

## Investment Stewardship

# Vote Bulletin: Temenos AG

Company	<b>Temenos AG (Swiss Stock Exchange: TEMN)</b>
Market and Sector	Switzerland / Information Technology
Meeting Date	7 May 2024
Key Resolutions <sup>1</sup>	<b>Item 1.3:</b> Consultative vote on the 2023 Compensation Report
Key Topics	Remuneration
Board Recommendation	The board recommended shareholders vote FOR Item 1.3
BlackRock Vote <sup>2</sup>	BlackRock voted AGAINST Item 1.3

### Overview

Temenos AG (Temenos) is a Swiss company specializing in providing banking software to financial institutions globally.

As part of our fiduciary duty to our clients, BlackRock Investment Stewardship (BIS) promotes sound corporate governance as an informed, engaged shareholder on their behalf. In our experience, sound governance is critical to long-term financial value creation and the protection of investors' interests.

BIS takes a constructive, long-term approach to engagement with companies and focuses on the management and oversight of the drivers of risk and financial value creation in a company's business model. Engagement may also help inform our voting decisions for those clients who have given us authority to vote on their behalf.

BIS has a long history of engaging with Temenos on corporate strategy and governance. Since 2022, our engagement has focused on remuneration following the introduction of new features to its executive remuneration policy, reportedly to "enhance the alignment of [its long-term incentive] LTI program [(LTIP)] with the competitive market" and "to bolster retention efforts while maintaining accountability among [company] executives for their performance."<sup>3</sup>

<sup>1</sup> Temenos AG. "Invitation to the 23rd Annual General Meeting of Shareholders of Temenos AG." 2024.

<sup>2</sup> BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock's Voting Choice program, eligible institutional and retail clients can have greater access to the proxy voting process where legally and operationally viable. Read more about Voting Choice [here](#).

<sup>3</sup> Temenos AG. "Annex 1 to the Invitation to the 23rd Annual General Meeting of Shareholders of TEMENOS AG ("the Company") Information on Compensation agenda items (1.3, 4.1 and 4.2)." 2024.

BIS was concerned that the changes to the remuneration policy would further misalign payments to executives and financial returns to shareholders. Specifically, Temenos introduced an award (restricted shares)<sup>4</sup> in the long-term variable pay component of the policy that was not subject to performance targets.<sup>5</sup> In our view, the existing policy – prior to the changes – did not have stretching performance criteria so payments were historically not sufficiently aligned with company performance and these changes exacerbated that situation. Additionally, the total potential award that executives could receive was unlimited, which, in our view, could result in outsized awards compared to peers even if the company underperformed. Temenos has not been responsive to shareholder feedback, despite a notable investor vote against the policy in the past two years (34% in 2022 and 26% in 2023).<sup>6</sup>

Since the 2022 shareholder vote, Temenos made additional changes, which further misaligned the policy and long-term shareholders' interests. The company reduced the vesting period of the restricted shares to less than three years and made in-flight discretionary changes that resulted in a 20% LTIP payout increase without a compelling rationale. As a result, the CEO received an award that was more valuable than originally indicated in his performance plan. This exacerbated the already weak link between executive awards and the company's financial performance and made the incentive structure unduly short-term focused. Moreover, BIS was concerned that the company's self-constructed peer group, the basis for determining pay awards for executives, was heavily weighted to larger U.S., rather than domestic, companies.

Prior to Temenos' May 2024 annual general meeting (AGM), BIS engaged with the company and conveyed our concerns about the policy and the weak link between pay and the long-term financial returns to minority shareholders, including BlackRock's clients.

## **Rationale for BlackRock's vote**

### **Item 1.3: Consultative vote on the 2023 Compensation Report (AGAINST)**

**BIS did not support Temenos' executive remuneration policy, because, in our view, the proposed remuneration structure and disclosures lacked sufficient detail as to how it aligns with the long-term financial of interests of minority shareholders, including BlackRock's clients.**

As discussed in BIS' [Global Principles](#), we find it helpful when companies disclose a clear link between variable pay and operational and financial performance in executive remuneration practices, with performance metrics aligned with a company's strategy and business model. Moreover, in our view, LTIPs should encompass timeframes that are distinct from annual executive compensation structures and metrics and encourage the delivery of strong financial results over a period of at least three, and preferably five years.

Given the poor structure of the remuneration policy, Temenos' continued unresponsiveness to shareholder feedback, and a reward system that does not align with the financial outcomes for shareholders, including BlackRock clients, BIS did not support the management proposal.

The proposal did not pass at the May 2024 AGM, receiving approximately 33% shareholder support.<sup>7</sup> In response, Temenos released a statement re-affirming the board's awareness of shareholder concerns while

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<sup>4</sup> For clarity, "retentive components" of remuneration are designed to retain executives (e.g., Restricted Stock Units (RSU), awarded as long as an executive remains employed by a company) whereas "motivational components" are designed to encourage an executive to generate performance (e.g., Performance Share Units, awarded only for achieving goals set for certain performance metrics).

<sup>5</sup> Notably, the RSU represent 30% of the LTIP, while the rest is performance-based.

<sup>6</sup> Item 4.2 "2023 compensation of the Executive Committee" received 66% investor support at the May 2022 AGM, while Item 4.2 "2024 compensation of the Executive Committee" received 74% investor support at the May 2023 AGM. See: Temenos AG. "[2023 Annual General Meeting – Voting Results.](#)" and Temenos AG. "[2022 Annual General Meeting – Voting Results.](#)"

<sup>7</sup> Temenos AG. "[2024 Annual General Meeting – Voting Results.](#)" May 8, 2024.

attributing remuneration issues to “exceptional circumstances around the transition to a new CEO.”<sup>8</sup> The company also stated that it will continue to reflect on the vote result and provide a more detailed rationale in its remuneration disclosures.

BIS recognizes the importance of competitive executive pay, including performance incentive awards, in attracting and retaining talented company leaders. However, we look to companies to demonstrate that incentive pay for executives is performance-based and consistent with the long-term financial returns received by shareholders. We will continue to engage with the company to discuss its approach to future remuneration structures.

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<sup>8</sup> Temenos AG. [“Temenos announces the results of its 2024 Annual General Meeting.”](#) May 8, 2024.

## About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) promotes sound corporate governance as an informed, engaged shareholder on behalf of our clients. For those clients who have given us authority,<sup>9</sup> we vote proxies in line with our public [Global Principles and regional voting guidelines](#) and informed by our engagements, where relevant, as well as our analysis of company disclosures.<sup>10</sup> We vote with the sole objective to advance our clients' long-term financial interests.

As one of many shareholders, and typically a minority one, our role, on behalf of our clients as long-term investors, is to better understand how a company's leadership is managing risks and capitalizing on opportunities to help protect and enhance its ability to deliver long-term financial returns.

The BIS team of more than 65 dedicated professionals<sup>11</sup> operates across nine offices globally, taking a localized approach while also benefitting from global insights. We focus most of our efforts on corporate governance as, in our experience, sound governance is critical to the success of a company, long-term financial value creation, and the protection of investors' interests.

We are committed to transparency in the stewardship work we do on behalf of clients. The BIS [Global Principles, regional voting guidelines](#), and five [engagement priorities](#) (collectively, the BIS policies) set out the core elements of corporate governance that guide our investment stewardship program globally and within each regional market every year. These policies support effective stewardship processes and transparency and align with our commitment to pursue long-term financial returns for our clients as shareholders.

In addition, we inform clients about our engagement and voting policies and activities through direct communication and through various other disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

[contactstewardship@blackrock.com](mailto:contactstewardship@blackrock.com)

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<sup>10</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

<sup>11</sup> As of December 31, 2023.