European

Proxy Voting Guideline Updates

2015 Benchmark Policy Recommendations

Effective for Meetings on or after Feb. 1, 2015

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MULTIPLE BALLOT ITEMS

Impact of the Florange Act (France)- Double Voting Rights

Current Recommendation: Not applicable

Key Changes: Adopt policies to encourage the continuation of one-share, one vote voting rights at French companies whose bylaws are currently silent on the issue, through:

- The support of management and shareholder proposals prohibiting double-voting rights, and
- By recommending against the reelection of directors; else the approval of discharge, else the approval of annual reports and accounts if the company does not have a bylaw amendment on its ballot, or commit to submitting such a bylaw for shareholder approval. This policy will apply for meetings on or after Feb 1, 2015 until April 2, 2016.

New Recommendation: 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, ISS may recommend against the following types of proposals:

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

Rationale for Update:

Under the Florange Act (Loi Florange), registered shares held for two years will automatically acquire double-voting rights, thereby breaching the widely subscribed-to one-share, one-vote principle. Prior to this act, French companies were allowed to grant double-voting rights to registered shareholders after a minimum of two years only when they had a bylaw provision specifically allowing for it.

Companies whose bylaws already allowed for double voting rights before the enactment of the Florange Act are exempt from this policy. For companies whose bylaws are silent on voting rights, action is necessary to preclude the automatic granting of double voting rights by a shareholder-approved bylaw amendment. Bylaw amendments in France, either in the form of a management proposal or as a shareholder proposal, require the approval of two-thirds of voting rights to be enacted. 2015 is the last full year when French listed companies whose bylaws are silent can amend their bylaws to retain the one-share, one-vote principle, before the automatic introduction of double-voting rights. The two-year holding period triggering the automatic acquisition of double-voting rights started on April 3, 2014. This means that French companies that did not already prohibit double-voting rights in their bylaws have to submit such bylaws amendment by April 2, 2016, in order to give shareholders the option of approving an opt out of the legal granting of such double-voting rights.

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OPERATIONAL ITEMS

Appointment of Auditors and Auditor Fees (Continental Europe)

Current Recommendation:

Vote for proposals to ratify 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;
- Name of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- Fees for non-audit services exceed standard annual audit-related fees (applies to companies on the MSCI-EAFE index and/or listed on any country main index).

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 voting recommendations reflecting concerns relating to audit procedures, independence of auditors, and/or non-disclosure of the names of auditors, ISS will focus on the auditor election. For concerns relating to fees paid to the auditors, ISS will focus on remuneration of auditors if this is a separate voting item, otherwise ISS would focus on the auditor election.

Key Changes:

Expand the factors that are specifically taken into account related to audit/non-audit fees under the current policy to include breaches of local recommendations and/or legislation on non-audit fees as grounds for against recommendations.

New Recommendation: Vote for proposals to ratify 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;
- Name of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- For companies on the local main index or MSCI-EAFE index, 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.

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

Rationale for Update:

The issue of addressing non-audit fee quotients in best practice recommendations is in discussion throughout Europe, with the most recent change in Portugal with a new best practice recommendation that non-audit fees should not exceed 30 percent of total fees.

The updated policy ensures the alignment of ISS' guidelines with evolving market standards.

BOARD OF DIRECTORS

Non-Contested Director Elections (Continental Europe)

Board Independence

Current Recommendation:

For **Austria**, **Belgium**, **France**, **Germany**, **Hungary**, the **Netherlands, Spain**, and **Switzerland**, vote against the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50 percent independent. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation. The policy will apply to widely held companies in these markets.

For **Denmark**, **Norway**, **Finland**, **Sweden**, and **Luxembourg**, ISS will apply the same policy only for those companies that are part of a local main index market index and/or the MSCI-EAFE index.

For widely held companies in **Austria** and **Germany** that must by law include labor representatives who are by definition not independent, ISS will require that a minimum of one-third of the total board be independent. For **Swedish**, **Norwegian**, and **Danish** local main index and/or MSCI-EAFE companies, as well as widely held **Hungarian** companies, with labor representatives, the above policy will apply to shareholder-elected board members. In addition, ISS will require that one-third of the total board (shareholder-elected members and labor representatives) be independent non-executive directors.

In **Portugal**, companies that belong to the PSI-20 and/or MSCI-EAFE index will be required to have at least 25 percent of the board independent, as recommended by the Code of Corporate Governance issued by the Portuguese Securities Exchange. ISS will recommend a vote against the entire slate of candidates (bundled elections) or a vote against the election of any non-independent directors (unbundled elections) if board independence level does not meet the recommended 25-percent threshold.

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In **Italy**, for companies that are part of a local main index market index and/or MSCI-EAFE index with a controlling shareholder, companies will be required to have a board consisting of at least one-third independent members (33 percent), and, for all other companies, at least half of the board should be independent (50 percent).

For **Greece**, vote against the election or reelection of any non-independent directors if the proposed board is not at least one-third independent (as defined by ISS' director classification guidelines). If elections are bundled and the proposed board is not at least one-third independent, vote against the entire slate. If a nominee cannot be categorized, ISS will assume that person is non-independent and include that nominee in the calculation. This policy will be applied to widely held companies incorporated in Greece.

For companies with a majority shareholder (excluding Italy and Portugal), generally vote against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board will be lower than minority shareholders' percentage of equity ownership, or if the board will be less than one-third independent (whichever is higher).

Minority shareholders' ownership percentage is calculated by subtracting the majority shareholder's equity ownership percentage from 100 percent. Majority control is defined in terms of economic interest and not voting rights, and is considered to be any shareholder or group of shareholders acting collectively that control at least 50 percent + 1 share of the company's equity capital.

This independence threshold is applied to controlled widely held companies or main index-listed/MSCI-EAFE member companies which would otherwise fall under a 50-percent independence guideline as described in the Board Independence Policy.

Carve Out: In markets where the local corporate governance code addresses board independence at controlled companies, ISS will generally recommend against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board is lower than the local code recommendation, but in any case if the level of board independence is below one-third.

Key Changes:

- Redraft the current board independence policy on widely-held companies and on companies with a majority shareholder.
- Harmonize the board independence policy for widely held companies (unless there is a majority shareholder), when, according to legal requirements, directors are not elected by shareholders (exceptions for Greece and Portugal).
- For Italy, expand the board independence policy to apply to all widely held companies, not just the main index market or MSCI-EAFE index companies.
- For Portugal, increase the minimum independence threshold for the board of directors from 25 percent to one-third.

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New Recommendation: Independence will be determined according to ISS' European Classification of Directors. If a nominee cannot be categorized, ISS will consider that person non-independent and include that nominee in the calculation.

The following policies would be applied to all widely held companies[1], unless there is a majority shareholder:

- For all markets (except Greece or Portugal), vote against the election or reelection of any non-independent directors (excluding the CEO) if:
  - Fewer than 50 percent of the board members elected by shareholders would be independent, or
  - Fewer than one-third of board members, including those who, in accordance with local law(s) requiring their mandatory board membership, are not elected by shareholders, would be independent.

- In Italy, at least half of the board should be independent (50 percent). Issuers with a controlling shareholder will be required to have a board consisting of at least one-third independent members (33 percent). This applies to individual director appointments (co-options). In the case of complete board renewals that are regulated by the Italian slate system ("voto di lista"), board independence will be one of the factors for determining which list of nominees ISS considers best suited to add value for shareholders based, as applicable, on ISS European policies.

- For companies incorporated in Portugal or Greece, at least one-third of the board will be required to be independent. ISS will recommend a vote against the entire slate of candidates (in the case of bundled elections), or a vote against the election of any non-independent directors (in the case of unbundled elections) if board independence level does not meet the minimum recommended one-third threshold.

For companies with a majority shareholder (excluding Italy and Portugal):

- Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board will be lower than minority shareholders' percentage of equity ownership, or, in any case, if the board will be less than one-third independent (whichever is higher).

- Minority shareholders' ownership percentage is calculated by subtracting the majority shareholder's equity ownership percentage from 100 percent. Majority control is defined in terms of economic interest and not voting rights, and is considered to be any shareholder or group of shareholders acting collectively that control at least 50 percent + 1 share of the company's equity capital. This independence threshold is applied to controlled widely held companies or main index-listed/MSCI-EAFE member companies which would otherwise fall under a 50-percent independence guideline as described in the Board Independence Policy.

- However, in markets where the local corporate governance code addresses board independence at controlled companies, ISS will generally recommend against the election or reelection of any non-independent directors (excluding the CEO) if the level of independence on the board is lower than the local code recommendation, but in any case, if the level of board independence will be less than one-third.

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[1] Widely held companies are interpreted as:
- Generally, based on their membership in a major index and/or the number of ISS clients holding the securities;
- For Sweden, Norway, Denmark, Finland, and Luxembourg: based on local blue chip market index and/or MSCI EAFE companies;
- For Portugal, based on their membership in the PSI-20 and/or MSCI-EAFE index.

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Rationale for Update:

The new policy harmonizes the European policy for board independence at widely held companies for all markets (except for Greece and Portugal) to a general minimum of 50 percent, except where there are legal requirements for non-shareholder elected board members such as employee representatives, or controlling shareholders who may reasonably be expected to have representation in line with their ownership. In such circumstances, the minimum independence level will be no less than one-third. For companies incorporated in Greece and Portugal, the minimum required level of independence is also set at one-third.

For the French market, this policy update also takes into account the recent legal change requiring certain companies to include employee board representatives. The new policy is consistent with the independence standard that is currently applied to companies in European markets where employee board representatives are required by law, and at the same time, explicitly articulates that a 50-percent independence standard would be maintained for board members that are elected by shareholders.

Under the updated policy, directors who are not elected by shareholders due to a mandatory legal requirement (not only employee representatives but, for instance, government representatives) would explicitly be carved out of the calculation for shareholder-elected directors and only counted toward the one-third basic independence threshold for the entire board.

For Portugal, the update reflects a recent change to the Portuguese Code of Best Practice and would harmonize the policy in Portugal with other European markets. Whereas the Portuguese Code formerly recommended a minimum 25-percent independence for boards of directors, the new version states that boards should include "an appropriate number of independent members, taking into account the governance model, the size of the company, its shareholder structure, and the relevant free float. […]" The Code update has rendered the current carve-out for Portugal outdated. The new one-third independence policy for Portugal is consistent with the minimum independence threshold applied by ISS to other European markets.

For Italy, the update to expand the board independence policy to apply to all widely held companies is a component of ISS' longer-term goal of harmonizing its approach to the various European markets to the greatest extent possible.

CAPITAL STRUCTURE

Share Issuance Requests

Impact of the Florange Act (France) - General Issuances: Anti-takeover Measures

Current Policy Recommendation:

Vote for issuance authorities with preemptive rights to a maximum of 100 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**).

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Vote for issuance authorities without preemptive rights to a maximum of 20 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 **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.

For **French** companies, generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital.

Key Changes (France):

Adopt policies to encourage the continuation of specific shareholder approval on anti-takeover measures and protect shareholders from anti-takeover measures, through:

- The support of management and shareholder proposals introducing bylaw amendment requiring specific shareholders approval on anti-takeover measures, and
  By recommending against any general issuances authorities unless the company specifies that it cannot be used for anti-takeover purposes. In 2015, this policy is being limited to French CAC40 companies.

New Recommendation: Vote for issuance authorities with preemptive rights to a maximum of 100 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 20 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 **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.
- For CAC40 index companies, and until Jan. 31, 2016, generally vote against any general share issuance authorities (with or without preemptive rights) if they can be used for antitakeover purposes without shareholders' approval.

Rationale for Update:

Under the French Florange Act, boards will now legally be allowed to use any kind of antitakeover measures without prior shareholder approval, unless the company's bylaws specifically provide otherwise. 2015 is the first year that French companies will have the ability, or need, to propose amendments to their bylaws to opt out of these Florange Act provisions which will otherwise automatically introduce the effectively unlimited use of anti-takeover provisions without specific shareholder approval. Such bylaw amendments are the main way in which shareholders may maintain requirements for shareholder approval in many situations when the decision taken by the board and/or the use of the delegation given by the shareholders to the board could stop or prevent an offer to the potential detriment of shareholders.

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Companies may also provide shareholders with some protection from unlimited use of antitakeover measures by choosing to state in proposals for general share capital issuance authorities that the authority will not be used during a takeover period.

The targeted application of ISS' policy on antitakeover measures in 2015 to CAC40 companies only gives effectively one additional year to smaller companies to respond to the impact stemming from the Florange Act.

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