



2018-2019 Australia and New Zealand Proxy Voting Guidelines Updates

Benchmark Policy Changes

Effective for Meetings on or after October 1, 2018

Published September 28, 2018

TABLE OF CONTENTS

Board of Directors	3
Director Independence- Definition of Materiality- Australia	3
Director Independence - Definition of Materiality - New Zealand	4
Voting on Director Nominees in Uncontested Elections- Problematic Risk and Audit-Related Practices - Australia	5
Voting on Director Nominees in Uncontested Elections- Governance Failures - Australia.....	6
Remuneration	8
Remuneration Report - Australia	8
Remuneration of Executives: Long-Term Incentives and Share-Based Payments - Australia	9

Board of Directors

Director Independence- Definition of Materiality- Australia

Current ISS Definition, incorporating policy changes:	New ISS Definition:
<p>Non-Independent Non-Executive Director (NED) A non-executive director who is:</p> <ul style="list-style-type: none"> › Classified as non-independent in the company's annual report; › A former executive of the company or of another group member if there was less than a three year period between the cessation of employment and board service; › A major shareholder, partner, or employee of a material adviser/supplier/customer¹; › A founder of the company, even if no longer a substantial shareholder²; › A relative (or a person with close family ties) of a substantial shareholder² or of a current or former executive; › A designated representative of a shareholder; › A director who has served for 12 or more years on the board; › A director with any material³ relationship to the company, other than a board seat. <p>Footnotes:</p> <p>¹ The materiality threshold for transactions is A\$500,000 per annum for large advisers/suppliers/customers and A\$50,000 per annum for small advisers/suppliers/customers. "Large" advisers include all major law, accounting, and investment banking firms. These thresholds are assessed by looking at transactions during the three most recent financial years.</p>	<p>Non-Independent Non-Executive Director (NED) A non-executive director who is:</p> <ul style="list-style-type: none"> › Classified as non-independent in the company's annual report; › A former executive of the company or of another group member if there was less than a three year period between the cessation of employment and board service; › A major shareholder, partner, or employee of a material adviser/supplier/customer¹; › A founder of the company, even if no longer a substantial shareholder²; › A relative (or a person with close family ties) of a substantial shareholder² or of a current or former executive; › A designated representative of a shareholder; › A director who has served for 12 or more years on the board; › A director with any material³ relationship to the company, other than a board seat. <p>Footnotes:</p> <p>¹ The materiality threshold for transactions is A\$50,000 per annum. These thresholds are assessed by looking at transactions during the three most recent financial years.</p>

Director Independence - Definition of Materiality - New Zealand

Current ISS Definition, incorporating policy changes:	New ISS Definition:
<p>Non-Independent Non-Executive Director (NED) A non-executive director who is:</p> <ul style="list-style-type: none"> › Classified as non-independent in the company's annual report; › A former executive of the company or of another group member if there was less than a three year period between the cessation of employment and board service; › A major shareholder, partner, or employee of a material adviser/supplier/customer¹; › A founder of the company, even if no longer a substantial shareholder²; › A relative (or a person with close family ties) of a substantial shareholder² or of a current or former executive; › A designated representative of a shareholder; › A director who has served for 12 or more years on the board; › A director with any material³ relationship to the company, other than a board seat. <p>Footnotes:</p> <p>¹ The materiality threshold for transactions is NZ\$2500,000 per annum for large advisers/suppliers/customers and NZ\$25,000 per annum for small advisers/suppliers/customers. "Large" advisers include all major law, accounting, and investment banking firms. These thresholds are assessed by looking at transactions during the three most recent financial years.</p>	<p>Non-Independent Non-Executive Director (NED) A non-executive director who is:</p> <ul style="list-style-type: none"> › Classified as non-independent in the company's annual report; › A former executive of the company or of another group member if there was less than a three year period between the cessation of employment and board service; › A major shareholder, partner, or employee of a material adviser/supplier/customer¹; › A founder of the company, even if no longer a substantial shareholder²; › A relative (or a person with close family ties) of a substantial shareholder² or of a current or former executive; › A designated representative of a shareholder; › A director who has served for 12 or more years on the board; › A director with any material³ relationship to the company, other than a board seat. <p>Footnotes:</p> <p>¹ The materiality threshold for transactions is NZ\$25,000 per annum. These thresholds are assessed by looking at transactions during the three most recent financial years.</p>

Rationale for Change:

The materiality levels for Australia and New Zealand are being tightened to use the same, lower threshold for all transactions, no longer dependent on the size of the adviser providing the services. This eliminates the ambiguity on whether an adviser should be classified as large or small. The lower threshold applied in all cases strengthens the guidelines for calling a director independent.

Voting on Director Nominees in Uncontested Elections- Problematic Risk and Audit-Related Practices - Australia

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Generally, vote for director nominees in uncontested elections. However, generally vote against nominees in the following circumstances:</p> <p>Problematic Risk and Audit-Related Practices:</p> <p>Generally, vote against members of the risk committee who were in place if:</p> <ul style="list-style-type: none"> › A material failure in audit and risk oversight by directors is identified through regulatory investigation, enforcement or other manner; or › There are significant adverse legal judgments or settlements against the company, directors or management. <p>Generally, vote against members of the audit committee as constituted in the most recently completed fiscal year if:</p> <ul style="list-style-type: none"> › The entity receives an adverse opinion of the entity's financial statements from the auditor; or › Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees. 	<p>General Recommendation: Generally, vote for director nominees in uncontested elections. However, generally vote against nominees in the following circumstances:</p> <p>Problematic Risk and Audit-Related Practices:</p> <p>Generally, vote against members of the risk committee who were in place if:</p> <ul style="list-style-type: none"> › A material failure in audit and risk oversight by directors is identified through regulatory investigation, enforcement or other manner; or › There are significant adverse legal judgments or settlements against the company, directors or management. <p>Generally, vote against members of the audit committee as constituted in the most recently completed fiscal year if:</p> <ul style="list-style-type: none"> › The entity receives an adverse opinion of the entity's financial statements from the auditor; or › Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees.

Voting on Director Nominees in Uncontested Elections- Governance Failures - Australia

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Generally, vote for director nominees in uncontested elections. However, generally vote against nominees in the following circumstances:</p> <p>Governance Failures: Under extraordinary circumstances, vote against directors individually, committee members, or the entire board, due to:</p> <ul style="list-style-type: none"> › Failure to act, take reasonable steps, or exercise a director's duty to make proper enquiries of events, actions or circumstances of the company and those involved in management or higher, in the best interests of all shareholders; › Material failures of governance, stewardship, risk oversight¹, or fiduciary responsibilities at the company (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management); › Failure to replace management as appropriate; or › Significant involvement with a failed company, or egregious actions or circumstances 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; ; or › Service on other boards where any of the above matters and facts have subsequently emerged. <p>Upholding governance is the responsibility of each director and together as a board of directors. Shareholders expect "collective accountability" of directors and boards of companies which have experienced governance failures, irrespective of whether directors consider themselves as not being directly responsible for actions of the company or those involved in it.</p>	<p>General Recommendation: Generally, vote for director nominees in uncontested elections. However, generally vote against nominees in the following circumstances:</p> <p>Governance Failures: Vote against directors individually, committee members, or the entire board, due to:</p> <ul style="list-style-type: none"> › Failure to act, take reasonable steps, or exercise a director's duty to make proper enquiries of events, actions or circumstances of the company and those involved in management or higher, in the best interests of all shareholders; › Material failures of governance, stewardship, risk oversight¹, or fiduciary responsibilities at the company (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management); › Failure to replace management as appropriate; › Significant involvement with a failed company, or egregious actions or circumstances 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; or › Service on other boards where any of the above matters and facts have subsequently emerged. <p>Upholding governance is the responsibility of each director and together as a board of directors. Shareholders expect "collective accountability" of directors and boards of companies which have experienced governance failures, irrespective of whether directors consider themselves as not being directly responsible for actions of the company or those involved in it.</p>

¹ Examples of failure of risk oversight include but are not limited to: bribery; **criminal conduct**; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements **against the company, directors, or management**; hedging of company stock; or significant pledging of company stock.

<p>When applying this policy, ISS will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist. A stricter view may apply for directors who serve on the boards of complex companies, those in highly regulated sectors, or directors who chair a number of key committees.</p>	<p>When applying this policy, ISS will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist. A stricter view may apply for directors who serve on the boards of complex companies, those in highly regulated sectors, or directors who chair a number of key committees.</p>
---	---

Rationale for Change:

A key emerging issue in Australia is director accountability for massive governance failures. The Royal Commission has been uncovering governance breaches amongst directors and executives in the banks, investment/superannuation firms, life insurance companies and some smaller financial institutions. Amongst the offensive acts are the directors': distancing themselves from not having asked questions, not having fulfilled their responsibilities, covering up poor/criminal behavior when their company is investigated by a regulator, allowing their companies to charge fees to dead peoples' accounts, charging advice fees for no advice, and having been conflicted.

The policies on audit, risk and governance failures are therefore being updated to:

- › Reflect the concerns and findings of the Royal Commission;
- › Take into account audit and risk committee failures at banks where directors appear to be denying any responsibility for failures ranging from simple risk and audit systems breaches, all the way up to criminal charges against officers, breaches of anti-money laundering and terrorism funding systems.

Remuneration

Remuneration Report - Australia

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Vote case-by-case on the remuneration report, taking into account the pay of the executives and non-executive directors, including where applicable:</p> <p>→ The pay of the executives and non-executive directors, including where applicable:</p> <ul style="list-style-type: none"> › The quantum of total fixed remuneration and short-term incentive payments relative to peers; › Whether any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; › The listed entity's workforce; › Financial performance and alignment with shareholder returns; › The adequacy and quality of the company's disclosure generally; › The appropriateness and quality of the company's disclosure linking identified material business risks and pre-determined key performance indicators (KPIs) that determine annual variable executive compensation outcomes; › The existence of appropriate performance criteria against which vesting and the quantum of cash and equity bonuses are assessed prior to any payment being made; › Whether appropriate targets for incentives, including in the STI or LTI, are in place and are disclosed in an appropriate level of detail; › Whether performance measures and targets for incentives in the STI and LTI, are in place and are measured over an appropriate period and are sufficiently stretching; › Any special arrangements for new joiners were in line with good market practice; › The remuneration committee exercised discretion appropriately, and such discretion is appropriately explained; and › The alignment of CEO and executive pay with the company's financial performance and returns for shareholders based on the ISS Quantitative Pay-for-Performance Evaluation. 	<p>General Recommendation: Vote case-by-case on the remuneration report, taking into account the pay of executives and non-executive directors, including where applicable:</p> <ul style="list-style-type: none"> › The quantum of total fixed remuneration and short term incentive payments relative to peers; › Whether any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; › The listed entity's workforce; › Financial performance and alignment with shareholder returns; › The adequacy and quality of the company's disclosure generally; › The appropriateness and quality of the company's disclosure linking identified material business risks and pre-determined key performance indicators (KPIs) that determine annual variable executive compensation outcomes; › The existence of appropriate performance criteria against which vesting and the quantum of cash and equity bonuses are assessed prior to any payment being made; › Whether appropriate targets for incentives, including in the STI or LTI, are in place and are disclosed with an appropriate level of detail; › Whether performance measures and targets for incentives, including in the STI and LTI, are measured over an appropriate period and are sufficiently stretching; › Any special arrangements for new joiners were in line with good market practice; › The remuneration committee exercised discretion appropriately, and such discretion is appropriately explained; and › The alignment of CEO and executive pay with the company's financial performance and returns for shareholders based on the ISS Quantitative Pay-for-Performance Evaluation.

<p>Where a remuneration report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall qualified recommendation of a “For”, whereas a single, serious deviation may be sufficient to justify an “Against” vote recommendation.</p> <p>In cases where a serious breach of good practice, or departure from accepted market standards and shareholder requirements, is identified and typically where issues have been raised by shareholders over one or more a-number-of years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may also receive a negative voting recommendation.</p>	<p>Where a remuneration report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall qualified recommendation of a “For”, whereas a single, serious deviation may be sufficient to justify an “Against” vote recommendation.</p> <p>In cases where a serious breach of good practice, or departure from accepted market standards and shareholder requirements, is identified and typically where issues have been raised by shareholders over one or more years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may also receive a negative voting recommendation.</p>
--	---

Remuneration of Executives: Long-Term Incentives and Share-Based Payments - Australia

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Vote case-by-case on long-term incentive and share-based grants for executives. Vote against plans and proposed grants under plans if:</p> <ul style="list-style-type: none"> › Exercise price, or valuation of share-based grants, is excessively discounted; › Vesting period is insufficiently long to reflect an appropriate long term horizon (ie less than three years); › Long term pPerformance hurdles criteria are removed; › Performance targets to be achieved which determine the quantum of vesting of share-based grants are not sufficiently demanding (although ISS will take into account whether the plan is used for a wide group of employees in evaluating performance hurdles under a particular plan); › Extensive retesting of performance criteria is permitted over an extended time period if where the original performance criteria targets are not met in the initial testing period; › Plan provides for excessive dilution; or › Company failed s to disclose adequate information regarding any element of the scheme. 	<p>General Recommendation: Vote case-by-case on long-term incentive and share-based grants for executives. Vote against plans and proposed grants under plans if:</p> <ul style="list-style-type: none"> › Exercise price, or valuation of share-based grants, is excessively discounted; › Vesting period is insufficiently long to reflect an appropriate long term horizon (ie less than three years); › Long term performance criteria are removed; › Performance targets to be achieved which determine the quantum of vesting of share-based grants are not sufficiently demanding; › Extensive retesting of performance criteria is permitted over an extended time period where the original performance targets are not met in the initial testing period; › Plan provides for excessive dilution; or › Company fails to disclose adequate information regarding any element of the scheme.

In Australia, there is no statutory or ASX listing rule requirement for companies to put long-term incentive plans before shareholders for approval. Some companies choose to seek shareholder approval of equity-based plans under the exception provided in ASX Listing Rule 7.2, so that equity instruments issued under the plan do not count towards the "15 percent in 12 months" dilution cap (refer to "Issue of Shares (Placement): Advance Approval" above).

Generally, vote against the remuneration report if a company utilizes the ASX Listing Rule 10.14 carve-out, and fails to put the proposed long-term incentive or share-based grant to a shareholder vote.

Under ASX Listing Rule 10.14, companies must seek shareholder approval for any grant of equity awards to a director. However, there is a carve-out for grants of shares where shares are to be purchased on-market rather than being newly issued. This carve-out was introduced in a controversial amendment to Listing Rule 10.14 in October 2005. Many institutional investors in Australia regard the carve-out as inappropriate and long-term incentive grants of shares to executive directors should be subject to a vote of shareholders, regardless of whether the shares are newly issued or purchased on-market.

Long Term Incentive Plan and Share-Based Grant Considerations

The elements of the long-term incentive plan (and proposed grants of equity awards) are evaluated by ISS according to the following criteria:

Options

- › Two different types of options should be distinguished:
 - › Grants of market-exercise-price options ("traditional options") have an in-built share price appreciation hurdle, where the share price must increase above its "strike price" at the grant date for the executive to have an incentive to exercise, and
 - › Grants of zero exercise price options ("ZEPOs") have no exercise price and the executive pays nothing to the company on exercising these rights.

In Australia, there is no statutory or ASX listing rule requirement for companies to put long-term incentive plans before shareholders for approval. Some companies choose to seek shareholder approval of equity-based plans under the exception provided in ASX Listing Rule 7.2, so that equity instruments issued under the plan do not count towards the "15 percent in 12 months" dilution cap (refer to "Issue of Shares (Placement): Advance Approval" above).

Generally, vote against the remuneration report if a company utilizes the ASX Listing Rule 10.14 carve-out, and fails to put the proposed long-term incentive or share-based grant to a shareholder vote.

Under ASX Listing Rule 10.14, companies must seek shareholder approval for any grant of equity awards to a director. However, there is a carve-out for grants of shares where shares are to be purchased on-market rather than being newly issued. This carve-out was introduced in a controversial amendment to Listing Rule 10.14 in October 2005. Many institutional investors in Australia regard the carve-out as inappropriate and long-term incentive grants of shares to executive directors should be subject to a vote of shareholders, regardless of whether the shares are newly issued or purchased on-market.

Long Term Incentive Plan and Share-Based Grant Considerations

The elements of the long-term incentive plan (and proposed grants of equity awards) are evaluated by ISS according to the following criteria:

Options

- › Two different types of options should be distinguished:
 - › Grants of market-exercise-price options ("traditional options") have an in-built share price appreciation hurdle, where the share price must increase above its "strike price" at the grant date for the executive to have an incentive to exercise, and
 - › Grants of zero exercise price options ("ZEPOs") have no exercise price and the executive pays nothing to the company on exercising these rights.

<p><u>Exercise Price</u></p> <ul style="list-style-type: none"> › Option exercise prices should not be at a discount to the prevailing market price at the grant date. (Many Australian companies now issue performance rights or performance shares, which are ZEPOs. These are not treated as “discounted” rights, but the following requirements in terms of regarding vesting period, performance hurdles criteria, etc., apply equally.) › Plans should not allow the repricing of underwater out-of-the-money options. › The allocation of ZEPOs should not be based on a substantially discounted, or “fair value”, price of the a company's securities (or “fair value”), which has the effect of increasing the number of equity awards which are granted, which and could exponentially increase the value of the incentive or share-based payment received by the executive once upon any vesting. 	<p><u>Exercise Price</u></p> <ul style="list-style-type: none"> › Option exercise prices should not be at a discount to the prevailing market price at the grant date. (Many Australian companies now issue performance rights or performance shares, which are ZEPOs. These are not treated as “discounted” rights, but the requirements regarding vesting period, performance criteria, etc., apply equally.) › Plans should not allow the repricing of out-of-the-money options. › The allocation of ZEPOs should not be based on a discounted price of a company's securities (or “fair value”), which has the effect of increasing the number of equity awards which are granted, and could exponentially increase the value of the incentive or share-based payment received by the executive upon any vesting.
<p><u>Vesting Period</u></p> <ul style="list-style-type: none"> › There should be appropriate time restrictions before rights can be exercised (if securities can vest in a timeframe which is less than three years, then this is not considered to be an appropriate representation of a shareholder's long term-horizon for an ASX listed entity). 	<p><u>Vesting Period</u></p> <ul style="list-style-type: none"> › There should be appropriate time restrictions before rights can be exercised (if securities can vest in a timeframe which is less than three years, this is not considered to be an appropriate representation of a shareholder's long-term horizon for an ASX listed entity).
<p><u>Performance Hurdles</u></p> <ul style="list-style-type: none"> › Generally, a hurdle that relates to total shareholder return (TSR) is viewed favourably by many shareholders compared to a hurdle that specifies an absolute share price target or an insufficient accounting measure of performance (such as earnings per share (EPS)). › Where a relative hurdle is used (comparing the company's performance against a group of peers or against an index), no vesting should occur at below-median performance, and the peer group should be appropriate and defensible (e.g. the peer group is not to be unacceptably small, or “cherry picked”). › A sliding-scale hurdle is required, under which the percentage of rights that vest increases according to a sliding scale of performance (whether absolute or relative) is required - a hurdle under which 100 percent of the award vests 	<p><u>Performance Hurdles</u></p> <ul style="list-style-type: none"> › Generally, a hurdle that relates to total shareholder return (TSR) is viewed favourably by many shareholders compared to a hurdle that specifies an absolute share price target or an insufficient accounting measure of performance (such as earnings per share (EPS)). › Where a relative hurdle is used (comparing the company's performance against a group of peers or against an index), no vesting should occur at below-median performance, and the peer group should be appropriate and defensible (e.g. the peer group is not to be unacceptably small, or “cherry picked”). › A sliding-scale hurdle is required, under which the percentage of rights that vest increases according to a sliding scale of performance (whether absolute or relative) - a hurdle under which 100 percent of the award vests once a

<p>once a single target is achieved (i.e. no "cliff vesting") - is not considered appropriate given that it may act as a disincentive to performance if it subsequently becomes difficult to achieve, or if it is easily achieved.</p> <ul style="list-style-type: none"> › Where an absolute share-price target is used, executives can be rewarded by a rising market even if their company performs relatively poorly. In addition, even if a share-price hurdle is set at a significantly higher level than the prevailing share price, then the hurdle may not be particularly stretching if the option has a long life or there are generous re-testing provisions. → Two different types of options should be distinguished: <ul style="list-style-type: none"> → Grants of market exercise price options ("traditional options"), have an in-built share price appreciation hurdle, where the share price must increase above its "strike price" at the grant date for the executive to have an incentive to exercise, and → Grants of zero exercise price options ("ZEPOs"), have no exercise price and the executive pays nothing to the company on exercising these rights. › Accounting-related hurdles do not necessarily involve shareholder value creation before an incentive or share-based grant vests. In other words, an An accounting-based performance hurdle may allow incentives to vest, and executives to be rewarded, without any medium to long-term improvement in total shareholder return having been delivered. Growth in EPS may, but does not always, translate into an improved share price and increased dividends over the medium to long term. Accordingly, <ul style="list-style-type: none"> › An EPS hurdle can lead to executive reward without any increase in shareholder return in the case of ZEPOs, which may not be the same if incorporated with traditional options. › An EPS hurdle can more readily be supported if used with traditional options, rather than with ZEPOs, although the use of traditional options in the Australian market is quite limited. › An EPS target must be sufficiently demanding, or stretching, such that a hurdle should require a substantial cumulative growth rate in EPS. In order to assess whether an EPS hurdle is sufficiently demanding, ISS will consider the EPS forecasts for a particular company produced and published by analysts and any earnings guidance provided by management. If a sliding-scale EPS hurdle is used, a significant proportion of the options are to vest only for EPS performance that exceeds consensus analyst forecasts. › Operational hurdles are non-market and non-financial targets which are generally accompanied by unclear disclosure and often difficult to assess. 	<p>single target is achieved (i.e. no "cliff vesting") - is not considered appropriate given that it may act as a disincentive to performance if it subsequently becomes difficult to achieve, or if it is easily achieved.</p> <ul style="list-style-type: none"> › Where an absolute share-price target is used, executives can be rewarded by a rising market even if their company performs relatively poorly. In addition, even if a share-price hurdle is set at a significantly higher level than the prevailing share price, then the hurdle may not be particularly stretching if the option has a long life or there are generous re-testing provisions. › Accounting-related hurdles do not necessarily involve shareholder value creation before an incentive or share-based grant vests. An accounting-based performance hurdle may allow incentives to vest, and executives to be rewarded, without any medium to long-term improvement in total shareholder return having been delivered. Growth in EPS may, but does not always, translate into an improved share price and increased dividends over the medium to long term. Accordingly, <ul style="list-style-type: none"> › An EPS hurdle can lead to executive reward without any increase in shareholder return in the case of ZEPOs, which may not be the same if incorporated with traditional options. › An EPS hurdle can more readily be supported if used with traditional options, rather than with ZEPOs, although the use of traditional options in the Australian market is quite limited. › An EPS target must be sufficiently demanding, or stretching, such that a hurdle should require a substantial cumulative growth rate in EPS. In order to assess whether an EPS hurdle is sufficiently demanding, ISS will consider EPS forecasts published by analysts and any earnings guidance provided by management. If a sliding-scale EPS hurdle is used, a significant proportion of the options are to vest only for EPS performance that exceeds consensus analyst forecasts. › Operational hurdles are non-market and non-financial targets which are generally accompanied by unclear disclosure and often difficult to assess. Examples may include delivery of strategic projects, production targets, or discovery of mining reserves. ISS will assess these hurdles on a case-by-case basis, in order to establish if the hurdle is sufficiently demanding and capable of creating longer term shareholder value. These would more generally be accepted when used in conjunction with traditional options to align more closely with a tangible increase in shareholder value in excess of the strike price.
--	---

Examples may include delivery of strategic projects, production targets, or discovery of mining reserves. ISS will assess these hurdles on a case-by-case basis, in order to establish if the hurdle is sufficiently demanding and capable of creating longer term shareholder value. These would more generally be accepted when used in conjunction with traditional options ~~in~~ ~~order~~ to align more closely with a tangible increase in shareholder value in excess of the strike price.

Re-testing

- › A re-test is where the performance hurdle has not been achieved during the initial vesting period, and the plan permits further testing of the performance hurdle on a later date or dates. Many investors, in markets like the U.K., do not support re-testing of performance criteria on share options or other share-based incentive awards, on the basis that retesting undermines the incentive value of such awards. Such provisions have not been uncommon in the Australian market. However, as companies have moved toward annual grants of awards that mitigate the concerns over “cliff-vesting,” and the increasingly held view among institutional investors that re-testing does not constitute best practice, companies have now moved to a minimal number of re-tests, or they have eliminated re-testing altogether.
- › In cases where re-testing exists, ISS will evaluate the type of re-testing, either fixed-base or rolling, and the frequency of the re-testing. (Fixed-base testing means performance is always tested over an ever-increasing period, starting from grant date. This is less concerning than re-testing from a rolling start date.) Where a company has a particularly generous re-testing regime, and has not committed to significantly reduce the number of re-tests, vote against a resolution to approve the plan in question, or a grant of rights under the plan. This may also warrant a vote against the remuneration report, depending on other aspects of executive and non-executive remuneration practices. In the case of new plans, as a best practice, companies should not include re-testing provisions, but evaluate on a case-by-case approach basis.

Transparency

- › Methodology for determining exercise price should be disclosed.

Re-testing

- › A re-test is where the performance hurdle has not been achieved during the initial vesting period, and the plan permits further testing of the performance hurdle on a later date or dates. Many investors, in markets like the U.K., do not support re-testing of performance criteria on share options or other share-based incentive awards, on the basis that retesting undermines the incentive value of such awards. Such provisions have not been uncommon in the Australian market. However, as companies have moved toward annual grants of awards that mitigate the concerns over “cliff-vesting,” and the increasingly held view among institutional investors that re-testing does not constitute best practice, companies have now moved to a minimal number of re-tests, or they have eliminated re-testing altogether.
- › In cases where re-testing exists, ISS will evaluate the type of re-testing, either fixed-base or rolling, and the frequency of the re-testing. (Fixed-base testing means performance is always tested over an ever-increasing period, starting from grant date. This is less concerning than re-testing from a rolling start date.) Where a company has a particularly generous re-testing regime, and has not committed to significantly reduce the number of re-tests, vote against a resolution to approve the plan in question, or a grant of rights under the plan. This may also warrant a vote against the remuneration report, depending on other aspects of executive and non-executive remuneration practices. In the case of new plans, as a best practice, companies should not include re-testing provisions, but evaluate on a case-by-case approach basis.

Transparency

<ul style="list-style-type: none"> › Sufficient information Shareholders should be presented with sufficient information to determine whether demonstrate that the scheme will reward superior future performance. › Proposed volume of securities which may be issued should be disclosed to enable shareholders to assess the dilutionary impact. › Time restrictions before options can be exercised should be disclosed. › Any restrictions on disposing of shares received should be disclosed. › Full cost of options to the company should be disclosed. › Method used to calculate the cost of options should be disclosed, including any the discount applied to account for the probability of equity incentives not vesting. › Method of purchase or issue of shares on exercise of options should be disclosed. <p><u>Dilution of Existing Shareholders' Equity</u></p> <ul style="list-style-type: none"> › Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital. <p><u>Level of Reward</u></p> <ul style="list-style-type: none"> › Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. <p><u>Eligibility for Participation in the Scheme</u></p> <ul style="list-style-type: none"> › Scheme should be open to all key executives. › Scheme should not be open to non-executive directors. <p><u>Other</u></p> <ul style="list-style-type: none"> › Plans should include reasonable change-in-control provisions (i.e. pro rata vesting and size of awards). › Plans should include "good leaver"/"bad leaver" provisions to minimize excessive and unearned payouts (see below for a discussion of the approach 	<ul style="list-style-type: none"> › Methodology for determining exercise price should be disclosed. › Sufficient information should be presented to demonstrate that the scheme will reward superior future performance. › Proposed volume of securities which may be issued should be disclosed to enable shareholders to assess the dilutionary impact. › Time restrictions before options can be exercised should be disclosed. › Any restrictions on disposing of shares received should be disclosed. › Full cost of options to the company should be disclosed. › Method used to calculate the cost of options should be disclosed, including the discount applied to account for the probability of equity incentives not vesting. › Method of purchase or issue of shares on exercise of options should be disclosed. <p><u>Dilution of Existing Shareholders' Equity</u></p> <ul style="list-style-type: none"> › Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital. <p><u>Level of Reward</u></p> <ul style="list-style-type: none"> › Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. <p><u>Eligibility for Participation in the Scheme</u></p> <ul style="list-style-type: none"> › Scheme should be open to all key executives. › Scheme should not be open to non-executive directors. <p><u>Other</u></p> <ul style="list-style-type: none"> › Plans should include reasonable change-in-control provisions (i.e. pro rata vesting and size of awards). › Plans should include "good leaver"/"bad leaver" provisions to minimize excessive and unearned payouts (see below for a discussion of the approach
--	--

<p>to resolutions seeking approval for termination benefits to executives generally and under equity plans).</p> <p>Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a qualified 'For', with the qualification noting the breaches which investors would expect to be addressed by the remuneration committee in the future, whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.</p>	<p>to resolutions seeking approval for termination benefits to executives generally and under equity plans).</p> <p>Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a qualified 'For', with the qualification noting the breaches which investors would expect to be addressed by the remuneration committee in the future, whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation.</p>
---	---

Rationale for Change:

Some remuneration structures are undergoing change in Australia, mainly by underperforming companies. Short-term incentive (STI) plans and long-term incentive (LTI) plans are being collapsed into one "combined incentive plan", but performance criteria for vesting of what used to be the LTI or share-based payments are being removed.

Where historic LTI did not vest for a period because of poor performance, some companies are restructuring their remuneration by including the LTI into the combined plan, pay the stock bonus like the STI based on poorly-disclosed performance targets and include the old LTI equity. However, any performance hurdles and targets that had to be met for the vesting of equity are removed in the process, leaving only a 3-year wait period before the shares are awarded.

The policies for the review of the Remuneration Report and for the review of Incentive Plans are thus updated to ensure they address the concerns surrounding this new structure.

This document and all of the information contained in it, including without limitation all text, data, graphs, and charts (collectively, the "Information") is the property of Institutional Shareholder Services Inc. (ISS), its subsidiaries, or, in some cases third party suppliers.

The Information has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), or a promotion or recommendation of, any security, financial product or other investment vehicle or any trading strategy, and ISS does not endorse, approve, or otherwise express any opinion regarding any issuer, securities, financial products or instruments or trading strategies.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information.

ISS MAKES NO EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION AND EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY, AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by law, in no event shall ISS have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits), or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not by applicable law be excluded or limited.



The Global Leader In Corporate Governance

www.issgovernance.com