



AUSTRALIA

PROXY VOTING GUIDELINES UPDATES FOR 2021-2022

Benchmark Policy Changes

Effective for Meetings on or after October 1, 2021

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General

Amendments to Constitution Regarding Virtual-Only Meetings

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>[no current policy]</p> <p>General Recommendation: Generally, vote for proposals which allow the company to convene hybrid¹ shareholder meetings.</p> <p>Generally, vote against proposals that will permit the company to convene virtual-only¹ shareholder meetings, except under exceptional circumstances.</p> <p>Generally, vote against proposals where the proposed wording in a company's amended constitution is ambiguous, and nevertheless creates an ability for the company to convene virtual-only meetings outside exceptional circumstances.</p>	<p>General Recommendation: Generally, vote for proposals which allow the company to convene hybrid¹ shareholder meetings.</p> <p>Generally, vote against proposals that will permit the company to convene virtual-only¹ shareholder meetings.</p> <p>Generally, vote against proposals that will permit the company to convene virtual-only¹ shareholder meetings, except under exceptional circumstances.</p> <p>Generally, vote against proposals where the proposed wording in a company's amended constitution is ambiguous, and nevertheless creates an ability for the company to convene virtual-only meetings outside exceptional circumstances.</p>

Rationale for Change:

While there is recognition of the potential benefits of enabling increased participation at shareholder meetings using electronic means, investors have raised concerns about moves to completely eliminate physical shareholder meetings, and that virtual-only meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid questions and responding to shareholders.

There is presently no policy in the ISS Australian Benchmark policy document for resolutions to amend a company's constitution regarding the use of virtual or electronic technology for shareholder meetings.

Given Australian Government restrictions and state government lockdowns, the Treasury Laws Amendment (2021 Measures No.1) Act 2021, which came into effect on 13 August 2021, renews the temporary relief that allows companies to hold virtual meetings until 31 March 2022.

¹ The phrase “virtual-only shareholder meeting” refers to a meeting of shareholders that is held exclusively through online technology in the absence of a concurrent in-person meeting. The term “hybrid shareholder meeting” refers to an in-person (or physical meeting) in which shareholders are permitted to concurrently participate using online or electronic technology.

The Australian Government is now seeking to introduce permanent reforms to the Corporations Act later this year to give companies the flexibility to use technology and to hold meetings, such as hybrid meetings, and sign and send documents. Presently the Corporations Act make no mention of the use of online and electronic technology for the conduct of shareholder meetings. The Exposure Draft Legislation, which was open to stakeholders for consultation, includes provisions that allow for virtual-only meetings if this is permitted under a company's constitution.

Virtual-only meetings may impact on shareholder rights in holding directors publicly accountable and may hinder meaningful exchanges between directors and shareholders. There has been considerable public feedback from many institutional and retail investors in Australia that any move to a virtual-only shareholder meeting structure is not supported by them. There has also been commentary regarding concerns that some companies have limited shareholder engagement through virtual-only meetings but requiring shareholder questions to be submitted to the company several days before the meeting, and anecdotal information that certain meetings were ended prematurely, denying some shareholders a right to participate and ask their questions.

The updated ISS Australian Policy clarifies that hybrid meetings would be supported under ISS policy, given that such meetings would not impact negatively on shareholder rights and represent the preferences of shareholders. Proposed amendments to a company's constitution that allow for virtual-only meetings, outside of exceptional circumstances, or incorporate vague and ambiguous wording that could reasonably be construed to allow for virtual-only meetings will not be supported.

Board of Directors

Voting on Director Nominees in Uncontested Elections

Board Independence

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>If the board is not majority² independent under ISS' classification, generally vote against nominees who are:</p> <ul style="list-style-type: none"> ▪ Executive directors (except for the CEO and founders integral to the company); or ▪ A non-independent NEDs whose presence causes the board not to be majority independent without sufficient justification; Exceptional factors may include: <ul style="list-style-type: none"> ▪ Whether aexcept if the non-independent director represents a substantial shareholder owning at least 15 percent of the company's shares and whose percentage board representation is proportionate to its ownership interest in the company; and ▪ The level of board independence (i.e. generally, a recommendation against non-independent directors if the board composition is wholly non-independent, whereas a case-by-case analysis may be undertaken where a board is at or near 50% independent and the reasons for non-independence of certain directors may include excessive board tenure greater than 12 years). 	<p>If the board is not majority² independent under ISS' classification, generally vote against nominees who are:</p> <ul style="list-style-type: none"> ▪ Executive directors (except for the CEO and founders integral to the company); or ▪ Non-independent NEDs whose presence causes the board not to be majority independent without sufficient justification. Exceptional factors may include: <ul style="list-style-type: none"> ▪ Whether a non-independent director represents a substantial shareholder owning at least 15 percent of the company's shares and whose percentage board representation is proportionate to its ownership interest in the company; and ▪ The level of board independence (i.e. generally, a recommendation against non-independent directors if the board composition is wholly non-independent, whereas a case-by-case analysis may be undertaken where a board is at or near 50% independent and the reasons for non-independence of certain directors may include excessive board tenure greater than 12 years).

Rationale for Change:

The updated wording on 'board independence' clarifies ISS' position in the Australian market on the standard approach to director election recommendations when boards are not majority independent. It also clarifies the mitigating factors that analysts will take into account when determining the vote recommendation.

² "Majority independent" is defined as over 50 percent independent.

Gender Diversity

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>Recommendation 1.5 of the ASX Corporate Governance Council Principles and Recommendations (4th Edition 2019) states that a listed entity should have and disclose a diversity policy, set measurable objectives for achieving gender diversity, and disclose these measurable objectives and progress towards achieving those objectives. If the entity is included in the S&P/ASX300 Index at the commencement of the reporting period, the measurable objective for achieving the gender objective in the composition of the board should be not less than 30% of its directors of each gender within a specific period.</p> <p>Generally, vote against the chair of the nomination committee or chairman of the board (or other relevant directors on a case-by-case basis) if there are no women on the board. Mitigating factors include:</p> <ul style="list-style-type: none"> ▪ The company is a large Australian listed entity and included in the S&P/ASX300 Index, and the board does not comprise at least 30 percent female representation. ▪ For any company, there are no women on the board. <p>Exceptional circumstances from this vote recommendation which may be considered on a case-by-case basis may include:</p> <ul style="list-style-type: none"> ▪ The company complying with the standard in the preceding year, and publicly available disclosure by the company of a search being undertaken and firm commitment to meet the gender diversity standard in the next year; ▪ Non-operating exploration or research & development entities which typically have small boards of three directors; or ▪ A commitment to appoint at least one female director as disclosed in the company's meeting documents or in an announcement to the ASX; ▪ The presence of a female director on the board during the preceding year; or ▪ Other relevant factors. 	<p>Recommendation 1.5 of the ASX Corporate Governance Council Principles and Recommendations (4th Edition 2019) states that a listed entity should have and disclose a diversity policy, set measurable objectives for achieving gender diversity, and disclose these measurable objectives and progress towards achieving those objectives. If the entity is included in the S&P/ASX300 Index at the commencement of the reporting period, the measurable objective for achieving the gender objective in the composition of the board should be not less than 30% of its directors of each gender within a specific period.</p> <p>Generally, vote against the chair of the nomination committee or chairman of the board (or other relevant directors on a case-by-case basis) if:</p> <ul style="list-style-type: none"> ▪ The company is a large Australian listed entity and included in the S&P/ASX300 Index, and the board does not comprise at least 30 percent female representation. ▪ For any company, there are no women on the board. <p>Exceptional circumstances from this vote recommendation which may be considered on a case-by-case basis may include:</p> <ul style="list-style-type: none"> ▪ The company complying with the standard in the preceding year, and publicly available disclosure by the company of a search being undertaken and firm commitment to meet the gender diversity standard in the next year; ▪ Non-operating exploration or research & development entities which typically have small boards of three directors; or ▪ Other relevant factors.

Rationale for Change:

The changes to the policy on 'gender diversity' are consistent with the increasing focus on board gender diversity at the global level and consistent with the guidelines of the ASX Corporate Governance Council Principles and Recommendations for larger companies in the ASX 300 Index. The strengthening of the standard brings the Australian policy in line with the ASX Corporate Governance Council, and UK and European markets where there is a higher minimum gender representation in larger companies. The changes also clarify where exceptional circumstances may be relevant. The ASX Corporate Governance Council recognises that smaller ASX listed entities may not be able to comply with the higher corporate governance standards of larger entities.

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