,5%
Deutsche Post	3.320	3.199	3,8%
Deutsche Telekom	2.684	2.791	-3,8%
E.ON	3.304	2.928	12,9%
Fresenius	3.458	3.433	0,7%
Fresenius Medical Care	3.330	3.377	-1,4%
Heidelberg Cement	3.698	3.561	3,8%
Henkel	4.190	4.256	-1,6%
Infineon	1.926	1.904	1,2%
Linde	2.532	2.568	-1,4%
Merck	5.339	5.157	3,5%
Munich RE	2.291	2.562	-10,6%
RWE	2.981	2.800	6,4%
SAP	5.654	5.771	-2,0%
Siemens	4.538	4.129	9,9%
ThyssenKrupp	2.971	2.646	12,3%
Volkswagen	5.591	4.677	19,5%
Vonovia	2.408	2.203	9,3%
Ø DAX	3.558	3.405	4,5%

The CEO's pay

Two CEOs crossed the double digit million mark in 2017. SAP's Bill McDermott received 12.9m EUR and the CEO of Volkswagen (10.1m EUR), Matthias Müller. For Volkswagen, this is however expected to be the last time, at least in the near future. The Supervisory Board in 2018 decided to cap the executives board members' pay at 10m, whatever the development of the company is. On average, a CEO of a DAX 30 company earned 5.8m EUR in 2017 which is slightly below the executive pay in Switzerland (5.9m EUR) and well above the amounts, an executive of a French CAC40 company (4.9m EUR) receives on average. European pay, however, still remains far away from the US, where a CEO was granted 16.7m EUR on average, the major part of it being share-based grants, though.

Further and more detailed results of the study can be found at www.dsw-info.de.

Legal background: In Germany, shareholders may vote on the remuneration system for management board members. The vote, however, is non-binding and advisory: There is no obligation for companies, to put forward a respective proposal and the outcome of the shareholders' vote has no legal consequence whatsoever. Nevertheless, a vote with NO has proven to be a strong signal to the supervisory board to check the pay system and review it for the next annual meeting. This is one reason why the German Government has decided in its draft law for the transposition of the Shareholder Rights Directive II, to keep the advisory nature of the say on pay vote.

German boardrooms – diversity, age and pay

Once a year, DSW checks the 160 largest German boardrooms and analyses the composition against certain factors as well as the development of non-executive board members pay.

The findings of DSW's recent study show that

- the constant increase of female representation on boards is being retained while the diversity level especially regarding outstanding positions within the board is still not satisfactorily;
- the majority of board members are in their first or second term of office and on average less than 60 years old;
- the pay of non-executive board members is at an all-time high: overall 88.4m EUR were paid to DAX 30 non-executives in 2017.

Boardroom composition – more women but not in important positions

German boardrooms have become more and more gender diverse over the past years:

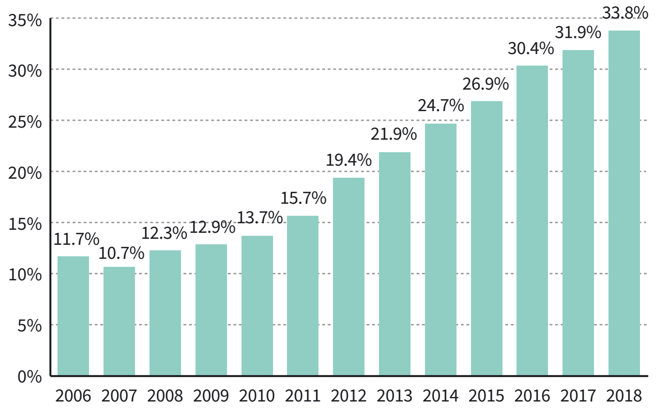
While in 2006 only 11.7% of all DAX 30 supervisory board members were female, this ratio saw a constant rise since then and now stands at 33.8% in 2018. There is a slightly higher number of female employee representatives (17.3%) compared to female shareholder representatives (16.5%) on the boards.

Noted should be, however, that the assignment of important positions within a board still seems to remain a closed shop for women:

Only one DAX 30 supervisory board is chaired by a woman. The supervisory board of Henkel appointed the representative of the major (family) shareholder, Simone Bagel-Trah, as its chair. This phenomenon is unfortunately not restricted to Germany's DAX 30 companies:

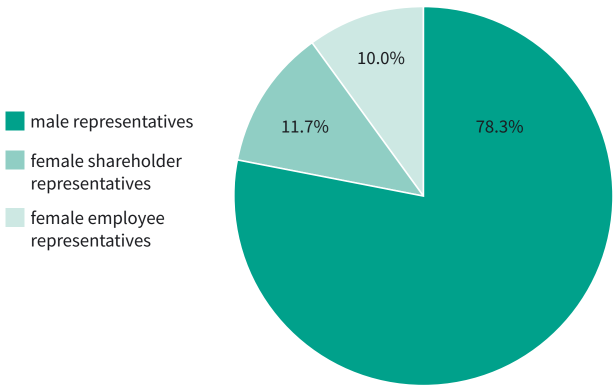
Only seven of the 160 largest companies' supervisory boards in Germany (4.4%) are chaired by women. And in 20 of these 160 companies (12.5%) no woman is represented at all on the supervisory board.

Development of female representation, DAX 30 supervisory boards



A comparable picture has to be drawn for other important positions within the boards: Only 21.7% of all committee seats within the DAX 30 boards are held by women and only six out of 96 important committees (6.3%) are chaired by women.

Diversity in DAX 30 supervisory board committees 2018

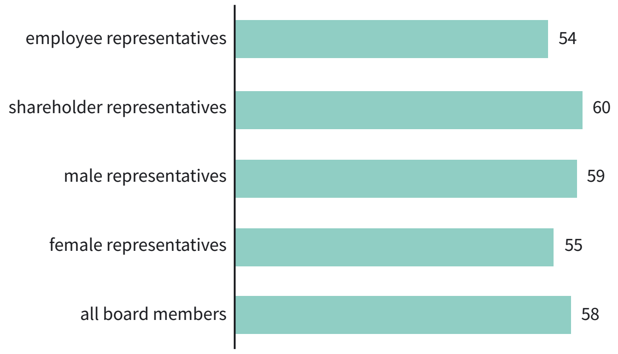


Taking a closer look at the 30 DAX companies the company with the highest female representation on its board is reinsurer Munich Re (45% women) while Adidas, Beiersdorf and E.ON still "operate" below the 30% threshold required for listed and fully co-determined companies in Germany. Of these three companies, Beiersdorf, however, is the only company that currently does not comply with the legally required threshold as it lacks a female employee representative. Both Adidas and E.ON benefit from a mathematical rounding that is required to determine the applicable threshold for their boards which have fewer than 20 members.

Female quota, DAX 30 supervisory boards 2018

company	female quota
Munich Re	45,0%
Commerzbank, Dt. Lufthansa, Dt. Telekom, FMC	40% each
SAP	38,9%
…	
E.ON	28.6%
Adidas, Beiersdorf	25% each

Average age, DAX 30 supervisory boards in 2018

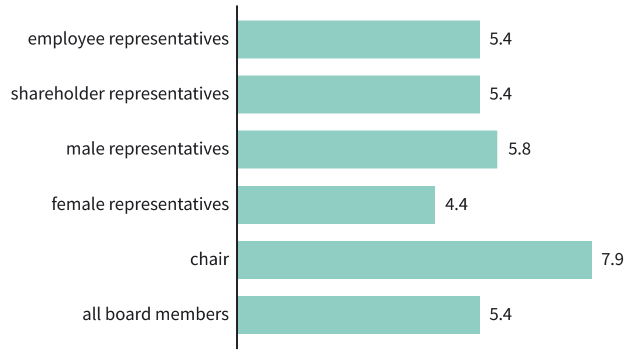


A further result of the study

The average term of office of a DAX 30 board member currently is five years with no differences between the shareholder and the employee representatives. Women on average are serving a shorter term as men and the supervisory chairs on average are significantly longer represented on these boards.

Of course, the exception proves the rule: Ms Heidi Thaler-Veh, employee representative at Adidas, serves on this board already for 24 years which is the second longest term of office at a Dax 30 company at all.

Average term of office, DAX 30 supervisory boards in 2018



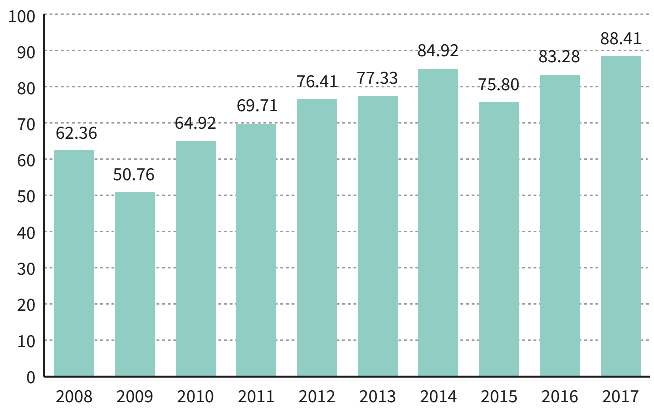
This result is equally reflected in our findings that the majority of DAX 30 board members is still in their first term of office (56.2%) while a further 23.0% serves in their second term. However, still 6.5% serve for four or more terms on the boards of DAX 30 companies. This means that 32 out of 491 board members hold their seat for 20 years or more.

Looking at the age of board members the findings of the study show that female board members on average are significantly younger than their male counterparts and employee representatives are on average likewise significantly younger than the shareholder representatives.

Boardroom pay – rising, rising, rising

2017 again was a year which saw a rising pay for non-executive board members of the 30 largest German companies. Overall, the DAX companies transferred 88.4m EUR to their board members which was 5.9% more than for 2016 and 41.8% more than ten years ago, in 2008. Thereof, BMW alone paid 5.6m EUR to its 20 board members for 2017, followed by Siemens (5.2m EUR). The board members of Adidas and FMC were granted the highest pay increase: At both companies, the increase was above 40% compared to the previous year.

Total remuneration
DAX 30 supervisory board in 2017 (m€)



Total pay (k€), DAX 30 supervisory boards in 2017

Company	board seats	total pay	change
Adidas	16	1.902	43,3%
Allianz	12	2.241	9,5%
BASF	12	3.329	11,4%
Bayer	20	3.703	6,4%
Beiersdorf	12	1.414	-1,2%
BMW	20	5.629	4,6%
Commerzbank	20	2.936	-0,3%
Continental	20	5.156	5,7%
Covestro	12	1.756	2,0%
Daimler	20	4.223	19,7%
Deutsche Bank	20	5.150	2,7%
Deutsche Börse	12	1.842	4,4%
Deutsche Lufthansa	20	2.270	-1,2%
Deutsche Post	20	2.641	0,7%
Deutsche Telekom	20	2.969	0,7%
E.ON	18	4.530	24,4%
Fresenius	12	4.292	19,8%
Fresenius Medical Care	6	1.571	48,2%
HeidelbergCement	12	1.419	-0,6%
Henkel	16	1.565	-0,5%
Infineon Technologies	16	1.973	-2,9%
Linde	12	2.557	0,8%
Merck	16	868	-0,1%
Münchener Rück	20	2.748	-0,4%
RWE	20	3.637	12,7%
SAP	18	3.663	0,3%
Siemens	20	5.177	0,5%
ThyssenKrupp	20	1.683	-0,4%
Volkswagen	20	3.787	-6,6%
Vonovia	12	1.783	-3,1%
Total	**494**	**88.412**	**5,9%**

A DAX 30 supervisory board chair was granted 378,000 EUR in 2017 on average. This was more than three times an average board member received. The highest paid supervisor, however, received a significantly higher amount. Paul Achleitner was paid 800,000 EUR for his chair mandate at the board of Deutsche Bank.

A positive result of our study finally is that there is no DAX 30 company left paying a short-term incentive to its board members. There are still four companies, though, that pay a variable component, however, this is at least long-term oriented.

Nevertheless, DSW considers that a fixed compensation for non-executive board members is much more favourable as it strengthens independence. If board members are granted a variable part, this should be long-term oriented and not linked to the dividend or any performance figure that can be influenced by the supervisory board.

Imprint

DSW newsletter published by Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW)
Peter-Müller-Straße 14, DE-40468 Düsseldorf
www.dsw-info.de

Responsible editor:
Jella S. Benner-Heinacher,
Chief Managing Director (Deputy)
jella.bennerheinacher@dsw-info.de

Editor: Christiane Hölz,
Managing Director NRW
christiane.hoelz@dsw-info.de

Layout: Diana Siebert Grafik-Design,
diana.siebert@online.de

International Investors' Conference
'European Capital Markets Union – Update & Future'

27 of November 2018
in Wiesbaden / Germany

DSW Deutsche Schutzvereinigung für Wertpapierbesitz e.V.

EURO SHAREHOLDERS

BF BETTER FINANCE
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Fédération Européenne des Épargnants et Usagers des Services Financiers

Conference Schedule

Date: 27 of November 2018
Venue: Kurhaus Wiesbaden
Kurhausplatz 1, 65183 Wiesbaden/Germany

9.00 *Registration*

9.15 **Welcome Address**

9.30 *Panel:*
'New Challenges – M-DAX Companies in Transformation'
- Burkhard Lohr, K+S AG, Germany
- Hermann Merkens, Aareal Bank AG, Germany
- Georg Müller, Brenntag AG, Germany

Interviewed by: Marc Tüngler, DSW, Germany

10.30 *Keynote Speech:*
'CMU – what needs to be done?'
Markus Ferber, EU-Parliament, Brussels

11.00 **Coffee Break**

11.30 *Introductory Note*
'Activist Investors conquering Europe'
by Cas Sydorowitz, Georgeson, U.K.

11.45 *Panel:*
'How to deal with active Investors – the Company's Perspective'
- Martin Abend, Chair Stada AG (2009-2016), Germany
- Andreas Posavac, Ipreo by IHS Markit, U.K.
- Michael Iltschev, Berenberg, Germany

Moderation: Hans-Ulrich Wilsing, Linklaters, Germany

12.30 **Lunch Buffet**

1.50 *Panel:*
'Board of Tomorrow – Tasks, Challenges, Teams'
- Barbara Kux, multiple Board Member, Switzerland
- Friederike Rotsch, SAP SE, Germany
- Thomas Tochtermann, Chair Tom Tailor Holding SE & Vapiano SE, Germany

Moderation: Jörg Thierfelder, Egon Zehnder, Germany

2.50 *Keynote Speech:*
'U.S. Investors – from Courthouse to the Boardroom'
by Deborah Sturman, Motley Rice/Sturman, U.S.

3.10 *Panel:*
‚Investor Activism – from single Actions to Mainstream'
- Adrienne Monley, Vanguard, U.K.
- Jens Tischendorf, Cevian Capital, Sweden
- Rainer Langel, Macquarie Capital, Germany
- Klaus Röhrig, Active Ownership Capital, Luxembourg

Moderation: Claudia Schneckenburger, Link Market Services, Germany

4.00 **Coffee break**

4.30 **'Boards' Performance and Value'**
- Ingo Speich, Union Investment, Germany

Interviewed by Daniela Mattheus, EY, Germany

5.00 *Keynote Speech:*
'CMU – where are we now?'
Verena Ross, ESMA, France

5.30 *Keynote Speech:*
'CMU – the next Steps'
John Berrigan, EU-Commission, Brussels

6.00 *Closing remarks by DSW*

6.15 **Reception (end of conference)**

6.45 **Exclusive Dinner** *(on invitation only)*
Dinner Speech by
John Feldmann, Chair Kion Group AG
Followed by
Euroshareholders' Award Ceremony