International

Sustainability Proxy Voting Guidelines Updates

2019 Policy Recommendations

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~~Redlined~~ = deleted; green = added

OPERATIONAL ITEMS

Appointment of Auditors and Auditor Fees

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: Generally v~~V~~ote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless: › The name of the proposed auditors has not been published; › There are serious concerns about the ~~accounts presented or the procedures used by~~ effectiveness of the auditors; › The lead audit partner(s) has been linked with a significant auditing controversy; › There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; › ~~External auditors~~ The lead audit partner(s) has~~ve~~ previously served the company in an executive capacity or can otherwise be considered affiliated with the company; ~~› Name of the proposed auditors has not been published;~~ › The auditors are being changed without explanation; or › For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law. In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergence, and spinoffs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees. For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, the Sustainability policy will focus on the auditor election and/or the audit committee members. For concerns relating to fees paid to the auditors, the Sustainability policy will focus on remuneration of auditors if this is a separate voting item, otherwise the Sustainability policy would focus on the auditor election.	**General Recommendation:** Generally vote for the reelection of auditors and proposals authorizing the board to fix auditor fees, unless: › The name of the proposed auditors has not been published; › There are serious concerns about the effectiveness of the auditors; › The lead audit partner(s) has been linked with a significant auditing controversy; › There is reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; › The lead audit partner(s) has previously served the company in an executive capacity or can otherwise be considered affiliated with the company; › The auditors are being changed without explanation; or › For widely-held companies, fees for non-audit services exceed either 100 percent of standard audit-related fees or any stricter limit set in local best practice recommendations or law. In circumstances where fees for non-audit services include fees related to significant one-time capital structure events: initial public offerings, bankruptcy emergence, and spinoffs; and the company makes public disclosure of the amount and nature of those fees which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees. For concerns relating to the audit procedures, independence of auditors, and/or name of auditors, the Sustainability policy will focus on the auditor election and/or the audit committee members. For concerns relating to fees paid to the auditors, the Sustainability policy will focus on remuneration of auditors if this is a separate voting item, otherwise the Sustainability policy would focus on the auditor election.

~~Redlined~~ = deleted; green = added

Rationale for Change:

In the aftermath of several recent high-profile corporate failures, the role of auditors has come under significant scrutiny from a number of stakeholder groups – included among these are institutional investors and market regulators. In the UK, the most notorious example occurred in January 2018, when a FTSE 250 company declared bankruptcy only months after its previous annual report had asserted that the group had sufficient capital to continue as a going concern for at least three years. Separately, a resolution to reappoint an auditor at another publicly listed firm was overwhelmingly defeated (c. 78 percent of the votes cast were against) after accounting irregularities came to light. Similarly for Continental Europe, several corporate scandals hit blue-chip companies that were undetected by the external auditor. These incidences brought into sharper focus the need for better audit quality on publicly-listed companies.

Sustainability Advisory Services will note lead audit partners who have been linked with significant auditing controversies and, where they are engaged in the audit for other public companies, this track record will be raised for investor attention – even if no issues of concern have been identified at the subject company.

Stock (Scrip) Dividend Alternative

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: Vote ~~for most~~ case-by-case on stock (scrip) dividend proposals~~.~~, considering factors such as: › Whether the proposal allows for a cash option; and › If the proposal is in line with market standards. ~~Vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.~~	**General Recommendation:** Vote case-by-case on stock (scrip) dividend proposals, considering factors such as: › Whether the proposal allows for a cash option; and › If the proposal is in line with market standards.

Rationale for Change:

Sustainability Advisory Services is updating its policy to include alignment with market standards. Of concern are proposals that establish discounted (or excessively discounted) stock dividends that conflict with market norms, making shareholders have to choose the stock alternative despite their preference for cash dividends.

BOARD OF DIRECTORS

Director Elections- Material ESG Failures

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: Vote against or withhold from directors individually, on a committee, or potentially the entire board due to: › Material failures of governance, stewardship, risk oversight[1], or fiduciary responsibilities at the company; including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; › A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks; › Failure to replace management as appropriate; › Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.	**General Recommendation:** Vote against or withhold from directors individually, on a committee, or potentially the entire board due to: › Material failures of governance, stewardship, risk oversight[1], or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; › A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks; › Failure to replace management as appropriate; › Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

[1] Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant environmental incidents including spills and pollution; large scale or repeat workplace fatalities or injuries; significant adverse legal judgments or settlements; or hedging of company stock.

Rationale for Change:

Three ISS Specialty Policies (the Sustainability Policy, the SRI Policy and the Catholic Policy) were developed to help investors incorporate ESG considerations into their proxy voting guidelines: the Sustainability Policy helps signatories of the United Nations-sponsored Principles for Responsible Investment (PRI) incorporate ESG considerations; and the SRI Policy and the Catholic Policy assist socially-responsible investors and faith-based investors respectively, including PRI signatories, to integrate ESG criteria into their investment and proxy voting decisions.

Principle 3 of the PRI encourages investors to ask for: (1) standardized reporting on Environmental, Social and Governance (ESG) issues (such as proposed by the Global Reporting Initiative); (2) integration of ESG issues into annual financial reporting; and (3) disclosure of adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives. The wide adoption of the PRI (as well as other sustainable and responsible investment standards) demonstrates the increased integration of ESG factors into the analyses and decision-making of investors and makes the case for comprehensive disclosure of sustainability metrics.

In instances where companies have been found to be implicated in severe controversies (violation of an international standard or norms regarding the environmental, human rights, labor rights, consumer protection, corruption, ethics & governance) or where the allegations and risks identified are credible and the companies have no sustainability reporting, the SRI Policy, the Sustainability Policy, and the Catholic Policy will determine that there is a failure to adequately manage or mitigate environmental, social and governance (ESG) risks and will recommend voting against responsible director(s) and/or the board and management discharge proposal.

Gender Diversity

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
Sustainability Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit. › Generally vote against or withhold from the chair of the nominating committee if the board lacks at least one woman. › For **Japan,** if the company has an audit-committee board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one woman.	Sustainability Advisory Services will evaluate gender diversity on boards in international markets when reviewing director elections, to the extent that disclosures and market practices permit. › Generally vote against or withhold from the chair of the nominating committee if the board lacks at least one woman. › For **Japan**, if the company has an audit-committee-board structure or a traditional two-tier board structure as opposed to three committees, vote against incumbent representative directors if the board lacks at least one woman.

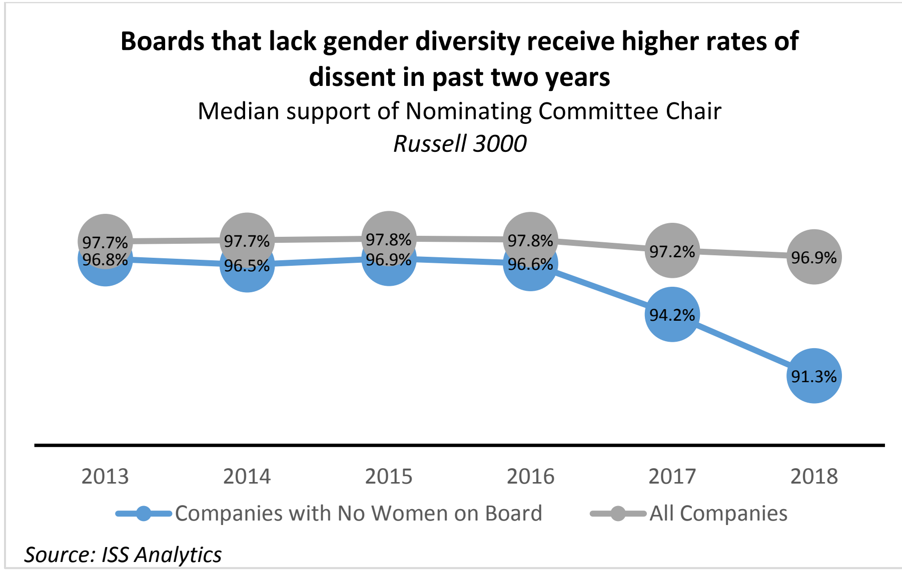
Rationale for Change:

Sustainability Advisory Services is updating the Sustainability policy to include adverse vote recommendations in case of a lack of gender diversity due to a number of developments.

1. Recent client feedback and investor voting behavior indicates a strong preference for holding the chair of the nomination committee responsible in case of a lack of gender diversity on the board.

Responses to the 2018 Sustainability policy survey issued to subscribers to the Sustainability specialty policies indicated strong support for holding issuers accountable in cases where there are no women on the board of directors. A majority of Sustainability survey respondents (58.3 percent) answered that the chair of the nominating committee should be held accountable when the board does not have at least one woman on the board. In addition, according to ISS' 2018 U.S. Proxy Season Review and as shown in the following figure, companies that lacked a gender diverse board were correlated with lower support levels for nominating committee chairs, which may be in part due to investors' focus on the issue[1]. This further illustrates that shareholders find it appropriate to hold the chair of the nomination committee accountable for a lack of gender diversity.

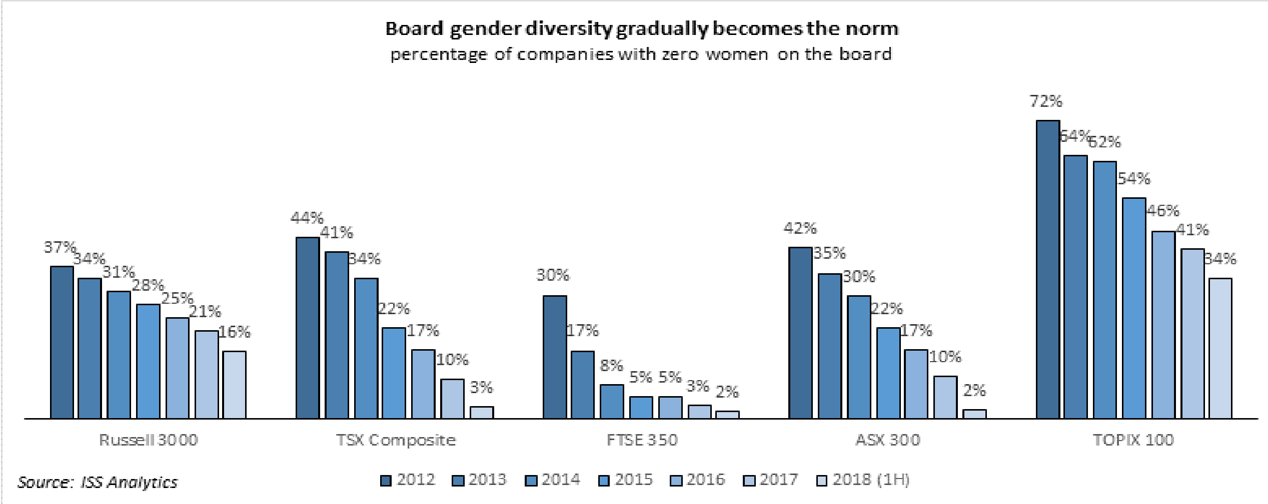
[1] United States: Uncontested Director Elections & Governance Proposals: 2018 Proxy Season Review.



Amending the Sustainability policy to reflect the opinions of our clients will increase the value of our research reports.

2. Gender diverse boards are the market norm in the United States and internationally.

According to the 2017 U.S. Board Study: Board Diversity Review, in 2017 and at the time of their annual meetings, 99 percent of the firms in the S&P 500, 90 percent of the S&P 400, 77 percent of the S&P 600, and 87 percent of the companies in the S&P 1500 had at least one woman on the board. As of Sept. 25, 2018, and according to ISS' DataDesk data, only three companies in the S&P 500 had no female directors. Boards with female representation far outnumber all-male boards in the Russell 3000 Index too where, according to ISS' Data Desk data, 84 percent of the companies have at least one female on the board. Female representation at the board level has thus become the norm at companies traditionally associated with having better governance practices in the U.S., as well as in other markets, as shown in the figure below.



Internationally, many countries (among others; Belgium, Canada, Finland, France, India, Israel, Italy, Kenya, The Netherlands, and Spain) have adopted legislative mandates or government- issued recommendations regarding board gender diversity. These mandates range from requiring at least one woman on the board to 50 percent gender diversity. Updating the Sustainability policy to require at least one woman on the board puts the policy in line with the market norm and increases alignment with internationally government mandated or recommended gender diversity quotas.

3. Board gender diversity has been positively correlated to better company performance in some studies.

Many investors view board gender diversity as good corporate governance in light of a series of studies that have found that board gender diversity is positively correlated to better company performance[2].

Looking beyond returns, recent ISS studies have identified additional benefits from boosting gender diversity in the boardroom. A recent ISS report[3] found that women directors are more likely to possess skillsets that are most sought after by boards. That study found that female nominees surpassed their male peers in the prevalence of skills related to audits, strategic planning, technology, sales, risk management, legal, government, CSR, and human resources. This indicates that encouraging gender diversity in the boardroom can be a driver for better company performance, thus assisting our clients in exercising their fiduciary responsibility.

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[2] Conyon, Martin J. and He, Lerong, *Firm Performance and Boardroom Gender Diversity: A Quantile Regression Approach*, March 16, 2017; Deloitte, Global Center for Corporate Governance, Women in the boardroom: A global perspective, P. 3-4, Fifth Ed. (2017); PwC, Governance Insights Center, PwC's 2017 Annual Corporate Directors Survey, p. 11-12; Vivian Hunt, Dennis Layton and Sara Prince, McKinsey & Co., *Diversity Matters*, Feb. 2, 2015; Marcus Noland, Tyler Moran and Barbara Kotschwar, Peterson Institute for International Economics, *Is Gender Diversity Profitable?*, February 2016

[3] Anthony Garcia, ISS Custom Research, *Director Skills: Diversity of Thought and Experience in the Boardroom*, Governance Insights, Sept. 14, 2018.

Canadian Guidelines

Overboarding-TSX

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: ~~(in effect until January 31, 2019): Generally vote withhold for individual director nominees if:~~ ~~› Irrespective of whether the company has adopted a majority voting director resignation policy, the director is overboarded[4] AND the individual director has attended less than 75 percent of his/her respective board and committee meetings held within the past year without a valid reason for these absences.~~ ~~Cautionary language will be included in Sustainability Advisory Services reports where directors are overboarded regardless of attendance.~~ ~~**For meetings on or after February 1, 2019**, g~~Generally vote withhold for individual director nominees who: › Are non-CEO directors and serve on more than five public company boards; or › Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards[4]. ~~**Gender Diversity Policy (S&P/TSX Composite Index companies only)**~~ ~~For S&P/TSX Composite Index companies, generally vote withhold for the Chair of the Nominating Committee or Chair of the committee designated with the responsibility of a nominating committee, or Chair of the board of directors if no nominating committee has been identified or no chair of such committee has been identified, where:~~	**General Recommendation:** Generally vote withhold for individual director nominees who: › Are non-CEO directors and serve on more than five public company boards; or › Are CEOs of public companies who serve on the boards of more than two public companies besides their own – withhold only at their outside boards[5].

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[4] ~~"Overboarded" is defined by Sustainability Advisory Services as: a CEO of a public company who sits on more than 1 outside public company board in addition to the company of which he/she is CEO, OR the director is not a CEO of a public company and sits on more than 4 public company boards in total.~~

[5] Although a CEO's subsidiary boards will be counted as separate boards, Sustainability Advisory Services will not recommend a withhold vote for the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent but may do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationship.

- ~~The company has not disclosed a formal written gender diversity policy*; and~~ - ~~There are zero female directors on the board of directors.~~ ~~This policy will be applied to all TSX Companies starting in Feb 2019.~~ ~~**Per NI 58-101 and Form 58-101F1, the issuer should disclose whether it has adopted a written policy relating to the identification and nomination of women directors. The policy, if adopted, should provide a short summary of its objectives and key provisions; describe the measures taken to ensure that the policy has been effectively implemented; disclose annual and cumulative progress by the issuer in achieving the objectives of the policy, and whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.*~~ ~~The gender diversity policy should include a clear commitment to increase board gender diversity. Boilerplate or contradictory language may result in withhold recommendations for directors.~~ ~~The gender diversity policy should include measurable goals and/or targets denoting a firm commitment to increasing board gender diversity within a reasonable period of time.~~ ~~When determining a company's commitment to board gender diversity, consideration will also be given to the board's disclosed approach to considering gender diversity in executive officer positions and stated goals or targets or programs and processes for advancing women in executive officer roles, and how the success of such programs and processes is monitored.~~ ~~**Exemptions:**~~ ~~This policy will not apply to:~~ - ~~Newly publicly listed companies within the current or prior fiscal year;~~ - ~~Companies that have transitioned from the TSXV within the current or prior fiscal year; or~~ - ~~Companies with four or fewer directors.~~	

Rationale for Change:

The removal of the attendance factor from the overboarding policy combined with the revised overboarding thresholds will further align Canadian Sustainability Advisory Services policy with recent and continuous feedback received from Canadian institutional investors during roundtable discussions and one-on-one policy outreach meetings. Additionally, the approach is intended to align with the policy approach of global institutional investors. Given the large number of Canadian issuers that are dual-listed in both Canada and the US, institutional investors have also supported the harmonization of ISS' Canadian and US overboarding thresholds. The updated thresholds are also aligned with those recommended by the Canadian Coalition for Good Governance (CCGG). Given the significant change in policy and the potential impact on companies, a one-year grace period was provided to allow TSX reporting issuers additional time to remediate overboarding instances. As such, the new policy will be in effect commencing February 2019.

The separate gender diversity policy for Canada-only has been removed, as the expansion of the Sustainability policy on gender diversity includes Canada.

European Guidelines

Director Terms

Current Sustainability Advisory Services Policy, incorporating changes:	**New Sustainability Advisory Services Policy:**
General Recommendation: For **Belgium**, **France**, Greece, ~~**Italy,**~~ **Netherlands**, **Spain**, and **Switzerland**, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items. ~~Clients will also be advised to v~~Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, Sustainability Advisory Services will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.	**General Recommendation:** For **Belgium**, **France**, **Greece, Netherlands**, **Spain**, and **Switzerland**, vote against the election or re-election of any director when his/her term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided. In these markets, the maximum board terms are either recommended best practice or required by legislation. Under best practice recommendations, companies should shorten the terms for directors when the terms exceed the limits suggested by best practices. The policy will be applied to all companies in these markets, for bundled as well as unbundled items. Vote against article amendment proposals to extend board terms. In cases where a company's articles provide for a shorter limit and where the company wishes to extend director terms from three or fewer years to four years, for example, Sustainability Advisory Services will recommend a vote against, based on the general principle that director accountability is maximized by elections with a short period of renewal.

~~Redlined~~ = deleted; green = added

Rationale for Change:

While Greek law allows director terms of up to six years, the current local code of best practice recommends that "board members be submitted for election or re-election by shareholders every four years". The current code was released in October 2013 and a five-year period is considered sufficient time for Greek companies to have transitioned to this best practice; which increases director accountability.

Italian law (article 2383 of civil code) establishes the maximum director term at three years. This makes this policy irrelevant to Italian companies, which comply with the aforementioned legal requirements.

Board Independence

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
Widely-held companies A. Non-controlled companies Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if: 1. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or 2. Fewer than one-third of all board members would be independent. Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy. B. Controlled 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. **Non-widely held companies**	**Widely-held companies** A. Non-controlled companies Generally vote against the election or reelection of any non-independent directors (excluding the CEO) if: 3. Fewer than 50 percent of the board members elected by shareholders – excluding, where relevant, employee shareholder representatives – would be independent; or 4. Fewer than one-third of all board members would be independent. Greece and Portugal are excluded from Provision (1.) in the above-mentioned voting policy. B. Controlled 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. **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.	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. *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.

Rationale for Change:

Non-widely held companies: Under the Sustainability Advisory Services International 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.

A one-year transition period delayed the application of this policy until February 2019. The transition period has now passed.

Overboarded Directors

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: In **Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden**, and **Switzerland**, at widely-held companies, Sustainability Advisory Services will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as defined by the following guidelines: › 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.	**General Recommendation:** In **Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden,** and **Switzerland**, at widely-held companies, Sustainability Advisory Services will generally recommend a vote against a candidate when s/he holds an excessive number of board appointments, as defined by the following guidelines: › 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.

Rationale for Change:

Sustainability Advisory Services will apply its over-boarding policy to directors in Poland in order to introduce a higher level of consistency and harmonization of recommendations across the EU markets. Recommendation II.R.4 of the Polish corporate governance code, which was released in 2016, indicates that supervisory board members must be able to devote the time necessary to perform their duties, which implies that directors should not sit on an excessive number of public boards. Besides, Poland is the eighth largest economy in the EU, and on Sept. 24, 2018, FTSE Russell promoted Poland to the developed market status. Both factors make relevant the inclusion of Poland in the overboarding policy.

Composition of Committees

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: For widely- held companies, generally vote against the (re)election of any non-independent members of the audit committee if: › Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent; or	**General Recommendation: For widely-held companies**, generally vote against the (re)election of any non-independent members of the audit committee if: › Fewer than 50 percent of the audit committee members, who are elected by shareholders in such capacity or another – excluding, where relevant, employee shareholder representatives – would be independent; or

› Fewer than one-third of all audit committee members would be independent. For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable. Generally vote against the election or reelection of the non-independent member of the audit committee designated as chairman of that committee. For widely-held companies in **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 that ~~the respective~~ committee. **For all companies**: In **Belgium**, **Denmark**, **Finland**, **France**, **Iceland,** **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. Sustainability Advisory Services 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, Sustainability Advisory Services may consider that the entire board fulfills the role of a committee. In such case, Sustainability Advisory Services may recommend against the executives, including the CEO, up for election to the board. ~~These policies apply only to companies for which Sustainability Advisory Services includes overall board independence as a factor in its analysis of board elections.~~	› Fewer than one-third of all audit committee members would be independent. For companies whose boards are legally required to have 50 percent of directors not elected by shareholders, the second criterion is not applicable. Generally vote against the election or reelection of the non-independent member of the audit committee designated as chairman of that committee. For widely-held companies in **Belgium**, the **Netherlands**, and **Switzerland**, vote against the (re)election of non-independent members of the remuneration committee if their (re)election would lead to a non-independent majority on that committee. **For all companies:** In **Belgium, Denmark, Finland, France, Iceland, 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. Sustainability Advisory Services 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, Sustainability Advisory Services may consider that the entire board fulfills the role of a committee. In such case, Sustainability Advisory Services may recommend against the executives, including the CEO, up for election to the board.

Rationale for Change:

The current policy on audit committee independence is applicable to widely-held companies in Belgium, the Netherlands, and Switzerland. The updated policy extends its application to widely-held companies in all other countries in continental Europe.

It is now five years after the adoption of 2014/56/EU Directive on statutory audits of annual accounts and consolidated accounts that requires the audit committee to (i) be chaired by an independent director, (ii) be composed by a majority of independent members. Sufficient time has now elapsed for companies to meet that directive.

The inclusion of Iceland in this policy brings Sustainability Advisory Services policy in line with the Icelandic corporate governance code, which recommends that executives and employees of the company should not be members of the audit or remuneration committees.

Composition Nomination Committee

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
Vote for proposals in **Finland, Iceland,** ~~**Sweden,**~~ **Norway**, and ~~**Finland**~~ **Sweden** to elect or appoint a nominating committee consisting mainly of non-board members. 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. 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.	Vote for proposals in **Finland, Iceland, Norway,** and **Sweden** to elect or appoint a nominating committee consisting mainly of non-board members. 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. 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.

Rationale for Change:

This change aligns Sustainability Advisory Services European guidelines with the Icelandic corporate governance code, which recommends that the nomination committee be composed of a majority of non-board members.

Classification of Directors

Tenure in Latin America

Current Definition of Independence (incorporating changes):	New Definition of Independence:
Non-Independent Non-Executive Director (NED) ……	**Non-Independent Non-Executive Director (NED)** ……

› Years of service[6] is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered. …… **Footnotes** …… [6] For example, in continental Europe and Latin America, directors with a tenure exceeding 12 years will be considered non-independent. In Hong Kong, Singapore and Taiwan, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.	› Years of service[6] is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered. …… **Footnotes** …… [6] For example, in continental Europe and Latin America, directors with a tenure exceeding 12 years will be considered non-independent. In Hong Kong, Singapore and Taiwan, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

Rationale for Change:

The boards of many Latin American companies suffer from a lack of regular board refreshment among both independent and non-independent directors. Close to 25 percent of independent directors on boards in countries such as Argentina, Chile, Colombia, Mexico, Peru, and Venezuela have tenures of at least 12 years. Such excessive tenure raises concerns regarding their board independence and is inconsistent with a growing number of global markets that have established excessive tenure as a factor in deeming a director to be non-independent.

In the absence of hard or soft laws in a number of Latin American markets, companies are often in compliance with best practices regarding board independence despite often having independent directors with tenures well in excess of 12 years. The addition of a tenure limit for directors to be deemed independent wouldprovide incentives for companies in the region to consider tenure and board refreshment when evaluating boardroom composition.

While the majority of the countries covered in the region lack a legal framework regarding independent director tenure limits, Argentina, Brazil, and Peru have recently adopted hard and/or soft laws with references to tenure. Argentina has recently implemented a hard law, capping independent directors' tenures at 10 years; and a director with a tenure greater than 10 years must be deemed non-independent[6]. Furthermore, the recently-established Brazilian corporate governance code (soft law) recommends that independent directors should not have completed an excessive number of terms as a member of a company's board of directors. Additionally, the

[6] Under CNV resolution 730, directors will be deemed non-independent if they have served as a director of the issuer or another company belonging to the same economic group for more than 10 years. The regulation also establishes a three-year cooling off period for directors to be deemed independent again. http://www.cnv.gob.ar/LeyesyReg/CNV/esp/RGCRGN730-18.htm.

tenures of all directors (Independent and non-independent) at state-owned enterprises (SOEs) in Brazil are now capped at a maximum of eight years[7]. Lastly, in 2017, the Peruvian regulator for Banks, Insurers, and Pension Fund Administrators (*SBS*) adopted a new regulation on corporate governance and risk management, which caps all independent directors at a 10-year continous tenure from their initial appointments.[8]

Discharge of Board and Management

Current Sustainability Advisory Services Recommendation, incorporating changes:	**New Sustainability Advisory Services Recommendation:**
General Recommendation: Generally vote for discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties such as: › A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; › Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; › Other material failures of ~~egregious~~ governance ~~issues,~~ or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks ~~where shareholders will bring legal action against the company or its directors~~; or › A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks.	**General Recommendation:** Generally vote for discharge of directors, including members of the management board and/or supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties such as: › A lack of oversight or actions by board members which invoke shareholder distrust related to malfeasance or poor supervision, such as operating in private or company interest rather than in shareholder interest; › Any legal issues (e.g. civil/criminal) aiming to hold the board responsible for breach of trust in the past or related to currently alleged actions yet to be confirmed (and not only the fiscal year in question), such as price fixing, insider trading, bribery, fraud, and other illegal actions; › Other material failures of governance or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks; or › A lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate environmental, social and governance (ESG) risks.

Rationale for Change:

See Director Elections- Material ESG Failures.

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[7] The Responsibility Law of State-Controlled Companies mandates that directors be elected for a term of up to two years, and may be re-elected for maximum of three consecutive terms (Law 13,303 from June 30, 2016). https://www.planalto.gov.br/ccivil_03/_ato2015-2018/2016/lei/l13303.htm

[8] Under SBS resolution 272-2017, beginning on April 1, 2018, directors of companies regulated by the SBS (*Superintendencia de Bancos, Seguros y AFP*) will be deemed non-independent if they have served more than 10 consecutive years on the board. https://www2.deloitte.com/content/dam/Deloitte/pe/Documents/risk/272-2017%20R.pdf

CAPITAL STRUCTURE

Share Issuance Requests – General Issuances

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
General Recommendation: Evaluate share issuance requests on a case-by-case basis taking into consideration market-specific guidelines as applicable. For ***European markets***, vote for issuance authorities with pre-emptive rights to a maximum of 50~~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.**~~ Vote for issuance authorities without pre-emptive rights to a maximum of 10~~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.**~~ ..... For **Hong Kong** companies, generally vote for the general share issuance mandate for companies that: › Limit the ~~aggregate~~ issuance request ~~– that is, for the general issuance mandate and the share reissuance mandate combined –~~ to 10 percent or less of the relevant class of issued share capital; › Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and › Have no history of renewing the g~~G~~eneral i~~I~~ssuance m~~M~~andate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12 month period.	**General Recommendation:** Evaluate share issuance requests on a case-by-case basis taking into consideration market-specific guidelines as applicable. For ***European markets***, vote for issuance authorities with pre-emptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the **Netherlands**). Vote for issuance authorities without 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**). ...... For **Hong Kong** companies, generally vote for the general issuance mandate for companies that: › Limit the issuance request to 10 percent or less of the relevant class of issued share capital; › Limit the discount to 10 percent of the market price of shares (rather than the maximum 20 percent permitted by the Listing Rules); and › Have no history of renewing the general issuance mandate several times within a period of one year which may result in the share issuance limit exceeding 10 percent of the relevant class of issued share capital within the 12 month period.

~~Redlined~~ = deleted; green = added

……. For **Latin American** companies, generally vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital. Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital. Specific Issuances requested will be evaluated on a case-by-case basis. For shelf registration programs at Latin American companies (**Argentina**, **Colombia**, **Chile**, **Mexico** and **Peru**) Vote on a case-by-case basis on all requests, with or without preemptive rights. Approval of a multi-year authority for the issuance of securities under Shelf Registration Programs will be considered on a case-by-case basis, taking into consideration, but not limited to, the following: › Whether the company has provided adequate and timely disclosure including detailed information regarding the rationale for the proposed program; › Whether the proposed amount to be approved under such authority, the use of the resources, the length of the authorization, the nature of the securities to be issued under such authority, including any potential risk of dilution to shareholders is disclosed; and › Whether there are concerns regarding questionable finances, the use of the proceeds, or other governance concerns.	…… For **Latin American** companies, generally vote for issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital. Vote for issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital. Specific Issuances requested will be evaluated on a case-by-case basis. For shelf registration programs at Latin American companies (**Argentina**, **Colombia**, **Chile**, **Mexico** and **Peru**) Vote on a case-by-case basis on all requests, with or without preemptive rights. Approval of a multi-year authority for the issuance of securities under Shelf Registration Programs will be considered on a case-by-case basis, taking into consideration, but not limited to, the following: › Whether the company has provided adequate and timely disclosure including detailed information regarding the rationale for the proposed program; › Whether the proposed amount to be approved under such authority, the use of the resources, the length of the authorization, the nature of the securities to be issued under such authority, including any potential risk of dilution to shareholders is disclosed; and › Whether there are concerns regarding questionable finances, the use of the proceeds, or other governance concerns.

Rationale for Change:

Europe: 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. Sustainability Advisory Services' 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 Sustainability Advisory Services 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.

This policy update was adopted last year and included a one-year transition period prior to implementation. The transition period has now passed.

Hong Kong: Hong Kong companies routinely ask shareholders to grant the board of directors a 'general mandate to issue shares' without preemptive rights. This mandate, pursuant to the HK listing rules, allows companies to issue shares up to prescribed limits at a discount to market prices of up to 20 percent, unless a lower limit is specified. Most companies seek such authority once a year, but the general mandate can be renewed (or 'refreshed') at an EGM.

Hong Kong companies also often seek approval to authorize boards to reissue repurchased shares. These share reissuance mandates extend the number of shares that may be issued without preemptive rights under the general mandate to issue shares. According to the listing rules, companies are allowed to issue shares of up to 20 percent of existing capital without preemptive rights under the general issuance mandate, and to repurchase shares of up to 10 percent of issued capital. These rules essentially allow the issuance of a sizable number of shares that would represent up to 30 percent of issued capital in the manner of a general mandate that provides no opportunities to existing shareholders for review or scrutiny of the subscribers, among other details, before the issuance.

The resolutions for the general share issuance mandate and the reissuance of repurchased shares are put to shareholder vote under separate voting items, which means shareholders can vote differently on each of these issues. The current voting guidelines assess the general share issuance mandate and the reissuance of repurchased shares as an all-or-nothing exercise and apply an aggregate size limit of 10 percent, in a bid to also limit the extension allowed under the reissuance mandate. The policy change removes the all-or-nothing exercise when assessing general share issuance mandate and reissuance of repurchased shares.

Latin America: This policy update establishes a case-by-case analytical framework to address shelf registration programs at Latin American companies (Argentina, Colombia, Chile, Mexico and Peru) under the Sustainability Advisory Services International policy document, as applicable. Shelf registration programs are seen exclusively in the Mexican market so far resulting from recent regulatory changes. Under such programs, companies can request shareholder approval of an umbrella authorization for the issuance of debt or equity for a period of time, usually five years. Upon the shareholder approval of the umbrella authorization, the board will be able to approve the issuance of securities (debt or equity) at its own discretion for the duration of the authority. The Sustainability Advisory Services International policy did not have an analytical framework to address such capitalization proposals in Latin America, and this update addresses this policy vacuum.

OTHER ITEMS

Social and Environmental Issues

Current Sustainability Advisory Services Policy, incorporating changes:	New Sustainability Advisory Services Policy:
Sustainability Advisory Services Recommendation: Generally vote in favor of social and environmental proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value. In determining votes on shareholder social and environmental proposals, the following factors are considered: › Whether the proposal itself is well framed and reasonable; › Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value; › The percentage of sales, assets and earnings affected; › Whether the company has already responded in some appropriate manner to the request embodied in a proposal; › Whether the company's analysis and voting recommendation to shareholders is persuasive; › What other companies have done in response to the issue; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › Whether implementation of the proposal would achieve the objectives sought in the proposal.	**Sustainability Advisory Services Recommendation:** Generally vote in favor of social and environmental proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value. In determining votes on shareholder social and environmental proposals, the following factors are considered: › Whether the proposal itself is well framed and reasonable; › Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value; › The percentage of sales, assets and earnings affected; › Whether the company has already responded in some appropriate manner to the request embodied in a proposal; › Whether the company's analysis and voting recommendation to shareholders is persuasive; › What other companies have done in response to the issue; › Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; › Whether implementation of the proposal would achieve the objectives sought in the proposal.

Rationale for Change:

The update is being made to codify the factors that are already taken into consideration in Sustainability Advisory Services' case-by-case analyses of environmental and social (E&S) shareholder proposals. The update makes it more explicit that significant controversies, fines, penalties, or litigation are considered when evaluating E&S shareholder proposals.

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