



2018 Europe, Middle East and Africa (EMEA) Proxy Voting Guidelines Updates

Benchmark Policy Changes for U.K., Ireland, and Europe

Effective for Meetings on or after February 1, 2018

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UK AND IRELAND

Board of Directors

Overboarding

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation:</p> <p>Where directors have multiple board appointments, ISS may recommend a vote against directors who appear to hold an excessive number of board roles at publicly-listed companies, defined as follows:</p> <ul style="list-style-type: none"> > Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. > Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <p>→ Directors who hold more than five non-chair non-executive director positions-</p> <p>→ A non-executive chairman who, in addition to this role, holds (i) more than three non-chair non-executive director positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position-</p> <p>→ Executive directors holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position-</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>	<p>General Recommendation:</p> <p>Where directors have multiple board appointments, ISS may recommend a vote against directors who appear to hold an excessive number of board roles at publicly-listed companies, defined as follows:</p> <ul style="list-style-type: none"> > Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. > Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <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><u>CEOs and Chairmen</u></p> <p>An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. For chairmen, negative recommendations would first be applied towards non-executive positions held but the chair position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate</p>

<p><u>CEOs and Chairmen</u></p> <p>An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. The same is also valid for chairmen, except (i) where they exclusively hold other chair and/or executive positions or (ii) where they are elected as chairman for the first time. For chairmen, negative recommendations would first be applied towards non-executive positions held but the chair position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position.</p>	<p>their chair positions are three or more in number, or if the chairman holds an outside executive position.</p>
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Rationale for Change:

The changes are mainly to simplify the wording of this policy.

The only substantive change relates to how these guidelines are applied in respect of the appointment / reappointment of the Chairman. As currently written, ISS will support the **re-election** of the chairman (and their other chair positions) despite there being overboarding concerns, so long as at least one of these positions is a non-executive role only. This is because the non-executive positions would be the target. In theory at least, a chairman could have an unlimited number of other chair positions and apart from a vote against recommendation being made on the appointment of the new chair position, the director would not receive a vote against recommendation at subsequent AGMs, or at other AGMs where they are being re-elected as Chair. This is unlikely to happen in practice, but the possibility is being addressed with the change.

Audit and Remuneration Committee Composition

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Generally vote against any non-independent non-executive director whose presence on the board, audit or remuneration committee renders the board or committee insufficiently independent, unless:</p> <ul style="list-style-type: none"> › The company discloses details of how the issue of concern will be resolved by the next AGM. <p>[...]</p> <p>Discussion</p>	<p>General Recommendation: Generally vote against any non-independent non-executive director whose presence on the board, audit or remuneration committee renders the board or committee insufficiently independent, unless:</p> <ul style="list-style-type: none"> › The company discloses details of how the issue of concern will be resolved by the next AGM. <p>[...]</p> <p>Discussion</p>

<p>ISS will typically support the election and re-election of non-independent directors to the board so long as if the overall board and committee composition is in line with the Code's requirements and they do not sit on the Audit and Remuneration committees. A negative vote recommendation against a non-independent non-executive director would normally be warranted only where the composition of the key committees or the balance of the board was compromised.</p> <p>For companies in the FTSE 350, in line with the Code, at least half the board excluding the chairman should comprise non-executive directors determined by the board to be independent. The audit committee should comprise at least three independent non-executive directors, and all members should be independent. The company chairman should not be a member of the audit committee. The remuneration committee should also comprise at least three independent non-executive directors and again, all members should be independent. In addition, the company chairman may also be a member of, but not chair, the remuneration committee if he or she was considered independent on appointment as chairman. A majority of the nomination committee should be independent non-executive directors.</p> <p>Companies in the FTSE All Share below the FTSE 350 should have at least two independent non-executive directors on the board, not including the company chairman. The board should establish audit and remuneration committees with at least two independent non-executives members on each committee, and who should all be independent non-executive directors. The company chairman may be a member of, but not chair, either committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. A majority of the nomination committee should be independent non-executive directors.</p>	<p>ISS will typically support the election and re-election of non-independent directors to the board if the overall board and committee composition is in line with the Code's requirements and they do not sit on the Audit and Remuneration committees.</p> <p>For companies in the FTSE 350, in line with the Code, at least half the board excluding the chairman should comprise non-executive directors determined by the board to be independent. The audit committee should comprise at least three non-executive directors, and all members should be independent. The company chairman should not be a member of the audit committee. The remuneration committee should also comprise at least three non-executive directors and again, all members should be independent. In addition, the company chairman may also be a member, but not chair, of the remuneration committee if he or she was considered independent on appointment as chairman. A majority of the nomination committee should be independent non-executive directors.</p> <p>Companies in the FTSE All Share below the FTSE 350 should have at least two independent non-executive directors on the board, not including the company chairman. The board should establish audit and remuneration committees with at least two members on each committee, all of whom should be independent non-executive directors. The company chairman may be a member, but not chair, of either committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. A majority of the nomination committee should be independent non-executive directors.</p>
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Rationale for Change:

This policy change clarifies that audit and remuneration committees should be comprised only of independent directors, a long-established principle in the UK market. Section D.2.1 of the UK Corporate Governance Code states: "The board should establish a remuneration committee of at least three, or in the case of smaller companies two, independent non-executive directors." Similarly, Section C.3.1 of the same Code states: "The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors."

The change is also consistent with the Pensions and Lifetime Savings Association (PLSA) 2017 guidelines which say that "The Audit Committee.....should be staffed solely of independent directors.....".

Remuneration

Threshold Vesting Levels for Long-Term Incentive Plans (LTIPs)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Remuneration policy: Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <p>Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, and vesting levels are in line with UK good practice.</p> <p>The binding vote on the remuneration policy is forward-looking and in most cases will apply for three years. Therefore, many shareholders will want to ensure that the policy takes into account good market practice in a number of key areas.....</p> <p>ISS looks prefers to see vesting levels at generally no more than 25 percent for threshold performance unless there are special reasons to support such as low positioning of salaries and LTI awards and relatively stretching targets at threshold. On the other hand, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary. Other issues will be taken into account such as how challenging the threshold targets are, and the positioning of salaries and remuneration levels in general. Vesting should not occur for below median performance.</p> <p>Remuneration Report: Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay for Performance model³ outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether.....:</p> <p>ISS considers both the LTIP awards granted and those vested or lapsed during the year under review.</p> <p>When assessing the awards which vested, the Investment Association Principles advise that remuneration committees should ensure that the result does not</p>	<p>General Recommendation: Remuneration policy: Vote the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <p>Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, and vesting levels are in line with UK good practice.</p> <p>The binding vote on the remuneration policy is forward-looking and in most cases will apply for three years. Therefore, many shareholders will want to ensure that the policy takes into account good market practice in a number of key areas.....</p> <p>ISS looks to see vesting levels at generally no more than 25 percent for threshold performance unless there are special reasons to support such as low positioning of salaries and LTI awards and relatively stretching targets at threshold. On the other hand, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary. Other issues will be taken into account such as how challenging the threshold targets are, and the positioning of salaries and remuneration levels in general. Vesting should not occur for below median performance</p> <p>Remuneration report: Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay for Performance model³ outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether.....:</p> <p>ISS considers both the LTIP awards granted and those vested or lapsed during the year under review.</p> <p>When assessing the awards which vested, the Investment Association Principles advise that remuneration committees should ensure that the result does not</p>

<p>produce outcomes that are out of line with the overall performance of the company, its future prospects or the experience of its shareholders over the performance period. The definition of any performance measurement should be clearly disclosed.</p> <p>For awards granted in the year under review, the Investment Association Principles note that companies should disclose the potential value of awards due to individual scheme participants on full vesting, expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary.</p> <p>In this regard, the vesting levels for threshold and on target performance should be in line with market norms, with threshold vesting generally being no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary.</p> <p>The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.</p> <p>Approval of a new or amended LTIP. Vote the resolution to approve a new or amended LTIP on a case-by-case approach, paying particular attention as to whether.....:</p> <p>The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting generally no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary.</p>	<p>produce outcomes that are out of line with the overall performance of the company, its future prospects or the experience of its shareholders over the performance period. The definition of any performance measurement should be clearly disclosed.</p> <p>For awards granted in the year under review, the Investment Association Principles note that companies should disclose the potential value of awards due to individual scheme participants on full vesting, expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary.</p> <p>In this regard, the vesting levels for threshold and on target performance should be in line with market norms, with threshold vesting generally being no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary</p> <p>The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.</p> <p>Approval of a new or amended LTIP. Vote the resolution to approve a new or amended LTIP on a case-by-case approach, paying particular attention as to whether.....:</p> <p>The vesting levels for threshold and on target performance are in line with market norms, with threshold vesting generally no higher than 25 percent. However, as much as 25 percent may be considered inappropriate if LTIP grants represent large multiples of salary.</p>
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Rationale for Change:

This policy change both clarifies the approach to LTIP award threshold vesting levels and provides appropriate flexibility in the consideration of vesting levels when analyzing remuneration policies, remuneration reports, and new (or amendments to) LTIPs. 25 percent threshold vesting may be considered inappropriate if LTIP grants represent large multiples of salary, and, when analyzing LTIP award vesting levels, other issues will also be taken into account, such as how challenging the threshold targets are, the positioning of salaries, and remuneration levels in general.

The U.K. Investment Association remuneration guidelines state that "threshold vesting amounts, reflecting expected performance, should not be significant by comparison with annual base salary."

Capital Structure

Share Issuances without Pre-emption Rights

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation:</p> <p>ISS will generally support resolutions seeking authorities in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles¹. ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only.</p> <p>Under the Pre-Emption Group Principles, the routine authority to disapply pre-emption rights should not exceed more than 5 percent of ordinary share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period. Companies can seek shareholder approval for an authority up to 10 percent, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed as to abusing the authority during the year - {for example, by issuing shares up to 10 percent for purposes other than set out in the guidelines or by using a cash-box structure² to issue more than the authority approved at the previous AGM - } is likely to receive a negative recommendation on the authority at the following AGM.</p>	<p>General Recommendation:</p> <p>ISS will generally support resolutions seeking authorities in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles¹. ISS will support an authority to allot up to two-thirds of the existing issued share capital, providing that any amount in excess of one-third of existing issued shares would be applied to fully pre-emptive rights issues only.</p> <p>Under the Pre-Emption Group Principles, the routine authority to disapply pre-emption rights should not exceed more than 5 percent of ordinary share capital in any one year, with an overall limit of 7.5 percent in any rolling three-year period. Companies can seek shareholder approval for an authority up to 10 percent, provided that any amount in excess of the standard 5 percent is to be used only for purposes of an acquisition or a specified capital investment. A company which receives approval for an authority of this nature but is then subsequently viewed as abusing the authority during the year - for example, by issuing shares up to 10 percent for purposes other than set out in the guidelines or by using a cash-box structure² to issue more than the authority approved at the previous AGM - is likely to receive a negative recommendation on the authority at the following AGM.</p>

Rationale for Change:

ISS generally supports share issuance authorities with or without pre-emptive rights at UK or Irish companies when the authorities are in line with the Investment Association's Share Capital Management Guidelines and the Pre-Emption Group Statement of Principles. The Pre-Emption Group has clarified that its Statement of Principles concern all issuances of equity securities that are undertaken to raise cash, regardless of legal form, including so-called "cashbox" share issuances that are undertaken to raise cash but are structured as a share issuance for non-cash consideration. Currently, the ISS guidelines do not specify that "cashbox" transactions are treated as share issuances for cash, so the amendment clarifies this.

¹ <http://www.pre-emptiongroup.org.uk/getmedia/655a6ec5-fecc-47e4-80a0-7aea04433421/Revised-PEG-Statement-of-Principles-2015.pdf.aspx>

² A "cash box" structure refers to a method of raising cash from the issue of equity securities for non-cash consideration through the acquisition of a special purpose vehicle whose principal asset is cash.

The use of cashbox transactions is of increasing concern to many investors in light of the recent implementation of new EU prospectus regulation into UK law. Whereas the previous UK prospectus regulation allowed issuers to issue new shares representing less than 10 percent of the shares of the same class admitted to trading on the same regulated market without publishing a prospectus for the admission, the new UK prospectus regulation raises this limit to 20 percent. There is some concern among investors that this new prospectus regulation, in combination with the use of "cashbox" transactions by certain UK issuers, could lead to an erosion of pre-emption rights.

UK/IRELAND AND EUROPE

Virtual Meetings

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: [No current formal policy]</p> <p>Generally vote for proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs.</p> <p>Generally vote against proposals allowing for the convening of virtual-only* shareholder meetings.</p> <p>* The phrase “virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. The term “hybrid shareholder meeting” refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.</p>	<p>General Recommendation:</p> <p>Generally vote for proposals allowing for the convening of hybrid* shareholder meetings if it is clear that it is not the intention to hold virtual-only AGMs.</p> <p>Generally vote against proposals allowing for the convening of virtual-only* shareholder meetings.</p> <p>* The phrase “virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively through the use of online technology without a corresponding in-person meeting. The term “hybrid shareholder meeting” refers to an in-person, or physical, meeting in which shareholders are permitted to participate online.</p>

Rationale for Change:

Several UK companies have requested shareholder approval for article amendments allowing for the convening of virtual (i.e. non-physical) shareholder meetings. Though the practice itself remains rare in the UK and Europe, it is becoming more common in the U.S.

Investor opinion on this development is divided. While there is recognition of the potential benefits of enabling participation at shareholder meetings via electronic means, many have raised concerns about moves to completely eliminate physical shareholder meetings, arguing that virtual-only meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid uncomfortable questions. In ISS’ 2017-2018 Governance Principles Survey, investor respondents were largely supportive of so-called “hybrid meetings”, where companies employ technology to allow for virtual participation as a supplement to the physical shareholder meeting. In fact, with improving technology, hybrid meetings could become standard good practice.

Investor respondents were less supportive of virtual-only meetings however. Whilst a relatively large number indicated that virtual-only meetings could merit support if they were to provide the same shareholder rights as a physical meeting, at present it is difficult to draw any definite conclusions as to whether companies in the UK, Ireland, and Continental Europe will be able to meet this standard, given that thus far only one UK company, and no companies covered by the ISS European voting guidelines, have held virtual-only AGMs. In addition, even with improved technology, it is unclear how virtual-only meetings will be able provide shareholders with the same opportunity for meaningful face-to-face dialogue with the board, particularly if the directors are not all in the same room.

The new policy, which establishes an approach to evaluating virtual meeting authorizations, is reflective of investor views. Under the policy, ISS will generally recommend in favor of proposals allowing a company to hold “hybrid” shareholder meetings. Regarding proposals allowing a company to hold virtual-only meetings, ISS will generally recommend a vote against.

EUROPE

Board of Directors- Non-Contested Director Elections

Bundling of Proposal to Elect Directors

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>Bundling together proposals that could be presented as separate voting items is not considered good market practice, because bundled resolutions leave shareholders with an all-or-nothing choice, skewing power disproportionately towards the board and away from shareholders. As director elections are one of the most important voting decisions that shareholders make, directors should be elected individually.</p> <p>For the markets of Bulgaria, Croatia, Czech Republic, Estonia, France, Germany, Hungary, Latvia, Lithuania, Poland*, Romania, Slovakia, and Slovenia, and Spain vote against the election or reelection of any directors if individual director elections are an established market practice and the company proposes a single slate of directors.</p> <p><i>*Bundled director elections in Poland may be supported for companies that go beyond market practice by disclosing the names of nominees on a timely basis.</i></p>	<p>Bundling together proposals that could be presented as separate voting items is not considered good market practice, because bundled resolutions leave shareholders with an all-or-nothing choice, skewing power disproportionately towards the board and away from shareholders. As director elections are one of the most important voting decisions that shareholders make, directors should be elected individually.</p> <p>For the markets of Bulgaria, Croatia, Czech Republic, Estonia, France, Germany, Hungary, Latvia, Lithuania, Poland*, Romania, Slovakia, and Slovenia, vote against the election or reelection of any directors if individual director elections are an established market practice and the company proposes a single slate of directors.</p> <p><i>*Bundled director elections in Poland may be supported for companies that go beyond market practice by disclosing the names of nominees on a timely basis.</i></p>

Rationale for Change:

Poland is one of the markets included in the voting policy on bundled director elections because the practice of bundling director elections into a single voting item is rare, but nevertheless legally possible in the market. However, Polish companies oftentimes fail to disclose director nominee names to shareholders on a timely basis. While bundling director elections and failing to disclose nominee names are both considered to be negative practices, the latter is considered to be more severe from a shareholder perspective because it deprives shareholders of any possibility of making an informed voting decision. It is therefore considered appropriate to allow for the possibility of supporting bundled director elections for Polish companies that exceed market practice by disclosing nominee names to shareholders on a timely basis.

Individual elections have been mandated in Spain since 2015, so the policy is being updated accordingly.

Board Independence

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>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.</p> <p>The following policies would be applied to all widely held companies⁴, unless there is a majority shareholder:</p> <p><i>Voting policies</i></p> <p><u>Widely-held companies</u></p> <p>A. Non-controlled companies</p> <p>For all markets (except Greece or Portugal), Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> <ol style="list-style-type: none"> Fewer than 50 percent of the board members elected by shareholders, – excluding, where relevant, employee shareholder representatives, – would be independent; or Fewer than one-third of all board members, including those who, in accordance with local law(s) requiring their mandatory board membership, are not elected by shareholders, would be independent. <p>Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy.</p> <p>B. Controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.</p>	<p>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.</p> <p><i>Voting policies</i></p> <p><u>Widely-held companies</u></p> <p>A. Non-controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if:</p> <ol style="list-style-type: none"> Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or Fewer than one-third of all board members would be independent. <p>Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy.</p> <p>B. Controlled companies</p> <p>Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.</p>

Non-widely held companies

Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

Voting sanctions will be applied under this policy from February 2019.

Definition of terms

'Widely-held companies' are determined 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, this is based on membership on a local blue chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.

A company is considered to be controlled for the purposes of the above-mentioned voting policies if a shareholder, or multiple shareholders acting in concert, control a majority of the company's equity capital (i.e. 50 percent + one share). If a company is majority-controlled by virtue of a shareholder structure in which shareholders' voting rights do not accrue in accordance with their equity capital commitment (e.g. unequal or multi-class share structures), the company will not be classified as controlled unless the majority shareholder/majority shareholding group also holds a majority of the company's equity capital.

→ ~~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~~

Non-widely held companies

Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

Voting sanctions will be applied under this policy from February 2019.

Definition of terms

'Widely-held companies' are determined 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, this is based on membership on a local blue chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.

A company is considered to be controlled for the purposes of the above-mentioned voting policies if a shareholder, or multiple shareholders acting in concert, control a majority of the company's equity capital (i.e. 50 percent + one share). If a company is majority-controlled by virtue of a shareholder structure in which shareholders' voting rights do not accrue in accordance with their equity capital commitment (e.g. unequal or multi-class share structures), the company will not be classified as controlled unless the majority shareholder/majority shareholding group also holds a majority of the company's equity capital.

~~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.~~

Rationale for Change:

Majority controlled companies: The current European benchmark voting policy on board independence contains a special carve-out for controlled companies that are widely-held, according to which a majority non-independent board may be deemed acceptable as long as the overall independence level does not fall below a specified minimum threshold. The intention of this carve-out is to recognize that the inclusion of majority shareholder representatives on boards is a widely-accepted practice in Europe, while at the same time emphasizing that boards should include a sufficient number of independent directors in order to protect minority interests and act as a potential counterweight to the controlling shareholder in situations where this may be required.

The purpose of this amendment is to simplify the policy, making it easier to understand for investors and companies alike, while preserving the policy's basic purpose. This would mainly be achieved by removing the 'proportional independence' rule in the policy, which sets the minimum board independence threshold as the inverse of the majority shareholder's percentage of equity ownership. Additionally, carve-outs in the policy for Italy and Portugal, and for markets where there is a local best practice recommendation on board independence at controlled companies, would be removed.

Non-widely held companies: Under the European Voting Guidelines, smaller companies (i.e. "non-widely held companies") are currently excluded from the voting policy on board independence. However, several local codes of best practice recommend that small companies maintain a minimum level of board independence. Most codes do not operate any distinction in terms of size, implying that all companies are subject to the same regime.

According to ISS' 2017-2018 Policy Application Survey, significant majorities of both corporate and investor respondents consider that board independence should be taken into account in non-widely held companies when evaluating director elections.

The policy on board independence at non-widely held companies will come into effect in **February 2019** following a one-year transition period. In 2018, warning language will appear in the analysis of director elections at non-widely held companies where the board does not meet the minimum independence threshold foreseen in the voting policy.

Combined Chairman/CEO

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation:</p> <p>Generally, vote against the (re)election of combined chair/CEOs at widely held European companies.</p> <p>However, when the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), with the intent of separating the roles within a given time frame, considerations should be given to these exceptional circumstances. In this respect, the vote recommendation would be made on a case-by-case basis. In order for ISS to consider a favorable vote recommendation for a combined chair/CEO to serve on an interim basis, In the above-mentioned situation, ISS will consider the rationale provided by the company and whether it has set up the company would need to provide adequate control mechanisms on the board (such as a lead independent director, a high overall level of board independence, and a high level of independence on the board's key committees).</p>	<p>General Recommendation:</p> <p>Generally, vote against the (re)election of combined chair/CEOs at widely held European companies.</p> <p>When the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), the vote recommendation would be made on a case-by-case basis.</p> <p>In the above-mentioned situation, ISS will consider the rationale provided by the company and whether it has set up adequate control mechanisms on the board (such as a lead independent director, a high overall board independence, and a high level of independence on the board's key committees).</p>

Rationale for Change:

Under the European Voting Guidelines, ISS generally recommends against the election or reelection of directors who serve in the roles of CEO and board chairman on a combined basis. In cases where the combined chair/CEO would serve on an interim basis of no more than two years, ISS recommends on a case-by-case basis.

The editorial amendments simplify the wording of the policy.

Overboarded Directors

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>In Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland, at widely-held companies, ISS will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or as defined by the following guidelines:</p> <ul style="list-style-type: none"> › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <p>› Directors who hold more than five non-chair non-executive director positions.</p> <p>› A non-executive chairman who, in addition to this role, holds (i) more than three non-chair non-executive director positions, (ii) more than one other non-executive chair position and one non-chair non-executive director position, or (iii) any executive position.</p> <p>› Executive directors or those in comparable roles holding (i) more than two non-chair non-executive director positions, (ii) any other executive positions, or (iii) any non-executive chair position.</p> <p><u>CEOs and Chairmen</u></p> <p>An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. The same is also valid for chairmen, except (i) where they exclusively hold other chair and/or executive positions, or (ii) where they are elected as chairman for the first time. For chairmen, negative recommendations would first</p>	<p>In Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland, at widely-held companies, ISS will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as defined by the following guidelines:</p> <ul style="list-style-type: none"> › Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates. › Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded. <p><u>CEOs and Chairmen</u></p> <p>An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards. For chairmen, negative recommendations would first be applied towards non-executive positions held, but the chairmanship position itself would be targeted where they are being elected as chairman for the first time or, when in</p>

<p>be applied towards non-executive positions held, but the chairmanship position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position.</p>	<p>aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position.</p> <p>...</p>
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Rationale for Change:

This policy change harmonizes the overboarding policy across continental Europe by including Denmark, Finland, Norway and Sweden. The changes are prompted by (i) Danish, Norwegian, and Swedish market practice of unbundling elections in main index companies, (ii) recommendations in Norwegian, Danish, and Finnish corporate governance codes on over-boarding and (iii) investor support for applying the policy for bundled elections.

The Nordic markets have previously been excluded from the overboarding policy as director elections in these markets were, for the most part, bundled. However, all Danish companies currently have individual elections. Furthermore, a majority of Swedish and Norwegian companies on the local main indices apply individual elections. All Finnish companies still apply bundled elections. However, investor opinion has shown to be favorable towards applying the overboarding policy at bundled elections and for this reason, Finland is included in this policy update.

On July 7, 2017, the Danish committee on Corporate Governance released a new set of draft recommendations for corporate governance that includes an amendment focusing on the risk of executives and directors taking on too many obligations. Similar to the Danish code, the Norwegian and Finnish codes contain general statements on the fact that overboarding should be considered when assessing the sufficiency of an individual director.

In addition, the updated policy simplifies the definition of overboarded directors, and includes changes in respect of the appointment/reappointment of the board chairman. This is also in line with similar changes to UK/Ireland policy (see above).

Classification of Directors – Cross-Directorship with Board Chairman

Current Classification, incorporating policy changes:	New ISS Classification:
ISS Classification of Directors – European Policy	ISS Classification of Directors – European Policy
....
Non-Independent Non-Executive Director (NED)	Non-Independent Non-Executive Director (NED)
...	...
› Any director who has conflicting or cross-directorships with executive directors or those in comparable roles directors or those in comparable roles directors or the chairman of the company.	› Any director who has cross-directorships with executive directors or those in comparable roles.
....

Rationale for Change:

In Europe, there is broad agreement that cross-directorships between a board member and an executive (also known as board interlocks) may compromise a board member's independence. This is reflected in the European Commission Recommendation 2005/162/EC, Appendix II and various local corporate governance codes in European markets. A similar link with a non-executive chairman is not generally considered to represent a potential conflict to the same extent however.

The change brings the European Voting Guidelines into line with European practices and current application of policy by focusing on cross-directorships with executive directors or those in comparable roles.

Composition of Committees

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>In Belgium, Denmark, Finland, France, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland, vote against the (re)election of executives who serve on the company’s audit or remuneration committee. ISS may recommend against if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, ISS may consider that the entire board fulfills the role of a committee. In such case, ISS may recommend against the executives, including the CEO, up for election to the board.</p> <p>For Belgium, the Netherlands, and Switzerland, vote against the (re)election of non-independent members of the audit committee and/or the remuneration committee if their (re)election would lead to a non-independent majority on the respective committee.</p> <p>These policies apply only to companies for which ISS includes overall board independence as a factor in its analysis of board elections.</p> <p>Markets where local corporate governance codes prescribe specific composition requirements are assessed in accordance with compliance with their local codes. More stringent requirements are applied to those markets where local corporate governance codes prescribe more robust composition requirements.</p>	<p>In Belgium, Denmark, Finland, France, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland, vote against the (re)election of executives who serve on the company’s audit or remuneration committee. ISS may recommend against if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, ISS may consider that the entire board fulfills the role of a committee. In such case, ISS may recommend against the executives, including the CEO, up for election to the board.</p> <p>For Belgium, the Netherlands, and Switzerland, vote against the (re)election of non-independent members of the audit committee and/or the remuneration committee if their (re)election would lead to a non-independent majority on the respective committee.</p> <p>These policies apply only to companies for which ISS includes overall board independence as a factor in its analysis of board elections.</p>

Rationale for Change:

This update is to clarify ISS' approach to analyzing board committee independence in continental Europe.

Composition Nomination Committee- (Sweden, Norway, and Finland)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>Vote for proposals in Sweden, Norway, and Finland to elect or appoint a nominating committee consisting mainly of non-board members.</p> <p>Vote for shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.</p> <p>Vote against proposals where the names of the candidates (in the case of an election) or the principles for the establishment of the committee have not been disclosed in a timely manner.</p> <p>The above policy notwithstanding, vVote against proposals in Sweden to elect or appoint such a committee if the company is on the MSCI-EAFE or local main index and the following conditions exist:</p> <ol style="list-style-type: none"> 1. A member of the executive management would be a member of the committee; 2. More than one board member who is dependent on a major shareholder would be on the committee; or 3. The chair of the board would also be the chair of the committee. <p>In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote against the adoption of the principles if any of the above conditions are met for the current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.</p>	<p>Vote for proposals in Sweden, Norway, and Finland to elect or appoint a nominating committee consisting mainly of non-board members.</p> <p>Vote for shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.</p> <p>Vote against proposals where the names of the candidates (in the case of an election) or the principles for the establishment of the committee have not been disclosed in a timely manner.</p> <p>Vote against proposals in Sweden to elect or appoint such a committee if the company is on the MSCI-EAFE or local main index and the following conditions exist:</p> <ol style="list-style-type: none"> 1. A member of the executive management would be a member of the committee; 2. More than one board member who is dependent on a major shareholder would be on the committee; or 3. The chair of the board would also be the chair of the committee. <p>In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote against the adoption of the principles if any of the above conditions are met for the current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.</p>

Rationale for Change:

ISS' European benchmark policy currently does not take into account proposals where the names of the nominating committee members (in the case of an election) or the principles for the establishment of the committee have not been disclosed. Nominating committee members in Nordic companies are mainly composed of non-board members and, as such, the election and appointment of the committee members does not fall under the policy that concerns the failure to disclose the proposed director names. By including the amendment, ISS would recommend against proposals regarding the election of committee members or the approval of the principles for the establishment of the committee when no information on the names or principles have been disclosed.

Capital Structure

Share Issuance Requests – General Issuances

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: Vote for issuance authorities with pre-emptive 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). Starting in Feb 2019, the maximum will be 50 percent.</p> <p>Vote for issuance authorities without pre-emptive 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). Starting in Feb 2019, the maximum will be 10 percent.</p> <p>For French companies:</p> <ul style="list-style-type: none"> › 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. When companies are listed on a regulated market, the maximum discount on share issuance price proposed in the resolution must, in addition, comply with the legal discount (i.e., a maximum of 5 percent discount to the share listing price) for a vote for to be warranted. 	<p>General Recommendation: Vote for issuance authorities with pre-emptive 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). Starting in Feb 2019, the maximum will be 50 percent.</p> <p>Vote for issuance authorities without pre-emptive rights to a maximum of 10 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). Starting in Feb 2019, the maximum will be 10 percent.</p> <p>For French companies:</p> <ul style="list-style-type: none"> › 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. When companies are listed on a regulated market, the maximum discount on share issuance price proposed in the resolution must, in addition, comply with the legal discount (i.e., a maximum of 5 percent discount to the share listing price) for a vote for to be warranted.

Rationale for Change:

General share issuance requests under both authorized and conditional capital systems allow companies to issue shares to raise funds for general financing purposes. Approval of such authorization requests gives companies sufficient flexibility to carry out ordinary business activities without having to bear the expense of calling shareholder meetings for every issuance.

Issuances can be carried out with or without preemptive rights. Preemptive rights permit shareholders to share proportionately in any new issuances of stock. These rights guarantee existing shareholders the first opportunity to purchase shares of new issuances of stock in the class they own in an amount equal to the percentage of the class they already own. ISS' current approach is that issuance authorities of more than 100 percent (50 percent in France) can lead to excessive cash calls on shareholders, requiring them to provide the funds necessary to maintain their relative positions in the company or to accept substantial dilution. Corporate law in many countries recognizes preemptive rights and requires shareholder approval to waive such rights.

When companies make issuance requests without preemptive rights, shareholders suffer dilution because of such issuances. Therefore, authorizations should be limited to a fixed number of shares or a percentage of capital at the time of issuance. While conventions regarding this type of authority vary widely among countries, currently ISS routinely approves issuance requests without pre-emptive rights for up to 20 percent of a company's outstanding capital in Continental Europe (10 percent in France).

However, trends among institutional investors are changing globally. More and more investors have tightened their internal voting guidelines and a majority of them only support general share issuances if the maximal dilution is 10 percent (without preemptive rights) or 50 percent (with preemptive rights), respectively. Especially in Europe where this policy is applicable, many investors in larger markets like the UK, France, or Germany already follow a stricter approach.

ISS has not changed its policy on general share issuance requests for more than a decade. However, investors' guidelines and voting behaviors are evolving, and ISS aims to adapt its policy considering these trends. Since ISS is aware of the significance of this policy change for many European issuers, the policy changes will not take effect until Feb. 1, 2019, following a one-year transition period.

Share Repurchase Plans / Market-Specific Exceptions (Italy and Germany)

Current ISS Recommendation, incorporating policy changes:	New ISS Recommendation:
<p>General Recommendation: For Italy and Germany, vote for share-repurchase plans and share reissuance plans that would use call and put options if the following criteria are met:-</p> <ul style="list-style-type: none"> › The duration of the authorization is options is limited in time to no more than 18 months; › The total number of shares covered by the authorization is disclosed; › The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of 5 percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany); › A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and › The company has a clean track record regarding repurchases. 	<p>General Recommendation: For Italy and Germany, vote for share-repurchase plans and share reissuance plans that would use call and put options if the following criteria are met:</p> <ul style="list-style-type: none"> › The duration of the options is limited in time to no more than 18 months; › The total number of shares covered by the authorization is disclosed; › The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of 5 percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany); › A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and › The company has a clean track record regarding repurchases.

Rationale for Change:

This change is for clarification purposes only, since the term "authorization" could be misunderstood as referring to the share repurchase authorization.

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