Swisscanto
Fund Management
Company Ltd.

2019 Swisscanto Sustainability Proxy Voting Guidelines

For Swiss and International Companies

Published 1 March, 2019

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Introduction

These Sustainability Proxy Voting Guidelines (**Guidelines**) which are duly applied by Swisscanto Fund Management Company Ltd. (**Swisscanto**) are valid for Swiss and international companies[1]. Swisscanto in collaboration with a renowned and independent external proxy voting agent (ISS Inc), its asset managers and ESG experts reviews and updates these Guidelines on an annual basis to take into account emerging issues and trends on environmental, social and corporate governance topics, market standards or regulations and client feedback.

Hence, these are Swisscanto's proprietary proxy voting guidelines which differ from ISS' Benchmark Policy.

There is an increasing number of investors concerned with portfolio value preservation and enhancement through carrying out an active ownership approach through their proxy voting and engagement activity. In voting their shares, sustainability-minded investors are concerned not only with economic returns to shareholders and good corporate governance but also with ensuring that corporate activities and practices are aligned with the broader objectives of society. Additionally, Swisscanto recognizes the growing view among investors and investment professionals that sustainability or environmental, social, and corporate governance (**ESG**) factors could present material risks to portfolio investments. Therefore, Swisscanto has developed these Guidelines that are consistent with the objectives of sustainability-minded investors and that seek to promote support for sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination and the protection of human rights.

Generally, these Guidelines will take as its frame of reference internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), CERES Principles, Global Sullivan Principles, MacBride Principles and environmental and social European Union Directives. Each of these initiatives promote a fair, unified and productive reporting and compliance environment which advances positive corporate ESG actions and mitigate related financial and reputational risks.

There may be cases in which the exercise of voting rights at a particular company varies from these Guidelines in order to better safeguard the interest of investors and to protect shareholder value as that Swisscanto considers company-specific circumstances in its decision-making process.

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[1] For shareholder meetings of publicly traded U.S.-incorporated companies, further market specific guidelines are applied: https://www.issgovernance.com/file/policy/active/specialty/Sustainability-US-Voting-Guidelines.pdf

1. Operational Items

1.1. Financial Results/Director and Auditor Reports

Policy Recommendation: Vote for approval of financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

1.2. Appointment of Auditors and Auditor Fees

Policy Recommendation: Generally, vote for proposals to (re)appoint auditors and/or proposals authorizing the board to fix auditor fees, unless:

- The name of the proposed auditors has not been published;
- There are serious concerns about the effectiveness of the auditors;
- The lead audit partner(s) has been linked with a significant auditing controversy;
- There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;
- The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
- The auditors are being changed without explanation; or
- For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law.

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: Initial public offerings, bankruptcy emergence, and spinoffs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

For concerns relating to the audit procedures, independence of auditors and their tenure, and/or name of auditors, the Sustainability policy will focus on the auditor election and/or the audit committee members. For concerns relating to fees paid to the auditors, the Sustainability policy will focus on remuneration of auditors if this is a separate voting item, otherwise the Sustainability policy would focus on the auditor election.

Additional Policy Recommendation: Vote against for the re-election of auditors and/or proposals authorizing the board to fix auditor fees, if:

- The auditors have served the company for more than 30 years. In accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, this threshold will be decreased to a maximum of 20 years as per June 16, 2020 and to a maximum of 11 years as per June 16, 2023.

1.3. Appointment of Internal Statutory Auditors

Policy Recommendation: Vote for the appointment or re-election of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

1.4. Allocation of Income

Policy Recommendation: Vote for approval of the allocation of income, unless:

- The proposed dividend payout ratio is below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Additional Policy Recommendation: Vote for the approval of the allocation of income irrespective of any threshold in terms of dividend payout ratio:

- If the subject is a growth company (e.g. constituent of a growth index)
- If that company uses its free cash flow or net income to pay down debt in order to improve its financial position or to decrease its leverage. A case-by-case analysis is required in this event.

1.5. Stock (Scrip) Dividend Alternative

Policy Recommendation: Vote case-by-case on stock (scrip) dividend proposals, considering factors such as:

- Whether the proposal allows for a cash option; and
- If the proposal is in line with market standards.

1.6. Amendments to Articles of Association

Policy Recommendation: Vote amendments to the articles of association on a case-by-case basis.

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Policy Recommendation: Vote amendments to the articles of association on a case-by-case basis.

1.8. Virtual Meetings (UK/Ireland and Europe)

Policy Recommendation: Generally, vote for proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs.

Generally, vote against proposals allowing for the convening of virtual-only* shareholder meetings.

* The phrase "virtual-only shareholder meeting" refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. The term "hybrid shareholder meeting" refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.

1.9. Change in Company Fiscal Term

Policy Recommendation: Vote for resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

1.10. Lower Disclosure Threshold for Stock Ownership

Policy Recommendation: Vote against resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

1.11. Amend Quorum Requirements

Policy Recommendation: Vote proposals to amend quorum requirements for shareholder meetings on a case-by-case basis.

1.12. Transact Other Business

Policy Recommendation: Vote against other business when it appears as a voting item.

2. BOARD OF DIRECTORS

2.1. Director Elections

Policy Recommendation: Vote for management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards, including board independence standards.

Gender diversity on boards in international markets is evaluated when director elections are reviewed, to the extent that disclosures and market practices permit.

- Generally, vote against or withhold from the chair of the nominating committee if the board lacks at least one woman.
- For Japan, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one woman.

Vote for individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote against individual directors if absences at board meetings have not been explained (in countries where this information is disclosed).

Vote for employee and/or labor representatives if they sit on either the audit or compensation committee *and* are required by law to be on those committees. Vote against employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.

Vote against or withhold from directors individually, on a committee, or potentially the entire board due to:

- Material failures of governance, stewardship, risk oversight[2], or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks;
- A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks;
- Failure to replace management as appropriate;

[2] Examples of failure of risk oversight include, but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant environmental incidents including spills and pollution; large scale or repeat workplace fatalities or injuries; significant adverse legal judgments or settlements; hedging of company stock; or significant pledging of company stock.

- Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

For director elections, Sustainability Advisory Services will also take into consideration market-specific provisions which are listed below:

2.1.1. Canadian Guidelines

Board Structure and Independence (TSX)

Vote withhold for any Executive Director or Non-Independent, Non-Executive Director where:

- The board is less than majority independent; or
- The board lacks a separate compensation or nominating committee.

Non-Independent Directors on Key Committees (TSX)

Vote withhold for members of the audit, compensation, or nominating committee who:

- Are Executive Directors;
- Are Controlling Shareholders; or
- Is Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated.

Non-Independent Directors on Key Committees-TSX-V

Vote withhold for Executive Directors, Controlling Shareholders or a Non-employee officer of the company or its affiliates if he/she is among the five most highly compensated who:

- Are members of the audit committee;
- Are members of the compensation committee or the nominating committee and the committee is not majority independent; or
- Are board members and the entire board fulfills the role of a compensation committee or a nominating committee and the board is not majority independent.

Overboarding-TSX

Generally, vote withhold for individual director nominees who:

- Are non-CEO directors and serve on more than five public company boards; or
- Are CEOs of public companies who serve on the board of more than two public company besides their own – withhold only at their outside boards.[3]

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[3] Although a CEO's subsidiary boards will be counted as separate boards, Sustainability Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

Externally-Managed Issuers (EMIs) –TSX and TSXV

Vote case-by-case on say-on-pay resolutions where provided, or on individual directors, committee members, or the entire board as appropriate, when an issuer is externally-managed and has provided minimal or no disclosure about their management services agreements and how senior management is compensated. Factors taken into consideration may include but are not limited to:

- The size and scope of the management services agreement;
- Executive compensation in comparison to issuer peers and/or similarly structured issuers;
- Overall performance;
- Related party transactions;
- Board and committee independence;
- Conflicts of interest and process for managing conflicts effectively;
- Disclosure and independence of the decision-making process involved in the selection of the management services provider;
- Risk mitigating factors included within the management services agreement such as fee recoupment mechanisms;
- Historical compensation concerns;
- Executives' responsibilities; and
- Other factors that may reasonably be deemed appropriate to assess an externally-managed issuer's governance framework.

Unilateral Adoption of an Advance Notice Provision

For Canadian companies, generally withhold from individual directors, committee members, or the entire board as appropriate in situations where an advance notice policy has been adopted by the board but has not been included on the voting agenda at the next shareholders' meeting.

Continued lack of shareholder approval of the advanced notice policy in subsequent years may result in further withhold recommendations.

2.1.2. European Guidelines

In **European markets**, Sustainability Advisory Services looks at a different set of factors to make determinations regarding director elections. The following factors are taken into account:

Director Terms

For **Belgium**, **France**, **Greece**, **Netherlands**, **Spain**, and **Switzerland**, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items.

Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, the Sustainability policy will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.

Bundling of Proposals to Elect Directors

Bundling together proposals that could be presented as separate voting items is not considered good market practice, because bundled resolutions leave shareholders with an all-or-nothing choice, skewing power disproportionately towards the board and away from shareholders. As director elections are one of the most important voting decisions that shareholders make, directors should be elected individually.

For the markets of **Bulgaria, Croatia, Czech Republic, Estonia, France, Germany, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia**, vote against the election or re-election of any directors if the company proposes a single slate of directors.

*Bundled director elections in Poland may be supported for companies that go beyond market practice by disclosing the names of nominees on a timely basis.

Board Independence

Widely-held companies

A. Non-controlled companies

Generally, vote against the election or reelection of any non-independent directors (excluding the CEO) if:

1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or
2. Fewer than one-third of all board members would be independent.

Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy.

B. Controlled companies

Generally, vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

Non-widely held companies

Generally, vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

Definition of terms

'Widely-held companies' are determined based on their membership in a major index and/or the number of Sustainability Advisory Services clients holding the securities. For Sweden, Norway, Denmark, and Luxembourg, this is based on membership on a local blue chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.

A company is considered to be controlled for the purposes of the above-mentioned voting policies if a shareholder, or multiple shareholders acting in concert, control a majority of the company's equity capital (i.e. 50 percent + one share). If a company is majority-controlled by virtue of a shareholder structure in which shareholders' voting rights do not accrue in accordance with their equity capital commitment (e.g. unequal or multi-class share structures), the company will not be classified as controlled unless the majority shareholder/majority shareholding group also holds a majority of the company's equity capital

Additional Policy Recommendation:

If a company is

- family-controlled
- and/or has a majority (i.e. 50 percent + 1 share or more of the company's equity capital)
- and/or significant (i.e. between 10 and 50 percent of the company's equity capital and publicly disclosed) shareholder
- and if the principle of "one-share, one-vote" is respected
- and if the company has a single-class capital structure in place;

then a controlling/majority/significant shareholder-representation rule will be applied to board elections or re-elections that is proportionate to the economic interest of the controlling family or majority/significant shareholder. A controlling/majority/significant equity stake is defined based on economic interest and not voting power.

The following rules apply to board independence criteria and board elections or re-elections for this additional policy recommendation, the prioritisation takes place the following way (from 1. to 3.):

1. Vote against the election or re-election of any non-independent non-executive directors, if the board will be less than 50 percent independent. Vote also against the election or re-election of any non-independent director (including the CEO or any other executive director) if the board will be less than one third independent. However, support the election or re-election of non-independent directors acting as shareholder representatives by considering the additional rules (points 2-3). In case of any imbalance of economic interest and board representation manifested by overrepresentation of controlling/majority/significant shareholders by the proposed candidates, adopt the following rules proportionally.
2. Generally, support the election or re-election of non-independent directors appointed by a majority (controlling) shareholder (or a group of shareholders acting collectively) up to a maximum of his/her/their economic interest (while applying mathematical rounding rules).
3. Generally, support the election or re-election of non-independent directors appointed by each main (significant) shareholder, i.e. which control at least 10 percent of the company's equity capital, up to a maximum of his/her/their economic interest (while applying mathematical rounding rules).

In general, if any other rule within this additional policy recommendation would lead to an adverse vote on the election and/or re-election of any board member (including the chairman of the board or the CEO), then this other rule (outside this additional policy recommendation) will be applied irrespective of the above additional criteria.

Additional specification: If a significant shareholder proposes more directors for election or re-election to the board than its economic interest would 'allow', then the following rules apply as well:

Vote against the additional (newly) proposed director by the significant shareholder, unless

a. The newly proposed candidate is the founder or the main/significant shareholder itself. In such a case, support the election of the founder or the main/significant shareholder and vote against the former incumbent director or newly proposed candidate, who is (re-)proposed by the significant shareholder and who possesses the lowest 'industry specific competencies'.

b. The company's (EPS, ROE) or share price performance (TSR) has been negative over the last 3 years. In such a case, support the election of the newly proposed candidate and vote against the former incumbent director, who is re-proposed by the significant shareholder and who possesses the 'lowest industry specific competencies'.

The 'industry specific competencies' will be analysed on a case-by-case basis.

In Switzerland, in case of insufficient board independence, Swisscanto will support the election of a number of non-independent members equal to the number of independent members. In order to determine the non-independent board members whose election or re-election on the board will be supported, Swisscanto will examine each candidature on a case-by-case basis and will consequently generally vote in favour of:

1. The non-independent director who is the founder or a representative of the founder/founding family of the company, a significant shareholder or a representative of a significant shareholder of the company;
2. The incumbent non-independent board members with the highest industry specific competencies, provided that the company has generated shareholder value for the year under review;
3. The new non-independent board members, possessing the highest industry specific competencies. The total number of directors (both non-independent and independent) that will always be supported will never be lower than 3.

Disclosure of Nominee Names

Vote against the election or re-election of any and all director nominees when the names of the nominees are not available at the time the proxy analysis is being written. This policy will be applied to all companies in these markets, for bundled and unbundled items.

Combined Chairman/CEO

Generally, vote against the (re)election of combined chair/CEOs at widely held companies.

When the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), the vote recommendation would be made on a case-by-case basis.

In the above-mentioned situation, Sustainability Advisory Services will consider the rationale provided by the company and whether it has set up adequate control mechanisms on the board (such as a lead independent director, a high overall board independence, and a high level of independence on the board's key committees). Election of Former CEO as Chairman of the Board

Generally, vote against the election or re-election of a former CEO as chairman to the supervisory board or board of directors at widely held companies in **Germany**, **Austria**, and the **Netherlands**. In markets such as **Germany**, where the general meeting only elects the nominees and, subsequently, the new board's chairman, the Sustainability policy will generally recommend a vote against the election or re-election of a former CEO, unless the company has publicly confirmed prior to the general meeting that he will not proceed to become chairman of the board.

Considerations should be given to any of the following exceptional circumstances on a case-by-case basis if:

- There are compelling reasons that justify the election or re-election of a former CEO as chairman; or
- The former CEO is proposed to become the board's chairman only on an interim or temporary basis; or
- The former CEO is proposed to be elected as the board's chairman for the first time after a reasonable cooling-off period; or
- The board chairman will not receive a level of compensation comparable to the company's executives nor assume executive functions in markets where this is applicable.

Additional Policy Recommendation: If a company has a dual board structure and if a CEO or any other executive is also proposed as "regular" member of the board of directors for election and/or re-election, generally this will result in an adverse voting recommendation against this proposed candidate. In order to better respect the check and balance principle at Swiss companies, generally vote against the election or re-election of any executive director to the board of directors. For other markets, apply this rule accordingly as indicated by the associated legal framework (in case of a clear two-tier or dual board structure this rule is being applied). In exceptional circumstances, the vote recommendation would be made on a case-by-case basis.

Exception: In Switzerland, Swisscanto will:

- support the election of executive directors (but NOT the election of a combined Chair/CEO) if the company is in a turnaround situation.
- support the election of executive directors, including a combined Chair/CEO if the company has generated positive shareholder value and at the same time the company is not a constituent of the

Swiss Market Index (SMI), and the nominee is a founder or a member of the founding family, or a (representative of) significant shareholder, or the company operates in a research-intensive sector.

Overboarded Directors

In **Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, and Switzerland**, at widely held companies, Sustainability Advisory Services will generally recommend a vote against a candidate when he/she holds an excessive number of board appointments, as referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or the following guidelines:

- Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.
- Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.

CEOs and Chairmen An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. For chairmen, negative recommendations would first be applied towards non-executive positions held, but the chairmanship position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position.

One Board Seat per Director

In cases where a director holds more than one board seat on a single board and the corresponding votes, manifested as one seat as a physical person plus an additional seat(s) as a representative of a legal entity, vote against the election/reelection of such legal entities and in favor of the physical person.

However, an exception is made if the representative of the legal entity holds the position of CEO. In such circumstances, the Sustainability policy will typically recommend a vote in favor of the legal entity and against the election/reelection of the physical person.

While such occurrences are rare, there have been cases where a board member may have multiple board seats and corresponding votes. Holding several board seats concurrently within one board increases this person's direct influence on board decisions and creates an inequality among board members.

This situation has manifested in Belgium, Luxembourg, and France. This is not a good corporate governance practice, as it places disproportionate influence and control in one person.

Composition of Committees

For widely - held companies, generally vote against the (re)election of any non-independent members of the audit committee if:

- Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another - excluding, where relevant, employee shareholder representatives - would be independent; or
- Fewer than one-third of all audit committee members would be independent.

For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable.

Generally, vote against the election or reelection of the non-independent member of the audit committee designated as chairman of that committee.

For widely-held companies in **Belgium**, the **Netherlands**, and **Switzerland**, vote against the (re)election of non-independent members of the remuneration committee if their (re)election would lead to a non-independent majority on that committee.

For all companies:

In **Belgium**, **Denmark**, **Finland**, **France, Iceland, Luxembourg**, the **Netherlands**, **Norway**, **Spain**, **Sweden**, and **Switzerland**, vote against the (re)election of executives who serve on the company's audit or remuneration committee. Sustainability Advisory Services may recommend against if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, Sustainability Advisory Services may consider that the entire board fulfills the role of a committee. In such case, Sustainability Advisory Services may recommend against the executives, including the CEO, up for election to the board.

For **Belgium**, the **Netherlands**, and **Switzerland**, vote against the (re)election of non-independent members of the audit committee and/or the remuneration committee if their (re)election would lead to a non-independent majority on the respective committee.

Additional Policy Recommendation: If the same individual is submitted to shareholder vote on the same agenda both as a board member and board committee member and the application of the Swisscanto Sustainability Proxy Voting Guidelines results in a vote against the election of the candidate in his/her capacity as a board member, vote against the election of the same individual in his/her capacity as a committee member.

Additional Policy Recommendation: Vote against the re-election of incumbent members of the remuneration committee in case the election of members of the remuneration committee is taking place as a separate vote and at the same time the company's remuneration report or any other executive remuneration related proposal for the last three fiscal years is being opposed.

Voto di Lista (Italy)

In Italy, director elections generally take place through the voto di lista mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), issuers must publish the various lists 21 days in advance of the meeting.

Since shareholders only have the option to support one such list, where lists are published in sufficient time, the Sustainability policy will recommend a vote on a case-by-case basis, determining which list of nominees it considers is best suited to add value for shareholders based, as applicable, on the Sustainability European policies for Director Elections and for Contested Director Elections.

Those companies that are excluded from the provisions of the European Shareholder Rights Directive publish lists of nominees 10 days before the meeting. In the case where nominees are not published in

sufficient time, Sustainability will recommend a vote against the director elections before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, the Sustainability policy will issue an alert to its clients and, if appropriate, change its vote recommendation to support one particular list.

The Florange Act (France)- Double Voting Rights

For French companies that:

- Did not have a bylaw allowing for double voting rights before the enactment of the Law of 29 March 2014 (Florange Act); and
- Do not currently have a bylaw prohibiting double-voting rights; and either
- Do not have on their ballot for shareholder approval a bylaw amendment to prohibit double-voting, submitted by either management or shareholders; or
- Have not made a public commitment to submit such a bylaw amendment to shareholder vote before April 3, 2016;

Then, on a case-by-case basis, the Sustainability policy may recommend against the following types of proposals:

- The re-election of directors or supervisory board members; or
- The approval of the discharge of directors; or
- If neither re-election of directors/supervisory board members nor approval of discharge is considered appropriate, then the approval of the annual report and accounts.

Composition of the Nominating Committee (Sweden/Norway/Finland)

Vote for proposals in **Finland**, **Iceland**, **Norway**, and **Sweden** to elect or appoint a nominating committee consisting mainly of non-board members.

Vote for shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.

Vote against proposals where the names of the candidates (in the case of an election) or the principles for the establishment of the committee have not been disclosed in a timely manner.

Vote against proposals in **Sweden** to elect or appoint such a committee if the company is on the MSCI-EAFE or local main index and the following conditions exist:

- A member of the executive management would be a member of the committee;
- More than one board member who is dependent on a major shareholder would be on the committee; or
- The chair of the board would also be the chair of the committee.

In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote against the adoption of the principles if any of the above conditions are met for the current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.

Election of Censors (France)

For widely held companies, the Sustainability policy will generally recommend a vote against proposals seeking shareholder approval to elect a censor, to amend bylaws to authorize the appointment of censors, or to extend the maximum number of censors to the board.

However, the Sustainability policy will recommend a vote on a case-by-case basis when the company provides assurance that the censor would serve on a short-term basis (maximum one year) with the intent to retain the nominee before his/her election as director. In this case, consideration shall also be given to the nominee's situation (notably overboarding or other factors of concern).

In consideration of the principle that censors should be appointed on a short-term basis, vote against any proposal to renew the term of a censor or to extend the statutory term of censors.

Please see the International Classification of Directors on the following page.

Cumulative Voting – Middle East and Africa (MEA)

For MEA markets, in cases where:

- Directors are proposed for (re)election through a cumulative voting system, or
- Director elections do not take place through a cumulative voting system, but the number of nominees up for (re)election exceeds the number of board vacancies.

Sustainability Advisory Services will recommend a vote on a case-by-case basis, considering additional factors, for the purpose of identifying the best suited nominees to add value for shareholders. Positive vote recommendations will be issued preferentially in favor of the following categories of candidates:

- Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates, namely:
- Candidates who can be classified as independent according to SRI policy, or, failing that,
- Candidates explicitly classified as independent per the company's director classification.
- Candidates whose professional background may have the following benefits:
- Increasing the diversity of incumbent directors ' professional profiles and skills (thanks to their financial expertise, international experience, executive positions/directorships at other listed companies, or other relevent factors.
- Bringing to the current board of directors relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.
- Incumbent board members and candidates explicitly supported by the company's management.

2.2. Classification of Directors

Executive Director

- Employee or executive of the company or a wholly-owned subsidiary of the company;
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. **This classification rule is not applied for the companies listed in Switzerland**.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED;
- Any director specifically designated as a representative of a shareholder of the company;
- Any director who is also an employee or executive of a significant[1] shareholder of the company;
- Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant[1] shareholder of the company;
- Any director who is nominated by a dissenting significant shareholder unless there is a clear lack of material[2] connection with the dissident, either currently or historically;
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family that beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- Government representative;
- Currently provides or has provided (or a relative[3] provides) professional services[4] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in the latest fiscal year in excess of USD 10,000 per year;
- Represents customer, supplier, creditor, banker, or other entity with which the company maintains a transactional/commercial relationship (unless the company discloses information to apply a materiality test[5]);
- Any director who has a conflicting relationship with the company, including but not limited to cross-directorships with executive directors or the chairman of the company;
- Relative[3] of a current or former executive of the company or its affiliates;
- A new appointee elected other than by a formal process through the general meeting (such as a contractual appointment by a substantial shareholder);
- Founder/co-founder/member of founding family but not currently an employee or executive;
- Former executive or employee (five-year cooling off period)[7];
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.[6]
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance[8].

Independent NED

- No material[2] connection, either direct or indirect, to the company (other than a board seat) or to a significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as "employee representative" and considered a non-independent NED).

Footnotes

[1] At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.

[2] For purposes of Sustainability Advisory Services' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.[5]

[3] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[4] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[5] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated; or

A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value (of all outstanding financing operations) compared to the company's total assets is more than 5 percent.

[6] For example, in continental Europe and Latin America, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong and Singapore, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.

[7] For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

[8] For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

2.3. Contested Director Elections

Policy Recommendation: For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, the Sustainability policy will make its recommendation on a case by-case basis, determining which directors are considered best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;
- Evidence of management entrenchment;
- Responsiveness to shareholders;
- Whether a takeover offer has been rebuffed; and
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, Sustainability will generally focus on two central questions: (1) Have the proponents proved that board change is warranted? And if so, (2) Are the proponent board nominees likely to effect positive change (i.e. maximize long-term shareholder value).

2.4. Discharge of Board and Management

Policy Recommendation: Generally, vote for discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties such as:

- A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest;
- Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; or
- Other material failures of governance or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; or
- A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks.

For markets which do not routinely request discharge resolutions (e.g. common law countries or markets where discharge is not mandatory), analysts may voice concern in other appropriate agenda items, such as approval of the annual accounts or other relevant resolutions, to enable shareholders to express discontent with the board.

Vote against proposals to remove approval of discharge of board and management from the agenda.

Additional Policy Recommendation: Significant and recurring earnings adjustments/restatements over the last three years lead to an against vote recommendation for the discharge of board and/or management.

Definition of „Recurring": The significant adjustments and/or restatements have persisted for the last 3 years.

Definition of „Significant": A positive difference of 1/3 or more (between diluted EPS and diluted pro-forma / adjusted EPS figures) is considered a significant adjustment/restatement.

2.5. Director, Officer, and Auditor Indemnification and Liability Provisions

Policy Recommendation:

- Vote proposals seeking indemnification and liability protection for directors and officers on a case-by-case basis.
- Vote against proposals to indemnify auditors.

2.6. Board Structure

Policy Recommendation:

- Vote for proposals to fix board size.
- Vote against the introduction of classified boards and mandatory retirement ages for directors.
- Vote against proposals to alter board structure or size in the context of a fight for control of the company or the board.

3. CAPITAL STRUCTURE

3.1. Share Issuance Requests

General Issuances:

Policy Recommendation: Evaluate share issuance requests on a case-by-case basis taking into consideration market-specific guidelines as applicable.

For **European markets**, vote for issuance authorities with preemptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

Vote for issuance authorities without preemptive rights to a maximum of 10 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**).

For **UK** and **Irish** companies, generally vote for a resolution to authorize the issuance of equity, unless:

- The general issuance authority exceeds one-third (33 percent) of the issued share capital. Assuming it is no more than one-third, a further one-third of the issued share capital may also be applied to a fully pre-emptive rights issue taking the acceptable aggregate authority to two-thirds (66 percent);
- The routine authority to disapply preemption rights exceeds 10 percent of the issued share capital, provided that any amount above 5 percent is to be used for the purposes of an acquisition or a specified capital investment.

For **French** companies:

- Vote for general issuance requests with preemptive rights, or without preemptive rights but with a binding "priority right," for a maximum of 50 percent over currently issued capital.
- Generally, vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital. When companies are listed on a regulated market, the maximum discount on share issuance price proposed in the resolution must, in addition, comply with the legal discount (i.e., a maximum of 5 percent discount to the share listing price) for a vote for to be warranted.

For **Hong Kong** companies, generally vote for the general issuance mandate for companies that:

- Limit the issuance request to 10 percent or less of the relevant class of issued share capital;
- Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and
- Have no history of renewing the general issuance mandate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12 month period.

Generally, vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 10 percent of the company's issued share capital and 50 percent with preemptive rights for all **Singapore** companies, with the exception of Catalist-listed companies and Real Estate Investment Trusts.

For **Singapore** companies listed on the Catalist market of the SGX, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the share issuance limit is not more than 20 percent of the company's issued share capital and 100 percent with preemptive rights. For Real Estate Investment Trusts, generally vote for a general issuance of equity or equity-linked securities without preemptive rights when the unit issuance limit is not more than 20 percent of its issued unit capital and 50 percent with preemptive rights.

For companies listed on the Main Market and ACE Market of the Bursa Malaysia Securities Bhd (Exchange), vote for issuance requests without preemptive rights to a maximum of 10 percent of currently issued capital. For real estate investment trusts (REITs), vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

For **Latin American** companies, generally vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital. Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital. Specific Issuances requested will be evaluated on a case-by-case basis.

For shelf registration programs at Latin American companies (**Argentina**, **Colombia**, **Chile**, **Mexico** and **Peru**) vote on a case-by-case basis on all requests, with or without preemptive rights. Approval of a multi-year authority for the issuance of securities under Shelf Registration Programs will be considered on a case-by-case basis, taking into consideration, but not limited to, the following:

- Whether the company has provided adequate and timely disclosure including detailed information regarding the rationale for the proposed program;
- Whether the proposed amount to be approved under such authority, the use of the resources, the length of the authorization, the nature of the securities to be issued under such authority, including any potential risk of dilution to shareholders is disclosed; and
- Whether there are concerns regarding questionable finances, the use of the proceeds, or other governance concerns.

3.2. Increases in Authorized Capital

Policy Recommendation: Vote for non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Vote for specific proposals to increase authorized capital to any amount, unless:

- The specific purpose of the increase (such as a share-based acquisition or merger) does not meet Sustainability guidelines for the purpose being proposed; or
- The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote against proposals to adopt unlimited capital authorizations.

3.3. Reduction of Capital

Policy Recommendation: Vote for proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a case-by-case basis.

3.4. Capital Structures

Policy Recommendation: Vote for resolutions that seek to maintain or convert to a "one-share, one-vote" and/or single-class capital structure.

Vote against requests for the creation or continuation of dual-class capital structures or the creation of new or additional supervoting shares.

3.5. Preferred Stock

Policy Recommendation:

- Vote for the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote for the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets the guidelines on equity issuance requests.
- Vote against the creation of a new class of preference shares that would carry superior voting rights to the common shares.
- Vote against the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.
- Vote proposals to increase blank check preferred authorizations on a case-by-case basis.

3.6. Debt Issuance Requests

Policy Recommendation: Vote non-convertible debt issuance requests on a case-by-case basis, with or without pre-emptive rights.

Vote for the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets the guidelines on equity issuance requests.

Vote for proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

3.7. Pledging of Assets for Debt

Policy Recommendation: Vote proposals to approve the pledging of assets for debt on a case-by-case basis.

3.8. Increase in Borrowing Powers

Policy Recommendation: Vote proposals to approve increases in a company's borrowing powers on a case-by-case basis.

3.9. Share Repurchase Plans

Policy Recommendation: Generally, vote for market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10 percent of outstanding issued share capital;
- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. The Sustainability policy may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 18 months.

In markets where it is normal practice not to provide a repurchase limit, the Sustainability policy will evaluate the proposal based on the company's historical practice. However, the Sustainability policy expects companies to disclose such limits and, in the future, may recommend a vote against companies that fail to do so. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 18 months.

In addition, the Sustainability policy will recommend against any proposal where:

- The repurchase can be used for takeover defenses;
- There is clear evidence of abuse;
- There is no safeguard against selective buybacks;
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

Market-Specific Exceptions

For **Italy** and **Germany**, vote for share-repurchase plans and share reissuance plans that would use call and put options if the following criteria are met:

- The duration of the authorization is limited in time to no more than 18 months;
- The total number of shares covered by the authorization is disclosed;
- The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of 5 percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany);
- A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and
- The company has a clean track record regarding repurchases.

For **Singapore**, generally vote for resolutions authorizing the company to repurchase its own shares, unless the premium over the average trading price of the shares as implied by the maximum price paid exceeds 5 percent for on-market and/or off-market repurchases.

3.10. Reissuance of Shares Repurchased

Policy Recommendation: Vote for requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

3.11. Capitalization of Reserves for Bonus Issues/Increase in Par Value

Policy Recommendation: Vote for requests to capitalize reserves for bonus issues of shares or to increase par value.

3.12. Private Placement

Policy Recommendation: For Canadian companies, vote case-by-case on private placement issuances taking into account:

- Whether other resolutions are bundled with the issuance;
- Whether the rationale for the private placement issuance is disclosed;
- Dilution to existing shareholders' position:

  issuance that represents no more than 30 percent of the company's outstanding shares on a non-diluted basis is considered generally acceptable;
- Discount/premium in issuance price to the unaffected share price before the announcement of the private placement;
- Market reaction: The market's response to the proposed private placement since announcement; and
- Other applicable factors, including conflict of interest, change in control/management, evaluation of other alternatives.

Generally, vote for the private placement issuance if it is expected that the company will file for bankruptcy if the transaction is not approved or the company's auditor/management has indicated that the company has going concern issues.

4. COMPENSATION

4.1. Preamble

The assessment of compensation follows the Sustainability Global Principles on Executive and Director Compensation which are detailed below. These principles take into account global corporate governance best practice.

The Global Principles on Compensation underlie market-specific policies in all markets:

- Provide shareholders with clear, comprehensive compensation disclosures;
- Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
- Avoid arrangements that risk "pay for failure;"
- Maintain an independent and effective compensation committee;
- Avoid inappropriate pay to non-executive directors.

Shareholder Value reflects:

- Positive total shareholder returns and/or
- Improvements in return metrics

Long-term reflects: A period of at least last three financial years and can extend over a longer period.

Excessive earnings management: Significant earnings adjustments/restatements lead to an against vote recommendation for the compensation ballot (i.e. affecting all directors and managers).

Definition of „Significant": A positive difference of 1/3 or more (between diluted EPS and diluted pro-forma / adjusted EPS figures) is considered a significant adjustment/restatement.

Additional Policy Recommendation: For Switzerland when there are two separate proposals to approve the executive compensation, i.e. if there are two separate proposals – one to approve fixed remuneration of executive directors and the second separate one to approve variable remuneration of executive directors – vote against both the fixed remuneration proposal and the variable remuneration proposal when the lead executive's pay is excessive compared to the company's peers. If the lead executive's pay is not excessive compared to the company's peers, and there are other factors that do not comply with the compensation guidelines, only vote against the approval of variable remuneration proposal and support fixed remuneration proposal. Other mitigating factors, such as financial performance of the company or significant reduction in compensation, might be taken into account when voting on executive remuneration.

This rule applies also if another ruling within this section (i.e., section 4 Compensation) produces an adverse vote recommendation against executive compensation.

4.2. European Guidelines

In line with European Commission Recommendation 2004/913/EC, Sustainability believes that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.

In applying the Five Global Principles, the Sustainability policy has formulated European Compensation Guidelines which take into account local codes of governance, market best practice, and the Recommendations published by the European Commission. The Sustainability policy analyzes compensation-related proposals based on the role of the beneficiaries and has therefore divided its executive and director compensation policy into two domains:

- Executive compensation-related proposals; and
- Non-executive director compensation-related proposals

4.2.1. Executive Compensation-Related Proposals

Policy Recommendation: Sustainability Advisory Services will evaluate management proposals seeking ratification of a company's executive compensation-related items on a case-by-case basis, and, where relevant, will take into account the European Pay for Performance (EP4P) model[4] outcomes within a qualitative review of a company's remuneration practices. Sustainability Advisory Services will generally recommend a vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:

- Provide shareholders with clear and comprehensive compensation disclosures:
- Information on compensation-related proposals shall be made available to shareholders in a timely manner;
- The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate;
- Companies shall adequately disclose all elements of the compensation, including:
- Any short- or long-term compensation component must include a maximum award limit.
- Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria.
- Discretionary payments, if applicable.
- Maintain appropriate pay structure with emphasis on long-term shareholder value:
- The structure of the company's short-term incentive plan shall be appropriate.

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[4] **Definition of Pay-for-Performance Evaluation:**

Sustainability Advisory Services annually conducts a pay-for-performance analysis to measure the alignment between pay and performance over a sustained period. With respect to companies in the European Main Indices, this analysis considers the following:

- Peer Group Alignment:
  - ✓ The degree of alignment between the company's annualized TSR rank and the CEO's annualized total pay rank within a peer group, each measured over a three-year period.
  - ✓ The multiple of the CEO's total pay relative to the peer group median.
- Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

- The compensation policy must notably avoid guaranteed or discretionary compensation.
- The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions.
- Equity-based plans or awards that are linked to long-term company performance will be evaluated using Sustainability Advisory Services' general policy for equity-based plans; and
- For awards granted to executives, Sustainability Advisory Services will generally require a clear link between shareholder value and awards, and stringent performance-based elements.
- The balance between short- and long-term variable compensation shall be appropriate
- The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)
- Avoid arrangements that risk "pay for failure":
- The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices (principle being supported by Pay for Performance Evaluation).
- There shall be a clear link between the company's performance and variable awards.
- There shall not be significant discrepancies between the company's performance and real executive payouts.
- The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.
- Significant pay increases shall be explained by a detailed and compelling disclosure.
- Severance pay agreements must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.
- Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.
- Maintain an independent and effective compensation committee:
- No executives may serve on the compensation committee.
- In certain markets the compensation committee shall be composed of a majority of independent members, as per Sustainability Advisory Services policies on director election and board or committee composition.

In addition to the above, Sustainability Advisory Services will generally recommend a vote against a compensation-related proposal if such proposal is in breach of any other supplemental market-specific voting policies.

4.2.2. Non-Executive Director Compensation

- Avoid inappropriate pay to non-executive directors.

Policy Recommendation: Generally, vote for proposals to award cash fees to non-executive directors.

Vote against where:

- Documents (including general meeting documents, annual report) provided prior to the general meeting do not mention fees paid to non-executive directors.

- Proposed amounts are excessive relative to other companies in the country or industry.
- The company intends to increase the fees excessively in comparison with market/sector practices, without stating compelling reasons that justify the increase.
- Proposals provide for the granting of stock options, or similarly structured equity-based compensation, to non-executive directors.
- Proposals introduce retirement benefits for non-executive directors.

Vote on a case-by-case basis where:

- Proposals include both cash and share-based components to non-executive directors.
- Proposals bundle compensation for both non-executive and executive directors into a single resolution.

4.2.3. Equity-Based Compensation Guidelines

Policy Recommendation: Generally, vote for equity based compensation proposals for employees if the plan(s) are in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:

The volume of awards transferred to participants must not be excessive: the potential volume of fully diluted issued share capital from equity-based compensation plans must not exceed the following Sustainability guidelines:

- The shares reserved for all share plans may not exceed 5 percent of a company's issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case we allow dilution of between 5 and 10 percent: in this case, we will need to have performance conditions attached to the plans which should be acceptable under Sustainability criteria (challenging criteria). In addition, for companies in Hong Kong and Singapore, Sustainability will support a plan's dilution limit that exceeds these thresholds if the annual grant limit under the plan is 0.5 percent or less for a mature company (1 percent or less for a mature company with clearly disclosed performance criteria) and 1 percent or less for a growth company;
- The plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant;
- The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.
- If applicable, performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.

Market-specific provisions for France:

- The potential volume from equity-based compensation plans must not exceed 10 percent of fully diluted issued share capital.
- In addition, for companies that refer to the AFEP-MEDEF Code, all awards (including stock options and warrants) to executives shall be conditional upon challenging performance criteria or premium pricing. For companies referring to the Middlenext Code (or not referring to any code) at least part of the awards to executives shall be conditional upon performance criteria or premium pricing. In both cases, free shares shall remain subject to performance criteria for all beneficiaries.

Finally, for large- and mid-cap companies, the company's average three-year unadjusted burn rate (or, if lower), on the maximum volume per year implied by the proposal made at the general meeting) must not exceed the mean plus one standard deviation of its sector but no more than one percentage point from the prior year sector cap.

Compensation-Related Voting Sanctions

Should a company be deemed to have egregious remuneration practices (as a result of one or a combination of several factors highlighted above) and has not followed market practice by submitting a resolution on executive compensation, vote against other "appropriate" resolutions as a mark of discontent against such practices.

An adverse vote recommendation could be applied to any of the following on a case-by case basis:

- The (re)election of members of the remuneration committee;
- The discharge of directors; or
- The annual report and accounts.

Failure to propose a resolution on executive compensation to shareholders in a market where this is routine practice may, by itself, lead to one of the above adverse vote recommendations regardless of the companies remuneration practices.

4.2.4. Stock Option Plans – Adjustment for Dividend (Nordic Region)

Policy Recommendation: Vote against stock option plans in Denmark, Finland, Norway, and Sweden if evidence is found that they contain provisions that may result in a disconnect between shareholder value and employee/executive reward.

This includes one or a combination of the following:

- Adjusting the strike price for future ordinary dividends AND including expected dividend yield above 0 percent when determining the number of options awarded under the plan;
- Having significantly higher expected dividends than actual historical dividends;
- Favorably adjusting the terms of existing options plans without valid reason; and/or
- Any other provisions or performance measures that result in undue award.

This policy applies to both new plans and amendments to introduce the provisions into already existing stock option plans. The Sustainability policy will make an exception if a company proposes to reduce the strike price by the amount of future special (extraordinary) dividends only.

Generally, vote against if the potential increase of share capital amounts to more than 5 percent for mature companies or 10 percent for growth companies or if options may be exercised below the market price of the share at the date of grant, or that employee options do not lapse if employment is terminated.

4.2.5. Share Matching Plans (Sweden and Norway)

Policy Recommendation: The Sustainability policy considers the following factors when evaluating share matching plans:

- For every share matching plan, Sustainability requires a holding period.

- For plans without performance criteria, the shares must be purchased at market price.
- For broad-based share matching plans directed at all employees, Sustainability accepts an arrangement up to a 1:1 ratio, i.e. no more than one free share is awarded for every share purchased at market value.

In addition, for plans directed at executives, we require that sufficiently challenging performance criteria be attached to the plan. Higher discounts demand proportionally higher performance criteria.

The dilution of the plan when combined with the dilution from any other proposed or outstanding employee stock purchase/stock matching plans, must comply with the Sustainability guidelines.

4.3. Canadian Guidelines

Policy Recommendation: Evaluate executive pay and practices, as well as certain aspects of outside director compensation on a case-by-case basis.

Vote against management say on pay (MSOP) proposals, withhold from compensation committee members (or in rare cases where the full board is deemed responsible, all directors including the CEO), and/or against an equity-based incentive plan proposal if:

- There is a misalignment between CEO pay and company performance (pay for performance);
- The company maintains problematic pay practices; or
- The board exhibits poor communication and responsiveness to shareholders.

Pay for Performance:

- Rationale for determining compensation (e.g., why certain elements and pay targets are used, how they are used in relation to the company's business strategy, and specific incentive plan goals, especially retrospective goals) and linkage of compensation to long-term performance;
- Evaluation of peer group benchmarking used to set target pay or award opportunities;
- Analysis of company performance and executive pay trends over time, taking into account our Pay-for- Performance policy;
- Mix of fixed versus variable and performance versus non-performance-based pay.

Pay Practices:

- Assessment of compensation components included in the Problematic Pay Practices policy such as: perks, severance packages, employee loans, supplemental executive pension plans, internal pay disparity and equity plan practices (including option backdating, repricing, option exchanges, or cancellations/surrenders and re-grants, etc.);
- Existence of measures that discourage excessive risk taking which include but are not limited to: clawbacks, holdbacks, stock ownership requirements, deferred compensation practices etc.

Board Communications and Responsiveness:

- Clarity of disclosure (e.g. whether the company's Form 51-102F6 disclosure provides timely, accurate, clear information about compensation practices in both tabular format and narrative discussion);

- Assessment of board's responsiveness to investor concerns on compensation issues (e.g., whether the company engaged with shareholders and / or responded to majority-supported shareholder proposals relating to executive pay).

4.3.1. Advisory Vote on Executive Compensation (Say-on-Pay) Management Proposals

Policy Recommendation: Vote case-by-case on management proposals for an advisory shareholder vote on executive compensation. Vote against these resolutions in cases where boards have failed to demonstrate good stewardship of investors' interests regarding executive compensation practices.

In general, the management say on pay (MSOP) ballot item is the primary focus of voting on executive pay practices - dissatisfaction with compensation practices can be expressed by voting against MSOP rather than withholding or voting against the compensation committee. However, if there is no MSOP on the ballot, then the negative vote will apply to members of the compensation committee. In addition, in egregious cases, or if the board fails to respond to concerns raised by a prior MSOP proposal, then vote against or withhold from compensation committee members (or, if the full board is deemed accountable, all directors). If the negative factors involve equity-based compensation, then vote against an equity-based plan proposal presented for shareholder approval.

4.3.2. Equity Compensation Plans

Policy Recommendation: Vote case-by-case on equity-based compensation plans using an "equity plan scorecard" (EPSC) approach. Under this approach, certain features and practices related to the plan[5] are assessed in combination, with positively-assessed factors potentially counterbalancing negatively-assessed factors and vice-versa. Factors are grouped into three pillars:

- **Plan Cost:** The total estimated cost of the company's equity plans relative to industry/market cap peers, measured by the company's estimated Shareholder Value Transfer (SVT) in relation to peers and considering both:
- SVT based on new shares requested plus shares remaining for future grants, plus outstanding unvested/unexercised grants; and
- SVT based only on new shares requested plus shares remaining for future grants.
- Plan Features:
- Absence of problematic change-in-control (CIC) provisions, including:
- Single-trigger acceleration of award vesting in connection with a CIC; and
- Settlement of performance-based equity at target or above in the event of a CIC-related acceleration of vesting regardless of performance.
- No financial assistance to plan participants for the exercise or settlement of awards;
- Public disclosure of the full text of the plan document; and
- Reasonable share dilution from equity plans relative to market best practices.
- Grant Practices:

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5 In cases where certain historic grant data are unavailable (e.g. following an IPO or emergence from bankruptcy), Special Cases models will be applied which omit factors requiring these data.

- Reasonable three-year average burn rate relative to market best practices;
- Meaningful time vesting requirements for the CEO's most recent equity grants (three-year lookback);
- The issuance of performance-based equity to the CEO;
- A clawback provision applicable to equity awards; and
- Post-exercise or post-settlement share-holding requirements (S&P/TSX Composite Index only).

Generally, vote against the plan proposal if the combination of above factors, as determined by an overall score, indicates that the plan is not in shareholders' interests. In addition, vote against the plan if any of the following unacceptable factors have been identified:

- Discretionary or insufficiently limited non-employee director participation;
- An amendment provision which fails to adequately restrict the company's ability to amend the plan without shareholder approval;
- A history of repricing stock options without shareholder approval (three-year look-back);
- The plan is a vehicle for problematic pay practices or a significant pay-for-performance disconnect under certain circumstances; or
- Any other plan features that are determined to have a significant negative impact on shareholder interests.

4.3.3. Director Compensation- TSX

Policy Recommendation: On a case-by-case basis, generally vote withhold for members of the committee responsible for director compensation (or, where no such committee has been identified, the board chair or full board) where director compensation practices which pose a risk of compromising a non-employee director's independence or which otherwise appear problematic from the perspective of shareholders have been identified, including:

- Excessive (relative to standard market practice) inducement grants issued upon the appointment or election of a new director to the board (consideration will be given to the form in which the compensation has been issued and the board's rationale for the inducement grant);
- Performance-based equity grants to non-employee directors which could pose a risk of aligning directors' interests away from those of shareholders and toward those of management; and
- Other significant problematic practices relating to director compensation.

4.3.4. Other Compensation Plans

4.3.5. Employee Stock Purchase Plans (ESPPs, ESOPs)

Policy Recommendation: Generally, vote for broadly based (preferably all employees of the company with the exclusion of individuals with 5 percent or more beneficial ownership of the company) employee stock purchase plans where the following apply:

- Reasonable limit on employee contribution (may be expressed as a fixed dollar amount or as a percentage of base salary excluding bonus, commissions and special compensation);

- Employer contribution of up to 25 percent of employee contribution and no purchase price discount or employer contribution of more than 25 percent of employee contribution and SVT cost of the company's equity plans is within the allowable cap for the company;
- Purchase price is at least 80 percent of fair market value with no employer contribution;
- Potential dilution together with all other equity-based plans is 10 percent of outstanding common shares or less; and
- The Plan Amendment Provision requires shareholder approval for amendments to:
- The number of shares reserved for the plan;
- The allowable purchase price discount;
- The employer matching contribution amount.

Treasury funded ESPPs, as well as market purchase funded ESPPs requesting shareholder approval, will be considered to be incentive based compensation if the employer match is greater than 25 percent of the employee contribution. In this case, the plan will be run through the Sustainability compensation model to assess the Shareholder Value Transfer (SVT) cost of the plan together with the company's other equity-based compensation plans.

Eligibility and administration are also key factors in determining the acceptability of an ESPP/ESOP plan.

The Sustainability policy will also take into account other compensation and benefit programs, in particular pensions.

Deferred Share Unit Plans

Policy Recommendation: Generally, vote for Deferred Compensation Plans if:

- Potential dilution together with all other equity-based compensation is ten percent of the outstanding common shares or less.

Other elements of director compensation to evaluate in conjunction with deferred share units include:

- Director stock ownership guidelines of a minimum of three times annual cash retainer;
- Vesting schedule or mandatory deferral period which requires that shares in payment of deferred units may not be paid out until the end of three years;
- The mix of remuneration between cash and equity;
- Other forms of equity-based compensation, i.e. stock options, restricted stock.

4.4. International Guidelines

Policy Recommendation: Evaluate executive and director compensation proposals on a case-by-case basis taking into consideration the Global Principles as applicable.

5. Other Items

5.1. Reorganizations/Restructurings

Policy Recommendation: Vote reorganizations and restructurings on a case-by-case basis.

5.2. Mergers and Acquisitions

Policy Recommendation: Vote case-by-case on mergers and acquisitions taking into account the following:

For every M&A analysis, the Sustainability policy reviews publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- **Valuation** - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, Sustainability places emphasis on the offer premium, market reaction, and strategic rationale;
- **Market reaction** - How has the market responded to the proposed deal? A negative market reaction will cause Sustainability to scrutinize a deal more closely;
- **Strategic rationale** - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions;
- **Conflicts of interest** - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? Sustainability will consider whether any special interests may have influenced these directors and officers to support or recommend the merger;
- **Governance** - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.
- **Stakeholder impact** - Impact on community stakeholders including impact on workforce, environment, etc.

Vote against if the companies do not provide sufficient information upon request to make an informed voting decision.

5.3. Mandatory Takeover Bid Waivers

Policy Recommendation: Vote proposals to waive mandatory takeover bid requirements on a caseby-case basis.

5.4. Reincorporation Proposals

Policy Recommendation: Vote reincorporation proposals on a case-by-case basis.

5.5. Expansion of Business Activities

Policy Recommendation: Vote for resolutions to expand business activities unless the new business takes the company into risky areas.

5.6. Related-Party Transactions

Policy Recommendation: Vote related-party transactions on a case-by-case basis considering factors including, but not limited to, the following:

- The parties on either side of the transaction;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);
- Whether any entities party to the transaction (including advisers) is conflicted; and
- The stated rationale for the transaction, including discussions of timing.

If there is a transaction that is deemed problematic and that was not put to a shareholder vote, Sustainability may recommend against the election of the director(s) involved in the related-party transaction or against the full board.

5.7. Antitakeover Mechanisms

Policy Recommendation: Vote against all antitakeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

As of Feb. 1, 2016, for French companies listed on a regulated market, generally vote against any general authorities impacting the share capital (i.e. authorities for share repurchase plans and any general share issuances with or without preemptive rights, including by capitalization of reserves) if they can be used for antitakeover purposes without shareholders' prior explicit approval.

5.8. Social and Environmental Proposals – Overall Approach

Sustainability Policy generally supports standards-based ESG shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large. In particular, the policy will focus on resolutions seeking greater transparency and/or adherence to internationally recognized standards and principles.

Policy Recommendation: Generally, vote in favor of social and environmental proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value. In determining votes on shareholder social and environmental proposals, the following factors are considered:

- Whether the proposal itself is well framed and reasonable;

- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- The percentage of sales, assets and earnings affected;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What other companies have done in response to the issue;
- Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices;
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

5.8.1. Climate Change

- Vote for shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change- on its operations and investments, or on how the company identifies, measures, and manage such risks.
- Vote for shareholder proposals calling for the reduction of GHG emissions.
- Vote for shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.
- Vote for shareholder proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products.

5.8.2. ESG Related Shareholder Proposals

Swisscanto will generally support ESG related shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large. In particular, the policy will focus on resolutions seeking greater transparency and/or adherence to internationally recognized standards and principles. In general, ESG related shareholder resolutions are supported which are economically and financially reasonable for a sustainable corporate development (value creation) and in the best interest of minority shareholders.

6. Foreign Private Issuers

Foreign private issuers ("FPIs") are defined as companies whose business is administered principally outside the U.S., with more than 50 percent of assets located outside the U.S.; a majority of whose directors/officers are not U.S. citizens or residents; and a majority of whose outstanding voting shares are held by non-residents of the U.S. Companies that are incorporated outside of the U.S. and listed solely on U.S. exchanges, where they qualify as FPIs, will be subject to the following policy:

Vote against or withhold from non-independent director nominees at companies which fail to meet the following criteria: a majority-independent board, and the presence of an audit, compensation, and a nomination committee, each of which is entirely composed of independent directors. Where the design and disclosure levels of equity compensation plans are comparable to those seen at U.S. companies, U.S. compensation policy will be used to evaluate the compensation plan proposals. All other voting items will be evaluated using the relevant regional or market proxy voting guidelines.

While a firm's country of incorporation will remain the primary basis for evaluating companies, Sustainability Advisory Services will generally apply its U.S. policies to the extent possible with respect to issuers that file DEF 14As, 10-K annual reports, and 10-Q quarterly reports, and are thus considered domestic issuers by the U.S. Securities and Exchange Commission (SEC). U.S. policies will also apply to companies listed on U.S. exchanges as Foreign Private Issuers (FPIs) and that may be exempt from the disclosure and corporate governance requirements that apply to most companies traded on U.S. exchanges, including a number of SEC rules and stock market listing requirements. Corporations that have reincorporated outside the U.S. have found themselves subject to a combination of governance regulations and best practice standards that may not be entirely compatible with an evaluation framework based solely on the country of incorporation.

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