

M O R R O W  
S O D A L I



# Investor Expectations and Governance Trends TURKEY

2020 to 2021

26 November 2021

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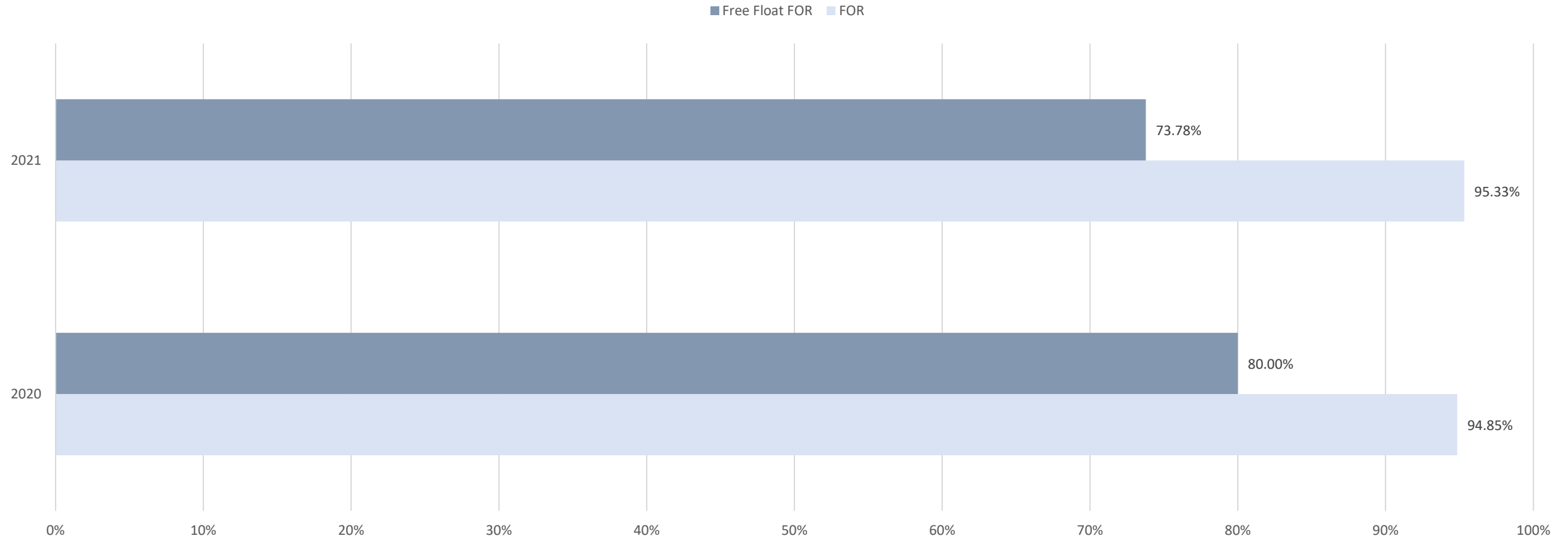
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# OVERVIEW AGM RESULTS

# AGM Results (1 of 2)

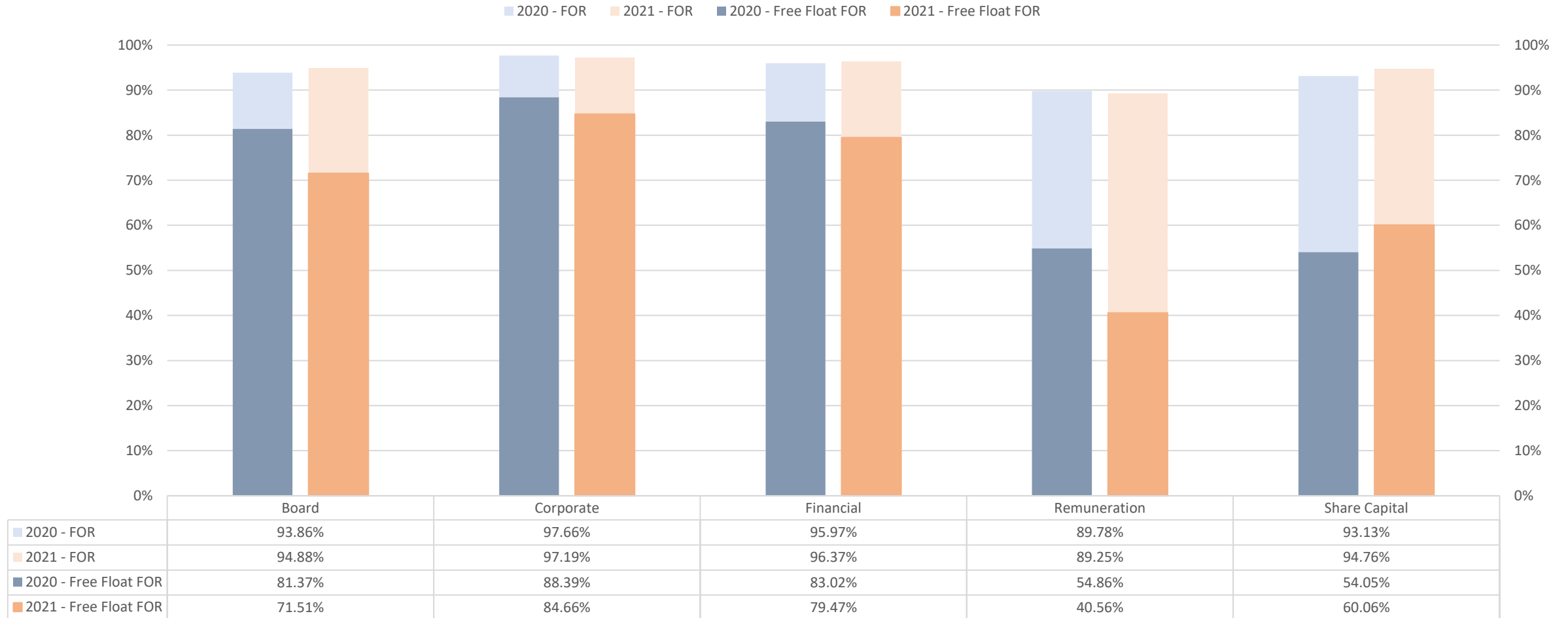
INCREASING APPROVAL RATES NOTWITHSTANDING GROWING FREE FLOAT INVESTOR OPPOSITION. WHAT ARE THE REASONS?

Average Approval Borsa Istanbul (BIST) 50 Annual General Meetings



# AGM Results (2 of 2)

TREND CONSISTENT ACROSS (ALMOST) ALL AGM ITEM TYPES

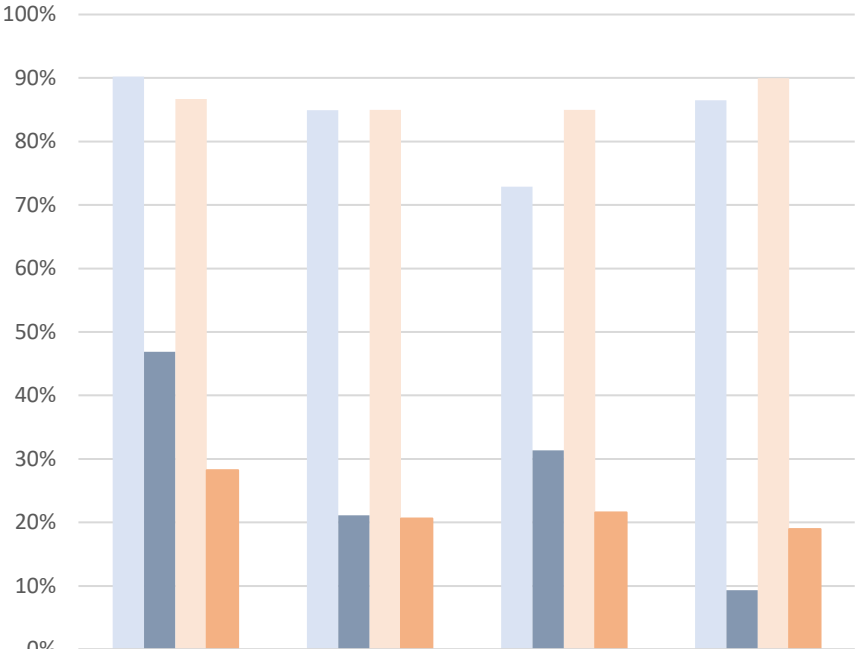


# THE ROLE OF PROXY ADVISORS

# Proxy Advisor “Impact”

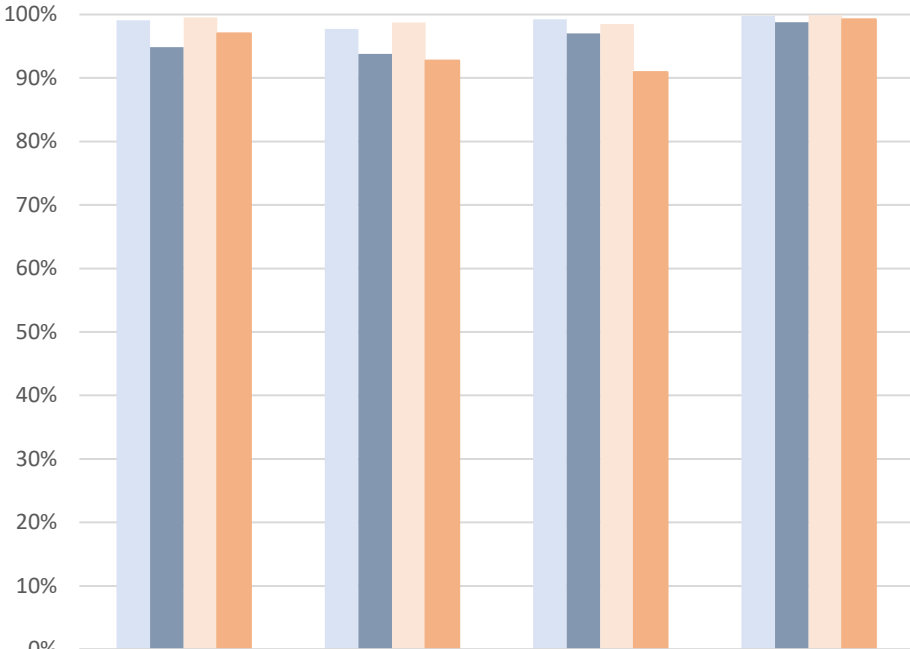
HIGH CORRELATION WITH PROXY ADVISOR RECOMMENDATIONS ACROSS AGM ITEM TYPES

AGM approval in the event of NEGATIVE proxy advisor recommendations



	Board	Financial	Remuneration	Share Capital
2020 - FOR	90.21%	84.92%	72.89%	86.48%
2020 - Free Float FOR	46.87%	21.15%	31.36%	9.34%
2021 - FOR	86.70%	84.99%	84.97%	89.94%
2021 - Free Float FOR	28.24%	20.64%	21.61%	18.95%

AGM approval in the event of POSITIVE proxy advisor recommendations



	Board	Financial	Remuneration	Share Capital
2020 - FOR	99.08%	97.72%	99.20%	99.78%
2020 - Free Float FOR	94.83%	93.80%	97.01%	98.75%
2021 - FOR	99.54%	98.72%	98.49%	99.86%
2021 - Free Float FOR	97.02%	92.74%	90.94%	99.24%

# DIGGING INTO THE ISSUES



# Share Capital Proposals

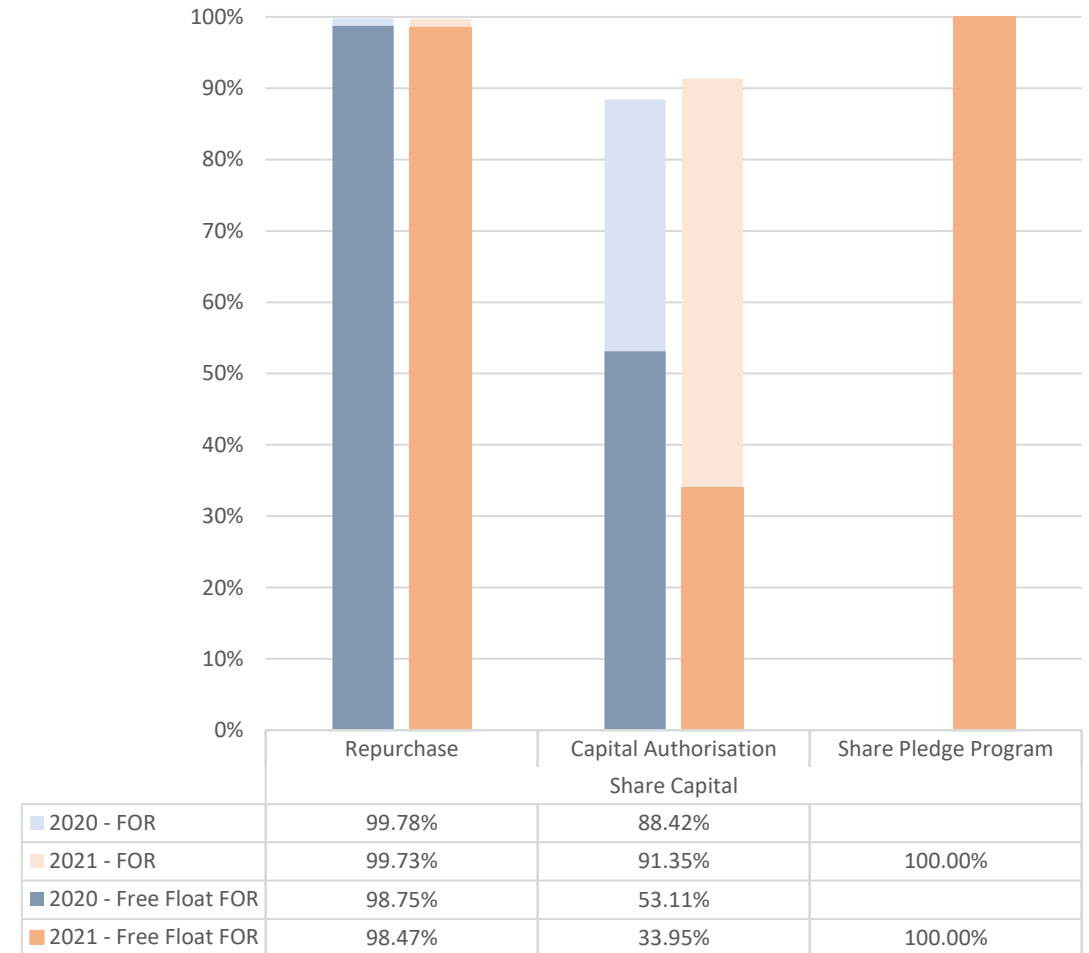
## REPURCHASE PROPOSALS REMAIN FEW AND UNCONTROVERSIAL

Despite COVID-19 pandemic...

- Only two BIST 30 companies made share repurchase requests in 2020, and one in 2021
- In line with low frequency seen across the Turkish market

## TYPICAL CONSIDERATIONS FOR CAPITAL AUTHORISATIONS

- Most companies in Turkey have adopted the **authorized capital system** by shareholder vote
  - Setting its authorized capital provisions to issue capital at any time without prior shareholder approval for up to five years
  - *Preemptive rights automatically apply*
  - but companies can *limit or eliminate preemptive rights* by amending articles to grant board the authority
- A small number of Turkish companies have not yet adopted the authorized capital system and must obtain **shareholder approval for each issuance**
  - *Preemptive rights automatically apply*
- Proxy advisors consider **overall size** of capital increases to be authorized and potential exclusion of **preemptive rights**
  - Institutional Shareholder Services (ISS) and Glass, Lewis & Co. (Glass Lewis) support increases up to 100% of current issued share capital, *with preemptive rights*
  - Up to 20% of issued share capital, *without preemptive rights*

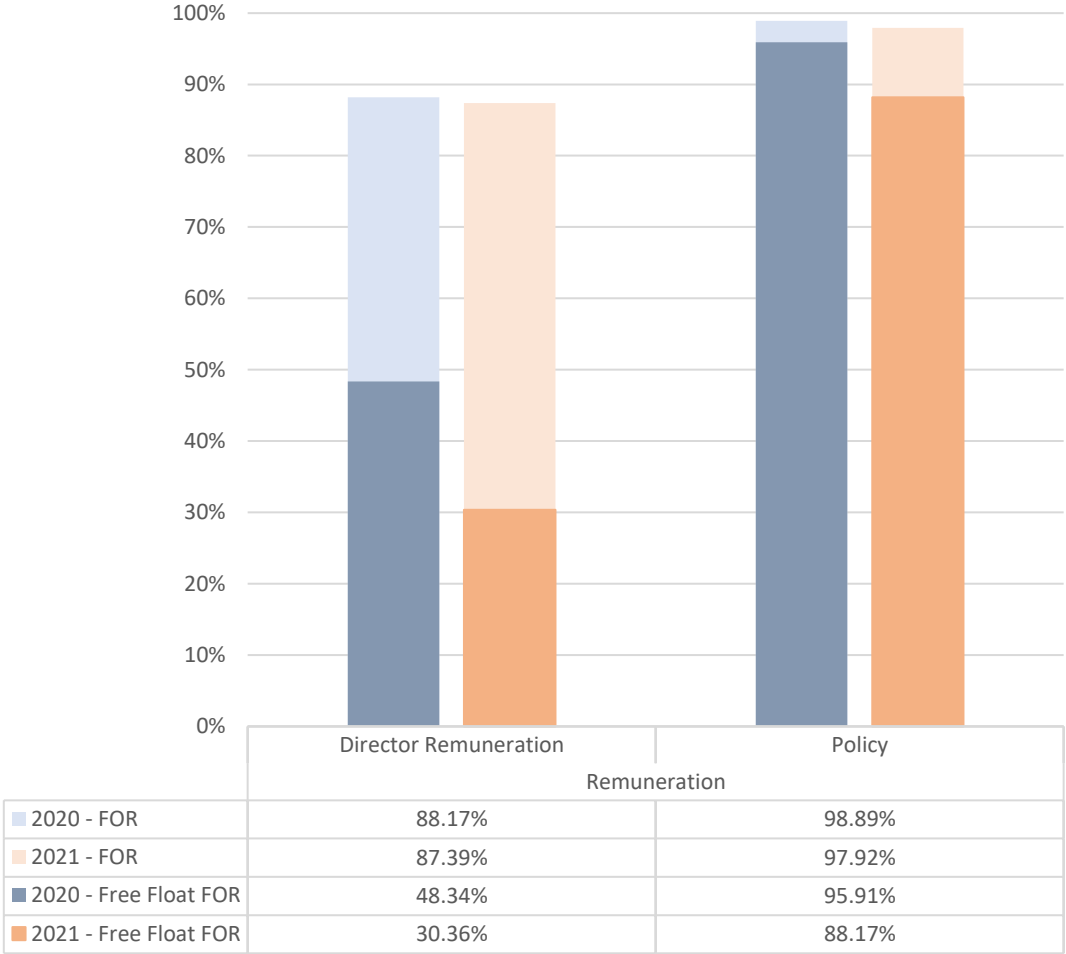


# Remuneration Proposals

THE FRAMEWORK (“POLICY”) IS NOT THE ISSUE...

... BUT THE PROPOSALS ON ACTUAL REMUNERATION ARE

- Lack of disclosure on remuneration practices and policies
  - Annual vote on director remuneration typically covers board attendance fees (rather than executive remuneration)
- ISS
  - Support
    - cash fees to non-executive directors unless amounts are excessive compared to local/industry peers
  - Case-by-case
    - non-executive director remuneration that include both cash and share-based components
    - bundled remuneration proposals for both non-executive and executive directors
  - Against
    - retirement benefits to non-executive directors
- Glass Lewis
  - ▶ Expect
    - full disclosure of the fees to be proposed for the respective upcoming financial year ahead of the shareholder meetings
  - ▶ Against
    - stock option grants (if granted on the same terms as executive awards)
    - and performance or profit-based payments for directors



# Financial Proposals

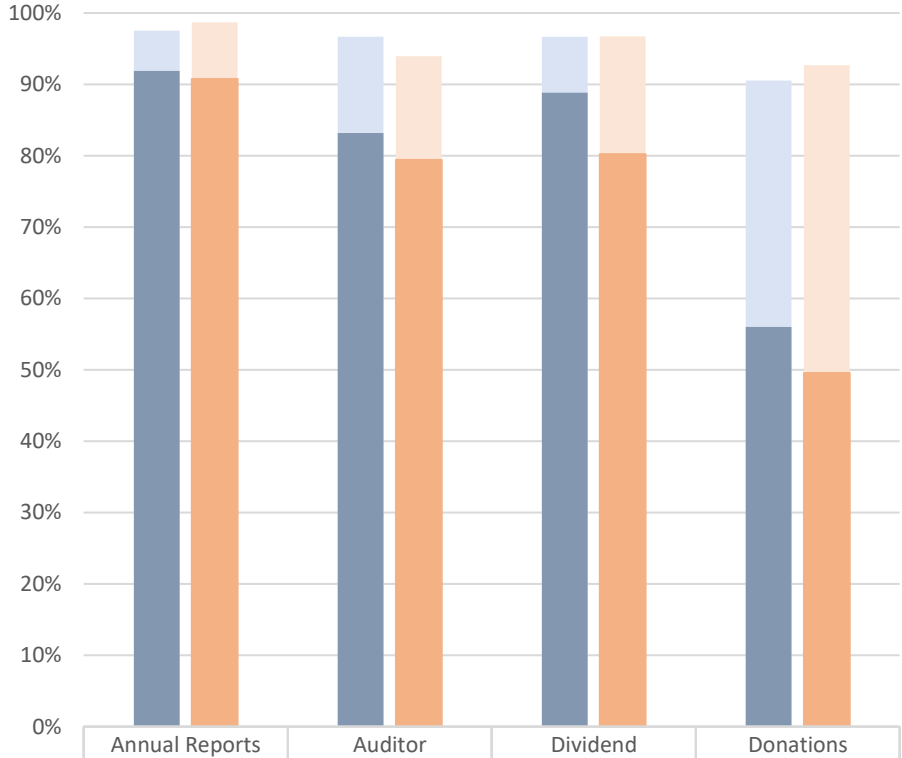
## LITTLE CONCERN ON STANDARD PROPOSALS RELATED TO FINANCIAL REPORTING...

Nevertheless, negative trend should be monitored considering the significance of trust in financial disclosures. Recent discontent mostly connected to

- Auditor:
  - lack of disclosure on breakdown of audit (vs. non-audit/consulting) fees
- Dividend:
  - excessively high or low payout ratio with no rationale or change in policy
  - elimination of dividend payments without explanation

## ... CORPORATE DONATIONS REMAIN THE ISSUE

- ISS against if
  - for the *fiscal year under review*,
    - donation amount is not disclosed at the time of analysis
    - or controversies exist on the company's use of donations
  - for the *upcoming fiscal year*,
    - cap for future donation amount is not disclosed
    - donations made under fiscal year in review is not disclosed
- Glass Lewis against if
  - for both *fiscal year under review* and *upcoming fiscal year*
    - donations/policies lack disclosure of recipient, type or the amount of donations ahead of the respective shareholder meeting



	Annual Reports	Auditor	Dividend	Donations
2020 - FOR	97.56%	96.71%	96.71%	90.57%
2021 - FOR	98.70%	93.99%	96.73%	92.69%
2020 - Free Float FOR	91.92%	83.22%	88.86%	56.03%
2021 - Free Float FOR	90.79%	79.44%	80.26%	49.55%

# Board Proposals

## RELATED PARTY TRANSACTIONS LARGELY UNCONTROVERSIAL...

Existing issues driven by Glass Lewis (recommending against >80% of proposals) because

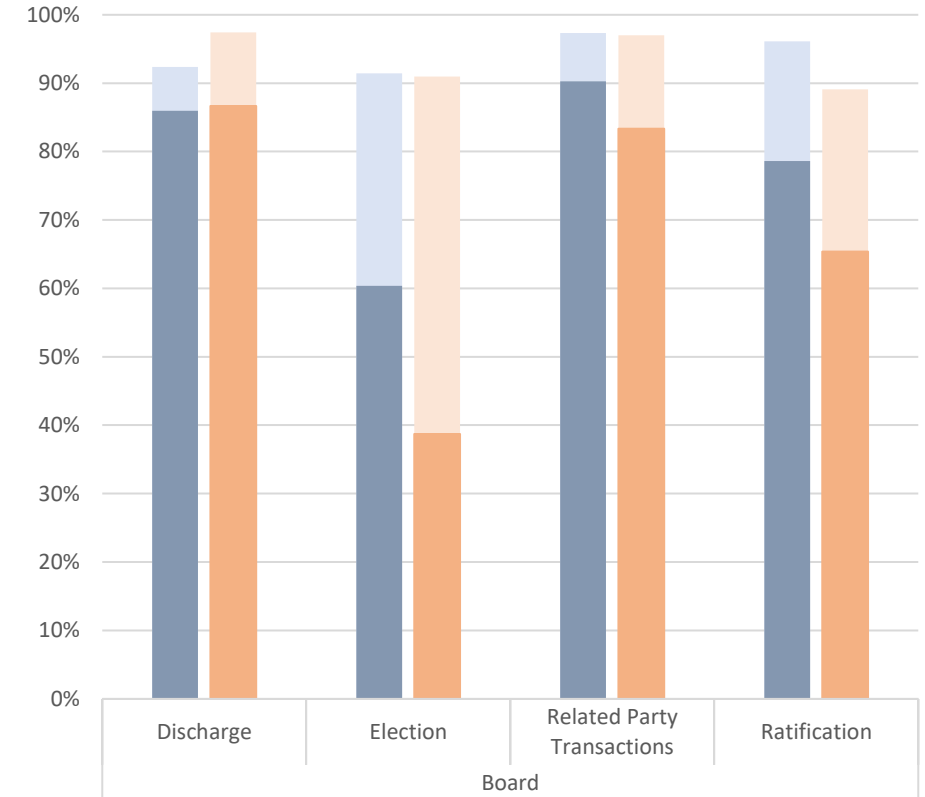
- Granting board members authorisation to perform transactions may potentially create conflict of interest

## ... ELECTIONS WOULD NOT PASS (ON AVERAGE) IF ONLY FREE FLOAT INVESTORS WERE VOTING...

- **Disclosure** practices have improved as most companies disclose names, occupations and affiliations of director candidates prior to the meeting, however done under separate announcement on the Public Disclosure Platform at a later date (rather than in the meeting announcement)
- **Bundled elections**
- and growing concern in the market due to lack of transparency in the **nomination process** of independent directors

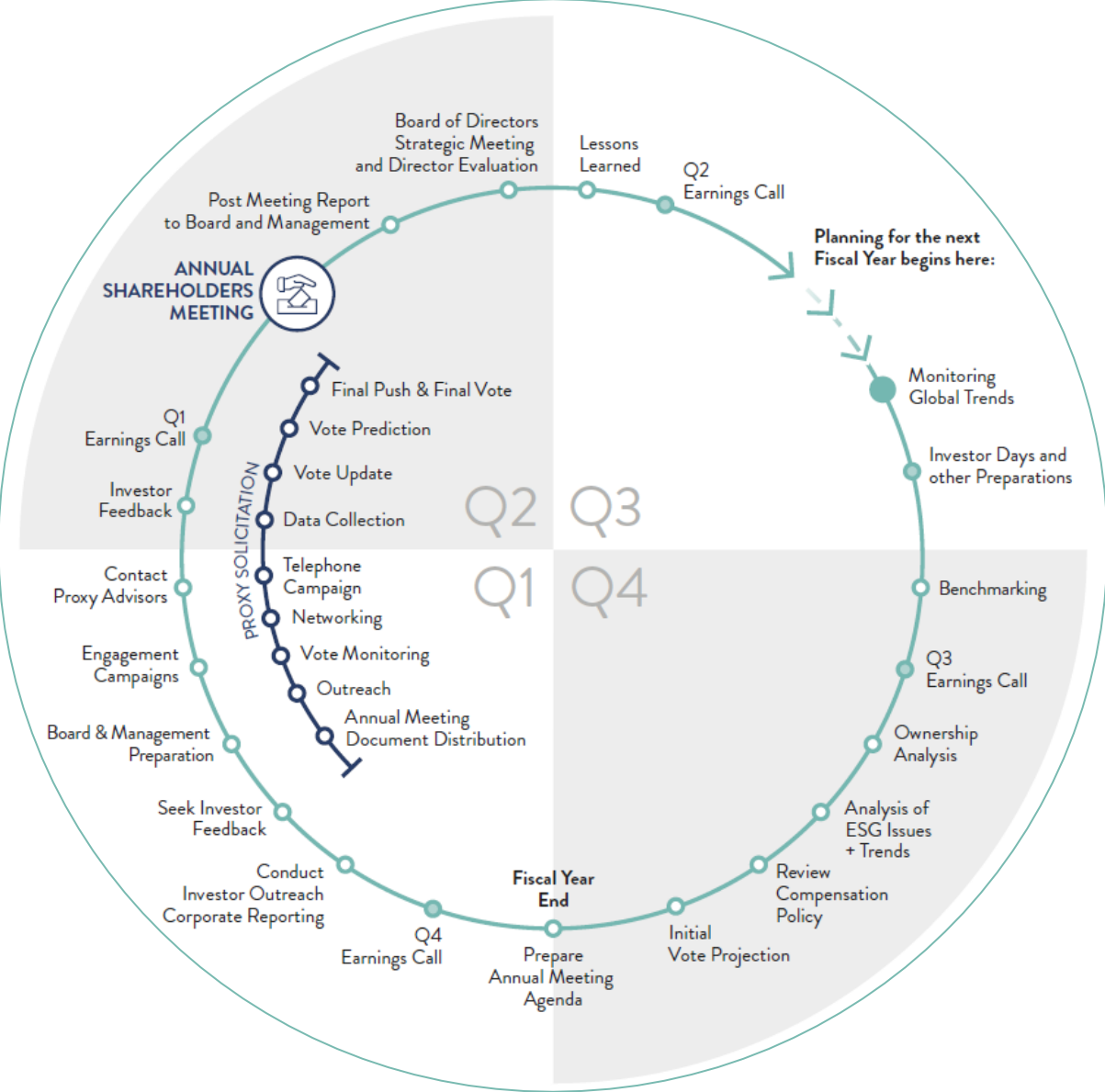
## ... AND INCREASINGLY RATIFICATION PROPOSALS AFFECTED.

- ISS and Glass Lewis tend to apply the same standards for ratification of the co-optation of board members as when analyzing a standard director elections, such as:
  - Independence of directors (minimum one-third overall board independence)
  - Conflicts of interest
  - Diverse experience and skills of board candidates
  - Attendance at board/committee meetings (>75%)



# WHAT CAN BE DONE?

# Roadmap



# What Can Be Done?

LEADING UP TO THE ANNUAL SHAREHOLDER MEETING



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