



SOUTH AFRICA and NEW ZEALAND

Proxy Voting Guidelines Benchmark Policy Changes for 2022-2023

Effective for Meetings on or after October 1, 2022

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South Africa

Board of Directors

Voting on Director Nominees in Uncontested Elections – Gender Diversity

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Generally vote for the re-election of directors, unless:</p> <p>....</p> <p>Composition:</p> <ul style="list-style-type: none"> ▪ Repeated absences (less than 75 percent attendance) at board and committee meetings have not been explained. <p>...</p>	<p>General Recommendation: Generally vote for the re-election of directors, unless:</p> <p>....</p> <p>Composition:</p> <ul style="list-style-type: none"> ▪ Repeated absences (less than 75 percent attendance) at board and committee meetings have not been explained. ▪ Effective for meetings on or after 1 October 2023, the director is the nomination committee chair (or, if not on ballot, the board chair or other appropriate director) and there is not at least one woman on the board. Mitigating factors may include: <ul style="list-style-type: none"> ▪ Compliance with the relevant board diversity standard at the preceding AGM. ▪ Clear commitment to address the lack of gender diversity on the board and progress against the agreed voluntary diversity targets during the year. ▪ Other relevant factors as applicable. <p>.....</p>

Rationale for Change:

The JSE Listings Requirements (JSE LR) required a formalised policy on gender diversity in January 2017. This was then updated in October 2019 such that the board of directors or the nomination committee, as the case may be, must implement a policy on the promotion of a "broader diversity at board level, specifically focusing on the promotion of the diversity attributes of gender, race, culture, age, field of knowledge, skills and experience" (JSE LR, section 3.84(i), see [LINK](#) for the amendments). Companies are further required to disclose in the annual report how the board has considered and applied this policy in the nomination and appointment of directors, to explain why any of the diversity indicators have not been applied and to report on the progress they have made in respect of the agreed voluntary targets.

In addition, King IV Report of Corporate Governance (published in 2016), which adopts a comply or explain approach, states that an organization's governing body should have "an appropriate balance of knowledge, skills, expertise, diversity, and independence for it to discharge its roles and responsibilities objectively and effectively" (King IV, principle 7, see [LINK](#)). It is also noted that the Institute of Directors South Africa (IoDSA) supports the initiatives of the 30% Club South Africa (see [LINK](#)), which aims to achieve a minimum of 30 percent female representation on the boards of listed companies.

There is currently no legislation in South Africa that prescribes minimum requirements for representation of women in boardrooms. However, there is an increasing focus on board diversity at the global level and rising diversity expectations at board level in the local market in recent years. Further, IoDSA noted in April 2021 that, despite the requirement for board diversity policies, there has been "slow" progress in achieving them: "For example, a Business Engage report published in October 2020 shows that while the number of companies that have set gender targets has grown to 104 from 81, twice as many companies did not set targets at all. And of the 104 that did set targets, only 62 actually achieved them." (IoDSA, April 2021, see [LINK](#))

As such, where there was previously none, the latest ISS' South Africa Policy includes a voting guideline for gender diversity, whereby one woman director on the board is the minimum requirement. The implementation of the new board gender diversity policy brings the South Africa market in line with other international ISS policies, which have already established guidelines on the subject. As a start, the policy encourages South African companies to address the lack of gender diversity on their board and to achieve real progress against their agreed voluntary targets. This diversity policy will take effect for meetings on or after 1 October 2023, providing companies with a one-year grace period to consider this guideline.

In general, South African boards can be relatively diverse when compared with other markets, given the number of directors who are representatives of BEE investors. According to ISS data, only 13 out of 211 South African companies do not have female Directors on the Board.

Audit Committee Elections

Current ISS Policy:	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; ▪ 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 ▪ Repeated absences (less than 75 percent attendance) at committee meetings have not been explained; ▪ 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; ▪ 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 ▪ Repeated absences (less than 75 percent attendance) at committee meetings have not been explained; ▪ There are serious concerns about the accounts presented, the audit procedures used, or some other feature for which the audit committee has responsibility. <p>In addition, (i) where the tenure of the external auditor extends beyond 10 years and there is no public commitment to rotate their audit firm within a year, or (ii) or a new auditor has been reappointed before the conclusion of a five-year cool-off period¹, generally vote against the chair of the audit committee (or, if not identified, the most tenured member)². This voting sanction may be extended to the reappointment of the auditor if no action has been taken in the subsequent year.</p> <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>In line with the Independent Regulatory Board for Auditors' (IRBA) Mandatory Audit Firm Rotation (MAFR) rule, effective for financial years commencing on or</p>

	after 1 April 2023, companies which have auditors serving for more than ten years are required to appoint new auditors. ¹
Footnotes:	<p>¹ Audit firms become eligible for reappointment after a cooling-off period of five years. Applicable during the first year of effectivity of the IRBA mandate only, if companies have joint auditors and both have audit tenure of ten years or more, only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required.</p> <p>² The policy will come into effect for meetings held on or after 1 October 2022, for companies that have already identified or appointed their auditors for the financial year starting on or after 1 April 2023.</p>

Rationale for Change:

The Independent Regulatory Board for Auditors (IRBA), as mandated by the South African government under the Auditing Profession Act, regulates the audit of public interest entities in South Africa. On 2 June 2017, the IRBA implemented a new mandatory audit firm rotation rule [see [LINK](#) for the rule, and [LINK](#) for the FAQ] that, effective for financial years commencing on or after 1 April 2023, audit firm rotation is required every 10 years. The change was introduced in order to strengthen the independence of auditors, particularly "following the audit failures globally and locally", with IRBA noting that "long tenure and close relationships can lead to complacency, unconscious bias or familiarity that has the potential to create situations where independence is at the least perceived to be impeded and at worst lead to an inappropriate audit opinion". It is noted that, in the same month of implementation, the Gupta Leaks (which led to allegations of state capture) were released, implicating KPMG, and in December 2017, Steinhoff collapsed (becoming the largest accounting scandal in South Africa to date), implicating Deloitte – further highlighting the necessity of ensuring auditor independence and effectiveness.

Where there was previously none, the latest ISS' South Africa Policy includes a voting guideline for auditors' tenure. This policy aligns ISS' approach with the IRBA's principle and mandate, given the accounting scandals in recent years. Specifically, the policy opposes the re-election of the Audit Committee Chair, who is deemed responsible for the oversight of independent audit and accountable for non-compliance with the MAFR rule, considering this implementation plan was announced six years in advance. Prior to the MAFR rule, the IRBA Code of Professional Conduct and the Companies Act only require the rotation of audit partners after seven and five years, respectively. ISS will consider certain mitigating circumstances, such as when the company has provided a commitment to rotate their audit firm within a year or if a new auditor has already been identified but the appointment date is delayed, and reflect them as appropriate in the vote recommendation on the audit committee chair election. The voting sanction may be escalated to the reappointment of external auditors if no action has been taken or the audit committee has not followed through its previously stated public commitment in the subsequent year.

For the avoidance of doubt, when the company becomes listed, audit tenure prior to the listing will be counted for the purpose of audit firm rotation. A cooling-off period of five years applies before a former audit firm becomes eligible for reappointment. In addition, during the first year of effectivity of the IRBA mandate only, IRBA provides transitional arrangements for companies with joint auditors and both have audit tenure of 10 years or more: only one audit firm is required to rotate this year and the remaining audit firm will be granted an additional two years before rotation is required. This is consistent with section 92 of the Companies Act, which states that joint auditors should not relinquish office in the same year.

New Zealand

General

Alteration of the Number of Directors/Board Size in Constitution

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on proposals to alter the size of the board.</p> <p>The New Zealand Stock Exchange Main Board Listing Rules (under Listing Rule 3.3.1) requires a minimum of three directors for public companies, and nominees are elected if they receive 50% shareholder support. There is no maximum board size limit set out in the New Zealand Companies Act nor the NZX Listing Rule, although company constitutions may set a maximum limit. Consider on a case-by-case basis the justification provided by a company to set a maximum limit on the number of directors.</p> <p>Vote against proposals to alter board size which have the effect of providing the company an ability to invoke "no vacancy" for new nominees seeking election to the board. Such a limitation is not considered to be in the best interests of shareholders, as it prevents a new shareholder nominee from being added to the board unless a management nominee is voted down.</p> <p>Related Policy currently in the Election of Directors section:</p> <p>General Recommendation: Vote case-by-case on proposals on board size. Generally vote for resolutions that set a maximum limit on board size. Generally vote against resolutions that seek to remove any maximum limit on board size.</p> <p>The NZSX Listing Rules require a minimum of three directors for public companies. There is no maximum limit, although company constitutions may set a maximum limit.</p> <p>All proposals to alter board size during a proxy fight or other possible contests for control should be opposed. Allowing directors to alter the terms of a contest</p>	<p>General Recommendation: Generally, vote against proposals to limit the number of directors on the board.</p> <p>The New Zealand Stock Exchange Main Board Listing Rules (under Listing Rule 2.1.1(a)) requires a minimum of three directors for public companies, and nominees are elected if they receive 50% shareholder support. There is no maximum board size limit set out in the New Zealand Companies Act nor the NZX Listing Rule, although company constitutions may set a maximum limit.</p> <p>Vote against proposals to alter board size which have the effect of providing the company an ability to invoke "no vacancy" for new nominees seeking election to the board. Such a limitation is not considered to be in the best interests of shareholders, as it prevents a new shareholder nominee from being added to the board unless a board/management nominee is voted down.</p>

<p>while it is under way is not in shareholders' interests, as this tactic could be used to thwart a takeover that is in shareholders' interests.</p>	
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Rationale for Change:

The update clarifies ISS' position that placing a cap on the number of directors on the board is not in line with best governance practice in the Australian and New Zealand market, given that it limits shareholders' rights to appoint directors and may allow the board to call 'no vacancy' in director elections if there is a limit in the constitution on the number of directors on a board and that number has been reached. Good governance guidelines in this market ordinarily allows shareholders to determine the composition of the board by voting on each director's election irrespective of the number of incumbent directors.

Reappointment of Auditor, and Authorization for the Directors to Set Auditor's Remuneration

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote for the appointment of auditors and authorizing the board to fix their remuneration, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the accounts presented or the audit procedures used; and, ▪ Non-audit related fees are substantial or are routinely in excess of standard annual audit fees. <p>This type of resolution is not required under New Zealand law, but it will be a ballot item for NZX-listed companies that are incorporated in the United Kingdom, Papua New Guinea, and other countries where annual reappointment of the auditor is a statutory requirement.</p>	<p>General Recommendation: Vote for the appointment of auditors and authorizing the board to fix their remuneration, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the accounts presented or the audit procedures used; and, ▪ Non-audit related fees are substantial or are routinely in excess of standard annual audit fees. <p>Non-audit fees are excessive if non-audit ("other") fees exceeds the aggregate of audit fees, audit-related fees and tax compliance/preparation fees.</p> <p>Tax compliance and preparation includes the preparation of original and amended tax returns and refund claims and tax payment planning. All other services in the tax category, such as tax advice, planning or consulting, should be included to "other fees". If the breakdown of tax fees cannot be determined, all tax fees would be added to "other fees" for the purpose of considering the extent of excessive non-audit fees compared with audit fees.</p> <p>In circumstances where "other fees" include fees related to significant one-time capital structure events (such as initial public offerings or demergers) and the</p>

	<p>company makes public disclosure of the amount and nature of those fees that 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/audit-related fees/tax compliance and preparation charges for purposes of determining whether non-audit fees are excessive.</p> <p>This type of resolution is not required under New Zealand law, but it will be a ballot item for NZX-listed companies that are incorporated in the United Kingdom, Papua New Guinea, and other countries where annual reappointment of the auditor is a statutory requirement. Refer to Chapter 4. Board of Directors for considerations of voting sanctions in regard to members of an Audit Committee.</p>
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Rationale for Change:

The change reflects wording already included in other markets regarding non-audit fees and provides guidance on one-time capital structure events and an explanation of classification of tax compliance/preparation and tax advice.

Appointment of a New Auditor

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Generally vote for the appointment of a new auditor, unless there is a compelling reason why the new auditor selected by the board should not be endorsed. A compelling reason might be a past association as auditor during a period of financial trouble.</p> <p>Whenever a New Zealand public company changes its auditor during the year, it is required to put the auditor up for election by shareholders at the next AGM. Often a new auditor is selected by the board during the year and may or may not have started work by the time the shareholders vote on its election.</p>	<p>General Recommendation: Generally vote for the appointment of a new auditor, unless:</p> <ul style="list-style-type: none"> ▪ There are serious concerns about the effectiveness of the auditors; ▪ The auditors are being changed without explanation; or ▪ The lead audit partner(s) has been linked with a significant auditing controversy. <p>Whenever a New Zealand public company changes its auditor during the year, it is required to put the auditor up for election by shareholders at the next AGM. Often a new auditor is selected by the board during the year and may or may not have started work by the time the shareholders vote on its election.</p> <p>Where the auditor has resigned, the resignation letter should be posted on the company’s website or as an announcement to the market. If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders. If no explanation is provided, ISS may recommend a vote against the election of the new auditor.</p>

Rationale for Change:

Some companies may appoint audit firms with no available track record. This makes it difficult for shareholders to assess if the audit firm is independent or if it has the resources and the required expertise in that sector to conduct an effective audit process. Additionally, market expectation when there is an auditor change is for companies to disclose two information: b) reason for change and b) selection process undertaken to appoint the new auditor, as a way to ensure independence and effectiveness of auditors.

Share Capital

Issue of Shares (Placement): Advance Approval

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on requests for the advance approval of issue of shares.</p> <p>From 2009, the NZX Listing Rules contain a general cap on non-pro rata share issues of 20 percent of total equity in a rolling 12-month period (the limit was formerly 15 percent). Listing Rule 7.3.5(c) allows shareholders to vote to carve out from the "20-percent-in-12-months" cap a particular, proposed issue of shares. If shareholders vote to approve this type of resolution, then the share allotments in question will not be counted in calculating the 20-percent-in-12-months cap for the company.</p> <p>Vote case-by-case on all requests taking into consideration:</p> <ul style="list-style-type: none"> ▪ Dilution to shareholders: <ul style="list-style-type: none"> ▪ In some cases, companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies could include the servicing of option plans, small acquisitions, or payment for services. When companies make issuance requests without preemptive rights, shareholders not participating in the placement will suffer dilution. While conventions regarding this type of authority vary widely among countries, ISS routinely supports issuance requests without preemptive rights for up to 20 percent of a company's outstanding capital; ▪ Discount/premium in purchase price to the investor; ▪ Use of proceeds; ▪ Any fairness opinion; ▪ Results in a change in control; ▪ Financing or strategic alternatives explored by the company; ▪ Arms-length negotiations; and, ▪ Conversion rates on convertible equity (if applicable). 	<p>General Recommendation: Vote case-by-case on requests for the advance approval of issue of shares.</p> <p>NZX Listing Rule 4.5.1(a) allows the company to issue equity securities provided that the number to be issued, together all other equity securities of the same class issued under Listing Rule 4.5.1 over the shorter of the previous 12 months or the period since the company was listed, will not exceed the aggregate of 15% of the equity securities of that class on issue at the beginning of that period.</p> <p>In acknowledging the NZX Listing Rules, ISS would generally support a request for the issuance of shares without pre-emptive rights for up to 15 percent of the issued share capital. However, vote case-by-case on all requests taking into consideration:</p> <p>Vote case-by-case on all requests taking into consideration:</p> <ul style="list-style-type: none"> ▪ Dilution to shareholders: <ul style="list-style-type: none"> ▪ In some cases, companies may need the ability to raise funds for routine business contingencies without the expense of carrying out a rights issue. Such contingencies could include the servicing of option plans, small acquisitions, or payment for services. When companies make issuance requests without preemptive rights, shareholders not participating in the placement will suffer dilution.; ▪ Ordinarily, 10 percent dilution is considered high and consideration of other factors listed below will be important in supporting such resolutions; ▪ Discount/premium in the issue price to investors; ▪ Use of proceeds; ▪ The fairness opinion presented in an independent expert's report; ▪ Any resultant change in control; ▪ Other financing or strategic alternatives explored by the company (including any entitlement offers made to shareholders);

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| | <ul style="list-style-type: none">▪ Arms-length negotiations; and,▪ Conversion rates on convertible equity (if applicable). |
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Rationale for Change:

The proposed change is to align ISS' New Zealand Proxy Voting Guidelines to comply with the restrictions on issuing equity securities under 4.5 of the NZX Listing Rules, which indicates that an Issuer may issue Equity Securities provided the number to be issued, together with all other Equity Securities of the same Class issued under this Rule 4.5.1 over the shorter of the previous 12 months or the period since the Issuer was Listed, will not exceed the aggregate of:

- a. 15% of the Equity Securities of that Class on issue at the beginning of that period, and
- b. 15% of the Equity Securities of that Class issued during that period under any of Rules 4.2.1, 4.3, 4.4.1(a), 4.6, 4.8.1 and 4.9, and
- c. any Equity Securities of that Class issued under this Rule 4.5.1 during that period, the issue of which has been ratified by an Ordinary Resolution (such resolution being subject to the voting restrictions in Rule 6.3), less
- d. 15% of Equity Securities of that Class which have been acquired or redeemed by the Issuer during that period (other than Equity Securities held as Treasury Stock).

When voting on issuance proposals, ISS takes into account the dilutive impact of the issuance to existing shareholders as they are affected by dilution if they do not participate in the capital raise. The policy is being updated to state that 10 percent dilution to existing shareholders is deemed to be significant and ISS will take into account the advantages, disadvantages, and other factors of the proposals depending on the situation.

Issue of Shares (Placement): Retrospective Approval

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on retrospective approval of issue of shares.</p> <p>Listing Rule 7.3.5(c) allows shareholders to vote to carve out from the 20-percent-in-12-months cap an issue of shares made some time in the previous 12 months. If shareholders vote to approve this type of resolution, then the share allotments in question will not be counted in calculating the 20-percent in-12-months cap for the company.</p> <p>As long as the prior issuances conform to dilution guidelines above, vote for such proposals.</p>	<p>General Recommendation: Vote case-by-case on retrospective approval of issue of shares.</p> <p>NZX Listing Rule 4.5.1(c) allows the company to renew its capacity to issue ordinary shares within the 15 percent Rule, when it has been used, by obtaining subsequent ratification of the issue from shareholders of the company. The effect of this resolution will be to allow the company to retain the flexibility to issue equity securities in the future up to the 15 percent annual placement capacity set out in Listing Rule 4.1.2 without the requirement to obtain prior shareholder approval.</p> <p>ISS would generally support a ratification under Listing Rule 4.5.1(c) up to 15 percent. However, vote case-by-case on all requests taking into consideration:</p> <ul style="list-style-type: none"> ▪ Dilution to shareholders (10 percent is considered high and consideration of other factors listed below will be important in supporting such resolutions); ▪ Discount/premium in the issue price to investors; ▪ Use of proceeds; ▪ The fairness opinion presented in an independent expert's report; ▪ Any resultant change in control; ▪ Other financing or strategic alternatives explored by the company (including any entitlement offers made to shareholders); ▪ Arms-length negotiations; and ▪ Conversion rates on convertible equity (if applicable).

Rationale for Change:

Please refer to 'Issue of Shares (Placement): Advance Approval' rationale for change.

Board of Directors

ISS Classification of Directors – New Zealand

Current ISS Classification:	New ISS Classification:
<p>Executive Director</p> <ul style="list-style-type: none"> Employee or executive of the company. <p>Non-Independent Non-Executive Director (NED)</p> <p>A non-executive director who is:</p> <ul style="list-style-type: none"> Classified as non-independent in the company's annual report; A former executive of the company or of another group member if there was less than a three-year period between the cessation of employment and board service; A major shareholder, partner, or employee of a material adviser/supplier/customer¹; A founder of the company, even if no longer a substantial shareholder²; A relative (or a person with close family ties) of a substantial shareholder² or of a current or former executive; A designated representative of a shareholder; A director who has served for 12 or more years on the board; A director with any material³ relationship to the company, other than a board seat. <p>Independent Non-Executive Director</p> <p>A non-executive director who is not classified as non-independent according to the factors above. To clarify, this may include:</p> <ul style="list-style-type: none"> A nominee proposed for election to a board by a shareholder but otherwise not affiliated to that shareholder. 	<p>Executive Director</p> <ul style="list-style-type: none"> Employee or executive of the company. <p>Non-Independent Non-Executive Director (NED)</p> <p>A non-executive director who is:</p> <ul style="list-style-type: none"> Classified as non-independent in the company's annual report; A former executive of the company or of another group member if there was less than a three-year period between the cessation of employment and board service; A major shareholder, partner, or employee of a material¹ adviser/supplier/customer; A substantial shareholder of the company²; A founder of the company, even if no longer a substantial shareholder; A relative (or a person with close family ties) of a substantial shareholder or of a current or former executive; A designated representative of a substantial shareholder, or a director of a substantial shareholder which is not a public portfolio investor; A director who has served for 12 or more years on the board; A director with any material³ relationship to the company, other than a board seat; and A director holds cross-directorships or has significant links with other directors through involvement in other companies or board. <p>Independent Non-Executive Director</p> <p>A non-executive director who is not classified as non-independent according to the factors above. To clarify, this may include:</p> <ul style="list-style-type: none"> A nominee proposed for election to a board by a shareholder but otherwise not affiliated to that shareholder.

<p>Footnotes:</p> <p>¹ The materiality threshold for transactions is NZ\$25,000 per annum. These thresholds are assessed by looking at transactions during the three most recent financial years.</p> <p>² A substantial product holder is a shareholder controlling 5 percent or more of the quoted voting products in the company. This is in accordance with Financial Markets Conduct Act 2013 (FMCA).</p> <p>³For 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>Footnotes:</p> <p>¹ The materiality threshold for transactions is NZ\$25,000 per annum. These thresholds are assessed by looking at transactions during the three most recent financial years.</p> <p>² A substantial product holder is a shareholder controlling 5 percent or more of the quoted voting rights in the company. This is in accordance with Financial Markets Conduct Act 2013 (FMCA). At the point a person is no longer a substantial shareholder (or representative of a substantial shareholder), they may be reclassified as independent by the company. However, for the purposes of ISS' director independence classification, this threshold looks back to the three most recent financial years.</p> <p>³ 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:

This policy is updated to include a separate bullet point for 'substantial shareholder' and to clarify the wording in the footnote. The update also adds another criteria for non-independence to cover affiliation through cross-directorships or significant links with other directors which may potentially impact a director's independence.

Voting on Director Nominees

Current ISS Policy:	New ISS Policy:
<p>Voting on Director Nominees in Uncontested Elections</p> <p>General Recommendation: Generally vote for director nominees in uncontested elections. However, generally vote against nominees in the following circumstances:</p> <p>Attendance:</p> <ul style="list-style-type: none"> Attended less than 75 percent of board and committee meetings over the most recent two years, without a satisfactory explanation. <p>Overboarding (unless exceptional circumstances exist):</p> <ul style="list-style-type: none"> Sits on more than a total of five listed boards (a chair as equivalent to two board positions); or An executive director holding more than one non-executive director role with unrelated listed companies. <p>Independence Considerations:</p> <ul style="list-style-type: none"> Is an executive and board chair, and no "lead director" has been appointed from among the independent directors or other control mechanisms are in place. Exception may be made for company founders who are integral to the company or if other exceptional circumstances apply; An executive other than the CEO who serves on the audit committee; A former partner or employee of the company's auditor who serves on the audit committee; An executive other than the CEO serving on the remuneration committee, and the remuneration committee is not majority-independent. <p>Board Independence: If the board is not majority¹ 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); A non-independent NED who is a designated representative of substantial shareholder. Vote against only one representative of the substantial shareholder (typically, the director with the worst attendance record); A non-independent NED whose presence causes the board not to be majority independent without sufficient justification. 	<p>Voting on Director Nominees in Uncontested Elections</p> <p>General Recommendation: Generally vote for director nominees in uncontested elections. However, vote against nominees in the following circumstances:</p> <p>Attendance:</p> <ul style="list-style-type: none"> Attended less than 75 percent of board and committee meetings over the fiscal year, without a satisfactory explanation. <p>Generally, vote against the chairman or deputy chairman if no disclosure of board and/or committee attendance is provided.</p> <p>Overboarding (unless exceptional circumstances exist):</p> <ul style="list-style-type: none"> Sits on more than a total of five listed boards (a chair as equivalent to two board positions); or An executive director holding more than one non-executive director role with unrelated listed companies. <p>When applying this policy, ISS will consider the nature and scope of the various appointments and the companies concerned, and if any exceptional circumstances exist. Exceptional circumstances include entities outside the NZX 50 index and are:</p> <ul style="list-style-type: none"> Research, development, exploration and/or non-operating companies; or Externally managed funds. <p>For the avoidance of doubt, exceptions do not apply to entities included in the NZX 50 index.</p> <p>Independence Considerations:</p> <ul style="list-style-type: none"> Is an executive and board chair, and no "lead director" has been appointed from among the independent directors or other control mechanisms are in

Problematic Audit-Related Practices:

Generally vote against members of the audit committee as constituted in the most recently completed fiscal year if:

- If the entity receives an adverse opinion of the entity's financial statements from the auditor; or
- Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees.

In circumstances where "other" fees include fees related to significant one-time capital structure events (such as initial public offerings) and the company makes public disclosure of the amount and nature of those fees that 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/audit-related fees/tax compliance and preparation for purposes of determining whether non-audit fees are excessive.

Shareholder Nominees:

Generally, vote against shareholder-nominated candidates who lack board endorsement and do not present conclusive rationale to justify their nomination, including unmatched skills and experience, or other reason. Vote for such candidates if they demonstrate a clear ability to contribute positively to board deliberations.

Governance Failures:

Under extraordinary circumstances, vote against directors individually, committee members, or the entire board, due to:

- Failure to act in the best interests of all shareholders;
- Material failures of governance, stewardship, risk oversight², or fiduciary responsibilities at the company;
- Failure to replace management as appropriate; or
- Significant involvement with a failed company, or egregious actions related to a director's service on other boards that raise substantial doubt about his

place. Exception may be made for company founders who are integral to the company or if other exceptional circumstances apply;

- Where an executive is a member of the audit or remuneration committee, vote against the executive and the chairman of the board and/or chairman of the relevant committee;
- A former partner or employee of the company's auditor who serves on the audit committee; and
- A director who is a former partner of the company's audit firm and receives post-employment benefits.

Board Independence:

If the board is not majority¹ independent under [ISS' classification](#), generally vote against nominees who are:

- Executive directors (except for the CEO and founders integral to the company);
- Non-independent NEDs whose presence causes the board not to be majority independent without sufficient justification. Exceptional factors may include:
 - 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).

Combined Chair/CEO

The NZX Corporate Governance Code ("CGC") calls for the separation of the roles of stewardship and management. Recommendation 2.9 of the NZX CGC states that "An issuer should have an independent chair on the board. If the chair is not independent, the chair and the CEO should be different people".

Generally vote against a director who combines the CEO and chairman roles, unless the company provides strong justification as to why this non-standard

or her ability to effectively oversee management and serve the best interests of shareholders at any company.

governance arrangement is appropriate for the specific situation of the company. Exceptional circumstances may include a limited timeframe for the combined role upon departure of the CEO, or a non-operating, research, development, or exploration company.

In some circumstances an executive chair may be considered to effectively combine the chair and CEO roles, notwithstanding the presence of another director on the board with the title of CEO. In assessing this situation, ISS will have regard for the disclosure surrounding the split of responsibilities and their comparative pay levels.

Gender Diversity

Recommendation 2.5 of the NZX Corporate Governance Code states that an Issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.

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:

- A commitment to appoint at least one female director as disclosed in the company's meeting documents or in an announcement to the NZX;
- The presence of a female director on the board during the preceding year; or
- Other relevant factors.

Problematic Risk and Audit-Related Practices:

Generally, vote against members of the risk committee who were in place if:

- A material failure in audit and risk oversight by directors is identified through regulatory investigation, enforcement or other manner; or

- There are significant adverse legal judgments or settlements against the company, directors, or management.

Generally vote against members of the audit committee as constituted in the most recently completed fiscal year if:

- If the entity receives an adverse opinion of the entity's financial statements from the auditor; or
- Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees.

In circumstances where "other" fees include fees related to significant one-time capital structure events (such as initial public offerings) and the company makes public disclosure of the amount and nature of those fees that 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/audit-related fees/tax compliance and preparation for purposes of determining whether non-audit fees are excessive.

Shareholder Nominees:

Generally, vote against shareholder-nominated candidates who lack board endorsement and do not present conclusive rationale to justify their nomination, including unmatched skills and experience, or other reason. Vote for such candidates if they demonstrate a clear ability to contribute positively to board deliberations.

Governance Failures:

Generally, vote against the chairman of the board if there is evidence of long-running, systemic issues regarding governance failures, or board and committee composition which are not adequately addressed, given the chairman retains responsibility for the board's corporate governance arrangements.

Generally, vote against directors individually, committee members, or the entire board, due to:

- Failure to act, take reasonable steps, or exercise a director's duty to make proper enquiries of events, actions or circumstances of the company and

those involved in management or higher, in the best interests of all shareholders;

- Material failures of governance, stewardship, risk oversight², or fiduciary responsibilities at the company (objectively coming to light in legal proceedings, regulatory investigation or enforcement, or other manner which takes place in relation to the company, directors or management);
- Failure to replace management as appropriate;
- Significant involvement with a failed company, or egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company; or
- Service on other boards where any of the above matters and facts have subsequently emerged.

Upholding governance is the responsibility of each director and together as a board of directors. Shareholders expect "collective accountability" of directors and boards of companies which have experienced governance failures, irrespective of whether directors consider themselves as not being directly responsible for actions of the company or those involved in it.

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

Voting on Director Nominees in Contested Elections

General Recommendation: Assess contested director elections on a case-by-case, considering the following factors in particular:

- Company performance relative to its peers;
- Strategy of the incumbents versus the dissidents;
- Independence of directors/nominees;
- Experience and skills of board candidates;
- Governance profile of the company;

	<ul style="list-style-type: none"> ▪ Evidence of management entrenchment; ▪ Responsiveness to shareholders; and, ▪ Whether minority or majority representation is being sought. <p>When analyzing a contested election of directors, which may include the election of shareholder nominees or the dismissal of incumbent directors, ISS will generally focus on two central questions:</p> <ul style="list-style-type: none"> ▪ Whether the dissidents have proved that board change is warranted; and ▪ If yes, whether the dissident board nominees seem likely to bring about positive change and maximize long-term shareholder value.
<p>Footnotes:</p> <p>¹ “Majority independent” is defined as over 50% independent.</p> <p>² Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; demonstrably poor risk oversight of environmental and social issues, including climate change; significant adverse legal judgments or settlements; hedging of company stock; or significant pledging of company stock.</p>	<p>Footnotes:</p> <p>¹ “Majority independent” is defined as over 50% independent.</p> <p>² Examples of failure of risk oversight include but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; demonstrably poor risk oversight of environmental and social issues, including climate change; significant adverse legal judgments or settlements; hedging of company stock; or significant pledging of company stock.</p>

Rationale for Change:

The updates in the New Zealand Proxy Voting Guidelines is to align with the Australia Proxy Voting Guidelines given that many New Zealand companies are also listed on the ASX and in turn a substantial part of the NZX 50 consists of ASX-listed companies.

The New Zealand Policy is updated for the following director concerns:

- Attendance will be looked at on a yearly basis and not averaged over a two-year period. Given the requirements of the NZX Corporate Governance Code, if director attendance is not disclosed, the board chairman and deputy chairman are expected to be accountable.
- In terms of overboarding, the update will provide guidance on what constitutes 'exceptional circumstances' in line with UK policy and to recognise the existence of non-operating mining and R&D companies.
- Executives, including the CEO, should not be members of audit or remuneration committees as their presence would undermine the purpose of the committees in providing independent oversight and preventing conflicts of interests. Accordingly, the update removes the CEO carve out in the policy for executives who are members of the audit or remuneration committees. The update also includes an adverse vote recommendation where a director is a former partner of the company's audit firm and receives post-employment benefits, representing a conflict of interest.
- The updated wording will clarify ISS' approach when recommending on the election of shareholder representatives on boards that are not majority independent. The wording acknowledges the accepted market practice that a 15-percent shareholder is generally considered to be entitled to appoint a representative on the board. It also considers that a substantial shareholder's influence on the board should be proportional to its share ownership.

- A provision on combined chairman and CEO roles is added to reflect NZX Corporate Governance Code which specifically states that the chair of the board and the CEO should be separated to ensure that a conflict of interest does not arise. In NZX-listed companies, there are only 2 percent of combined chair/CEO roles.
- 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 NZX Code for larger companies in the NZX Index. The strengthening of the standard brings the New Zealand Proxy Voting Guidelines in line with the NZX Code, 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 policies on audit, risk and governance failures are being updated to take into account audit and risk committee failures at banks where directors appear to be denying any responsibility for failures ranging from simple risk and audit systems breaches, all the way up to criminal charges against officers, breaches of anti-money laundering and terrorism funding systems.
- A provision on the accountability of the board chairman in the event of long-running and systemic governance issues is added.
- The New Zealand Proxy Voting Guidelines do not currently have a section on proxy contests in the Election of Directors section. Therefore, this section is being added and the corresponding section 'Removal of Directors' has been updated.

Remuneration

Remuneration of Non-Executive Directors: Increase in Aggregate Fee Cap

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote case-by-case on resolution that seeks shareholder approval for an increase in the maximum aggregate level of fees payable to the company's non-executive directors.</p> <p>It is a requirement of the NZX Listing Rules for companies to obtain shareholder approval for any increase in the fee cap or alternatively, the individual remuneration paid to non-executive directors. Changes to the Listing Rules in April 2009 also allow the resolution authorizing the directors' remuneration to enable the directors to receive some or all of their fees in shares issued at the market price.</p> <p>In assessing director remuneration, ISS' overriding consideration is how remuneration relates to shareholders' interests, specifically:</p> <ul style="list-style-type: none"> ▪ The size of the proposed increase; ▪ The level of fees compared to those at peer companies; ▪ The explanation the board has given for the proposed increase; ▪ Whether the company has discontinued retirement benefits; ▪ The company's absolute and relative performance over (at least) the past three years based on measures such as (but not limited to) share price, earnings per share and return on capital employed; ▪ The company's policy and practices on non-executive director remuneration, including equity ownership; ▪ The number of directors presently on the board and any planned increases to the size of the board; ▪ The level of board turnover. <p>Generally vote for a fee cap resolution that also seeks to allow directors to receive part or all of their fees in shares. The NZSX Corporate Governance Code</p>	<p>General Recommendation: Vote case-by-case on resolution that seeks shareholder approval for an increase in the maximum aggregate level of fees payable to the company's non-executive directors.</p> <p>It is a requirement of the NZX Listing Rules for companies to obtain shareholder approval for any increase in the fee cap or alternatively, the individual remuneration paid to non-executive directors. Changes to the Listing Rules in April 2009 also allow the resolution authorizing the directors' remuneration to enable the directors to receive some or all of their fees in shares issued at the market price.</p> <p>In assessing director remuneration, ISS' overriding consideration is how remuneration relates to shareholders' interests, specifically:</p> <ul style="list-style-type: none"> ▪ The size of the proposed increase; ▪ The level of fees compared to those at peer companies; ▪ The explanation the board has given for the proposed increase; ▪ Whether the company has discontinued retirement benefits; ▪ Whether there is sufficient capacity within the previously approved aggregate fee cap to accommodate any proposed increases in director's fees; ▪ The company's absolute and relative performance over (at least) the past three years based on measures such as (but not limited to) share price, earnings per share and return on capital employed; ▪ The company's policy and practices on non-executive director remuneration, including equity ownership; ▪ The number of directors presently on the board and any planned increases to the size of the board; and ▪ The level of board turnover. <p>Generally vote for a fee cap resolution that also seeks to allow directors to receive part or all of their fees in shares. The NZX Corporate Governance Code</p>

<p>and investor governance guidelines worldwide support such schemes as increasing the alignment of interests between directors and shareholders.</p> <p>Vote against the increase if the company has an active retirement benefits plan for non-executive directors. Vote where a company is seeking an increase after a period of poor absolute and relative performance, where the same board (or largely the same board) has overseen this period of poor performance and where the fee cap increase is not sought for the purposes of board renewal.</p>	<p>and investor governance guidelines support such schemes as increasing the alignment of interests between directors and shareholders.</p> <p>Vote against the increase if the company has an active retirement benefits plan for non-executive directors. Vote where a company is seeking an increase after a period of poor absolute and relative performance, where the same board (or largely the same board) has overseen this period of poor performance and where the fee cap increase is not sought for the purposes of board renewal.</p>
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Rationale for Change:

The additional bullet point brings policy in line with global approach. The last paragraph also provides additional guidance on policy.

Transparency of CEO Incentives

Current ISS Policy:	New ISS Policy:
<p>General Recommendation: Vote against the re-election of members of the remuneration committee if:</p> <ul style="list-style-type: none"> ▪ The remuneration of the CEO is not subject to any shareholder approval or scrutiny; or ▪ There is evidence that the CEO has been granted a substantial quantity of equity incentives; and, ▪ There is no apparent credible explanation for the CEO not being a member of the board. <p>It is common in NZSX-listed companies for the CEO not to be a member of the board of directors. NZ-registered companies are only required to disclose the individual remuneration of directors, although since changes to the Listing Rules in April 2009 shareholders are no longer able to vote on proposals concerning the issue of options to directors. It is reasonable for shareholders to be able to</p>	<p>General Recommendation: Vote against the re-election of members of the remuneration committee if:</p> <ul style="list-style-type: none"> ▪ The remuneration of the CEO is not appropriately disclosed to allow shareholder scrutiny; or ▪ There is evidence that the CEO has been granted a substantial quantity of equity incentives; and, ▪ The remuneration of the CEO is excessive compared with peers. <p>It is common in NZX-listed companies for the CEO not to be a member of the board of directors. On May 9, 2017, the New Zealand Stock Exchange released its updated Corporate Governance Code following feedback from the market. One of the changes sought disclosure of the CEO's remuneration arrangements in the annual report, including base salary, short-term incentives, and long-term incentives, as well as performance criteria used to determine performance-based awards. This is a major advance in disclosure and governance standards which is typically seen by investors in other developed markets around the world. It is reasonable for shareholders to be able to assess the remuneration of the most</p>

<p>assess the remuneration of the most senior member of management, and to be able to vote on any equity incentives that they may be offered.</p> <p>There are circumstances in which it may be appropriate for a CEO not to be a director; take into account all relevant circumstances of a particular company.</p>	<p>senior member of management, and to be able to vote on any equity incentives that they may be offered.</p>
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Rationale for Change:

The 2020 NZX Code recommends that an issuer should clearly disclose the remuneration arrangements of the CEO in the annual report, including disclosure of base salary, short-term incentives and long-term incentives as well as the performance criteria used to determine performance-based awards. A provision on accountability on directors who serves on the remuneration committee in the event that poor remuneration practices have been identified has been added.

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

Current ISS Policy:	New ISS Policy:
<p>Remuneration of Executives: Options and Other Long-Term Incentives</p> <p>General Recommendation: Vote case-by-case on options and long-term incentives for executives. Vote against plans and proposed grants under plans if:</p> <ul style="list-style-type: none"> ▪ The company failed to disclose adequate information regarding any element of the scheme; ▪ The performance hurdles are not sufficiently demanding; ▪ The plan permits retesting of grants based on rolling performance; ▪ The plan allows for excessive dilution. <p>Under the NZSX Listing Rules, companies are able to issue securities to employees without shareholder approval so long as such issues do not exceed 3 percent of issued capital per annum. Since changes to the Listing Rules in April 2009, approval is not required for the issue of securities to directors so long as the issue occurs under the general employee share plan limit and their participation is determined on the same basis as that of other employees. Certain NZ companies will continue to require shareholder approval of equity incentives for directors given they are also listed on the Australian Securities Exchange, where Listing Rule 10.14 requires prior approval for the issue of equity securities to a director under an employee incentive scheme.</p> <p>Evaluate long-term incentive plans (and proposed grants of equity awards to particular directors) according to the following criteria:</p> <p><u>Exercise Price</u></p> <ul style="list-style-type: none"> ▪ Option exercise prices should not be at a discount to market price at the grant date (in the absence of demanding performance hurdles). ▪ Plans should not allow the repricing of underwater options. <p><u>Vesting Period</u></p>	<p>General Recommendation: Vote case-by-case on long-term incentives and share-based grants for executives. Vote against plans and proposed grants under plans if:</p> <ul style="list-style-type: none"> ▪ Exercise price, or valuation or share-based grants, is excessively discounted; ▪ Vesting period is insufficiently long to reflect an appropriate long-term horizon (i.e. less than three years); ▪ Long-term performance criteria are removed; ▪ Performance hurdles to be achieved which determined the quantum of vesting of share-based grants are not sufficiently demanding; ▪ Retesting of performance criteria is permitted over an extended time period where the original performance targets are not met in the initial testing period; ▪ Plan allows for excessive dilution. ▪ Company fails to disclose adequate information regarding any element of the scheme. <p>Under the NZX Listing Rules, companies are able to issue securities to employees without shareholder approval so long as such issues do not exceed 3 percent of issued capital per annum. Since changes to the Listing Rules in April 2009, approval is not required for the issue of securities to directors so long as the issue occurs under the general employee share plan limit and their participation is determined on the same basis as that of other employees. Certain NZ companies will continue to require shareholder approval of equity incentives for directors given they are also listed on the Australian Securities Exchange, where Listing Rule 10.14 requires prior approval for the issue of equity securities to a director under an employee incentive scheme.</p> <p>Evaluate long-term incentive plans (and proposed grants of equity awards to particular directors) according to the following criteria:</p> <p><u>Exercise Price</u></p> <ul style="list-style-type: none"> ▪ Option exercise prices should not be at a discount to market price at the grant date (in the absence of demanding performance hurdles). ▪ Plans should not allow the repricing of underwater options.

- Appropriate time restrictions before options can be exercised (if 50 percent or more of securities can vest in two years or less, this is generally considered too short).

Performance Hurdles

- Generally, a hurdle that relates to total shareholder return (TSR) is preferable to a hurdle that specifies an absolute share price target or an accounting measure of performance (such as earnings per share (EPS)).
- Where a relative hurdle is used (comparing the company's performance against a group of peers or against an index), no vesting should occur for sub-median performance. ISS will consider the availability of an appropriate peer group for NZ based companies as a material factor in assessing relative benchmarks.
- The use of 'indexed options' – where the exercise price of an option is increased by the movement in a suitable index of peer companies (such as the NZX50) – is generally considered a sufficiently demanding hurdle.
- A sliding-scale hurdle – under which the percentage of rights that vest increases according to a sliding scale of performance (whether absolute or relative) – is generally preferable to a hurdle under which 100 percent of the award vests once a single target is achieved (i.e. no "cliff vesting").
- In the absence of relative performance hurdles, absolute share price hurdles may be appropriate so long as they are sufficiently stretching. Where an absolute share-price target is used, executives can be rewarded by a rising market even if their company does relatively poorly. In addition, even if a share price hurdle is set at a significantly higher level than the prevailing share price, if the option has a long life then the hurdle may not be particularly stretching.
- In determining whether an absolute share price target is sufficiently stretching, take into consideration the company's explanation of how the target share price has been calculated. ISS will be more likely to consider an absolute share price target as sufficiently stretching when the target price is reflected in the option exercise price.
- The issue of options with no performance conditions other than continued service and the exercise price (set as being equal to the share price on date of issue) is not generally considered to be a sufficiently demanding hurdle.
- ISS will support incentive schemes with accounting-based hurdles if they are sufficiently demanding. An accounting-based hurdle does not

- The allocation of ZEPOs should not be based on a discounted price of a company's securities (or "fair value"), which has the effect of increasing the number of equity awards which are granted, and could exponentially increase the value of the incentive or share-based payment received by the executive upon any vesting.

Vesting Period

- There should be appropriate time restrictions before rights can be exercised (if securities can vest in a timeframe which is less than three years, this is not considered to be an appropriate representation of a shareholder's long-term horizon for an NZX listed entity).

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- In determining whether an absolute share price target is sufficiently stretching, take into consideration the company's explanation of how the target share price has been calculated. ISS will be more likely to consider an

necessarily require that shareholder value be improved before the incentive vests as it is possible for incentives to vest – and executives to be rewarded – without any medium- to long-term improvement in returns to shareholders. Growth in EPS may, but does not always, translate into a material increase in share price and dividends over the medium to long-term.

- Hurdles which relate option vesting to share price performance against a company's cost of capital may be considered acceptable if the exercise price is adjusted to reflect the cost of capital over the vesting period. Shareholders must also be given sufficient information to determine if the cost of capital will be calculated or reviewed independently of management.
- Two different types of options should be distinguished: (1) grants of market-exercise-price options (traditional options), and (2) zero exercise price options (also called conditional awards, performance shares, and performance rights). Traditional options have an in-built share price appreciation hurdle, because the share price must increase above its level at grant date for the executive to have an incentive to exercise. Performance rights have no exercise price; the executive pays nothing to the company on exercising the rights. An EPS hurdle can lead to executive reward without any increase in shareholder return if the instruments are performance rights, but not if they are traditional options. Therefore, an EPS hurdle can more readily be supported if traditional options, rather than performance rights, are being granted.
- For an EPS target to be sufficiently stretching, where a single target is used (with 100 percent of options/rights vesting on the target being achieved), the target should generally specify a challenging target that is at least in line with analyst and management earnings forecasts. For targets which see rewards vest based on a sliding scale, vesting should start at a level below consensus forecasts only if a substantial portion of the award vests for performance above consensus forecasts.

Retesting

- ISS does not support excessive retesting of options grants against performance hurdles. Many NZ companies use performance hurdles such as cost of capital relative to share price that allow for continual retesting and the issue of retesting against performance hurdles does not appear to have been raised with NZ companies in the past and many equity

absolute share price target as sufficiently stretching when the target price is reflected in the option exercise price.

- The issue of options with no performance conditions other than continued service and the exercise price (set as being equal to the share price on date of issue) is not generally considered to be a sufficiently demanding hurdle.
- ISS will support incentive schemes with accounting-based hurdles if they are sufficiently demanding. An accounting-based hurdle does not necessarily require that shareholder value be improved before the incentive vests as it is possible for incentives to vest – and executives to be rewarded – without any medium- to long-term improvement in returns to shareholders. Growth in EPS may, but does not always, translate into a material increase in share price and dividends over the medium to long-term.
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Retesting

grants to executive directors have been modest in size. As such, it is not appropriate for ISS to recommend against a particular options grant on the basis of excessive retesting. However, ISS will continue to review NZ companies' practices in this area with a view to considering the frequency of retesting in assessing grants sometime in the future.

- ISS will however generally recommend against incentive schemes that provide for retesting against performance hurdles on a rolling-basis. For retesting to be acceptable, at a minimum it should assess performance against the hurdle from the inception date to the date of vesting.

Transparency

- The methodology for determining exercise price of options should be disclosed.
- Shareholders should be presented with sufficient information to determine whether an incentive scheme will reward superior future performance.
- The proposed volume of securities which may be issued under an incentive scheme should be disclosed to enable shareholders to assess dilution.
- Time restrictions before options can be exercised should be disclosed, as should the expiry date of the options. Any restrictions on disposing of shares received on the exercise of options should be disclosed.
- If a value has been assigned to the options, the method used to calculate cost of options should be disclosed.
- The method of purchase or issue of shares on exercise of options should be disclosed.

Dilution of Existing Shareholders' Equity

- Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital.

Level of Reward

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

Transparency

- The methodology for determining exercise price of options should be disclosed.
- Shareholders should be presented with sufficient information to determine whether an incentive scheme will reward superior future performance.
- The proposed volume of securities which may be issued under an incentive scheme should be disclosed to enable shareholders to assess dilution.
- Time restrictions before options can be exercised should be disclosed, as should the expiry date of the options. Any restrictions on disposing of shares received on the exercise of options should be disclosed.
- If a value has been assigned to the options, the method used to calculate cost of options should be disclosed.
- The method of purchase or issue of shares on exercise of options should be disclosed.

<ul style="list-style-type: none"> ▪ Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. <p><u>Eligibility for Participation in the Scheme</u></p> <ul style="list-style-type: none"> ▪ Scheme should be open to all key executives. ▪ Scheme should not be open to non-executive directors. <p><u>Other</u></p> <ul style="list-style-type: none"> ▪ Incentive plans should include reasonable change-in-control provisions (i.e. pro-rata vesting based on the proportion of the vesting period expired and performance against the hurdles taking into account the size of awards). ▪ Incentive plans should include ‘good’ leaver/’bad’ leaver provisions to minimize excessive and unearned payouts. 	<p><u>Dilution of Existing Shareholders' Equity</u></p> <ul style="list-style-type: none"> ▪ Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital. <p><u>Level of Reward</u></p> <ul style="list-style-type: none"> ▪ Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. <p><u>Eligibility for Participation in the Scheme</u></p> <ul style="list-style-type: none"> ▪ Scheme should be open to all key executives. ▪ Scheme should not be open to non-executive directors. <p><u>Other</u></p> <ul style="list-style-type: none"> ▪ Incentive plans should include reasonable change-in-control provisions (i.e. pro-rata vesting based on the proportion of the vesting period expired and performance against the hurdles taking into account the size of awards). ▪ Incentive plans should include ‘good’ leaver/’bad’ leaver provisions to minimize excessive and unearned payouts. <p>Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a qualified ‘For’, with the qualification noting the breaches which investors would expect to be addressed by the remuneration committee in the future, whereas a single, serious deviation may be sufficient to justify an “Against” vote recommendation.</p>
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Rationale for Change:

These changes to the remuneration policies update wording, provide additional context and guidance, and ensure alignment with other sections of the policy.

Environmental and Social Issues

Voting on Shareholder Proposals on Environmental, Social, and Governance (ESG) Matters

Current ISS Policy:	New ISS Policy:
<p>Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor covered standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.</p> <p>General Recommendation: Generally vote case-by-case, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will be considered:</p> <ul style="list-style-type: none"> ▪ If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; ▪ If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; ▪ Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive; ▪ The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; ▪ If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and ▪ If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage. 	<p>Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor covered standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.</p> <p>General Recommendation: Generally, vote on all environmental and social proposals on a case-by-case basis, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value. The following factors will be considered:</p> <ul style="list-style-type: none"> ▪ If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; ▪ If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; ▪ Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive; ▪ The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal; ▪ Whether there are significant controversies, fines, penalties, or litigation associated with the company's environmental or social practices; ▪ If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and ▪ If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage. <p>When evaluating ESG shareholder proposals, ISS will consider the nature and extent of engagement with the shareholder proponent and any undertakings given by the board in addressing the matters raised in the shareholder proposal.</p>

Rationale for Change:

This aligns the ISS New Zealand policy with the ISS policy for Australian Market.

Board Diversity

Current ISS Policy:	New ISS Policy:
[None]	<p>Diversity on boards is an important topic for many shareholders. ISS will examine board diversity, including gender, skills, ethnicity and age as part of board refreshment and succession planning, in order to provide our clients with sufficient information from which to base informed engagement and voting decisions.</p> <p>Proxy research reports on each company will include whether:</p> <ul style="list-style-type: none"> ▪ There is a disclosed diversity policy; ▪ There are disclosed and measurable objectives in promoting gender diversity, amongst others; ▪ The company reports on progress against those measurable objectives; ▪ The company reports on the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the company has defined “senior executive” and various management positions, for these purposes); and ▪ The company uses Recommendation 2.5 of the NZX Corporate Governance Code 2020 to create the company's diversity policy.

Rationale for Change:

The New Zealand Proxy Voting Guidelines on gender diversity is being updated to align it with the ISS policies for other relevant market, such as the U.K. and the U.S.

Economic, Environmental, and Sustainability Risks

Current ISS Policy:	New ISS Policy:
[None]	Where appropriate, ISS will report on the quality of the company's disclosure of economic, environmental, and sustainability risks and how it regards these risks.

Rationale for Change:

The New Zealand Proxy Voting Guidelines Economic, Environmental, and Sustainability Risks is being updated to align it with the ISS policy for Australian Market.

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