Voting Policy

The following describes the Erste Asset Management Group policy in Europe (i.e. Austria, Belgium, Cyprus, Denmark (including the Faroe Islands and Greenland), Finland, France, Germany, Gibraltar, Greece, Iceland, Italy, Liechtenstein, Luxembourg, Malta, The Netherlands (excluding the Netherlands Antilles and Aruba), Norway, Portugal, Spain, Sweden, and Switzerland).

Note that markets covered in this document also include Eastern Europe and Turkey.

Please also note that for the US market Erste Asset Management Group will follow the ISS approach.

Operational Items

Financial Results/Director and Auditor Reports

Vote FOR the approval of financial statements and director and auditor reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- The company is not responsive to shareholder questions about specific items that should be publicly disclosed.

Appointment of Auditors and Auditor Fees

Vote FOR the (re)election of auditors and/or proposals authorizing the board to fix auditor fees, unless:

- 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;
- Name of the proposed auditors has not been published;
- The auditors are being changed without explanation; or
- 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).

In circumstances where fees for non-audit services include fees related to significant one-time capital structure events (initial public offerings, bankruptcy emergencies, and spin-offs) and the company makes public disclosure of the amount and nature of those fees, which are an exception to the standard "non-audit fee" category, then such fees may be excluded from the non-audit fees considered in determining the ratio of non-audit to audit fees.

For concerns related to the audit procedures, independence of auditors, and/or name of auditors, we may vote AGAINST the auditor's (re)election. For concerns related to fees paid to the auditors, we may vote AGAINST the remuneration of auditors if this is a separate voting item; otherwise we may vote AGAINST the auditor election.

For the UK:
In the event of a change of auditor, vote AGAINST the appointment of auditors if:

- the board did not confirm that the change was proposed by the audit committee and approved by the board; or
- a change in auditor is proposed and a satisfactory explanation for the change in auditor is not provided to shareholders.

In addition, a resolution does not merit support if:

- non-audit fees have not been itemized into separate categories in the annual report when such fees in aggregate comprise more than 20% of audit fees or where there is not an adequate explanation in the Annual Report of how auditor objectivity and independence of the auditor and audit is safeguarded;

- non-audit fees are more than audit fees and no adequate explanation is provided; or non-audit fees are not disclosed.

Appointment of Internal Statutory Auditors

Vote FOR the appointment or (re)election of statutory auditors, unless:

- There are serious concerns about the statutory reports presented or the audit procedures used;
- Questions exist concerning any of the statutory auditors being appointed; or
- The auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Allocation of Income

Vote FOR approval of the allocation of income, unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Amendments to Articles of Association

Vote amendments to the articles of association on a CASE-BY-CASE basis.

Change in Company Fiscal Term

Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

Lower Disclosure Threshold for Stock Ownership

Vote AGAINST resolutions to lower the stock ownership disclosure threshold below 5 percent unless specific reasons exist to implement a lower threshold.

Amend Quorum Requirements

Vote proposals to amend quorum requirements for shareholder meetings on a CASE-BY-CASE basis.

Transact Other Business

Vote AGAINST other business when it appears as a voting item.

Company Boards

Company Boards— Director Elections

The Sustainability research flags firms with significant ESG risks for our clients, using the following ESG risk indicators:

- Environment
- Human Rights & Community Impact
- Labor Rights & Supply Chain Risk
- Consumer Product Safety
- Bribery & Corruption
- Governance & Risk Oversight failures

Where severe ESG risks have been identified and firms have failed to sufficiently guard against or manage, recommendations are made to vote against the election of responsible directors, the discharge of management/board or other relevant voting items.

GENERAL FRAMEWORK:

Vote FOR management nominees in the election of directors, unless:

- Adequate disclosure has not been provided in a timely manner;
- There are clear concerns over questionable finances or restatements;
- There have been questionable transactions with conflicts of interest;
- There are any records of abuses against minority shareholder interests; or
- The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Vote on a CASE-BY-CASE basis for contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, determining which directors are best suited to add value for shareholders.

Vote FOR employee and/or labor representatives if they sit on either the audit or compensation committee and are required by law to be on those committees.

Vote AGAINST employee and/or labor representatives if they sit on either the audit or compensation committee, if they are not required to be on those committees.

Vote AGAINST or WITHHOLD from directors individually, on a committee, or potentially the entire board due to:

Material failures of governance, stewardship, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risk;

- Failure to replace management as appropriate;
- Egregious actions related to the 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.

Company Boards — Board Independence

For the markets of Austria, Belgium, Germany, France, Spain, Switzerland, and the Netherlands, vote AGAINST the election or reelection of any non-independent directors (excluding the CEO) if the proposed board is not at least 50-percent independent (as defined by ISS' director categorization guidelines). If a nominee cannot be categorized, it will be assumed

that the person is non-independent and include that nominee in the calculation. The policy will apply to core companies in these seven markets.

For the markets of Denmark, Norway, Finland, Sweden, Luxembourg, the same policy will be applied to recommend AGAINST non-independent directors if there is not a majority independent board, but only for those companies that are part of a local blue chip market index and/or MSCI-EAFE index.

In Ireland, vote AGAINST non-independent directors if there is not a majority independent board, but only for those companies that are constituents of ISE 20. Companies that are not part of the ISE 20 will be required to have at least two independent NEDs on the board, as required by the UK Code as applied in Ireland. In instances where this is not the case, a vote against the non-independent members of the board will be considered.

For widely held companies in Austria and Germany that must by law include labor representatives one-third of the total board will be required to be independent. For Swedish, Norwegian, and Danish local blue chip and/or MSCI EAFE companies, this policy will apply to shareholder-elected board members. In addition, one-third of the total board (shareholder-elected members and labor representatives) will be required to be independent non-executive directors.

In Portugal, companies that belong to the PSI-20 and/or MSCI EAFE index will be required to have at least a 25 percent independent board, as recommended by the Code of Corporate Governance issued by the Portuguese Securities Exchange. Vote AGAINST the entire slate of candidates (bundled elections) or vote AGAINST the election of any non-independent directors (unbundled elections) if the board independence level does not meet the recommended 25-percent threshold.

In Italy, companies that are part of a local blue chip market index and/or MSCI-EAFE index with a controlling shareholder will be required to have at least one-third of independent members (33 percent), and for all other companies, at least half of the board should be independent (50 percent).

For the European core companies not covered by this policy, language will be included in the analyses indicating the preference for at least a 50 percent independent board.

For the UK:

Independent Board of Directors:

- Company boards should include an equal balance of executive and non-executive directors (NEDs) such that no group or individual can dominate the board's decision taking. A vote against a non-independent Non-executive Director may be warranted in order to achieve Board balance

Company Boards —Disclosure of Nominee Names

Vote AGAINST the (re)election of any directors when the names of the nominees are not available at the time the analysis is being written. This policy will be applied to all companies in these markets, for bundled as well as unbundled items.

For Poland:
Shareholders may be allowed to elect members to the management and supervisory boards, depending on the company statute. Cumulative voting is allowed under certain circumstances.

Because only shareholders, and not company management, nominate candidates to the supervisory boards, companies are often unable to release the names of board nominees in a timely manner, making it difficult to discern the independence of board members.

For Turkey:
For Turkish companies which are not included in the main index, we will vote FOR director elections even if companies do not disclose prior to the meeting the candidate names.

The disclosure levels of the Turkish companies on candidate names has historically been low and our approach is that it would be counterproductive to systematically oppose director elections when names are not disclosed. Only in cases where there are specific concerns regarding a company and its directors would there be ground for further scrutiny.

For Turkish companies which are part of the main index of the Istanbul Stock Exchange, we will vote FOR director elections if the companies disclose the names of the candidates prior to the meeting.

The ISE-30 Index is Turkey's main large cap index and includes the largest companies with some of the highest levels of foreign institutional ownership. As a result, these companies are targeted, as they are expected to espouse stronger disclosure standards, in line with international best practice.
Starting from the 2013 season: When a non index company has failed to disclose the names of candidates, lengthy cautionary language will be included raising concerns with poor disclosure standards.
Although this will not trigger a negative vote, it will explicitly be stated that we reserve the right to scrutinize elections more closely in the future (i.e. 2014) and vote against such elections should disclosure practices not improve.

Company Boards —Bundling of Proposals

For France, Germany and Spain, vote AGAINST the election or re-election of any directors if the company proposes a single slate of directors.

Company Boards —Voto di Lista (Italy)

In Italy, director elections generally take place through the *voto di lista* mechanism (similar to slate elections). Since the Italian implementation of the European Shareholder Rights Directive (effective since Nov. 1, 2010), issuers must publish the various lists 21 days in advance of the meeting.

Since shareholders only have the option to support one such list, where lists are published in sufficient time, we will evaluate on a CASE-BY-CASE basis, determining which list of nominees it considers is best suited to add value for shareholders based, as applicable, for European policies for Director Elections and for Contested Director Elections.
Those companies that are excluded from the provisions of the European Shareholder Rights Directive publish lists of nominees 10 days before the meeting. In the case where nominees are

not published in sufficient time, a vote AGAINST the director elections will be warranted before the lists of director nominees are disclosed. Once the various lists of nominees are disclosed, an alert will be issued and, if appropriate, the vote will be changed to support one particular list.

The evaluation of the different slates will be made on a Case by case basis and the slate which better represents the interests of global institutional investors and minority shareholders will be supported.

Company Boards—Committees

Vote AGAINST the (re)election of executive members of the audit or remuneration committees.
Vote AGAINST if the disclosure is too poor to determine whether an executive serves or will serve on a committee. If a company does not have an audit or a remuneration committee, we may consider that the entire board fulfills the role of a committee. In such case, we may vote AGAINST the executives, including the CEO, up for election to the board.
Carve-out: Italy, Greece, Cyprus, and Portugal are excluded from applying this policy.

Vote AGAINST the (re)election of non-independent members of the audit committee and/or the remuneration committee if their (re)election would lead to a non-independent majority on the respective committee.

Carve-out: Germany, France, Luxembourg, Italy, Greece, Cyprus, Portugal, Spain, Sweden, Norway, Finland, Denmark, and Austria are exempt from applying this policy.

These policies apply only to companies for which overall board independence is included as a factor in the analysis of board elections.
Non-core companies, companies in markets where we do not look at board independence, and companies otherwise exempt from board independence criteria are exempted from this policy.

- Markets where local corporate governance codes prescribe specific composition requirements are assessed in accordance with compliance with their local codes. More

stringent requirements are applied to those markets whose local corporate governance codes prescribe more robust composition requirements.

Composition of the Nominating Committee (Sweden/Norway/Finland)

Vote FOR proposals in Sweden, Norway, and Finland to elect or appoint a nominating committee consisting mainly of non- board members.

Vote FOR shareholder proposals calling for disclosure of the names of the proposed candidates at the meeting, as well as the inclusion of a representative of minority shareholders in the committee.

The above policy notwithstanding, vote AGAINST proposals in Sweden to elect or appoint such a committee if the company is on the MSCI-EAFE or local main index and the following conditions are met:
1. A member of the executive management would be a member of the committee;
2. More than one board member who is dependent on a major shareholder would be on the committee; or
3. The chair of the board would also be the chair of the committee.

In cases where the principles for the establishment of the nominating committee, rather than the election of the committee itself, are being voted on, vote AGAINST the adoption of the principles if any of the above conditions are met for the current committee, and there is no publicly available information indicating that this would no longer be the case for the new nominating committee.

For the UK and Ireland:

Nominating Committee:
- Listed companies are required to have a majority of and a minimum of two, independent NEDs on their Nomination Committees.

Compensation and Audit Committees:
- Where a non-independent Director sits on the Audit or Remuneration Committee, the onus is on the Company to justify the arrangements and for investors to assess this explanation. [In such cases] we may vote against that individual's re-election. It is especially important that the Chairman of the Remuneration and Audit Committees be independent and we will be particularly rigorous in applying a sanction where this is not the case.
- We would require a compelling explanation of the Board Chairman's membership of the Audit Committee. However, we recognizes that at some smaller companies, an exception will from time to time be appropriate

For Russia:

Election of Members of Audit Commission
Election of members of a company’s audit commission is usually a routine agenda item. Members of the audit commission are elected by majority voting. If the number of candidates

exceeds the number of seats on the commission, the nominees with the greatest number of votes are elected to the commission.

If the number of nominees equals the number of seats on the commission, and there is no compelling reason to support any particular candidate over any of the others, all nominees will be supported. If, however, the number of nominees exceeds the number of seats on the commission, the incumbents will be supported if there is no controversy regarding their work on the commission in the past. If the names of the nominees have not been disclosed, we recognize the non-contentious nature of the proposal and vote in favor of the item.

Company Boards—Separation of Chair and CEO

Vote AGAINST (re)election of a combined chair/CEO at core companies in European markets.

However, when the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), with the intent of separating the roles within a given time frame, considerations should be given to these exceptional circumstances. In this respect, the vote would be made on a CASE-BY-CASE basis. In order for us to consider a favorable vote for a combined chair/CEO to serve on an interim basis, the company would need to provide adequate control mechanisms on the board (such as a lead independent director, a high overall level of board independence, and a high level of independence on the board's key committees).

This policy will be applied to all core companies in European markets that propose the (re)election of a combined chair/CEO to the board, including cases where the chair/CEO is included in an election by slate.

For the UK:
Chair/CEO:
There should be clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.

The temporary combination of the roles may be justified, notably when a Chairman "bridges the gap" between the departure of a CEO and the appointment of his/her successor.

We may abstain or vote against the re-election of the Chairman in the event of the role being combined for more than one year.

Senior Independent Director:
Where no Senior Independent Director has been identified, an appropriate voting sanction, taking account of the Company's circumstances, may be to vote against the re-election of the Chairman of the Nomination Committee.

Where the individual designated as the Senior Independent Director is not deemed independent, a vote Against his/her re-election may be appropriate.

Company Boards—Election of Former CEO as Chairman of the Board

We will generally vote against the election or re-election of a former CEO as Chairman to the supervisory board or board of directors at core companies in Germany, the UK, Austria and the Netherlands.

In markets such as Germany, where the general meeting only elects the nominees and, subsequently, the new board's chairman, we will generally vote against the election or reelection of a former CEO, unless the company has publicly confirmed prior to the general meeting that he will not proceed to become chairman of the board. Considerations should be given to any of the following exceptional circumstances on a CASE-BY-CASE basis if:

- There are compelling reasons that justify the election or reelection of a former CEO as chairman; or
- The former CEO is proposed to become the board's chairman only on an interim or temporary basis; or
- The former CEO is proposed to be elected as the board's chairman for the first time after a reasonable cooling-off period.

*ISS defines a "widely held" company using the following factors:
1. Number of clients holding the security; and
2. Membership in a major index.

UK:
The succession of the CEO to Chairman is a significant issue, acceptable only on rare occasions.

We may recommend an abstention, a vote against the re-election of the Chairman of the Nomination Committee or, in exceptional circumstances, against the incoming Chairman.

Company Boards—Director Terms

For Belgium, Denmark, Finland, France, Italy, Netherlands, Norway, Sweden, and Switzerland, vote AGAINST the election or (re)election of any director when the term is not disclosed or when it exceeds four years and adequate explanation for non-compliance has not been provided.

*For Spain, g*enerally vote AGAINST the (re)election of any director (except for the CEO) who will serve for a term exceeding four years. However, in determining vote recommendations on the (re)election of directors, the following additional factors will be taken into account on a CASE-BY-CASE basis:

- Composition of the board and its committees (e.g. independence as defined by ISS criteria);
- Board functioning (attendance, evaluation);
- Company disclosure on internal rules and/or a resignation schedule to organize staggered (re)elections of the board members in order to avoid too many reappointments coming up for simultaneous review; and
- The company's overall governance practices.

Vote AGAINST article amendment proposals seeking extensions of director terms. In cases where a company's articles provide for a shorter limit, and where such a company wishes to extend a director term from three to four years, for example, vote AGAINST based on the general principle that director accountability is maximized by elections with a short period of renewal.

Company Boards—Overboarded Directors

In markets where local law or best practice governance codes address overboarding, disclosure is sufficient, and markets permit individual election of directors, we will vote AGAINST a candidate when s/he holds an excessive number of board appointments referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or the following rule:

- Executive directors are expected not to hold other executive or chairmanship positions. They may, however, hold up to two other non-executive directorships.
- Non-executive chairmen are expected not to hold other executive positions or more than one other chairmanship position. They may, however, hold up to three other non-executive directorships.
- Non-executive directors who do not hold executive or chairmanship positions may hold up to four other non-executive directorships.

An adverse vote will not be applied to a director within a company where he/she serves as CEO or chair; instead, any adverse vote will be applied to his/her additional seats on other company boards.

Board positions held in global publicly listed companies will be taken into account.
For directors standing for (re)election at French companies, take into account board appointments as censors in French publicly listed companies.

For Austria:
Executive Directors: 4 Supervisory mandates (Chairmanship counts double)

Supervisory Board Members: 8 Supervisory Board memberships (Chairmanship counts double)

Supervisory Board Members who are also Executive Directors at another listed company (not affiliated company or subsidiary) may not hold more than 4 outside directorships (Chairmanship counts double)

Company Boards— Board Structure

Vote FOR proposals to fix board size.
Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.
Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

Company Boards—One Board Seat per Director

In cases where a director holds more than one board seat and corresponding votes, manifested as one seat as a physical person plus an additional seat(s) as a representative of a legal entity, vote AGAINST the (re)election of such legal entities and vote on the physical person.

However, an exception is made if the representative of the legal entity holds the position of CEO. In such circumstances, vote on the legal entity and AGAINST the (re)election of the physical person.

Company Boards—Election of Censors (France)

We will generally recommend a vote AGAINST proposals seeking shareholder approval to elect a censor, to amend bylaws to authorize the appointment of censors, or to extend the maximum number of censors to the board.

However, we will evaluate a vote on a CASE-BY-CASE basis when the company provides assurance that the censor would serve on a short-term basis (maximum one year) with the intent to retain the nominee before his/her election as director.

Company Boards—Contested Director Elections

For contested elections of directors, e.g. the election of shareholder nominees or the dismissal of incumbent directors, will be evaluated on a case-by-case basis, determining which directors are best suited to add value for shareholders.

The analysis will generally be based on, but not limited to, the following major decision factors:

- 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;
- Evidence of management entrenchment;
- Responsiveness to shareholders;

- Whether a takeover offer has been rebuffed;
- Whether minority or majority representation is being sought.

When analyzing a contested election of directors, we will generally focus on two central questions: (1) Have the dissidents proved that board change is warranted? And (2) if so, are the dissident board nominees likely to effect positive change (i.e. maximize long-term shareholder value).

Company Boards —Cumulative Director elections (Russia)

Russian board elections are different from board elections elsewhere. Commercial law requires cumulative voting and most companies further complicate the process by offering more candidates than the size of the board allows. In these cases, shareholders may either choose specific candidates on whom to concentrate their multiple votes, or spread their votes evenly among all candidates. Shareholders are given a number of votes corresponding to the number

of board seats multiplied by number of shares they hold. There are usually more candidates than number of seats and therefore the candidate receiving the highest number of votes will be elected to the board.

Minority shareholders would thus be able to use cumulative voting to elect certain directors to the board, even at companies where management or company employees own most of the shares. This assumes that shareholders take an active role in evaluating directors and that companies disclose director information that is both timely and comprehensive – practices that have not yet taken hold among Russian companies.

Public disclosure of the names of board nominees has become quite prevalent in Russia in recent years, as companies tend to use the Internet as a tool to publish meeting materials, in addition to traditional channels. Usually, companies compile lists of nominees weeks or even months prior to the general meeting. Based on these considerations, there is no reason for shareholders to accept non-disclosure of nominee names at any Russian company. Therefore we vote AGAINST proposals to elect directors, if the names of the nominees have not been disclosed in a timely manner in advance of the meeting. This policy applies to all companies in Russia.

Company Boards— Director, Officer, and Auditor Indemnification and Liability Provisions

Vote proposals seeking indemnification and liability protection for directors and officers on a CASE-BY-CASE basis.
Vote AGAINST proposals to indemnify external auditors.

Company Boards— Discharge of Directors

The Sustainability research flags firms with significant ESG risks for our clients, using the following ESG risk indicators:

- Environment
- Human Rights & Community Impact
- Labor Rights & Supply Chain Risk
- Consumer Product Safety
- Bribery & Corruption
- Governance & Risk Oversight failures

Where we identify severe ESG risks that firms have failed to sufficiently guard against or manage, vote against the election of responsible directors, the discharge of management/board or other relevant voting items.

For Poland:
Companies must also ask shareholders to discharge the board and management for their actions in the previous year. Polish commercial law requires individual discharge of members of both supervisory and management boards, which results in a large number of separate discharge-related voting items on AGM agendas.

We generally support resolutions on discharge of supervisory and management board members, unless there is reliable information about significant and compelling controversies

that the board is not fulfilling its fiduciary duties, including but not limited to legal issues, lack of oversight or other egregious governance issues.

Compensation Guidelines

Preamble

The assessment of compensation follows the Global Principles on Executive and Director Compensation which are detailed below. These principles take into account global corporate governance best practice.
The Global Principles on Compensation underlie market-specific policies in all markets:
1. Provide shareholders with clear, comprehensive compensation disclosures;
2. Maintain appropriate pay-for-performance alignment with emphasis on long-term shareholder value;
3. Avoid arrangements that risk “pay for failure;”
4. Maintain an independent and effective compensation committee;
5. Avoid inappropriate pay to non-executive directors.

In line with European Commission Recommendation 2004/913/EC, we believe that seeking annual shareholder approval for a company's compensation policy is a positive corporate governance provision.

In applying the Five Global Principles, the European Compensation Guidelines which take into account local codes of governance, market best practice, and the Recommendations published by the European Commission. Compensation-related proposals are analyzed based on the role of the beneficiaries and has therefore divided its executive and director compensation policy into two domains:

I. Executive compensation-related proposals; and
II. Non-executive director compensation-related proposals

Compensation — Executive Compensation - Related Proposals

Management proposals seeking ratification of a company's executive compensation-related items will be evaluated on a
CASE-BY-CASE basis, and we will generally 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:

1. Provide shareholders with clear and comprehensive compensation disclosures:
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:
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:
2.1 The structure of the company's short-term incentive plan shall be appropriate.
2.1.1 The compensation policy must notably avoid guaranteed or discretionary compensation.
2.2 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.
2.2.1 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
2.2.2 For awards granted to executives, we will generally require a clear link between shareholder value and awards, and stringent performance-based elements.
2.3 The balance between short- and long-term variable compensation shall be appropriate
2.3.1 The company's executive compensation policy must notably avoid disproportionate focus on short-term variable element(s)

3. Avoid arrangements that risk “pay for failure”:
3.1 Severance pay agreements must not be in excess of (i) 24 months' pay or of (ii) any more restrictive provision pursuant to local legal requirements and/or market best practices.
3.2 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.
3.3 The board shall demonstrate good stewardship of investor's interests regarding executive compensation practices.
3.3.1 There shall be a clear link between the company's performance and variable awards.
3.3.2 There shall not be significant discrepancies between the company's performance and real executive payouts.

4. Maintain an independent and effective compensation committee:
4.1 No executives may serve on the compensation committee.
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.

In addition to the above, we will generally vote AGAINST a compensation-related proposal if such proposal is in breach of any other supplemental market-specific voting policies.

<u>For the UK:</u>
Most individual elements of remuneration policy are likely to be insufficient to trigger a voting sanction in isolation, but might warrant such a measure when coupled with other deviations from good practice.
Just as the Remuneration Committee should adopt a holistic approach when designed and assessing packages, so investors should evaluate remuneration arrangements in their entirety.

Remuneration practices which would likely cause concern and may trigger a voting sanction are listed below. This checklist is not exhaustive, particularly as good practice in this area continues to evolve.

Fixed Remuneration
- Increases in base salary in excess of inflation, unsupported by a satisfactory explanation
- The use of inappropriate benchmarks when setting base pay

Bonuses
- Guaranteed, pensionable or discretionary annual bonus
- Insufficient disclosure on the scope of annual bonuses and performance conditions (retrospective disclosure is acceptable)
- The absence of individual participation limits for annual bonuses (and long-term schemes)
- Transaction-related bonuses
- Alignment with profits -- thus if profits fall then bonuses also fall as a corollary

Share Plans
- Grants of 'matching shares' without performance conditions
- Long-term incentives featuring a performance period less than three years
- Insufficient disclosure on performance conditions attached to long-term schemes
- A disproportionate amount of a long-term award vesting on median or on-target performance
- Any provision for re-testing of performance conditions
- Grants of options at a discount to market value
- Breaching of dilution guidelines
- Provisions for early vesting of share awards where pro-rating (for both time and performance) is not applied
- Reduction in performance targets without a reduction in the level of award

Contracts
- Ex-gratia and other non-contractual payments
- Change in control provisions triggering earlier and/or larger payments and rewards
- Extra-contractual payments on termination of employment
- Notice periods in excess of one year
- Contractual termination payments in excess of base pay and benefits, unsupported by a satisfactory explanation
- The absence of services contracts of Executive Directors

General
- Unwarranted use of discretion.

Compensation — Equity-Based Compensation Guidelines

We will generally vote FOR equity based compensation proposals for employees if the plan(s) are in line with long-term shareholder interests and align the award with shareholder value. This assessment includes, but is not limited to, the following factors:

The volume of awards transferred to participants must not be excessive: the potential volume of fully diluted issued share capital from equity-based compensation plans must not exceed the following guidelines:

- The shares reserved for all share plans may not exceed 5 percent of a company's issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case we allow dilution of between 5 and 10 percent: in this case, we will need to have performance conditions attached to the plans which should be acceptable under our criteria (challenging criteria);
- The plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant;
- The awards must be granted at market price. Discounts, if any, must be mitigated by performance criteria or other features that justify such discount.

If applicable, performance standards must be fully disclosed, quantified, and long-term, with relative performance measures preferred.

Market-specific provisions for France:

- The potential volume from equity-based compensation plans must not exceed 10 percent of fully diluted issued share capital.
- In addition, for companies that refer to the AFEP-MEDEF Code, all awards (including stock options and warrants) to executives shall be conditional upon challenging performance criteria or premium pricing. For companies referring to the Middlenext Code (or not referring to any code) at least part of the awards to executives shall be conditional upon performance criteria or premium regardless of the companies remuneration practices.
- In both cases, free shares shall remain subject to performance criteria for all beneficiaries.

Finally, for large- and mid-cap companies, the company's average three-year unadjusted burn rate (or, if lower, on the maximum volume per year implied by the proposal made at the general meeting) must not exceed the mean plus one standard deviation of its sector but no more than one percentage point from the prior year sector cap.

Compensation — Compensation-Related Voting Sanctions

Should a company be deemed to have egregious remuneration practices (as a result of one or a combination of several factors highlighted above) and has not followed market practice by submitting a resolution on executive compensation, vote AGAINST other "appropriate" resolutions as a mark of discontent against such practices.
An adverse vote could be applied to any of the following on a case-by case basis:

1. The (re)election of members of the remuneration committee;
2. The discharge of directors; or
3. The annual report and accounts.

Failure to propose a resolution on executive compensation to shareholders in a market where this is routine practice may, by itself, lead to one of the above adverse vote recommendations.

Compensation — Non-Executive Director Compensation

Avoid inappropriate pay to non-executive directors:
We will generally vote FOR proposals to award cash fees to non-executive directors, and will otherwise:

Vote AGAINST where:

- Documents (including general meeting documents, annual report) provided prior to the general meeting do not mention fees paid to non-executive directors.
- Proposed amounts are excessive relative to other companies in the country or industry.
- The company intends to increase the fees excessively in comparison with market/sector practices, without stating compelling reasons that justify the increase.
- Proposals provide for the granting of stock options, or similarly structured equity-based compensation, to non-executive directors.
- Proposals introduce retirement benefits for non-executive directors.
- And evaluate on a vote on a CASE-BY-CASE basis where:
    - Proposals include both cash and share-based components to non-executive directors.
    - Proposals bundle compensation for both non-executive and executive directors into a single resolution.

Share Capital

Share Capital — General Issuances

Vote FOR issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital (33 percent for the UK, 50 percent for France).

Vote FOR issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital (five percent for the UK).

For France, vote FOR general issuance requests with preemptive rights, or without preemptive rights but with a binding “priority right,” for a maximum of 50 percent over currently issued capital.

We may vote for issuance requests only if the share issuance authorities’ periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the UK and Netherlands).

For the UK:
Issuances with pre-emptive rights
The duration of the authority should not exceed one year (15 months).
The normally accepted maximum limit for this authority is two-thirds of the Company's issued share capital at the time the authority is approved, divided into the following two sections:
(i) one-third of the Company's issued share capital at the time the authority is approved. If issued to this maximum, the new shares would be equivalent to 25% of the enlarged issued share capital. Under the Principles of the Pre-Emption Group and frequently also under companies' own Articles, these shares would normally have to be first offered to existing shareholders; and
(ii) an additional one-third of the Company's issued share capital at the time the authority is approved pursuant to a rights issue. If issued to this maximum, the aggregate total of new shares would be equivalent to 40% of the enlarged issued share capital.

Issuances without pre-emptive rights

The duration of the authority should not exceed one year (15 months).

The maximum allowed under the Pre-Emption Principles is equivalent to 5% of the issued share capital at the time of the Authority. A multi-year limit also applies, typically a maximum of 7.5% of shares to be issued over three years without the application of pre-emption rights. The Principles do support flexibility in their application and, while the onus is on companies to make the case, we will review that case on its merits and decide on each individually, using the usual investment criteria.

Share Capital — Specific Issuances

Vote on a CASE-BY-CASE basis on all requests, with or without preemptive rights.

Share Capital — Reduction of Capital

Vote FOR proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a CASE-BY-CASE basis.

Share Capital — Capital Structures

Vote FOR resolutions that seek to maintain or convert to a one-share, one-vote capital structure.

Vote AGAINST requests for the creation or continuation of dual-class capital structures or the creation of new or additional super voting shares.

Share Capital — Preferred Stock

Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote FOR the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests.

Vote AGAINST the creation of a new class of preference shares that would carry superior voting rights to the common shares.
Vote AGAINST the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.

Share Capital — Debt Issuance Requests

Vote non-convertible debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.

Vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets guidelines on equity issuance requests.

Vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Share Capital — Pledging of Assets for Debt

Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.

Share Capital — Increase in Borrowing Powers

Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.

Share Capital — Share Repurchase Plans

Generally vote FOR market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10 percent of outstanding issued share capital (15 percent in UK/Ireland);
- A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
- A duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation or code of governance best practice.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. We may support such share repurchase authorities under special circumstances, which are required to be publicly disclosed by the company, provided that, on balance, the proposal is in shareholders' interests. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
- A duration of no more than 18 months.

In markets where it is normal practice not to provide a repurchase limit, we will evaluate the proposal based on the company's historical practice. However, we expect companies to disclose such limits and, in the future, may vote against companies that fail to do so. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued share capital in treasury (“on the shelf”); and
- A duration of no more than 18 months.

In addition, we will vote AGAINST any proposal where:

- The repurchase can be used for takeover defenses;

- There is clear evidence of abuse;
- There is no safeguard against selective buybacks; and/or
- Pricing provisions and safeguards are deemed to be unreasonable in light of market practice.

For Italy and Germany, vote FOR share-repurchase plans and share reissuance plans that would use call and put options if the following criteria are met:

- The duration of the authorization is limited in time to no more than 18 months;
- The total number of shares covered by the authorization is disclosed;
- The number of shares that would be purchased with call options and/or sold with put options is limited to a maximum of five percent of currently outstanding capital (or half of the total amounts allowed by law in Italy and Germany);
- A financial institution, with experience conducting sophisticated transactions, is indicated as the party responsible for the trading; and
- The company has a clean track record regarding repurchases.

UK:
Unless a tender offer is made to all holders of the class, purchases by a listed company of less than 15% of any class of its equity shares (excluding treasury shares) pursuant to a general authority granted by shareholders, may only be made if the price to be paid is not more than the higher of:

5% above the average market value of the company's equity shares for the 5 business days prior to the day the purchase is made.

If the proposed issue exceeds the guidelines, we may consider voting against the proposal.

Share Capital—Reissuance of Repurchased Shares

Vote FOR requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Share Capital—Capitalization of Reserves for Bonus Issues/Increase in Par Value

Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.

Reorganizations/Restructurings

Vote reorganizations and restructurings on a CASE-BY-CASE basis.

Other Items

Mergers and Acquisitions

Vote CASE-BY-CASE on mergers and acquisitions taking into account the following:

For every M&A analysis, we review publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- Valuation - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, we place emphasis on the offer premium, market reaction, and strategic rationale.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction will cause us to scrutinize a deal more closely.

- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? We will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- Governance - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

Vote AGAINST if the companies do not provide sufficient information upon request to make an informed voting decision.

Mandatory Takeover Bid Waivers

Vote proposals to waive mandatory takeover bid requirements on a CASE-BY-CASE basis.

Reincorporation Proposals

Vote reincorporation proposals on a CASE-BY-CASE basis.

Expansion of Business Activities

Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

Related-Party Transactions

In evaluating resolutions that seek shareholder approval on related party transactions (RPTs), vote on a case-by-case basis, considering factors including, but not limited to, the following:

- The parties on either side of the transaction;
- The nature of the asset to be transferred/service to be provided;
- The pricing of the transaction (and any associated professional valuation);
- The views of independent directors (where provided);
- The views of an independent financial adviser (where appointed);

- Whether any entities party to the transaction (including advisers) is conflicted; and
- The stated rationale for the transaction, including discussions of timing.

If there is a transaction that is deemed problematic and that was not put to a shareholder vote, we may vote against the election of the director involved in the related-party transaction or the full board.

Antitakeover Mechanisms

Generally vote AGAINST all antitakeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

For Russia:
Thresholds for transactions to be treated as related party transactions are comparably low in Russia. However, in some cases conflicts of interests can be identified.
Vote against the approval of related-party transactions unless:

- Key details such as parties involved, basic conditions, the objective, and the value of the transaction have been disclosed, and
- There is no evidence of past abuse with respect to execution of related-party transactions at the company

Authority to Reduce Minimum Notice Period for Calling a Meeting

A recommendation to approve the “enabling” authority proposal would be on the basis that we would generally expect companies to call EGMs/GMs using a notice period of less than 21 days only in limited circumstances where a shorter notice period will be to the advantage of shareholders as a whole, for example, to keep a period of uncertainty about the future of the company to a minimum. This is particularly true of capital raising proposals or other price sensitive transactions. By definition, AGMs, being regular meetings of the company, should not merit a notice period of less than 21 days.

In a market where local legislation permits an EGM/GM to be called at no less than 14-day's notice, we will generally vote in favor of a resolution to approve the enabling authority if the company discloses that the shorter notice period of between 20 and 14 days would not be used as a matter of routine for such meetings, but only when the flexibility is merited by the business of the meeting. Where the proposal(s) at a given EGM/GM is (are) not time-sensitive, such as the approval of incentive plans, we would not expect a company to invoke the shorter notice notwithstanding any prior approval of the enabling authority proposal by shareholders.

In evaluating an enabling authority proposal, we would first require that the company make a clear disclosure of its compliance with any hurdle conditions for the authority imposed by applicable law, such as the provision of an electronic voting facility for shareholders. In addition, with the exception of the first AGM at which approval of the enabling authority is sought following implementation of the European Shareholder Rights Directive, when evaluating an enabling authority proposal we will take into consideration the company's use (if any) of shorter notice periods in the preceding year to ensure that such shorter notice periods were invoked solely in connection with genuinely time-sensitive matters. Where the company has not limited

its use of the shorter notice periods to such time sensitive-matters and fails to provide a clear explanation for this, we will consider a vote AGAINST the enabling authority for the coming year.

Shareholder Proposals

The **sustainability research** evaluates shareholder proposals carefully because any changes can dramatically affect shareholder value. Support for such proposals must be measured against the likely impact that approval would have on the company's operations. If a measure would improve disclosure of company activities in nonstrategic areas and at minimal costs, support the proposal is warranted. If a proposal seeks to improve the company's corporate governance structure, such as adopting board committees, eliminating staggered board structures, or canceling antitakeover instruments, approval may also be warranted. However, if acceptance of a proposal is likely to lead to a disruption in board or management operations and cause the company to incur significant costs without clear benefit, the Sustainability research opposes the proposal.

Social/Environmental Shareholder Proposals

Socially responsible shareholder resolutions receive a great deal more attention from institutional shareholders today than in the past. While focusing on value enhancement through risk mitigation and exposure to new sustainability-related opportunities, these resolutions also seek standardized reporting on ESG issues, request information regarding an issuer's adoption of, or adherence to, relevant norms, standards, codes of conduct or universally recognized international initiatives to promote disclosure and transparency.

The Sustainability research generally supports standards-based ESG shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large. In particular, the focus is on resolutions seeking greater transparency and/or adherence to internationally recognized standards and principles. In determining votes on standardized ESG reporting shareholder proposals, the following factors will be evaluated:

- Whether the proposal itself is well framed and reasonable;
- Whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
- The percentage of sales, assets and earnings affected;
- Whether the company has already responded in some appropriate manner to the request embodied in a proposal;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- What other companies have done in response to the issue;
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

Appendix I: Classification of Directors
2012 ISS Classification of Directors for European Companies

Executive Director

- Employee or executive of the company;
- 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.

Non-Independent Non-Executive Director (NED)

- 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% 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% individually, but collectively own more than 10%), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- **Government representative;**
- Currently provides (or a relative[1] provides) professional services[2] 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]);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative[1] of a current employee of the company or its affiliates;
- Relative[1] of a former executive of the company or its affiliates;
- 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 **(5 year cooling off period);**
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered.[4]
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance.

Independent NED

- No material[5] connection, either directly or indirectly, to the company (other than a board seat) or the dissenting significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as

“employee representative” but considered a non-independent NED).

Footnotes:

*[1] “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.

[2] 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.

[3] 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.

[4] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom and Ireland, directors with a tenure exceeding nine years will be considered non-independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.

[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.

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