

# CORPORATE GOVERNANCE

## Proxy Voting and Governance Engagement Report 2016

September 2017

For Qualified Investors (Art. 10 Para. 3 of the Swiss Federal Collective Investment Schemes Act (CISA))/  
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# ACTIVE OWNERSHIP IS PART OF OUR FIDUCIARY PHILOSOPHY

Our Corporate Governance activities are an integral part of our investment process and go beyond the fiduciary duty to exercise our voting rights. As fiduciary, we act independently and solely in the best interest of our client investors. We believe that good Corporate Governance is an important source of higher relative shareholder returns on equity investments\* in the long-term.

## Our understanding of good governance

For us, sound corporate governance centres on having clearly defined, stress-resilient business models with strong, transparent structures. We emphasise the need for a sensible balance of power between the executive and non-executive members of the Board of directors. We particularly want companies to have an effective Board structure comprising a diverse range of qualified executive and non-executive directors with the strength and commitment to act independently and a chairman who can challenge the management.

We support measures to enhance communication between the chairman and investors that do not violate the principle of treating shareholders equally. We place high value on the "one share, one vote" principle and will promote proposals and initiatives to abolish voting caps.

The alignment of the interests of the companies' Board directors with those of shareholders – through effective governance measures and sound structures – should preserve and enhance a company's value and is crucial in building investor confidence.

Furthermore, we believe that management should pursue regular active engagement with all relevant stakeholders to benefit from alternative perspectives. As responsible investors, we are always willing to share our expectations on matters of corporate governance in an on-going and constructive dialogue with executive and non-executive directors via regular company visits and one-on-one meetings.

There are various ways in which we engage generally with our investee companies, depending on the company itself, the sector and the issue in question. However, in cases where we identify serious gaps between our expectations regarding sound corporate governance and the company's attitude towards it, we will start a direct engagement process with the Management Board. We regard active engagement as an essential part of our commitment to supporting good corporate governance. If our initial engagement yields unsatisfactory results, we may take additional measures (e.g. letters to the Board, publicly voiced criticism or shareholder proposals submitted for annual general meetings). The use of our voting rights and the possibility of divestment are important measures we can use to achieve desired change.

\*For our debt investments and related bondholder meetings, a dedicated and separate process is set up and managed by the Fixed Income Platform of Deutsche Asset Management in order to avoid any potential conflicts of interests

**Our Corporate Governance services**

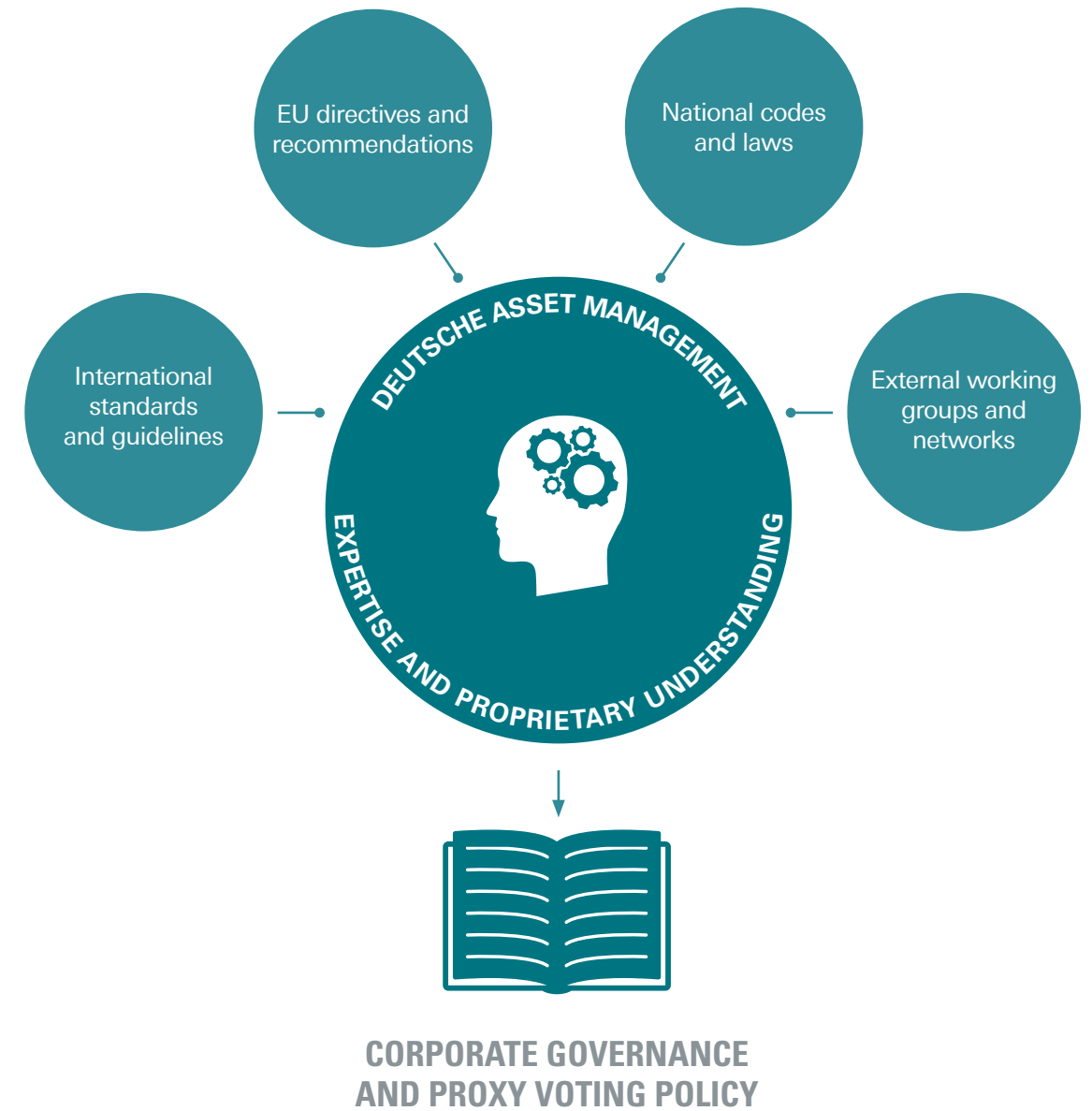
The dedicated Corporate Governance Center of Deutsche Asset Management\* continuously evaluates our understanding of good governance and communicates this to our portfolio companies.

The members of the Corporate Governance Center are responsible for further developing Deutsche Asset Management’s Corporate Governance understanding and framework as well as to promote its application across the investment platform.

As a thought leader and trend-setter in global governance matters, the Center also represents Deutsche Asset Management in the relevant global working groups and networks (EFAMA CG Working Group, BVI CG Working Group), commissions (DVFA CG Commission) and by regularly attending conferences dealing with the subject.



\* Legal entities in scope: Deutsche Asset Management Investment GmbH, Deutsche Asset Management International GmbH, Deutsche Asset Management S.A., Luxembourg SICAVs, Deutsche Asset Management S.G.I.I.C., S.A.



**The Corporate Governance and Proxy Voting Policy — a strong base of proprietary understanding and expertise**

Our governance activities are centered around our Corporate Governance and Proxy Voting Policy. It is updated annually to reflect our own governance understanding as well as governance trends and developments, based on relevant national and international standards and best practices (e.g. German Corporate Governance Code, ICGN [“International Corporate Governance Network”] Global Corporate Governance Principles, G20 / OECD Principles of Corporate Governance). The policy builds on more than 20 years of experience as responsible investors and encompasses our core values:

- sufficiently independent, diverse, experienced and well-balanced boards and committees
- improved transparency of governance reporting
- permanent disclosure of relevant information on board members
- appropriate, transparent and comprehensible executive compensation with clear qualitative and quantitative key performance indicators, relevant and adequate bonus-malus mechanisms (incl. clawback) and reasonable deferral periods
- enhanced transparency on auditors (incl. the lead audit partner), their services and fees paid and appropriate rotation periods



2016

# PROXY VOTING

# SEASON

We exercise our voting rights according to a quality-based process that aims to protect and further the interests of our client investors.

### Vote analysis in detail

Our voting decisions follow the proprietary Deutsche Asset Management\* Corporate Governance and Proxy Voting Policy, a thorough analysis by the members of the Corporate Governance Center as well as discussions with the analysts/portfolio managers of the investment platform. We vote based on a watchlist of holdings, which represents a list of our most relevant equity holdings, screened based on stringent set of criteria.

In 2016 we voted at 569 meetings in 40 markets globally. This represented 12% of the "votable" meetings and approximately 50% of the equity AuM of Deutsche Asset Management in Europe\*\*.

We voted "Against" management in 23% of the meetings at which we exercised our voting rights. The proposals we most commonly opposed were those where we found there was insufficient transparency around individual executive and non-

executive directors – such as missing CVs on the company websites as well as lack of information around their attendance at Board meetings.

We also opposed proposals where we judged that there was inadequate disclosure in relation to the external auditor – for example, non-disclosure of the name and the term of appointment of the lead partner of the external auditing firm.

Out of all the proposals voted "Against" management, 7% were executive remuneration related. However, looking at only the executive remuneration related proposals that we voted, this number increases to 20% in which we voted with an "Against". In a majority of cases this was due to a lack of sufficient clarity and comprehensibility on the variable part of compensation schemes, in particular on the key performance indicators and how they were linked to sustainable performance.

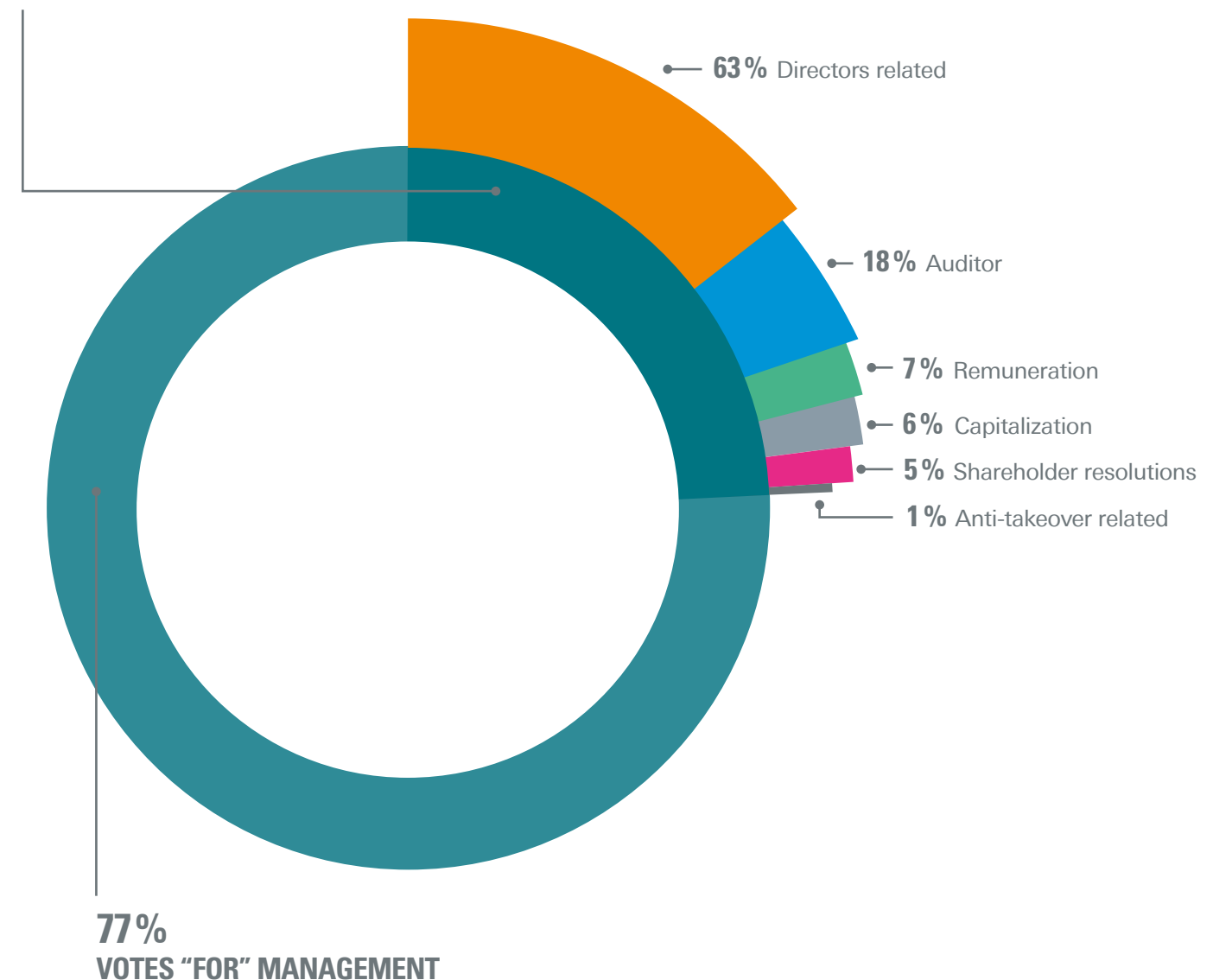


\* The representative voting rights are exercised by their respective capital management company, i.e. either by representatives of the Deutsche Asset Management Investment GmbH, Deutsche Asset Management S.A., Deutsche Asset Management International GmbH or by the representatives of the Deutsche Asset Management S.G.I.I.C., S.A. entity. The current versions of the policies are provided to investors on request, free of charge, by the corresponding legal entity. For more information, please refer to the sales documents.  
\*\* Legal entities in scope: Deutsche Asset Management Investment GmbH, Deutsche Asset Management International GmbH, Deutsche Asset Management S.A., Luxembourg SICAVs, Deutsche Asset Management S.G.I.I.C., S.A.

The voting results in this report are presented in a consolidated manner, which results from the independently submitted votes of the corresponding legal entity.

## Breakdown of votes

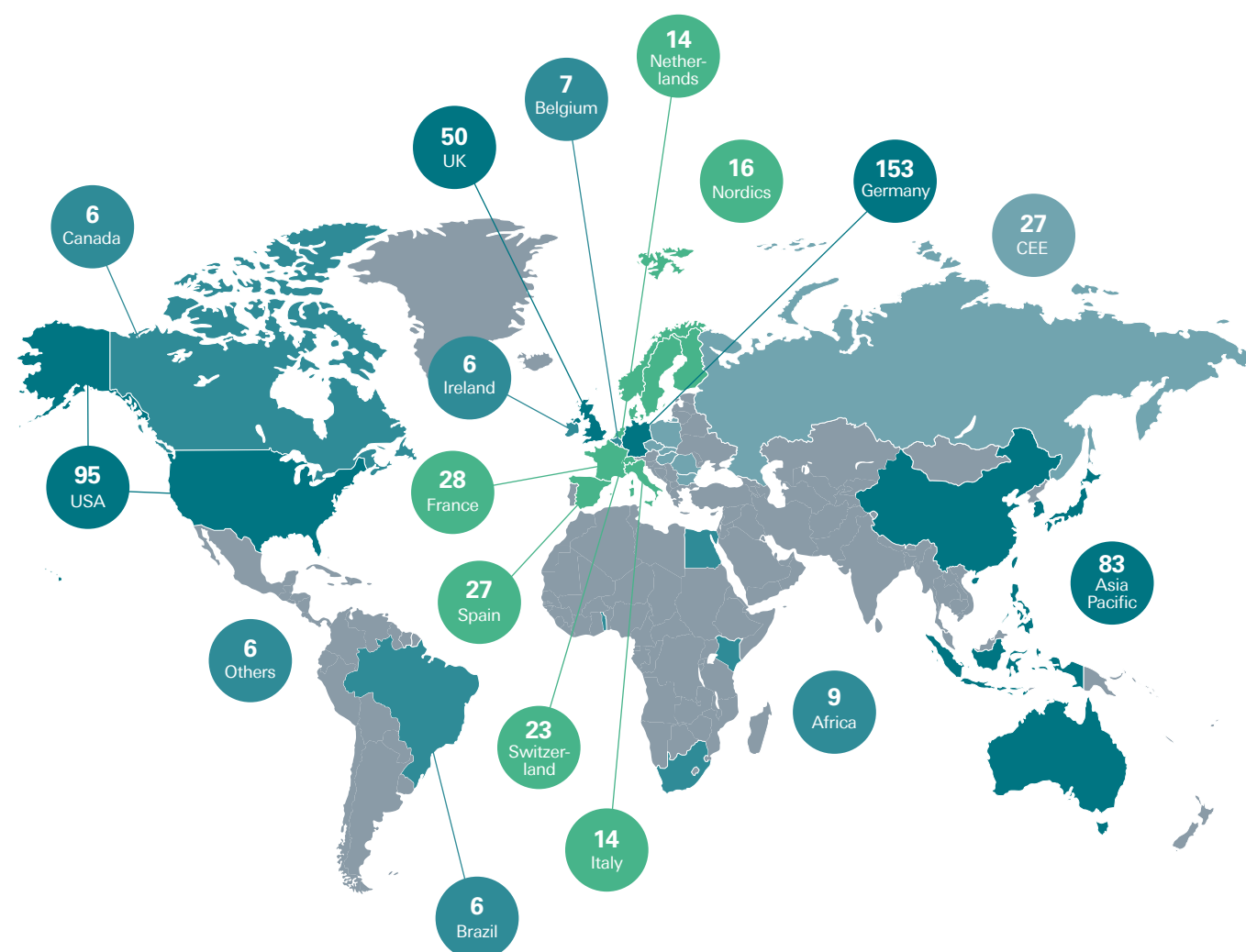
23% VOTES "AGAINST" MANAGEMENT (INCL. ABSTAIN/WITHHOLD)



Source: ISS Proxy Exchange, IVOX Glass Lewis, data as of 31.12.2016

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## Meetings voted per market



Nordics: Denmark, Finland, Norway, Sweden

CEE: Austria, Czech Republic, Poland, Russia, Turkey

Africa: South Africa, Kenya, Egypt, Togo

Asia Pacific: Japan, Australia, South Korea, China, Taiwan, India, Indonesia, Philippines, Singapore

Others: Bermuda, Cayman Islands, Virgin Islands (UK), Curaçao

Source: ISS Proxy Exchange, IVOX Glass Lewis, data as of 31.12.2016

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## Proxy voting activities in detail

Management proposals	Number of unique proposals voted	"For"	"Against"	"Abstain"/ "Withhold"
Discharge of Management/ Supervisory Board	834	410	308	116
Election/Re-election of Management/ Supervisory Board	2871	2167	566	138
Capitalization	684	581	76	27
Remuneration related	674	538	131	5
Reorganizations and mergers	185	175	6	4
Auditor related	1885	1554	314	17
Anti-takeover related	60	53	7	0
Other director related	379	335	42	2

Shareholder proposals	Number of unique proposals voted	"For"	"Against"	"Abstain"/ "Withhold"
Directors related	79	50	20	9
Compensation	6	3	3	0
Social/Environmental	9	4	2	3
Corporate Governance (require independent board chairman)	4	4	0	0
Other/Miscellaneous	65	22	14	29

Source: ISS Proxy Exchange, IVOX Glass Lewis, data as of 31.12.2016

\* Votes Against caused by proposals which were found to be generating costs with little or no benefit. Deutsche Asset Management evaluates shareholder proposals on a case-by-case basis and is generally supportive of shareholder proposals that enhance shareholder rights, foster reporting and increase transparency.

The voting results in this report are presented in a consolidated manner, which results from the independently submitted votes of the corresponding legal entity.

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2016

# GOVERNANCE ENGAGEMENT

## ACTIVITIES

We engage regularly with our investees on governance matters to induce increased transparency and potentially improvement in their governance structures.

### Most relevant topics of discussion

The analysts/portfolio managers of our investment platform engage regularly with the senior management of Deutsche Asset Management's portfolio holdings, whereby in addition to the fundamentals, strategy and outlook of the company, Environmental, Social and Governance (ESG) topics are also discussed. Globally, our analysts attend more than 5,000 company meetings\* per year, engaging into every issuer's analysis and leveraging the long-term relationships and insights of our entire investment platform. Company meetings are an important part of our investment process. The insights from the respective meetings led by our portfolio managers or our sector specialists/analysts are fed into our global research database. With our dedicated Corporate Governance Center, we conduct governance-specific engagements whereby we discuss governance matters with our investees to induce increased transparency and potential improvement in their governance structures.

In 2016, we had a total of 37 governance engagements. Additionally, we sent an engagement letter to 160 investees in Germany outlining our core governance expectations. Leading an open dialogue with executive and non-executive directors as well as other company representatives has helped encourage better transparency and has led to what we believe are a number of companies improving their governance structures.

One of the topics we discussed most with our portfolio holdings in 2016 was executive remuneration. We expect appropriate, comprehensible management compensation packages that include transparent and sustainable remuneration policies, reasonable key performance criteria and relevant peer group

comparisons. We also seek transparency on qualitative and quantitative performance indicators.

We regard relevant and adequate bonus-malus mechanisms (including claw-backs) and reasonable deferral periods for executives as key elements of a sustainable, long-term oriented compensation structure. What we often found challenging was the complexity of detail within many remuneration plans, which made it difficult to envision how they would be realised with vesting, how holding periods were defined and thus how to value their appropriateness.

In other cases, the transparency on the performance metrics was fairly vague, making it hard to foresee the link to sustainable company performance.

Another point of governance that prompted wide debate and active engagement last year was around the composition, independence and transparency of the Boards of directors. We see this as a fundamental cornerstone of good governance. Qualified, experienced and independent directors are mandatory for competent and diverse Boards, for an efficient decision-making process and to support sustainable company performance.

We understand diversity as a broader concept that encompasses gender, age, nationality, professional background, qualifications and tenure. We see tenure in particular as a critical factor – we consider Board members who have served for more than 10 years to be no longer independent. As a result, this issue was raised and discussed in a large number of our engagements. It is of great importance to us that the majority (50% or

more) of members of Boards of directors, as well as of key committees, like audit, compensation and nomination, are independent.

We look for increased transparency of governance reporting as well as permanent disclosure of relevant information for the directors (e.g. updated CVs on the company website to enable better judgement of the Board's background and qualifications). Board members should have sufficient time and independence in mind to fulfil their responsibilities as directors.

Making sure that the directors we are voting for are able to dedicate the necessary time and have the sufficient attention for the company, we expect them to have no more than three mandates in total for executive directors and no more than five for non-executive. Furthermore, full disclosure of the meeting attendance records of Board members is an important criterion for such an evaluation and is influencing our voting during an annual general meeting.

Transparency around auditors, their services and the fees they received, are aspects that were also discussed critically in 2016. Key elements of appropriate disclosure are the name of the lead audit partner and the term of appointment. Transparency on the lead audit

partner's name and a regular rotation (every five years) is considered a significant signal to demonstrate independence and objectivity. We further expect disclosure of the non-auditing services and the appropriateness of the related fees to validate the independence and the objectivity of the external auditors.

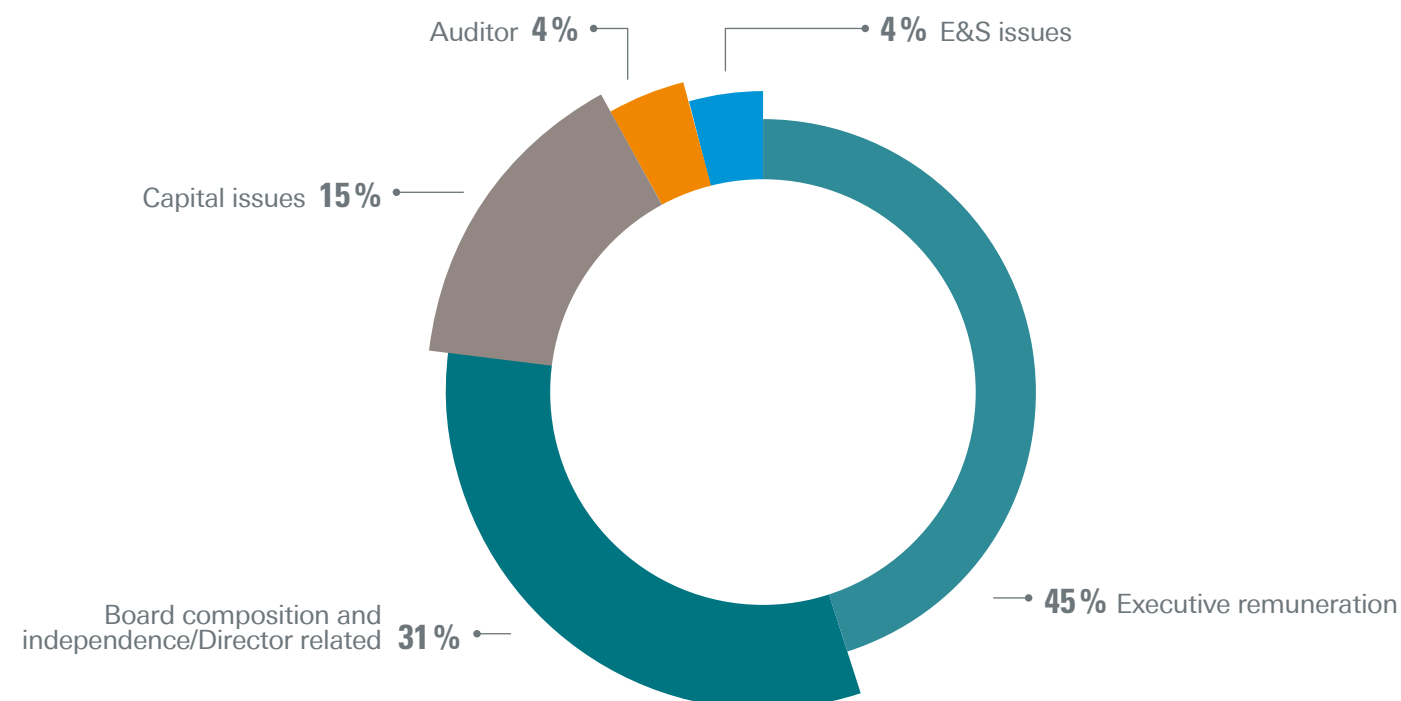
Environmental and social issues also feature in our on-going discussions with the management of investee companies. We conduct regular screenings of our major holdings based on various ESG indicators to determine and cross-check watchlist composition.

As responsible investors, we naturally incorporate environmental and social issues within our Corporate Governance and Proxy Voting Policy. In particular, last year we engaged with our investee companies around topics such as their participation in the Carbon Disclosure Project as well as violation of relevant responsible investment principles (e.g. labour standards).

In 2017 we will continue to seek constructive dialogue with our investees, not only to elaborate on our key expectations in terms of governance but also to be able to gain a better understanding of their existing governance structures and strategies to help us make better-informed company evaluations and investment decisions.

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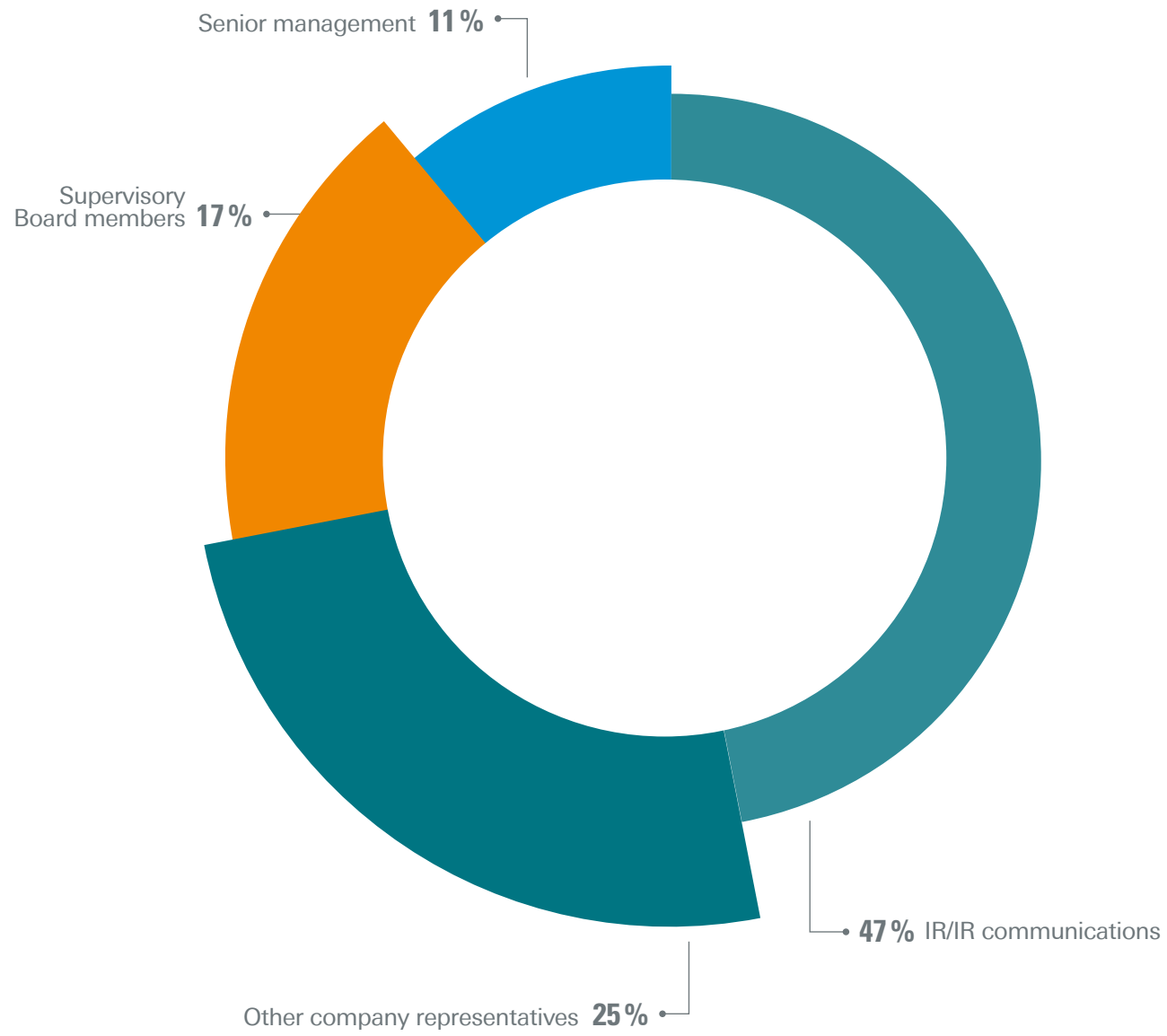
## Governance engagement topics



\*companies visiting Deutsche AM premises, Deutsche AM visiting companies onsite, one-to-ones at conferences, etc.

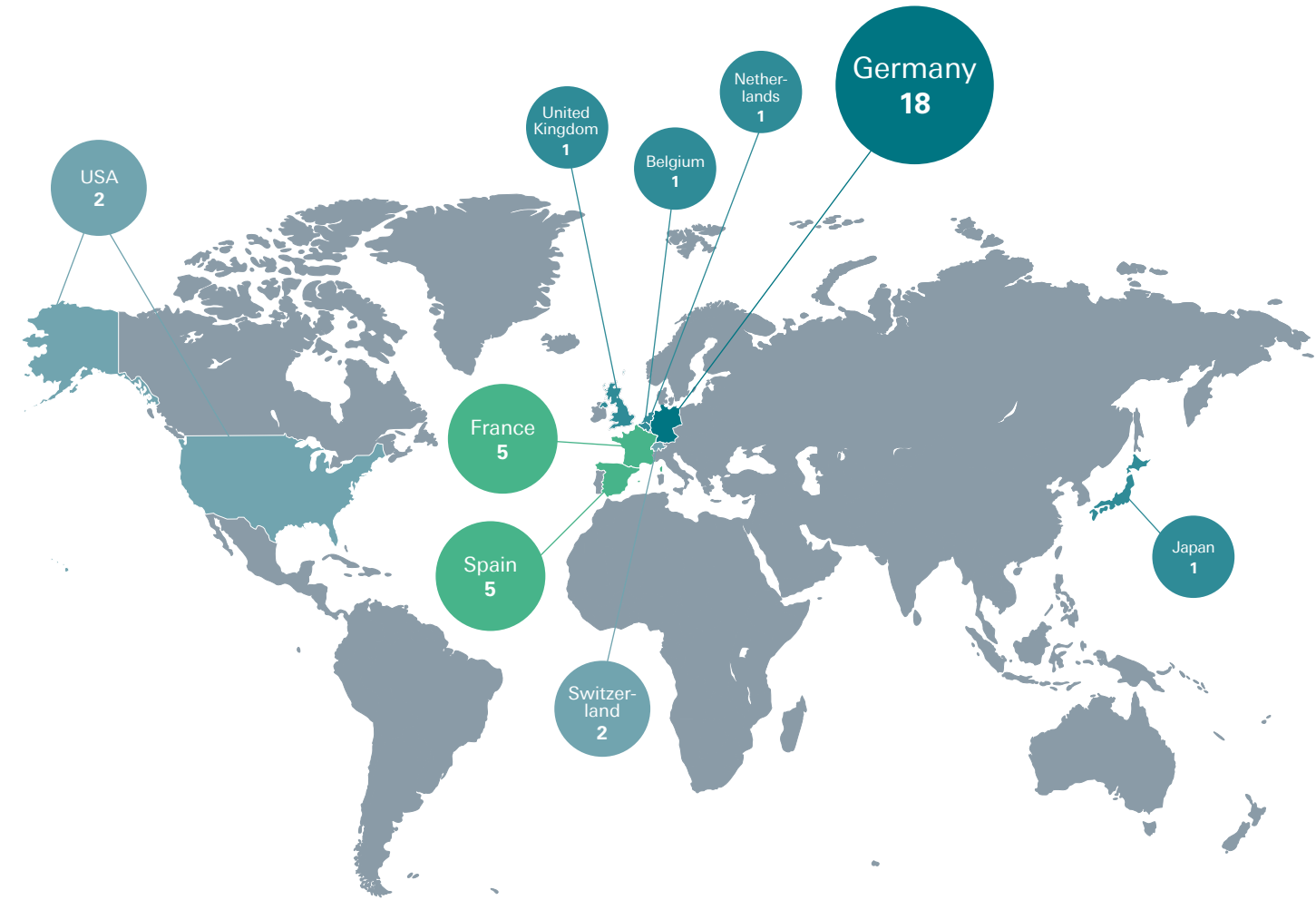
Source: Corporate Governance Center, Deutsche Asset Management, data as of 31.12.2016

# Governance engagement counterparts



Source: Corporate Governance Center, Deutsche Asset Management, data as of 31.12.2016

# Country allocation of governance engagements



Source: Corporate Governance Center, Deutsche Asset Management, data as of 31.12.2016

## Key facts

569

meetings  
voted in

40

countries  
globally  
in 2016

5000

company meetings  
per year attended by  
our analysts globally

Annual letter of engagement  
sent to

160

German investees part of the  
Proxy Voting Watchlist in 2016  
with our key expectations on  
Corporate Governance.

37

dedicated governance  
engagements via meetings/  
calls held in 2016

Out of all the voted  
proposals on executive  
compensation, we voted  
with an "Against" in

18%

of all cases

18%

of the proposals were  
voted with an "Against"  
in 2016 (director, auditor,  
executive remuneration  
issues etc.)

Out of all the voted  
proposals in 2016  
we voted "Against"  
management in

23%

of all cases

700

meetings planned  
to be voted in

42

countries globally

in  
2017

Find out more at  
[deutscheam.com](https://deutscheam.com)



<https://deutscheam.com/our-capabilities/esg/corporate-governance/>



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