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ISS 2018 Governance Principles Survey

1. Respondent Information

This year, ISS' Annual Policy Survey is being undertaken in two parts, with the below, high-level survey covering certain fundamental and high-profile topics including "one-share, one vote," pay ratio disclosures, the use of virtual meetings, and board gender diversity. This part of the survey will close on August 31 at 5pm ET.

A follow-on and more expansive portion of the survey can be accessed at the end of this initial short set of questions, allowing respondents to drill down into key issues by market and region as well as by topics such as responsible investment, takeover defences, and remuneration/compensation. This more in-depth part of the survey will remain open until Oct. 6, 2017, at 5pm ET.

We appreciate your taking the time to provide input to this survey. Your answers will help inform ISS policy development on a variety of different governance topics across global markets. Please feel free to pass on a link to this survey — ISS 2018 Governance Principles Survey — to others to whom it could be relevant, such as your colleagues operating around the globe.

For your convenience, you can download a copy of the survey for reference.

Respondents must provide verifiable information pertaining to name, title, email, and organization. However, your individual survey responses will not be shared with anyone outside of ISS and will be used only by ISS for policy formulation purposes.

If you have questions or would like to submit any further responses to any of the survey questions, please send these to policy@issgovernance.com.

* Please provide contact information so we can send you a copy of the survey results.

Name	
Title	
Organization	
E-mail address	
Country of domicile	

* Which category best describes the organization on whose behalf you are responding?

- ◯ Institutional investor (asset manager)
- ◯ Institutional investor (asset owner)
- ◯ Corporate issuer
- ◯ Other (please specify)
- ◯ Corporate director/boardmember
- ◯ Consultant/advisor to corporate issuers

If you are a mutual fund, bank, or insurance company responding as a corporate issuer, please select the "corporate issuer" category in the question above.

* If you are an institutional investor, what is the size of your organization's equity assets under management or assets owned (in U.S. dollars) or what is the size of your organization's market capitalization (in U.S. dollars) if you are a corporate issuer?

- ◯ Under $100 million
- ◯ $100 million - $500 million
- ◯ $500 million - $1 billion
- ◯ $1 billion - $10 billion
- ◯ $10 billion - $100 billion
- ◯ Over $100 billion
- ◯ Not applicable

* What is your primary geographic area of focus in answering the survey questions?

- ◯ Global (most or all of the below)
- ◯ U.S.
- ◯ Canada
- ◯ Latin America
- ◯ Continental Europe
- ◯ U.K.
- ◯ Asia-Pacific
- ◯ Developing/emerging markets generally
- ◯ Other (please specify)

2. One-Share, One-Vote Principle

The "one-share, one-vote principle" – the idea that long-term shareholder value is best protected by a capital structure in which voting power corresponds to each shareholder's ownership stake and at-risk capital commitment – is increasingly under attack as some companies have sought to access public capital markets while insulating themselves and their management teams from perceived short-term pressures through differential voting rights. The recent IPO of Snap Inc. in the U.S. pushed the envelope by offering shares to the public with no voting rights at all. A number of other companies, such as Alphabet, Facebook and Blue Apron, utilize capital structures where public shareholders may only purchase low or zero voting rights shares. As stock markets increasingly find themselves in global competition for high-profile listings (e.g. Alibaba Group Holding, Saudi Aramco), they may feel pressure to relax or eliminate long-standing rules designed to protect investors. Short-term demand for a "hot" stock can potentially make it appear as if shareholders, as a group, do not place a high priority on voting rights. Some investors who purchase shares in an IPO may not prioritize good corporate governance and shareholder rights if they do not plan to hold their shares for the long term. Meanwhile, long-term shareholders who may normally prioritize good governance may nevertheless be forced to buy shares of companies with substandard shareholder rights as soon as those firms are included in a major stock index.

Which of the following represents your organization's view of multi-class capital structures with unequal voting rights?

- ◯ Companies should be allowed to choose whatever capital structure they see fit.
- ◯ They are never appropriate for a public company in any circumstances.
- ◯ They may be appropriate for certain newly-public companies, but should be subject to an automatic sunset provision based on time elapsed since the IPO.
- ◯ They may be appropriate for certain newly-public companies, but should be subject to an automatic sunset provision based on the market capitalization of the company.
- ◯ They may be appropriate for certain public companies, but should be subject to periodic reapproval by the holders of the low-vote shares.
- ◯ Other (please specify)

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3. Gender Diversity on Boards

The focus on gender diversity in corporate boardrooms has increased in numerous markets in recent years. Many of these markets have implemented enhanced disclosure requirements, best practice recommendations or regulatory quotas to drive increased female representation on public company boards. Despite this heightened attention, there have been varying levels of progress amongst companies in increasing the number of female directors on boards and some institutional investors continue to express frustration with a perceived lack of progress in boosting gender diversity in certain markets or industry sectors.

Does your organization consider it to be problematic if there are zero female directors on a public company board?

- ◯ Yes, the absence of at least one female director may indicate problems in the board recruitment process.
- ◯ Yes, but concerns may be mitigated if there is a disclosed policy/approach that describes the considerations taken into account by the board or the nominating committee to increase gender diversity on the board.
- ◯ No, directors are best-suited to determining the composition of the board.
- ◯ Maybe, but the level of concern is based on a case-by-case determination (e.g., it depends on the country; type of company; industry sector or other factors) (Please specify below)

Other (please specify)

If your organization answered "Yes" or "Maybe" to the preceding question, what actions do you consider may be appropriate for shareholders to take at a company that lacks any gender diversity on the board, and/or has not disclosed a policy on the issue? (Check all that apply)

- ☐ Engage with the board and/or management
- ☐ Consider supporting a shareholder proposal aimed at increasing diversity
- ☐ Consider supporting a shareholder-nominated candidate to the board
- ☐ Consider voting against all members of the nominating/governance committee
- ☐ Consider voting against the chair of the nominating/governance committee
- ☐ Consider voting against the chair of the board or lead director
- ☐ Consider voting against the Report & Accounts (in markets where this is an option) reflecting poor disclosure of gender diversity
- ☐ Other (please specify)

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4. Share Issuance and Buyback Proposals

Rules regarding shareholder approval of share issuances and buybacks vary by market. US listing rules do not require shareholder approval for share repurchases, and only require shareholder approval for share issuances in excess of 20 percent of issued capital where such issuances are private placements at a price below book value or market value, or where the issuances will result in a change of control or are in connection with an acquisition. Any other share issuances, up to the number of shares authorized in the charter, do not require a shareholder vote. By contrast, many European markets in principle require shareholder approval of all share issuances and share buybacks, but allow companies to seek approval for annual mandates covering share issuances during the coming year, up to a specified percentage of issued capital, or share buybacks during the coming year.

These differing approaches to shareholder approval of share issuances and buybacks create challenges at cross-market companies. US-listed companies incorporated in markets such as the

UK, Ireland and the Netherlands may, for example, be required by the laws of their country of legal domicile to seek shareholder approval for share issuances or share repurchases that would not otherwise be required under the rules of their stock market listing. In such a situation, ISS currently evaluates such proposals under the policy of the country of incorporation. However, such policies are generally aligned with local listing rules or codes of best practice, which may not strictly apply to companies not listed in those markets. Also under consideration however is that companies that are incorporated in markets requiring shareholder votes on issuances and repurchases often have a relatively large number of authorized but unissued shares, compared to their US-domiciled counterparts, and therefore the potential for dilution is correspondingly greater. Moreover, regulations and best practice codes, particularly in the UK and Ireland, distinguish between share issuances with and without preemptive rights, while preemptive rights have all but disappeared from the US market.

In light of these issues, ISS is currently reviewing its policies applicable to share issuances and buybacks at such cross-market companies.

As a general matter, which of the following best matches your organization's views?

- ◯ Share issuances and buybacks are matters for the board of directors to decide
- ◯ Share issuances and buybacks should generally be voted upon by shareholders
- ◯ Share issuances should be voted upon by shareholders, but share buybacks should be left to the board's discretion
- ◯ It depends on the market
- ◯ Other (please specify)

Which of the following best describes your organization's view of share issuance and buyback proposals at US-listed, but non-US-incorporated companies?

- ◯ As long as the company follows customary US capital market practices, the proposal should be treated as routine, so as not to disadvantage a cross-market firm vis-à-vis its US-domiciled peers.
- ◯ As the proposals are on the ballot due to the laws of the market of incorporation, the company should follow the customary practices of that market.
- ◯ A hybrid approach is called for, to protect shareholders from excessive dilution in situations not covered by NYSE and NASDAQ listing rules, while being less restrictive than European best practices.
- ◯ Other (please specify)

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5. Virtual/Hybrid Meetings

In the US, UK and some other markets worldwide, companies are permitted to use electronic means of communication to facilitate the participation of shareholders at general meetings. In some cases, companies may employ technological means to allow such participation as a supplement to the physical meeting (these are known as "hybrid meetings"), while in other cases the "virtual

shareholder meeting" entirely supplants the physical meeting. In the UK, a number of companies have sought or are seeking shareholder approval to amend their articles of association in order to be able to hold hybrid or virtual-only shareholder meetings. In the US, companies have generally made the switch to a hybrid or virtual-only meeting without a shareholder vote, following changes in state laws on the matter.

Currently, the practice of holding virtual shareholder meetings is rare in the UK: only one company held a virtual meeting in 2016 and 2017. In the US, the practice is more widespread: over 160 companies held virtual-only meetings in the first half of 2017, and an additional 16 companies held hybrid meetings.

Allowing shareholders to take part remotely can increase participation, and eliminating the physical meeting can reduce costs. However, some investors have raised concerns about the trend toward abandoning physical meetings, arguing that virtual-only meetings may hinder meaningful exchanges between management and shareholders, or allow management to avoid uncomfortable questions.

Please describe your organization's view on the use of remote means of communication for facilitating shareholder participation at general meetings, i.e., "hybrid" or "virtual-only" shareholder meetings.

- ○ My organization generally considers the practice of holding "virtual-only" or "hybrid" shareholder meetings to be acceptable.
- ○ My organization generally considers the practice of holding "hybrid" shareholder meetings to be acceptable, but not "virtual-only" shareholder meetings.
- ○ My organization generally considers the practice of holding "hybrid" shareholder meetings to be acceptable, and would also be comfortable with "virtual-only" shareholder meetings if they provided the same shareholder rights as a physical meeting.
- ○ My organization does not support the practice of holding "hybrid" or "virtual" shareholder meetings.
- ○ Other (please specify)

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6. Pay Ratio Between Senior Executives and Employees

Beginning in 2018 (unless the rule is repealed prior to implementation), U.S. issuers will be required to report in their proxy statement the ratio of CEO pay to the pay of the median company employee. Similar rules have been proposed in the UK, where companies are already required to compare the year-on-year percentage change in compensation between the CEO and other employees (though long-term incentives are excluded). The EU Shareholder Rights Directive, which member states will have to incorporate into their local laws by 2019, requires disclosure of the annual change in each executive's pay over five years, along with company performance and the change in average employee pay.

How does your organization intend to analyze data on pay ratios?

- ◯ Compare the ratios across companies/industry sectors
- ◯ Assess year-on-year changes in the ratio at an individual company
- ◯ Both of the above
- ◯ My organization is not planning to use this information
- ◯ Other (please specify)

In your organization's view, how should shareholders use disclosed data on pay ratios? (Check all that apply)

- ☐ As one data point in determining votes on compensation-related resolutions
- ☐ As one data point in determining votes on directors
- ☐ As background material for engagement with the company
- ☐ As a risk factor to be weighed in making investment decisions
- ☐ The information as disclosed will not be meaningful to shareholders
- ☐ Other (please specify)