

# Voting Policy

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## 1. Operational Items

### 1.1 Financial Results/Director and Auditor Reports

Generally, vote for approval of financial statements and statutory reports, unless:

- There are concerns about the accounts presented or audit procedures used; or
- There has been an accounting fraud or material misstatement during the year.

### 1.2 Approval of Non-Financial Information Statement/Report

Generally vote for the approval of mandatory non-financial information statement/report, unless the independent assurance services provider has raised material concerns about the information presented.

### 1.3 Appointment of Auditors and Auditor Fees

Vote FOR the re-election of auditors and proposals to re-elect the auditors and authorize the board to fix auditor fees, unless:

- There are serious concerns about the effectiveness of the auditors;
- The auditors are being changed without explanation;
- Non-audit-related fees are in excess of the annual audit-related fees
- The auditors have been in place for more than 10 years, unless the company tenders the audit position or if the company has contracted multiple audit firms which publish a joint audit report. This criterion will be applied on a best-effort basis, based on the information collected and disclosed by ISS.
- The lead audit partner(s) has been linked with a significant auditing controversy.  
However: Refer if specific reasons are given in report for high level of non-audit fees (e.g. IPO, merger etc.)

Please note: if approval of audit remuneration and ratification of auditors is split into two resolutions – target audit remuneration on audit remuneration issues.

Refer if there are reasons to doubt the integrity/reliability of the auditors in question e.g. due to previous scandals

Vote AGAINST the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

### 1.4 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.

### 1.5 Allocation of Income

Generally vote for approval of dividends, unless the payout is excessive given the company's financial position.

### 1.6 Stock (Scrip) Dividend Alternative

Vote FOR most stock (scrip) stock dividend proposals.

Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

### 1.7 Amendments to Articles of Association

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

Vote AGAINST amendments to the articles of association in case the proposed amendments decrease shareholder rights unless the company is following a legal requirement.

**1.8 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.

**1.9 Amend Quorum Requirements**

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

**1.10 Transact Other Business**

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

## 2. Board of Directors

For board elections at UK, Irish, and UK Tax Havens<sup>1</sup> issuers, the following guidelines should be read in conjunction with the NAPF guidelines on election of directors. In addition, PME is in favour of board diversity: it is PME's view that the board should promote diversity of backgrounds, experiences, and opinions. Note that PME will base its definition of non-independent director on the ISS/Taft-Hartley guidance.

### 2.1 Election of CEO

A CEO up for (re) election will not be opposed due to lack of independence on the board. He will only be opposed for sitting on a committee and for serving as combined Chair/CEO. Exceptions for special cases may be granted.

### 2.2 Election of executive directors at Asia-Pacific markets (Hong-Kong, Singapore, China, Malaysia, Thailand, Taiwan, Philippines and Indonesia)

An executive other than the CEO up for (re) election will not be opposed due to lack of independence on the board and due to the lack of a formally established board committee. He will only be opposed for sitting on a committee. Exceptions for special cases may be granted.

### 2.3 Election of directors

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

- Adequate disclosure, including at least the names of nominees, has not been provided in a timely manner;
- There are clear concerns about the past performance of the company or the board, including:
  - o Questionable finances or restatements
  - o Questionable transactions with conflicts of interest
- The board fails to meet minimum corporate governance standards;
- There is a lack of independence on the board and/or its key committees;
- There are any records of abuses against minority shareholder interests;
- The board takes actions that are not in shareholders' best interests (excessive executive compensation, adopting antitakeover devices, failure to respond to shareholder concerns/wishes, or demonstrating a "lack of duty or care"); or
- The board has been insensitive to labor interests, human rights, supplier codes of conduct, or has engaged in other corporate activities that affect the reputation of the company in the global market.

Votes AGAINST/WITHHOLD votes on individual nominees, key committee members or the entire board can be triggered by one or more of the following concerns:

- Lack of a majority independent board (This criterion will be applied to all developed markets, namely the US);
  - o Please note: Employee representatives will be excluded from board and committee independence calculation;
- Attendance of director nominees at board meetings of less than 75 percent without valid reason or explanation;
- Lack of full independence on key board committees (i.e. audit, compensation, and nominating committees);
- Failure to establish any key board committees (i.e. audit, compensation, or nominating) including where the board serves in the capacity of a key committee, and where there is insufficient information to determine whether key committees exist, who the committee members are, or whether the committee members are independent;
- Presence of a non-independent board chairman or combined Chairman/CEO;
- The names of nominees are unavailable or not provided in a timely manner (in markets where this information is routinely available);
- Tenure exceeds a period of 12 years;
- Egregious actions including:
  - o Material failures of governance, stewardship, or fiduciary responsibilities at the company
  - o Failure to replace management as appropriate

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<sup>1</sup> Jersey, Guernsey, and the Isle of Man.

- o 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.

For bundled director elections, vote AGAINST the entire slate if any of the concerns above apply to a particular nominee.

## **2.4 Election of employee shareholder representatives at French companies**

PME will apply the following approach:

- If only one employee shareholder representative is up for election, this will be treated as a “normal” election (thus under PME’s guidelines on directors elections),
- If several employee shareholder representatives are running for the same seat and shareholders need to choose one, then PME will follow the ISS approach, provided that after the election of the employee shareholder representative, the board is still compliant with PME’s independence requirements, if not a vote AGAINST all nominees will be triggered.

## **2.5 Board diversity**

PME will vote against the election of the Chairman of the nomination committee (except new nominees), if there are no female directors on the board and, at the same time, none of the new candidates proposed is female. This guideline will also be applied in cases where the election of directors is bundled under a single resolution (and the chairman of the nomination committee is one of the nominees).

## **2.6 Chairman of Remuneration committee and persistent poor remuneration practices**

In 2020, PME will vote against the election of the Chairman of the remuneration committee (except new nominees), if the 2020 remuneration report (or policy) resolution warrants a vote against according to the PME guidelines and, at the same time, the latest remuneration report (or policy) resolution voted also warranted a vote against according to the PME guidelines.

This guideline will also be applied in case of one single bundled resolution if the Chairman of the remuneration committee is among the nominees. In those countries (such as Switzerland) where the same director is submitted to shareholder vote twice at the same meeting, once in his capacity of director and once in his capacity of member of the remuneration committee, PME will vote AGAINST the Chairman of the remuneration committee only in his/her capacity of chairman of the remuneration committee and not in his/her capacity as director.

## **2.7 Over boarding**

In markets where local law or best practice governance codes address over boarding, disclosure is sufficient and markets permit the individual election of directors, a vote Against directors serving on an excessive number of other boards is warranted, as this could compromise their primary duties. Accordingly, following guidelines will be applied:

In markets where the number of board appointments is routinely available, an excessive number of boards is defined as:

- For non-executive directors of the respective company, more than five total non-executive directorships;
- For executive directors of the respective company, more than two total non-executive directorships;
- For board chairs of the respective company, more than three total non-executive directorships;

Please note that if ISS applies a stricter threshold on overboarding, PME will follow the ISS approach.

Market practice: Japan – in line with Taft-Hartley

## **2.8 Cumulative Voting (UAE, Saudi Arabia, Egypt, Jordan, Qatar)**

Under a cumulative voting system, each share represents a number of votes equal to the size of the board that will be elected. These votes may be apportioned equally among the candidates or, if a shareholder wishes to exclude some nominees, among the desired candidates.

For MEA markets, when directors are elected through a cumulative voting system, or when the number of nominees exceeds the number of board vacancies, vote case-by-case on directors, taking into consideration additional factors to identify the nominees best suited to add value for shareholders.

Generally vote to abstain from all candidates if the disclosure provided by the company is not sufficient to allow the assessment of independence and the support of all proposed candidates on equal terms.

If the disclosure is sufficient to allow an assessment of the independence of proposed candidates, generally vote in favor of the following types of candidates:

- Candidates who can be identified as representatives of minority shareholders of the company, or independent candidates.
- Candidates whose professional background may have the following benefits:
  - o Increasing the diversity of incumbent directors' professional profiles and skills (thanks to their financial expertise, international experience, executive positions/directorships at other listed companies, or other relevant factors).
  - o Bringing to the current board of director's relevant experience in areas linked to the company's business, evidenced by current or past board memberships or management functions at other companies.
- Incumbent board members and candidates explicitly supported by the company's management.

## **2.9 Discharge of Directors**

Vote proposals seeking the discharge of the board and management on a CASE-BY-CASE basis, evaluating:

- Serious questions about actions of the board or management for the year in question; or
- Legal action is being taken against the board by other shareholders.
- Fines for illegal behaviour such as price fixing
- Lapses in compliance and/or oversight, such as accounting restatements
- Egregious governance practices

Vote AGAINST proposals to remove approval of discharge of board and management from the agenda.

## **2.10 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; taking into account:

- Extent of protection
- Whether the director/employee was found to have acted in good faith and in a manner that he/she reasonably believed was in the best interests of the company.

Vote AGAINST proposals to indemnify auditors.

## **2.11 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.



## 3 Capital Structure

### 3.1 Share Issuance Requests

Vote for issuance authorities with pre-emptive rights to a maximum of 50 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

Vote for issuance authorities without pre-emptive rights to a maximum of 10 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed (or implied by the application of a legal maximum duration) and in line with market-specific practices and/or recommended guidelines (e.g. issuance periods limited to 18 months for the Netherlands).

For French companies:

- 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.
- Generally vote for general authorities to issue shares without preemptive rights up to a maximum of 10 percent of share capital. When companies are listed on a regulated market, the maximum discount on share issuance price proposed in the resolution must, in addition, comply with the legal discount for a vote for to be warranted.

Private placements in France (M0323): AFG approach

AFG (French asset manager association) is "generally not in favour of authorisations of capital increases through private placement except in specific situations duly justified by the issuer"

### 3.2 Specific Issuances

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

#### 3.3 Increases in Authorized Capital

Vote FOR non-specific proposals to increase authorized capital up to 50 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote AGAINST specific proposals to increase authorized capital whereas the specific purpose of the increase (such as a share-based acquisition or merger) does not meet the PME's guidelines for the purpose being proposed.

Vote AGAINST proposals to adopt unlimited capital authorizations.

### 3.4 Capital Structures

Vote FOR management 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.

### 3.5 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 PME's 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.

### **3.6 Debt Issuance Requests**

Vote non-convertible debt issuance requests on a case-by-case basis, with or without pre-emptive 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 PME's 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.

### **3.7 Pledging of Assets for Debt**

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

### **3.8 Increase in Borrowing Powers**

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

### **3.9 Share Repurchase Program**

PME will generally support market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10 percent of the total number of issued shares at the time of the AGM proposal;
- A holding limit of up to 10 percent of a company's total number of issued shares capital in treasury ("on the shelf"); and
- Duration of no more than 18 months.
- The repurchase price must not be higher than 110 percent of the market price of the share; the market price being the average of the highest price on each of the five days of trading prior to the date of acquisition. If the management board requests authorization for a higher repurchase price, a clear explanation must be provided for this.

Authorities to repurchase shares in excess of the 10 percent repurchase limit will be assessed on a case-by-case basis. PME 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 contributes to the long-term value creation of the company. In such cases, the authority must comply with the following criteria:

- A holding limit of up to 10 percent of a company's issued shares in treasury ("on the shelf").

In markets where it is normal practice not to provide a repurchase limit, ISS will evaluate the proposal based on the company's historical practice. However, PME expects 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 shares in treasury ("on the shelf"); and
- Duration of no more than 18 months.

In addition, PME 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.

For Singapore, generally vote for resolutions authorizing the company to repurchase its own shares, unless:

- the premium over the average trading price of the shares as implied by the price limit for on-market repurchases exceeds 5 percent; or

- the premium over the average trading price of the shares as implied by the price limit for off-market repurchases exceeds 20 percent.

### **3.10 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.

### **3.11 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.

### **3.12 Threshold for Holdings Disclosure**

Evaluate disclosure thresholds on a case-by-case basis.

### **3.13 Stock Splits**

Vote FOR stock splits on outstanding shares.

## 4 Other Items

### 4.1 Reorganizations/Restructurings

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

### 4.2 Mergers and Acquisitions

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

For every M&A analysis, PME reviews 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:

PME 'leading principles'

- 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, PME places 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 PME to scrutinize a deal more closely.
- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Does the deal contribute to the long-term value creation of the company taking into account the interests of the stakeholders?
- Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favourable 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? PME 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.

Vote FOR the debt restructuring if it is expected that the company will file for bankruptcy if the transaction is not approved.

### 4.3 Proxy Fights

Vote proxy fights on a CASE-BY-CASE basis.

### 4.4 Mandatory Takeover Bid Waivers

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

### 4.5 Reincorporation Proposals

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

### 4.6 Related-Party Transactions

Vote case-by-case on related party transactions after 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;
- Whether any entities party to the transaction (including advisers) are conflicted;
- The views of an independent financial adviser, where appointed; and
- The stated rationale for the transaction, including discussions of timing.

Generally vote against on perpetual arrangements where the transactions will not be subjected to further shareholder review going forward.

For proposals on royalty payments, vote on a case-by-case basis based on disclosures provided.

#### **4.7 Antitakeover Mechanisms**

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, taking into account antitakeover mechanisms practiced by the company's peer group.

Antitakeover mechanisms may include the following: amending bylaws without shareholder consent; poison pills; restricting shareholder ability to act by written consent; restricting shareholder ability to call special meetings; supermajority voting requirements.

#### **4.8 Indicate Personal Interest in Proposed Agenda Item**

PME will vote against resolutions indicating personal interest.

## 5 Remuneration

### 5.1 Introduction

Remuneration is an important corporate governance issue because the way it is structured has an impact on the long-term performance of a company. It also sets out the values of a company and abuses or perceived abuses pose reputation risks. Companies need to be able to attract, retain high caliber individuals and motivate executives. However, adequate levels/structure of remuneration packages should be set up to prevent unnecessary risk-taking.

A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

### 5.2 Policy

Vote on remuneration on a CASE-BY-CASE basis taking into account local market and disclosure practices. The assessment of compensation should follow our general principles on executive remuneration, which are detailed below. These principles are supported by recommended guidelines from the EU Commission and ICGN guidelines.

1. Maintain appropriate pay-for-performance alignment with emphasis on long-term value creation of the company taking into account the interests of the stakeholders;
2. Avoid arrangements that risk "pay for failure";
3. The remuneration of an executive should be structured in a transparent, clear, and comprehensible manner and in such a way as to strike a balance between fixed and variable components of remuneration, and, within the variable components, between the achievement of short-term and long-term objectives. (PME may not support remuneration proposals not comprising a balanced mix of these components. In case a company does not include short term pay in the total package, this is not considered as a problem.)
4. Maintain an independent and effective compensation committee;
5. Provide shareholders with clear, comprehensive compensation disclosures; and
6. Avoid inappropriate pay to non-executive directors.

### 5.3 Remuneration Policy: Content

In applying these principles, we have formulated remuneration guidelines which take into account recommended best practice. The guidelines provide a clear framework of compensation best practices in keeping with fast-evolving market-specific best practice recommendations for policies and packages that are becoming more innovative and robust. The guidelines will also take account of local market best practices and disclosure standards.

In addition to the ISS specific policies on executive remuneration, our criteria for a good remuneration policy are:

- the remuneration policy is aligned with the long-term strategy of the company and the corresponding goals;
- for performance based incentives, the vesting period should at least be three years;
- short- and long-term incentives should be tied to performance criteria. For long-term incentives, these criteria should be measurable and challenging<sup>2</sup>;
- the variable components should be maximized to a certain percentage of base salary;
- for financial companies, the variable component cannot exceed 100% of base salary.
- The short term component of the CEO pay should not exceed 1/3 of the total remuneration package;
- the CEO total remuneration package does not exceed the median of a peer group plus 10%;
- in case long-term incentives are tied to the performance of a peer group, vesting cannot take place below median performance;

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<sup>2</sup> To be applied especially in the Dutch market: PME is not in favor of matching share plans where the shares to be matched are not subject to additional performance criteria.

- in case a peer group is used, the remuneration report should disclose (1) the composition of the peer group, and (2) the reasons of choosing the peer group;
- the remuneration report should describe the targets for performance, and how these targets have been met ex-post;
- in case a remuneration advisor has been used in establishing the remuneration policy, the name of the advisor should be disclosed;
- change of control provisions should be in line with good market practice;
- severance payments should be in line with recommended market practice; in case the market has no recommendations regarding severance practices, the severance payment should not exceed one year salary. However, PME will apply a 2.99 limit for the US; and
- the remuneration policy should always include a claw-back provision whether there is a best practice or not.
- “high concern”: PME will vote against the resolution to approve the remuneration report (say-on-pay) if an Overall HIGH level of concern has been identified in the Initial Quantitative Screen of the ISS Pay-for-Performance module.

In addition, in 2019, PME will vote against the election of the Chairman of the remuneration committee (except new nominees), if the 2019 remuneration report (or policy) resolution warrants a vote against according to the PME guidelines and, at the same time, the latest remuneration report (or policy) resolution voted also warranted a vote against according to the PME guidelines. This guideline will also be applied in case of one single bundled resolution if the Chairman of the remuneration committee is among the nominees.

In those countries (such as Switzerland) where the same director is submitted to shareholder vote twice at the same meeting, once in his capacity of director and once in his capacity of member of the remuneration committee, PME will vote AGAINST the Chairman of the remuneration committee both in his/her capacity of chairman of the remuneration committee and in his/her capacity as director.

PME will generally vote AGAINST a company’s compensation related proposal if that policy is not in line with market best practices and does not properly reflect one or a combination of several of those criteria.

#### **5.4 Remuneration Policy: Procedure**

For the establishment of the remuneration policies and practices, the following process should be taken into account:

- the supervisory board (non-executive board) is responsible for the drafting of a remuneration policy for the management board (executive board), as well as for the implementation and the results of this policy;
- the remuneration policy for the management board and amendments to this are adopted by the general meeting. Schemes in the form of shares or rights to subscribe for shares and amendments to such schemes are submitted separately to the general meeting for its approval;
- the supervisory board renders account in the remuneration report for the implementation and the results of the remuneration policy for the management board. The remuneration report shows how the actual payments derive from the remuneration policy adopted, so as to enable the general meeting to monitor the implementation of this policy;
- companies are recommended to put the remuneration report to a vote as a separate item on the agenda at the general meeting. If the supervisory board does not put the remuneration report to a vote at the general meeting, shareholders are unable to express their opinion directly on the implementation of the remuneration policy by the supervisory board. In that event, shareholders may take the remuneration report into consideration when deciding on their voting behaviour for other items on the agenda, such as giving discharge to the supervisory board and the possible (re) appointment of individual supervisory directors; and
- the supervisory board assesses annually, partly on the basis of the results, whether the remuneration policy for the management board is still appropriate for the company. The remuneration policy for the management board is comprehensively evaluated at least once every four years and the general meeting adopts continuation of the existing policy or modifications to this policy.

#### **5.5 Employee Stock Purchase Plans**

Generally vote for employee stock purchase plans if the number of shares allocated to the plan is 10 percent or less of the company’s issued share capital.

## **5.6 Advisory Vote on Say on Pay Frequency**

On the advisory vote on Say on Pay Frequency, PME will be voting for the annual vote.

## **5.7 Non-Executive Director Compensation**

The following guidelines will be applied to all markets based on the available information.

- Vote FOR proposals to award cash fees to non-executive directors unless the amounts are excessive relative to other companies in the country or industry.
- Generally vote AGAINST non-executive director compensation proposals that include share based; or performance based components. Please note: PME is concerned with performance-based remuneration e.g. performance shares/options etc. If the company remunerated its non-executive directors by means of shares instead of cash, or a combination of cash/shares PME will vote in favour.
- Vote proposals that bundle compensation for both non-executive and executive directors into a single resolution on a CASE-BY-CASE basis.
- Vote AGAINST proposals to introduce retirement benefits for non-executive directors.



## 6 Shareholder Proposals

Vote shareholder proposals in line with the SRI policy.

Generally vote for social and environmental shareholder proposals that promote good corporate citizens while enhancing long-term shareholder and stakeholder value. Vote for disclosure reports that seek additional information particularly when it appears companies have not adequately addressed shareholders' social, workforce, and environmental concerns. In determining vote recommendations on shareholder social, workforce, and environmental proposals, Social Advisory Services will analyze the following factors:

- 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;
- Whether the company's analysis and voting recommendation to shareholders is persuasive;
- The degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
- Whether the subject of the proposal is best left to the discretion of the board;
- Whether the issues presented in the proposal are best dealt with through legislation, government regulation, or company-specific action;
- The company's approach compared with its peers or any industry standard practices for addressing the issue(s) raised by the proposal;
- Whether the company has already responded in an appropriate or sufficient manner to the issue(s) raised in 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 sufficient information is publicly available to shareholders and whether it would be unduly burdensome for the company to compile and avail the requested information to shareholders in a more comprehensive or amalgamated fashion;
- Whether implementation of the proposal would achieve the objectives sought in the proposal.

In general, Social Advisory Services supports proposals that request the company to furnish information helpful to shareholders in evaluating the company's operations. In order to be able to intelligently monitor their investments shareholders often need information best provided by the company in which they have invested. Requests to report such information will merit support. Requests to establish special committees of the board to address broad corporate policy and provide forums for ongoing dialogue on issues including, but not limited to shareholder relations, the environment, human rights, occupational health and safety, and executive compensation, will generally be supported, particularly when they appear to offer a potentially effective method for enhancing shareholder value. We will closely evaluate proposals that ask the company to cease certain actions that the proponent believes are harmful to society or some segment of society with special attention to the company's legal and ethical obligations, its ability to remain profitable, and potential negative publicity if the company fails to honor the request. Social Advisory Services supports shareholder proposals that improve the company's public image, and reduce exposure to liabilities.

Please note: include vote rationale both when voting AGAINST or in line with management.

Vote AGAINST proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit, unless the company faces a risk of non-compliance with international treaties and/or established market and/or industry standards.

PME requires petitioners to pass an ownership threshold of 5 percent to call special meetings.

## Appendix: PME Classification of Directors

### 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<sup>[5]</sup> 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<sup>[1]</sup> provides) professional services<sup>[2]</sup> 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<sup>[3]</sup>);
- Any director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- Relative<sup>[1]</sup> of a current employee of the company or its affiliates;
- Relative<sup>[1]</sup> 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.<sup>[4]</sup>
- Any additional relationship or principle considered to compromise independence under local corporate best practice guidance.

### Independent NED

- No material<sup>[5]</sup> 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] If the company makes or receives annual payments exceeding the greater of \$200,000 or 5 percent of the recipient's gross revenues (the recipient is the party receiving the financial proceeds from the transaction). For Central and Eastern European countries: 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 PME's 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.

