



ISRAEL AND SOUTH AFRICA

PROXY VOTING GUIDELINES UPDATES FOR 2021

Benchmark Policy Changes

Effective for Meetings on or after October 1, 2021

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Israel

Coverage

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>ISS' Israel Proxy Voting Guidelines apply to publicly-traded, Israel-incorporated companies.</p> <p>In addition to companies with shares listed on a stock exchange in Israel, this policy also applies to certain Israeli-incorporated companies with shares listed on a stock exchange outside Israel.</p> <p>For Israeli-incorporated companies with a listing in the U.S., ISS distinguishes two types of companies:</p> <ul style="list-style-type: none"> ▪ U.S. Domestic Issuers – which have a majority of outstanding shares held in the U.S. and meet other criteria, as determined by the SEC, and are subject to the same disclosure and listing standards as U.S.-incorporated companies – are generally covered under ISS U.S. policy guidelines. However, certain items that are on the ballot solely due to Israeli regulatory requirements may be covered under these Israel policy guidelines; ▪ Foreign Private Issuers (FPIs) – which do not meet the Domestic Issuer criteria and are exempt from most disclosure requirements (e.g., they do not file DEF14A reports) and listing standards (e.g., the circumstances under which shareholder approval is required prior to an issuance of securities) – are covered under these Israeli policy guidelines. 	<p>ISS' Israel Proxy Voting Guidelines apply to publicly-traded, Israel-incorporated companies.</p> <p>In addition to companies with shares listed on a stock exchange in Israel, this policy also applies to certain Israeli-incorporated companies with shares listed on a stock exchange outside Israel.</p> <p>For Israeli-incorporated companies with a listing in the U.S., ISS distinguishes two types of companies:</p> <ul style="list-style-type: none"> ▪ U.S. Domestic Issuers – which have a majority of outstanding shares held in the U.S. and meet other criteria, as determined by the SEC, and are subject to the same disclosure and listing standards as U.S.-incorporated companies – are generally covered under ISS U.S. policy guidelines. However, certain items that are on the ballot solely due to Israeli regulatory requirements may be covered under these Israel policy guidelines; ▪ Foreign Private Issuers (FPIs) – which do not meet the Domestic Issuer criteria and are exempt from most disclosure requirements (e.g., they do not file DEF14A reports) and listing standards (e.g., the circumstances under which shareholder approval is required prior to an issuance of securities) – are covered under these Israeli policy guidelines.

Rationale for Change:

This update provides transparency on ISS' treatment of companies subject to several listing requirements. Particularly, the new section on coverage clarifies the approach regarding how ISS decides whether to cover US-listed companies under Israeli policy or under U.S. policy.

Operational Items

Appointment of Auditors and Auditor Fees

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the procedures used by the auditor; ▪ 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 have previously served the company in an executive capacity or can otherwise be considered affiliated with the company; ▪ The name(s) of the proposed auditors has not been published; ▪ The auditors are being changed without explanation; ▪ Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index); or ▪ Audit fees are undisclosed; or ▪ Audit fees are being reported together with tax/other fees. <p>In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, 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.</p> <p>For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend against the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend against remuneration of auditors if this is a separate voting item; otherwise, ISS may recommend against the auditor election.</p>	<p>General Recommendation: Vote for the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the procedures used by the auditor; ▪ 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 have previously served the company in an executive capacity or can otherwise be considered affiliated with the company; ▪ The name(s) of the proposed auditors has not been published; ▪ The auditors are being changed without explanation; ▪ Fees for non-audit services exceed standard annual audit-related fees (only applies to companies on the MSCI EAFE index and/or listed on any country main index); ▪ Audit fees are undisclosed; or ▪ Audit fees are being reported together with tax/other fees. <p>In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, 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.</p> <p>For concerns related to the audit procedures, independence of auditors, and/or name of auditors, ISS may recommend against the auditor (re)election. For concerns related to fees paid to the auditors, ISS may recommend against remuneration of auditors if this is a separate voting item; otherwise, ISS may recommend against the auditor election.</p>

Rationale for Change:

Lack of disclosure regarding audit fees prevents shareholders' being able to assess whether the company paid its auditor a high level of fees for services not related to the audit function. Excessive fees generated from non-audit services could pose a potential conflict of interest for the audit firm and impair its independent judgment. Therefore, disclosure of fees paid to the auditors over the last fiscal year is important and the update in this section codifies the existing approach.

Board of Directors

Director Elections - Bundling of Proposals to Elect Directors

Current ISS Policy, incorporating changes:	New ISS Policy:
General Recommendation: Vote against the election or reelection of directors if the company proposes the entire slate of directors as a single voting item.	General Recommendation: Vote against the election or reelection of directors if the company proposes the entire slate of directors as a single voting item.

Rationale for Change:

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 to promote accountability. In this regard, the change increases alignment with other policies such as Continental Europe, and only impacts companies that are clearly outside market practice. There are very few companies that have adopted bundled election practices.

ISS Israel Classification of Directors

Current ISS Classification:	New ISS Classification:
<p>Executive Director</p> <ul style="list-style-type: none"> ▪ Employee or executive of the company; ▪ Active chair^[1] of the board; ▪ Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> ▪ Any director who is attested by the board to be a non-independent NED; ▪ Any director specifically designated as a representative of a significant shareholder of the company; ▪ Any director who is also an employee or executive of a significant shareholder of the company; ▪ Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically; ▪ Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent); ▪ Government representative; ▪ Currently provides (or a relative^[4,2] provides) professional services^[2,3] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year; ▪ Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[3,4]); ▪ Any director who has conflicting or cross-directorships with executive directors or the chairman of the company; ▪ Relative^[4,2] of a current or former executive of the company or its affiliates; 	<p>Executive Director</p> <ul style="list-style-type: none"> ▪ Employee or executive of the company; ▪ Active chair^[1] of the board; ▪ Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company. <p>Non-Independent Non-Executive Director (NED)</p> <ul style="list-style-type: none"> ▪ Any director who is attested by the board to be a non-independent NED; ▪ Any director specifically designated as a representative of a significant shareholder of the company; ▪ Any director who is also an employee or executive of a significant shareholder of the company; ▪ Any director who is nominated by a dissenting significant shareholder, unless there is a clear lack of material^[5] connection with the dissident, either currently or historically; ▪ Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., family members who beneficially own less than 10 percent individually, but collectively own more than 10 percent); ▪ Government representative; ▪ Currently provides (or a relative^[2] provides) professional services^[3] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year; ▪ Represents customer, supplier, creditor, banker, or other entity with which company maintains transactional/commercial relationship (unless company discloses information to apply a materiality test^[4]); ▪ Any director who has conflicting or cross-directorships with executive directors or the chairman of the company; ▪ Relative^[2] of a current or former executive of the company or its affiliates;

<ul style="list-style-type: none"> ▪ A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder); ▪ Founder/co-founder/member of founding family but not currently an employee; ▪ Former executive (with five-year cooling off period); ▪ Defined as non-independent under article 245(a) of the Israeli Companies Law 1999; ▪ Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance. <p>Independent NED</p> <ul style="list-style-type: none"> ▪ Not classified as non-independent by ISS (see above); ▪ No material^[5] connection, either directly or indirectly, to the company (other than a board seat) or a significant shareholder. <p>Employee Representative</p> <ul style="list-style-type: none"> ▪ Represents employees or employee shareholders of the company (classified as “employee representative” and considered a non-independent NED). <p>Footnotes:</p> <p>[1] “Active chair” is the chair of the board of directors who is either defined as such by the company and/or is actively involved in the company’s operations and receives remuneration which is in line with company’s most highly paid executives.</p> <p>[12] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.</p> <p>[23] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.</p>	<ul style="list-style-type: none"> ▪ A new appointee elected other than by a formal process through the General Meeting (such as a contractual appointment by a substantial shareholder); ▪ Founder/co-founder/member of founding family but not currently an employee; ▪ Former executive (with five-year cooling off period); ▪ Defined as non-independent under the Israeli Companies Law 1999; ▪ Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance. <p>Independent NED</p> <ul style="list-style-type: none"> ▪ Not classified as non-independent by ISS (see above); ▪ No material^[5] connection, either directly or indirectly, to the company (other than a board seat) or a significant shareholder. <p>Employee Representative</p> <ul style="list-style-type: none"> ▪ Represents employees or employee shareholders of the company (classified as “employee representative” and considered a non-independent NED). <p>Footnotes:</p> <p>[1] “Active chair” is the chair of the board of directors who is either defined as such by the company and/or is actively involved in the company’s operations and receives remuneration which is in line with company’s most highly paid executives.</p> <p>[2] “Relative” follows the definition of “immediate family members” which covers spouses, parents, children, stepparents, step-children, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.</p> <p>[3] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.</p>
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<p>[34] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.</p> <p>[45] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.</p>	<p>[4] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated. OR, A business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value, (of all outstanding financing operations), compared to the company's total assets, is more than 5 percent.</p> <p>[5] For purposes of ISS' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.</p>
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Rationale for Change:

In the Israeli market, an "Active Chair" is the term used for the board chair who is either defined as such by the company and/or is actively involved in the company's operations and receives remuneration which is in line with company's most highly paid executives. This term often causes confusion among ISS clients. Therefore, this update clarifies the categorization of this role.

The deletion of the reference to the specific article 245(a) is necessary, as the article's number changes from time to time.

Combined Chair/CEO

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote against proposals to authorize the combination of the roles of board chair and CEO. This refers exclusively to proposals to approve the combination of the two roles.</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 of interim-based combination, ISS will consider the rationale provided by the company and whether it has set up adequate control mechanisms on the board (such as high overall board independence and a high level of independence on the board's key committees).</p>	<p>General Recommendation: Vote against proposals to authorize the combination of the roles of board chair and CEO. This refers exclusively to proposals to approve the combination of the two roles.</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 of interim-based combination, ISS will consider the rationale provided by the company and whether it has set up adequate control mechanisms on the board (such as high overall board independence and a high level of independence on the board's key committees).</p>

Rationale for Change:

The combination of the roles of CEO and board chair is not in line with market best practice. The two positions are two distinct roles, involving specific functions and responsibilities. Splitting the roles of CEO and board chair reduces the concentration of power in one individual. This policy codifies ISS' existing approach and clarifies that ISS will only support the combination of these two roles when the company provides assurance that the board chair/CEO would only serve in the combined role on an interim basis, with the intent of separating the roles within a given timeframe, and if exceptional circumstances warrant such a combination during the interim period.

Overall, codes of practice for corporate governance are uncommon and not obligatory in Israel. Nevertheless, recommended corporate governance guidelines were proposed by the "Goshen Committee for assessing codes of corporate governance in Israel" and its suggestions have been adopted by the ISA and other statutory bodies, and adopted as non-binding recommendations into the Companies Law. In this regard, the amended clarification under this section is justified by the recommendations of the Goshen report from 2006, which appears to be the closest thing to soft law on corporate governance in Israel. Specifically, the Goshen report recommended in general to separate the combined roles.

Director and Officer ~~and Auditor~~ Indemnification and Liability Provisions

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally, vote for proposals seeking indemnification and liability protection for directors and officers on a case-by-case basis unless the maximum aggregate amount of indemnification is undisclosed.</p>	<p>General Recommendation: Generally vote for proposals seeking indemnification and liability protection for directors and officers unless the maximum aggregate amount of indemnification is undisclosed.</p>

Rationale for Change:

Lack of disclosure regarding indemnification prevents shareholders from assessing the scope thereof. The new and clearer policy explicitly requires disclosure of the maximum aggregate amount of indemnification for directors and officers. According to the market practice, most companies cap the indemnification at 25 percent of shareholders' equity. Only a few companies, such as companies with negative or very small equity, do not cap indemnification in this manner.

According to the applicable law in Israel, providing indemnification to an auditor is prohibited. Therefore, the deletion of auditor in the title proves necessary, as auditor indemnification is uncommon in Israel.

Election of Directors from a Pool of Nominees

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: In cases where there are more candidates nominated than board seats available, ISS will recommend a vote on a case-by-case basis, determining which nominee(s) it considers to be best suited to add value for shareholders based as applicable on ISS policies for Director Elections.</p> <p>ISS' determination will generally be driven by a reasoned assessment of the professional qualifications and previous experience of the nominated individuals, with particular importance given to experience accrued at the company itself, in the sector, and at publicly listed companies in general.</p> <p>Other considerations, such as:</p> <ul style="list-style-type: none"> ▪ Independence; ▪ Tenure; ▪ Conflict of interests; ▪ Gender diversity; and ▪ Other corporate governance matters are also taken into account, both at the candidate level as well as at the board level. 	<p>General Recommendation: In cases where there are more candidates nominated than board seats available, ISS will recommend a vote on a case-by-case basis, determining which nominee(s) it considers to be best suited to add value for shareholders based as applicable on ISS policies for Director Elections.</p> <p>ISS' determination will generally be driven by a reasoned assessment of the professional qualifications and previous experience of the nominated individuals, with particular importance given to experience accrued at the company itself, in the sector, and at publicly listed companies in general.</p> <p>Other considerations, such as:</p> <ul style="list-style-type: none"> ▪ Independence; ▪ Tenure; ▪ Conflict of interests; ▪ Gender diversity; and ▪ Other corporate governance matters are also taken into account, both at the candidate level as well as at the board level.

Rationale for Change:

It is a common practice amongst certain Israeli companies, including non-controlled banks, to elect directors from a pool of nominees, with the number of nominees exceeding the number of board seats available. ISS' current approach is to recommend support of a maximum number of candidates equal to the number of board seats that must be filled. In most cases, the meeting materials do not place any restrictions on the number of candidates that shareholders may support. ISS' determination will generally be driven by a reasoned assessment of the professional qualifications and previous experience of the nominated individuals, with particular importance given to experience accrued at the company itself, in the sector, and at publicly listed companies in general. Other considerations, such as independence, tenure, conflict of interests, executive changes, and other corporate governance concerns, are also taken into account, both at the candidate level as well as at the board level. This policy is a codification of the current practice.

In such elections, if the number of candidates receiving majority support exceeds the number of seats available, the directors who received the highest number of votes will be elected. In case of equality of votes, the election shall be settled by drawing lots.

Compensation

Executive compensation-related proposals

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on management proposals seeking ratification of a company's executive compensation-related items. Vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>Provide shareholders with clear and comprehensive compensation disclosures:</p> <ol style="list-style-type: none"> 1.1. Information on compensation-related proposals shall be made available to shareholders in a timely manner; 1.2. The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate; 1.3. Companies shall adequately disclose all elements of the compensation, including: <ol style="list-style-type: none"> 1.3.1. Any short- or long-term compensation component must include a maximum award limit. 1.3.2. Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria. 1.3.3. Discretionary payments, if applicable. 2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value: <ol style="list-style-type: none"> 2.1. The structure of the company's short-term incentive plan shall be appropriate. <ol style="list-style-type: none"> 2.1.1. The compensation policy must notably avoid guaranteed or discretionary compensation. 2.1.2. The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions. 	<p>General Recommendation: Vote case-by-case on management proposals seeking ratification of a company's executive compensation-related items. Vote against a company's compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules:</p> <p>Provide shareholders with clear and comprehensive compensation disclosures:</p> <ol style="list-style-type: none"> 1.1. Information on compensation-related proposals shall be made available to shareholders in a timely manner; 1.2. The level of disclosure of the proposed compensation policy shall be sufficient for shareholders to make an informed decision and shall be in line with what local market best practice standards dictate; 1.3. Companies shall adequately disclose all elements of the compensation, including: <ol style="list-style-type: none"> 1.3.1. Any short- or long-term compensation component must include a maximum award limit. 1.3.2. Long-term incentive plans must provide sufficient disclosure of (i) the exercise price/strike price (options); (ii) discount on grant; (iii) grant date/period; (iv) exercise/vesting period; and, if applicable, (v) performance criteria. 1.3.3. Discretionary payments, if applicable. 2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value: <ol style="list-style-type: none"> 2.1. The structure of the company's short-term incentive plan shall be appropriate. <ol style="list-style-type: none"> 2.1.1. The compensation policy must notably avoid guaranteed or discretionary compensation. 2.1.2. The structure of the company's long-term incentives shall be appropriate, including, but not limited to, dilution, vesting period, and, if applicable, performance conditions.

<p>2.1.3. Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and</p> <p>2.2. The balance between short- and long-term variable compensation shall be appropriate</p> <p>2.2.1. The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)</p> <p>3. Avoid arrangements that risk “pay for failure”:</p> <p>3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices.</p> <p>3.1.1. There shall be a clear link between the company's performance and variable awards.</p> <p>3.1.2. There shall not be significant discrepancies between the company's performance and real executive payouts.</p> <p>3.1.3. The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.</p> <p>3.1.4. Significant pay increases shall be explained by a detailed and compelling disclosure.</p> <p>3.2. Severance pay agreements must not be in excess of (i) 24 months' pay or (ii) any more restrictive provision pursuant to local requirements and/or market best practice. ISS may recommend against proposals for increased severance pay which exceed the statutory Israeli severance and would lead to benefits that exceed 24 months' pay of termination benefits.</p> <p>3.3. Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p>	<p>2.1.3. Equity-based plans or awards that are linked to long-term company performance will be evaluated using ISS' general policy for equity-based plans; and</p> <p>2.2. The balance between short- and long-term variable compensation shall be appropriate</p> <p>2.2.1. The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)</p> <p>3. Avoid arrangements that risk “pay for failure”:</p> <p>3.1. The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices.</p> <p>3.1.1. There shall be a clear link between the company's performance and variable awards.</p> <p>3.1.2. There shall not be significant discrepancies between the company's performance and real executive payouts.</p> <p>3.1.3. The level of pay for the CEO and members of executive management should not be excessive relative to peers, company performance, and market practices.</p> <p>3.1.4. Significant pay increases shall be explained by a detailed and compelling disclosure.</p> <p>3.2. Severance pay agreements must not be in excess of (i) 24 months' pay or (ii) any more restrictive provision pursuant to local requirements and/or market best practice. ISS may recommend against proposals for increased severance pay which exceed the statutory Israeli severance and would lead to benefits that exceed 24 months' pay of termination benefits.</p> <p>3.3. Arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders' interests or be misaligned with good market practices.</p> <p>4. Maintain an independent and effective compensation committee:</p> <p>4.1. No executives may serve on the compensation committee.</p> <p>4.2. In certain markets the compensation committee shall be composed of a majority of independent members, as per ISS policies on director election and board or committee composition.</p>
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<p>In addition to the above, ISS will generally recommend a vote against a compensation-related proposal if such proposal is in breach of any other supplemental market-specific ISS voting policies.</p>	<p>In addition to the above, ISS will generally recommend a vote against a compensation-related proposal if such proposal is in breach of any other supplemental market-specific ISS voting policies.</p>
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Rationale for Change:

Statutory Israeli severance stipulates that severance pay should be granted in case of termination of employment by the employer. The amount of the severance is typically equal to 100 percent of the employee's last salary, multiplied by the years of employment, provided the employee has worked for at least one year in the company. This would come in addition to the retirement package for executives. Accordingly, the statutory Israeli severance may provide termination benefits above 24 months' pay. However, as companies are required to comply with the local law, this amendment specifies that the statutory Israeli severance pay will not be counted towards the 24 months' pay of termination benefits and further clarifies that ISS would target severance pay which exceeds the standard severance (e.g. severance will equal 120 percent of the last monthly salary multiplied by the years of employment instead of 100 percent).

Equity-based Compensation Guidelines

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: ISS will generally recommend a vote for equity-based compensation proposals for employees if the plan(s) terms are in line with long-term shareholder interests and align the award with shareholder value.</p> <p>This assessment includes, but is not limited to, the following factors:</p> <ul style="list-style-type: none"> ▪ The grants for executives must be sufficiently long-term in nature/structure: the vesting period must be no less than three years from the date of grant and the earliest vesting date may not fall before one year from the date of grant; ▪ The exercise price of options awards to executives must be set at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount; ▪ For full-value awards proposed to executives, performance standards must apply to at least part of the awards and be disclosed and long-term in nature. 	<p>General Recommendation: ISS will generally recommend a vote for equity-based compensation proposals for employees including executives if the terms are in line with long-term shareholder interests and align the award with shareholder value.</p> <p>This assessment includes, but is not limited to, the following factors:</p> <ul style="list-style-type: none"> ▪ The grants for executives must be sufficiently long-term in nature/structure: the vesting period must be no less than three years from the date of grant and the earliest vesting date may not fall before one year from the date of grant; ▪ The exercise price of options awards to executives must be set at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount;

<p>Vote against proposed equity grants:</p> <ul style="list-style-type: none">If the three-year average burn rate exceeds 1 percent and the total potential dilution from outstanding and proposed plans exceeds 10 percent.If the three-year average burn rate is equal to or below 1 percent and the total potential dilution from outstanding and proposed plans exceeds 15 percent. <p>In addition, the volume of awards transferred to participants under all incentive plans must not be excessive:</p> <ul style="list-style-type: none">ISS will generally recommend a vote against proposed equity grants if all shares under option and available for grant exceeds 10 percent of fully diluted issued share capital;For all companies, ISS may support the proposal if the three-year average burn rate is equal to or below 1 percent and the total potential dilution from outstanding and proposed plans does not exceed 15 percent.	<ul style="list-style-type: none">For full-value awards proposed to executives, performance standards must apply to at least part of the awards and be disclosed and long-term in nature. <p>In addition, the volume of awards transferred to participants under all incentive plans must not be excessive:</p> <ul style="list-style-type: none">ISS will generally recommend a vote against proposed equity grants if all shares under option and available for grant exceeds 10 percent of fully diluted issued share capital;For all companies, ISS may support the proposal if the three-year average burn rate is equal to or below 1 percent and the total potential dilution from outstanding and proposed plans does not exceed 15 percent.
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Rationale for Change:

The vast majority of proposals concerning equity awards comply with the updated policy (with respect to updated minimum vesting period and exercise price of options equals to market price). Therefore, the amendments strengthen ISS' policy for Israel regarding the terms of the equity-based compensation and also brings it in line with continental Europe and US policies.

South Africa

Election of Directors- Lack of Nomination Committee

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Generally vote for the re-election of the directors, unless:</p> <p>Independence:</p> <ul style="list-style-type: none"> ▪ The director is a former CEO who has been appointed as chairman; ▪ The director is an executive who serves on one of the key board committees (audit, remuneration, nominations); ▪ The director is a board chair and a formal nomination committee has not been established; ▪ The director is a non-independent NED (per ISS' Classification): <ul style="list-style-type: none"> ▪ Serving on the audit committee (unless there is a separate AGM proposal specifically covering his/her election as an audit committee member); ▪ Serving on the remuneration or nomination committee and there is no majority of independent NEDs on the committee. However, such a consideration should take into account the potential implications for the board's Black Economic Empowerment (BEE) credentials; or ▪ If the majority of NEDs on the board are not independent. However, such a consideration should take into account the potential implications for the board's BEE credentials; or ▪ If the majority of NEDs on the board are not independent, there is no formally established nomination committee, and the board chair's re/election is not on the agenda. 	<p>General Recommendation: Generally vote for the re-election of the directors, unless:</p> <p>Independence:</p> <ul style="list-style-type: none"> ▪ The director is a former CEO who has been appointed as chair; ▪ The director is an executive who serves on one of the key board committees (audit, remuneration, nominations); ▪ The director is a board chair and a formal nomination committee has not been established; ▪ The director is a non-independent NED (per ISS' Classification): <ul style="list-style-type: none"> ▪ Serving on the audit committee (unless there is a separate AGM proposal specifically covering his/her election as an audit committee member); ▪ Serving on the remuneration or nomination committee and there is no majority of independent NEDs on the committee. However, such a consideration should take into account the potential implications for the board's Black Economic Empowerment (BEE) credentials; ▪ If the majority of NEDs on the board are not independent. However, such a consideration should take into account the potential implications for the board's BEE credentials; or ▪ If the majority of NEDs on the board are not independent, there is no formally established nomination committee, and the board chair's re/election is not on the agenda.

Rationale for Change:

This change will align ISS' South Africa policy guidelines with a provision of the King IV Report, which states that "the governing body should consider allocating the oversight of the following to a dedicated committee, or adding it to the responsibilities of another committee as is appropriate for the organisation: a. the process for

nominating, electing and appointing members of the governing body; b. succession planning in respect of governing body matters; and c. evaluation of the performance of the governing body". King IV recommends companies to establish a nominations committee with at least three members, a majority of which should be independent. It is considered appropriate to issue an adverse voting recommendation on the board chair to hold him or her accountable if a formal nomination committee is not established. Given that the Listing Rules provide that at least one-third of NEDs must retire by rotation at each AGM (LR schedule 10, para 10.16(g)), if the board chair is not up for re-election in a given year and the board does not comprise a formally-established nomination committee, then this will be used as an additional reason to potentially issue an adverse voting recommendation on a non-independent NED on a board where the majority of NEDs are not independent. An adverse vote recommendation on the re-election of Executive Directors is not contemplated at this time however, if the only concern is their assumed function of a nomination committee. The policy update will only impact a small number of companies which remain outliers and have not yet adopted the practice of establishing a formal nomination committee.

Audit Committee Elections

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: Vote for the re-election of the audit committee and/or audit committee members, unless:</p> <ul style="list-style-type: none"> ▪ Committee member elections are bundled into a single voting item, and the committee includes one or more non-independent NEDs; ▪ Committee members are elected individually, and the audit committee member is a non-independent NED; ▪ The board chair is a member of the audit committee, in line with the position stated in King IV. ISS will only apply this provision to large, widely held companies; ▪ Repeated absences (less than 75 percent attendance) at committee meetings have not been explained; or ▪ There are adverse vote recommendations on an audit committee member's election to the Board at the same shareholder meeting due to serious concerns identified on matters that are not related to his or her role on the audit committee; or ▪ There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility. <p>Discussion</p> <p>Companies (other than those covered by the Banks Act) must establish an audit committee of at least three members, which must be elected by shareholders at the AGM (CA s94).</p>	<p>General Recommendation: Vote for the re-election of the audit committee and/or audit committee members, unless:</p> <ul style="list-style-type: none"> ▪ Committee member elections are bundled into a single voting item, and the committee includes one or more non-independent NEDs; ▪ Committee members are elected individually, and the audit committee member is a non-independent NED; ▪ The board chair is a member of the audit committee, in line with the position stated in King IV. ISS will only apply this provision to large, widely held companies; ▪ Repeated absences (less than 75 percent attendance) at committee meetings have not been explained; or ▪ There are adverse vote recommendations on an audit committee member's election to the Board at the same shareholder meeting due to serious concerns identified on matters that are not related to his or her role on the audit committee; or ▪ There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility. <p>Discussion</p> <p>Companies (other than those covered by the Banks Act) must establish an audit committee of at least three members, which must be elected by shareholders at the AGM (CA s94).</p>

Rationale for Change:

This policy change is to align vote recommendations for any given director's election to the audit committee with his/her election to the board.

Should a director be voted off the board, the individual is expected to be subsequently removed from the audit committee as well, consistent with the requirements that audit committee members must be board members. Section 94 of Companies Act 2008 states that "Each member of an audit committee of a company must be a

director of the company, who satisfies any applicable [qualification] requirements prescribed". A similar provision is implied in King IV Report, which states that "all members of the audit committee should be independent, non-executive members of the governing body".

In line with these requirements, it is considered more coherent that support for the audit committee membership is streamlined with the support for the director's larger role on the board, particularly when the committee member is also responsible for the oversight of other practices of the company, such as but not limited to remuneration practices, and serious concerns have been identified in this respect.

Remuneration Policy

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: When assessing a company's remuneration policy, ISS generally recommends a vote against if the level of disclosure around the policy is below what is required for shareholders to make an informed judgment. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <ul style="list-style-type: none"> ▪ The company operates long-term incentive schemes (including matching shares) which do not have performance conditions attached for all or a substantial proportion of awards; ▪ The vesting period for long-term incentive schemes is set at less than three years; ▪ Long-term schemes include an element of retesting; ▪ The policy provides for grants of share options at a discount to market value; ▪ The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures); ▪ The quality of disclosure around the severance provisions of the executive directors' service contracts, including any potential termination payments, is considered inadequate; ▪ The policy provides for payment of dividends on unvested shares or options; ▪ The policy is in any way not considered aligned with shareholder interests. 	<p>General Recommendation: When assessing a company's remuneration policy, ISS generally recommends a vote against if the level of disclosure around the policy is below what is required for shareholders to make an informed judgment. In the event of satisfactory disclosure, ISS recommends a vote for the approval of the executive remuneration policy on a case-by-case approach, paying particular attention as to whether:</p> <ul style="list-style-type: none"> ▪ The company operates long-term incentive schemes (including matching shares) which do not have performance conditions attached for all or a substantial proportion of awards; ▪ The vesting period for long-term incentive schemes is set at less than three years; ▪ Long-term schemes include an element of retesting; ▪ The policy provides for grants of share options at a discount to market value; ▪ The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures); ▪ The quality of disclosure around the severance provisions of the executive directors' service contracts, including any potential termination payments, is considered inadequate; ▪ The policy provides for payment of dividends on unvested shares or options; ▪ The policy is in any way not considered aligned with shareholder interests.

<p>In circumstances where a company has demonstrated a significant shift towards good practice, it may be appropriate for ISS to recommend support for the remuneration policy resolution, notwithstanding the presence of some historical issues of concern.</p>	<p>In circumstances where a company has demonstrated a significant shift towards good practice, it may be appropriate for ISS to recommend support for the remuneration policy resolution, notwithstanding the presence of some historical issues of concern.</p>
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Rationale for Change:

Although market practice varies and is still evolving in this area among JSE-listed companies, the payment of dividends on unvested awards delivered through an equity incentive scheme, whether it be in the form of options or shares, is not considered to be in line with best practice, as it is generally expected that dividend payments only apply to vested shares.

ISS already evaluates the provision of dividend payments and accruals on vested incentive awards in South Africa. The level of disclosure of companies' policies on dividend payments and accruals is growing. This policy change clarifies ISS' expectations when evaluating the rules of remuneration policies.

New Equity Incentive Scheme or Amendment to Existing Scheme

Current ISS Policy, incorporating changes:	New ISS Policy:
<p>General Recommendation: ISS evaluates management proposals seeking approval for a share incentive scheme on a case-by-case basis. When judging such items, ISS will generally recommend a vote against if the level of disclosure on the proposal is below what is required for shareholders to make an informed judgment on the scheme. In the event of satisfactory disclosure, ISS will recommend a vote for the proposal unless one or more of the following apply:</p> <ul style="list-style-type: none"> ▪ Performance conditions do not apply, have not been disclosed or are not considered sufficiently challenging or relevant; ▪ Performance conditions can be retested; ▪ Performance is measured over a period shorter than three years; ▪ The plan allows for option repricing or issue of options at a discount or backdating of options; ▪ The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures); 	<p>General Recommendation: ISS evaluates management proposals seeking approval for a share incentive scheme on a case-by-case basis. When judging such items, ISS will generally recommend a vote against if the level of disclosure on the proposal is below what is required for shareholders to make an informed judgment on the scheme. In the event of satisfactory disclosure, ISS will recommend a vote for the proposal unless one or more of the following apply:</p> <ul style="list-style-type: none"> ▪ Performance conditions do not apply, have not been disclosed or are not considered sufficiently challenging or relevant; ▪ Performance conditions can be retested; ▪ Performance is measured over a period shorter than three years; ▪ The plan allows for option repricing or issue of options at a discount or backdating of options; ▪ The potential maximum dilution under all share incentive schemes exceeds 5 percent of the issued share capital of a large, widely held company, or 10 percent in the case of an emerging high-growth company, and there are no mitigating circumstances (e.g. stringent performance measures);

<ul style="list-style-type: none"> ▪ The scheme provides for potentially excessive individual reward or has no caps on individual participation; ▪ The scheme rules allow for accelerated vesting upon termination (including change of control) without reference to relevant performance criteria. In addition, best practice suggests that "good leaver" treatment should include appropriate pro-rating to outstanding long-term incentive awards to reflect any reduced time in service; ▪ NEDs can participate in the scheme; ▪ The scheme provides for payment of dividends on unvested shares or options; ▪ The scheme is in any way not considered aligned with shareholder interests. 	<ul style="list-style-type: none"> ▪ The scheme provides for potentially excessive individual reward or has no caps on individual participation; ▪ The scheme rules allow for accelerated vesting upon termination (including change of control) without reference to relevant performance criteria. In addition, best practice suggests that "good leaver" treatment should include appropriate pro-rating to outstanding long-term incentive awards to reflect any reduced time in service; ▪ NEDs can participate in the scheme; ▪ The scheme provides for payment of dividends on unvested shares or options; ▪ The scheme is in any way not considered aligned with shareholder interests.
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Rationale for Change:

Although market practice varies and is still evolving in this area among JSE-listed companies, the payment of dividends on unvested awards delivered through an equity incentive scheme, whether it be in the form of options or shares, is not considered to be in line with best practice, as it is generally expected that dividend payments only apply to vested shares.

ISS already evaluates the provision of dividend payments and accruals on vested incentive awards in South Africa. The level of disclosure of companies' equity incentive scheme rules on dividend payments and accruals is growing. This policy change clarifies ISS' expectations when evaluating the rules of equity incentive schemes.

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