

Proxy Voting Principles 2019

The proxy voting principles are aligned with the ESG policy including prioritized engagement themes with pension fund UWV's (hereafter: UWV) investee companies. UWV looks at a range of relevant Environmental, Social and Governance issues in its voting approach, also those relating to labor and workers' rights. UWV has signed on to the IMVB Pension Covenant, which:

- focuses on avoiding harm and remediation in case of damage;
- highlights the OECD due diligence approach;
- references the work of the UN Guiding Principles on Business and Human Rights, and;
- entails an overall commitment to long-term value creation.

UWV aims to prevent, mitigate and remediate possible negative social, environmental and governance consequences of its investments. Addressing climate change is a global challenge and UWV is committed to playing its part in this vital process.

UWV believes that voting at investee companies' Annual General Meetings (AGMs) is a key means to hold the management of companies accountable for the long term sustainability and success of investee companies. We consult with management before exercising our right to submit a request for convening an extraordinary general meeting or tabling a shareholder resolution and will be present or represented at that meeting in order to explain this resolution and to answer possible questions about it.

We consider the following measures for listed companies to be positive:

1. Corporate Governance

- Implementation of an internal code of corporate governance and adherence of high standards of ethics and integrity.
- Publication in the annual report of a statement on corporate governance, adherence to relevant corporate governance codes and best practice and a report on sustainable development actions from a social, environmental and economic standpoint as well as tax transparency and payments to governments and industry associations.

2. Board membership

- Separating the functions of executive and non-executive officers (e.g. separation of the functions of chairman and chief executive officer in cases where the company has a Supervisory Board and an Executive Board). Where companies have historically combined these two roles, we expect to counterbalance this with a strong and independent non-executive lead director and seek an explanation of this choice from the company.

- Limiting directors' terms to four years. No appointment should be renewed more than three times (this restriction does not apply to legal entities and natural persons holding more than 10% of the capital).
- Having between 5 (*used to be 3*) and 16 (*used to be 18*) directors of which at least 50% are considered as independent.
- A shareholder holding at least 10% of the share capital must be able to be represented on the company's Board of Directors.
- Directors less than 70 years of age must account for at least two thirds of the Board.
- Directors must hold shares of the company that have not been lent to them and should keep holding them beyond their tenure as director.
- Employee shareholders must be represented on the Board by at least one Director. It is desirable when resolutions relative to these director's appointments are submitted to AGM approval, that companies' shareholders benefit from the utmost transparency regarding the appointment process (generally, we do not want that employee ownership exceeds 15% stake in the company).
- The Board of Directors must have a diversified representation (education, experience, nationality, gender).
- We expect companies to meet the country specific guidelines on board diversity. Women must represent progressively at least 40% of boards, within 5 years. We will take into account in our vote companies' willingness to reach this level for the appointment or renewal of directors.
- Curriculum vitae indicating the functions and mandates of the candidate for the post of director must be attached to the report.

3. Board Committees

- Special committees exist with between three and five members consisting in majority of nonexecutive directors and at least 50% should be independent directors. The chair of the three committees (audit, compensation, selection) must be independent. Such committees constitute a critical component of corporate governance and contribute to the proper functioning of the Board of Directors:
 - Audit/Risk Committee – assures notably the quality of the company's audit and risk structure, taking responsibility for the integrity of financial statements, audit quality and robustness of internal controls.
 - Compensation Committee – determines the procedures of compensation and stock option grants to company executives. It is made up of a majority of independent directors and must not include any executive officers.

- Nomination Committee – conducts searches, screens and appoints members of the Board of Directors and executive officers, subject to shareholder approval at the annual meeting.
- The non-executive and/or independent directors can meet in the absence of executive officers at least once a year.
- Corporate Governance Committee: To monitor the expertise and diligence of directors in performing their functions within the company. To ensure compliance of corporate governance procedures applied in relation to those set forth in the internal code and external codes the company is signatory of.

4. Auditors:

- Statutory Auditors should not be partners with the Alternate Auditors.
- The role of external auditor must be put to tender on a regular basis, in line with market best practice, at least every 10 years, with the total tenure not exceeding 20 years.
- Fees paid for consulting services do not exceed 50% those paid for audit services where such a restriction is not imposed by law.
- Non-compliance with one or more of these principles may result in an abstention or negative vote on our part for certain resolutions. These decisions will be accompanied by explanations provided to the company.

5. Capital structure

- We **abstain or vote against** certain resolutions concerning anti-takeover bid measures submitted to the General Meeting of the shareholders:
 - Maintaining authorisations for rights issues when takeover bids or tender offers are in progress.
 - Maintaining share repurchase authorisations while public offerings are in progress. We would vote in favour of a proposition by the company to suspend this authorisation during public offerings. In addition, we may vote in favour of this resolution when buybacks are undertaken under current share repurchase authorisations before the launch of the public offering to acquire securities for share grants or sales to employees or corporate officers.
- We consider that a general meeting held during offering periods must enable shareholders possessing the necessary information to vote on this offering on a case-by-case basis.
 - Implementation of double or multiple voting rights.
 - Capping voting rights above a share ownership threshold.



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- Appointing of a director who serves on more than one board of a listed company, if he performs an executive role, and four boards if he does not perform executive roles. The chairmanship of an audit committee is considered as an additional director position.
- Reappointing of a director who has been present at less than 75% of meetings without providing a compelling reason for this.
- Any resolution destined to limit the power of shareholders such as for example when new shares are issued without a proportion of shares also being issued with preemptive rights or poison pills (anti-takeover measures) that entrench management and protect the company in a way misaligned with shareholder interests.
- Issuing securities conferring special rights conflicting with the principle of "one share, one vote" (e.g. preferred shares).
- "Bundled" resolutions grouping several decisions (e.g. regulated agreements, appointments of directors).
- Stock offerings reserved for employees at a discount exceeding 20%. In the case, as specified by the law, of an engagement of share blocking during at least 10 years, the discount rate can reach 30%.
- Bonus issues reserved for employees exceeding 2% of the share capital of the company per year.
- All authorisations for capital increases requested by the company superior to 30% of the share capital. On a case by case basis we can accept requests for share capital increases above 30% only when the company has justified this with an acceptable investment plan.
- Any capital decrease through repurchase resulting in a free float under 30%.
- All donations to political parties or individual political candidates.

6. Remuneration / Compensation policy of listed companies

- We strongly encourage companies to disclose the ratio between senior management and median employee compensation.
- We request the utmost transparency in respect to amounts and methods used to calculate direct, indirect or deferred individual compensation for the ten highest paid persons of the company exercising management positions. A summary of total compensation of executive officers must be provided in a table presenting all commitments over a period of three years.
- We insist on the fundamental role of the compensation committee whose members must be free of conflicts of interest.

- Fixed compensation of management must be based on standards of the industry, market or sector of activity.
- Variable compensation is based on whether the company's performance targets are achieved and the relative change in the company's share price compared to its sector of activity. We will vote in favour, on a case-by-case basis, if payment of a portion of variable compensation may be deferred. Director should not be eligible for additional variable remuneration for the successful implementation of a merger, demerger or acquisition as these are considered as part of their regular activities.
- Compensation of non-executive directors is subject to the approval of the general shareholders' meeting,
- Stock option grants must constitute incentives for management performance and retention. Issued without a discount and at certain predefined intervals, transparency is required concerning the criteria according to which they are granted, performance conditions, the number of beneficiaries and the portion reserved for executive officers.
- Bonus issues that are subject to the same allocation and transparency criteria as stock options must constitute incentives for performance and retention for the largest possible number of employees. They may not exceed 2% of the company's share capital. We support the disclosure of a breakdown between the number of bonus shares granted to corporate officers and those destined to employees. The total amount of stock options and bonus shares must not result in a capital dilution of more than 10% (except in special cases such as small and mid caps).
- In addition to their submission to performance conditions required by law, severance payments to directors and executive officers may not exceed two years of total compensation (including a possible non-competition clause) and must be subject to a specific regulated agreement. These severance payments are only paid to a director in the event of a forced departure linked to a change in control or strategy.
- The performance criteria for severance payments, stock options or bonus issues should be based on a minimum three year period.
- Performance conditions and long-term incentive plans should not be solely linked to financial performance criteria but should also take into account non-financial variables (social and environmental criteria) and should have a vesting period of at least three years. The director's time at the company as well as conditions of departure are analyzed and considered on a case by case basis.
- For defined benefit pension plan, it is recommended that the company should show greater transparency in its annual report (method of calculation, age, period).

7. We customarily review ESG shareholder issues:

- We vote for shareholder proposals calling:
 - To implement human rights standards and workplace codes of conduct
 - For the implementation and reporting on ILO codes of conduct, SA 8000 Standards, the Guiding Principles of Business and Human Rights, the OECD Guidelines for Multinational Enterprises, or the corporate governance principles of the International Corporate Governance Network
 - for the adoption of principles or codes of conduct relating to company investments in countries with patterns of human rights abuses
 - for independent monitoring programs in conjunction with local and respected religious and civil society organizations to monitor supplier and licensee compliance with codes
 - for the publication of a "Code of Conduct" to the company's foreign suppliers and licensees, requiring they satisfy all applicable standards and laws protecting employees' wages, benefits, working conditions, freedom of association, and other rights
 - for reports on, or the adoption of, vendor standards including: reporting on incentives to encourage suppliers to raise standards rather than terminate contracts and providing public disclosure of contract supplier reviews on a regular basis. Vote for shareholder proposals to adopt labor standards for foreign and domestic suppliers to ensure that the company will not do business with foreign suppliers that manufacture products for sale using forced labor, child labor, or that fail to comply with applicable laws protecting employee's wages and working conditions
 - for reports on the risks associated with outsourcing or off-shoring.
 - for a policy on climate risks and a commitment to CO2 impact reduction targets
 - for a commitment to clean energy.
 - for reports on the influence of climate change on the company's operations (or report on how the company takes climate change into consideration into its strategy and so forth) in line with the Task Force for Climate Related Financial Disclosures, the Global Reporting Initiative Sustainability reporting standards or other international and authoritative frameworks.
 - for a true majority voting system for the election of directors
 - to remove supermajority requirements
 - to declassify the Board
- Further, we vote for:
- shareholder proposals requiring the right to act by written consent
 - shareholder proposals requiring the right to call a special meeting
 - proposal to request proxy access rights

Link Executive Pay to ESG Criteria

Vote for shareholder proposals calling for linkage of executive pay to non-financial factors including performance against social and environmental goals, including CO2 emission reduction targets customer/employee satisfaction, corporate downsizing, community involvement, human rights, or predatory lending. Vote for shareholder proposals seeking

reports on linking executive pay to nonfinancial factors. Vote for proposals calling for an analysis of the pay disparity between corporate executives and other non-executive employees.

- Additionally, regarding shareholder proposals on remuneration:
 - Vote for proposals to adopt a policy prohibiting tax payments on restricted stock awards.
- Vote for shareholder proposals to implement double-trigger provisions upon a change-in control (for equity and cash incentives).
- Vote for proposals to adopt a policy prohibiting hedging and pledging transactions.

All other items not covered in this document are assessed on a case-by-case basis, and the voting recommendations of ISS will be considered.