

# Israel

## Proxy Voting Guidelines

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2014–2015 Benchmark Policy Recommendations

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## 1. OPERATIONAL ITEMS

### Financial Results/Director and Auditor Reports

In Israel, this is a non-voting item in which the company is submitting to shareholders the annual financial statements and the directors' reports.

### Appointment of Auditors and Auditor Fees

- ▶ **General Recommendation:** Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:
- › There are serious concerns about the procedures used by the auditor;
  - › There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position;
  - › External auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company;
  - › The name(s) of the proposed auditors has not been published;
  - › The auditors are being changed without explanation;
  - › Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index); or
  - › Audit fees are being reported together with tax / other fees.

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, 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 related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend against the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend against remuneration of auditors if this is a separate voting item; otherwise, ISS may recommend against the auditor election.

### Allocation of Income

- ▶ **General Recommendation:** Vote for approval of the allocation of income, unless:
- › The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
  - › The payout is excessive given the company's financial position.

### Stock (Scrip) Dividend Alternative

- ▶ **General Recommendation:** Vote for most stock (scrip) dividend proposals.

Vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

### Amendments to Articles of Association

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

## Amend Quorum Requirements

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

## 2. BOARD OF DIRECTORS

### Director Elections

- ▶ **General 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.

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 repeated absences at board meetings have not been explained.

Vote against non-independent<sup>1</sup> audit committee members.

Vote on a case-by-case basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors are best suited to add value for shareholders.

Vote against the election of directors at all companies if the name of the nominee is not disclosed in a timely manner prior to the meeting.

Under extraordinary circumstances, vote against individual directors, members of a committee, or the entire board, due to:

- › Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company;
- › Failure to replace management as appropriate; or
- › Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.
- › A lack of oversight or actions by board members that invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; or
- › Any legal proceedings (either civil or 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 egregious governance issues where shareholders will bring legal action against the company or its directors.

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<sup>1</sup> See Israel Classification of Directors.

## 2014-2015 ISS Israel Classification of Directors

### Executive Director

- › Employee or executive 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.

### 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 significant shareholder of the company;
- › Any director who is also an employee or executive of a significant shareholder of the company;
- › Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material<sup>[5]</sup> 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., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent);
- › Government representative;
- › Currently provides (or a relative<sup>[1]</sup> provides) professional services<sup>[2]</sup> to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- › Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test<sup>[3]</sup>);
- › Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- › Relative<sup>[1]</sup> 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;
- › Former executive (with five-year cooling off period);
- › Defined as non-independent under article 245(a) of the the Israeli Companies Law 1999; Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

### Independent NED

- › Not classified as non-independent by ISS (see above);
- › No material<sup>[5]</sup> connection, either directly or indirectly, to the company (other than a board seat) or 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] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, stepchildren, 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.

[2] 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.

[3] 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.

[4] For purposes of ISS' 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.

**Contested Director Elections**

**General Recommendation:** For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, ISS 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;
- › Whether minority or majority representation is being sought.

When analyzing a contested election of directors, ISS will generally focus on two central questions:

- (1) Have the proponents proved that board change is warranted? And
- (2) if so, are the proponent board nominees likely to effect positive change (i.e., maximize long-term shareholder value).

**Director, Officer, and Auditor Indemnification and Liability Provisions**

**General Recommendation:** Vote proposals seeking indemnification and liability protection for directors and officers on a case-by-case basis.

## Board Structure

- ▶ **General Recommendation:** 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

### Share Issuance Requests

#### General Issuances

- ▶ **General Recommendation:** Vote for issuance authorities with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote for issuance authorities without preemptive rights to a maximum of 20 percent of currently issued capital.

#### Specific Issuances

- ▶ **General Recommendation:** Vote on a case-by-case basis on all requests, with or without preemptive rights.

#### Increases in Authorized Capital

- ▶ **General 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 ISS 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.

#### Reduction of Capital

- ▶ **General 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.

#### Capital Structures

- ▶ **General Recommendation:** Vote for resolutions that seek to maintain or convert to a one-share, one-vote capital

structure.

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

### Preferred Stock

- ▶ **General 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 ISS 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.

### Debt Issuance Requests

- ▶ **General Recommendation:** Vote non-convertible debt issuance requests on a case-by-case basis, with or without preemptive 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 ISS 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.

### Pledging of Assets for Debt

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

### Increase in Borrowing Powers

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

### Reissuance of Repurchased Shares

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

### Capitalization of Reserves for Bonus Issues/Increase in Par Value

- ▶ **General Recommendation:** Vote for requests to capitalize reserves for bonus issues of shares or to increase par value.
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## 4. COMPENSATION

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

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

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

### Executive compensation-related proposals

**General Recommendation:** Vote case-by-case on management proposals seeking ratification of a company's executive compensation-related items. 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:


1. Provide shareholders with clear and comprehensive compensation disclosures:
  - 1.1. Information on compensation-related proposals shall be made available to shareholders in a timely manner;
  - 1.2. 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;
  - 1.3. Companies shall adequately disclose all elements of the compensation, including:
    - 1.3.1. Any short- or long-term compensation component must include a maximum award limit.
    - 1.3.2. 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.
    - 1.3.3. Discretionary payments, if applicable.
2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value:
  - 2.1. The structure of the company's short-term incentive plan shall be appropriate.
    - 2.1.1. The compensation policy must notably avoid guaranteed or discretionary compensation.
    - 2.1.2. 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.
    - 2.1.3. Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and
  - 2.2. The balance between short- and long-term variable compensation shall be appropriate
    - 2.2.1. The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)
3. Avoid arrangements that risk “pay for failure”:
  - 3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices.
    - 3.1.1. There shall be a clear link between the company's performance and variable awards.
    - 3.1.2. There shall not be significant discrepancies between the company's performance and real executive payouts.
    - 3.1.3. The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.
    - 3.1.4. Significant pay increases shall be explained by a detailed and compelling disclosure.
  - 3.2. Severance pay agreements must not be in excess of (i) 24 months' pay or (ii) any more restrictive provision pursuant to local requirements and/or market best practice.

- 3.3. 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.
4. Maintain an independent and effective compensation committee:
  - 4.1. No executives may serve on the compensation committee.
  - 4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.

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

### Non-Executive Director Compensation

5. Avoid inappropriate pay to non-executive directors.


 **General 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 introduce retirement benefits for non-executive directors.

Vote case-by-case 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.

### Equity-based Compensation Guidelines

 **General Recommendation:** 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.

Vote against proposed equity grants:

- › If the three-year average burn rate exceeds 1 percent and the total potential dilution from outstanding and proposed plans exceeds 10 percent.
- › If the three-year average burn rate is equal to or below 1 percent and the total potential dilution from outstanding and proposed plans exceeds 15 percent.

## 5. OTHER ITEMS

### Reorganizations/Restructurings

- ▶ **General Recommendation:** Vote reorganizations and restructurings on a case-by-case basis.

### Mergers and Acquisitions

- ▶ **General Recommendation:** Vote case-by-case on mergers and acquisitions taking into account the following:  
For every M&A analysis, ISS 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, ISS 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 ISS 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? ISS 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.

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

### Mandatory Takeover Bid Waivers

- ▶ **General Recommendation:** Vote proposals to waive mandatory takeover bid requirements on a case-by-case basis.

### Reincorporation Proposals

- ▶ **General Recommendation:** Vote reincorporation proposals on a case-by-case basis.

### Expansion of Business Activities

- ▶ **General Recommendation:** Vote for resolutions to expand business activities unless the new business takes the company into risky areas.

### Related-Party Transactions

- ▶ **General Recommendation:** In evaluating resolutions that seek shareholder approval on related-party transactions (RPTs), vote 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 ISS deemed problematic and that was not put to a shareholder vote, ISS may recommend against the election of the director involved in the related-party transaction or the full board.

### Antitakeover Mechanisms

- ▶ **General Recommendation:** Generally 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.

### Shareholder Proposals

- ▶ **General Recommendation:** Vote all shareholder proposals on a case-by-case basis.

Vote for proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Vote against proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

## 6. ENVIRONMENTAL AND SOCIAL ISSUES

### ISS Global Approach to Voting on Environmental and Social Proposals

- ▶ **General Recommendation:** Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor covered standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.

Generally vote case-by-case, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will be considered:

- › If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- › If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- › Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive;
- › The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- › If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- › If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.

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