sodali ALIGNING INTERESTS

Sodali Investor Survey - January 2016

Promoting a greater understanding between investors and issuers

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FOREWORD

Over the past few years, corporations have started to report more information on non-financial data including Environmental, Social and Governance (“ESG”) factors.

Whether driven by regulation, a desire to gain market advantage, or to meet the needs and concerns of key stakeholders, there is a growing trend to better inform investors which has led to a heightened level of investor engagement on ESG.

At the time of printing, we can already see evidence of an increase in investor engagement in 2016, primarily driven by the established stewardship codes and the continued increase in responsible investment resources at long-term institutional investors.

What are the key factors considered by long-term capital providers when exercising their fiduciary duties through proxy voting? And is this an opportunity for corporations to better inform investors of the corporate governance risks and opportunities that could impact long term shareholder value?

We hope the insights in this survey will help companies determine the key topics to discuss during the engagement phase, allow them to better explain material issues and prove useful in gathering valuable investor sentiment.

EXECUTIVE SUMMARY

Sodali conducted this inaugural global institutional investor survey to identify the key drivers and trends that companies should be aware of as we approach a significant engagement phase in relation to the 2016 Annual General Meeting season. In our survey we asked investors: what general governance themes are driving engagement; what factors make a compelling case for engagement; and what executive remuneration corporate disclosures companies should focus on.

The survey provides valuable insights outlining material drivers for investor engagement and will be a helpful tool for companies to determine the right approach during upcoming engagement opportunities. The outcomes from this survey should assist corporates in delivering the right message, collect valuable feedback, and consequently find common ground in challenging situations.

KEY FINDINGS

- 90% of investors are "reasonably satisfied" with companies' corporate governance progress over the last 5 years.
- The survey reveals clear evidence that Governance factors are integrated into equity investment models. The key indicators identified relate to board composition and local market governance codes of best practice.
- The **top 3 key topics** investors are focussing on as we approach the 2016 proxy season include **board composition & director elections, shareholder rights and executive compensation.** One European investor told us *"not only are these the most important topics at the moment but they are occurring on the most frequent basis"*.
- It is clear investors feel there should be more emphasis on companies to evidence progression through engagement. When analysing **what makes engagement successful**, the most supported statements were: demonstrating a genuine commitment to improve; provision of a tangible action plan; and a better commitment from board directors to embrace dialogue with investors.
- There are clear market-specific differences among company representatives engaging with investors. One UK investor said *"this is highly market dependent. For example more board members in the UK, and more IR and General Counsels in France"*.
- Investors want to engage with independent board members on a more frequent basis, at this juncture it is slow progress, and admittedly this is market-specific.
- Investors are concerned by the lack of effort in general by corporations to engage on material say-on-pay issues that receive significant negative votes. From a geographical perspective the feeling among investors is aligned: One significant US index manager said *"significant negative outcomes (above 15%) should lead to corporations initiating engagement with shareholders and a review of their compensation plan"*, meanwhile a UK-based investor suggested *"companies perhaps might not make any amendments but at least they should engage to understand why shareholders are dissenting"*, finally a European-based investor agreed with both points *"if above a certain threshold, directors should at least show a willingness to listen to the main objections of some of their shareholders"*.
- It is evident from the survey that ESG factors will influence how investors review risk. Investors significantly support the statements "targets are closely linked to long-term value drivers" and "the implementation of long-term incentive plans" and this is aligned with the premises of creating value in the long-term.

METHODOLOGY

We approached a global institutional investor base targeting Corporate Governance analysts, ESG analysts, Equity Analysts and Portfolio Managers via an online platform, PDF documents and interviews.

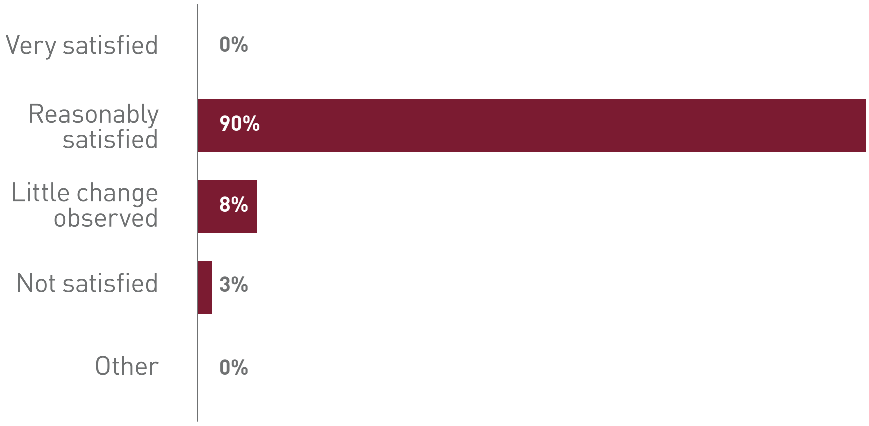
The survey was conducted between 1 November 2015 and 11 December 2015 to understand investor trends, perceptions and key drivers in the lead-up to the 2016 proxy season.

We received responses from institutional **investors managing a combined $23 Trillion in assets under management.** The geographical breakdown is as follows: 50% UK, 35% US, 15% Europe ex. UK.

Please note that as the figures have been rounded up to the nearest whole number, for reasons of presentation, the corresponding sum of these numbers is not always 100%.

QUESTION 1

LOOKING BACK AT THE PAST 5 YEARS, HOW SATISFIED ARE YOU THAT COMPANIES ARE IMPROVING THEIR CORPORATE GOVERNANCE?



90% of investors are "reasonably satisfied" with companies' corporate governance progress over the last 5 years.

However, companies cannot rest on their laurels; they are expected to **build a strong qualified board of directors and evaluate performance**; define roles and responsibilities; emphasize integrity and ethical dealing; and make principled compensation decisions; also, engaging in **effective risk management**.

90%
of investors are "reasonably satisfied" with companies' corporate governance progress

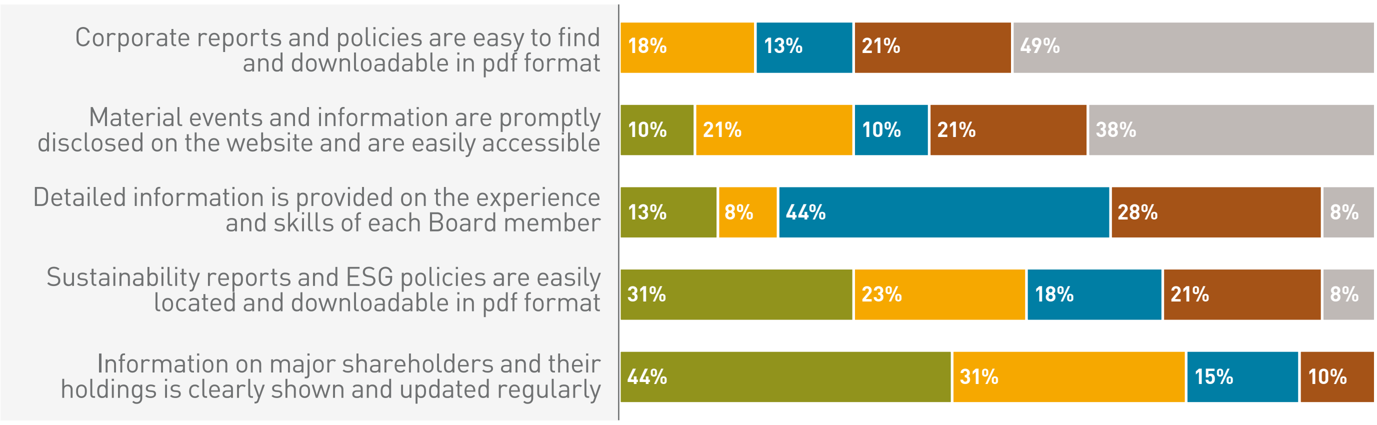
QUESTION 2

IN ORDER OF IMPORTANCE WHAT IS MOST HELPFUL WHEN YOU ARE SEEKING INFORMATION ON A COMPANY'S WEBSITE?

One of the key tools investors rely on to make fully informed voting decisions is the disclosure of material information on a company's website.

Investors want to be comfortable that the information they receive from a company is credible and reliable. Here we highlight the aspects that are most important to investors.

KEY:
- Not at all important
- Slightly important
- Moderately important
- Very important
- Most important



Investors want better access to Corporate Reports and policies; **70% of investors considered it "most" or "very important" that information was easily accessible** for decision making purposes.

Investors expect material events to be promptly disclosed on company websites; this was the **2nd highest scoring statement with 59%** of investors considering it "most" and "very important".

During the proxy season large institutional investors have limited time and resources with tight voting deadlines and it's important that they have access to material information in a timely manner so that they can make an informed decision.

70%

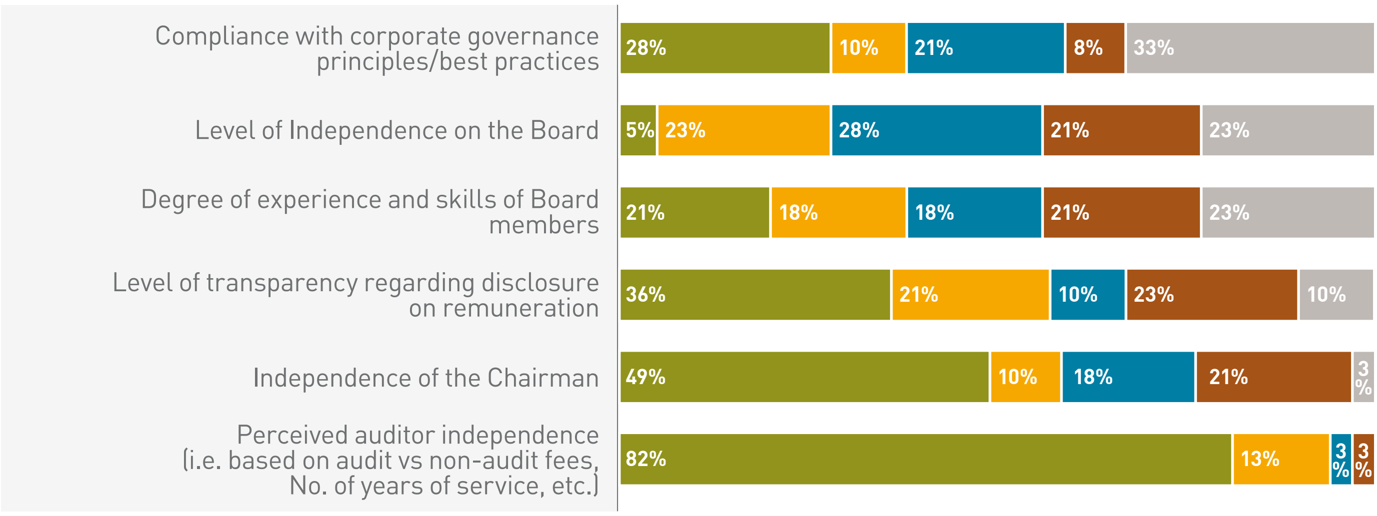
of investors consider "most" or "very important" easy access to information for decision making purposes

QUESTION 3

WHEN ANALYSING COMPANIES, PLEASE MARK IN ORDER OF IMPORTANCE WHAT GOVERNANCE FACTORS YOU LOOK AT / INTEGRATE INTO YOUR INVESTMENT MODELS?

The core governance drivers are integrated into investment models.

Understanding how corporate governance factors play into portfolio managers' and research analysts' day-to-day work and investment decision-making is increasingly becoming an important factor for investors when reviewing a company's future prospects. The proxy voting process allows investors to influence the direction of the company and protect their investments. We identify the key governance factors investors will focus on in the 2016 AGM season.



Investors expect companies to **closely monitor investor policies and best practice corporate governance principles**; 41% believe this to be "most or very important".

Investors expect companies to maintain high levels of board independence and **detailed information of board members' skills**; 44% of investors believe these are equally the "most and very important" factors.

Investors are increasingly monitoring if the board maintains the **right balance of skills** such as risk management, industrial and financial expertise.

41%

of investors believe that companies should monitor investor policies and best practice corporate governance principles

44%

of investors believe that board independence and information of board members' skills are most important

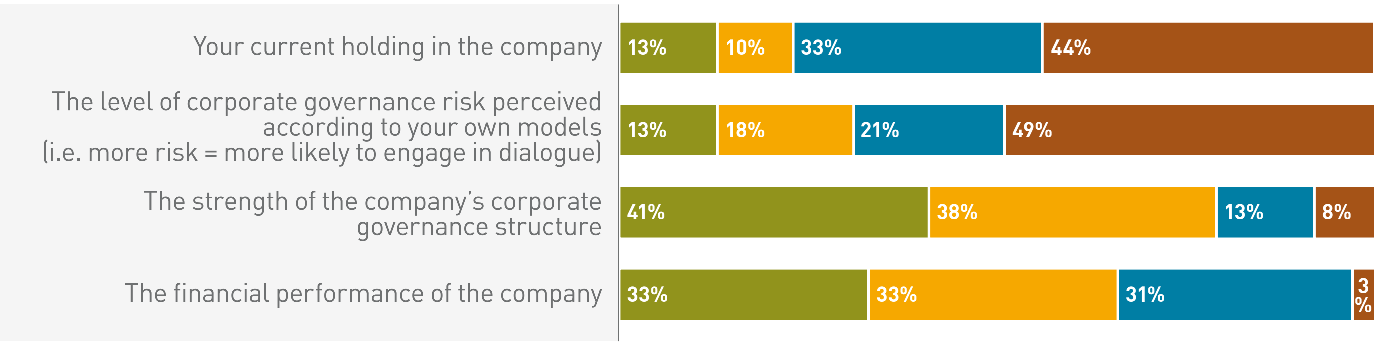
QUESTION 4

PLEASE MARK IN ORDER OF IMPORTANCE WHAT FACTORS YOU CONSIDER WHEN DECIDING YOUR STRATEGY ON DIALOGUE WITH COMPANIES?

Corporate < > Investor Engagement: what is effective and what is not?

The increase of engagement between companies and their shareholders in the last 10 years has largely seen progressive changes. However, some might argue that there is now an element of engagement fatigue and investors must adopt the right strategy for engagement to allow for positive outcomes.

Over the next 4 questions we identify investors' most important factors.



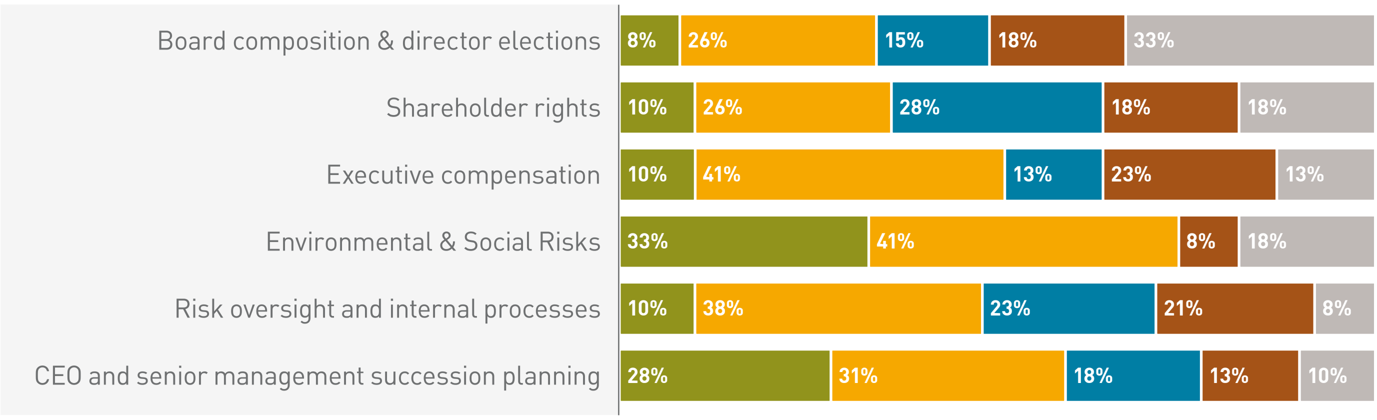
Investors' **internal governance risk models** significantly influence engagement strategies; 77% of investors considered "most and very important" the internal buy-in model.

This is closely followed by the **"current holdings in the company"** with 49% of investors stating this is the 'most important' with a further 21% suggesting it is "very important" to monitor thresholds when initiating engagement.

Interestingly **33% of investors indicate that the financial performance of the company is "not at all important"** and 33% consider it only "slightly important" when evaluating dialogue with companies.

QUESTION 5

PLEASE MARK IN ORDER OF IMPORTANCE WHAT ISSUES ARE MOST IMPORTANT WHEN INITIATING DIALOGUE?



Board Composition and director elections top the most important factors investors want to discuss when initiating dialogue; 51% of investors consider "most and very important" the opportunity for shareholders to engage and have an open discussion on the make-up of the board.

Only 18% of investors consider environmental & social risks as "most important" and 41% and 33% consider it "slightly important" and "not at all important" respectively.

The statement on shareholder rights brought up surprising results. **36% suggest this statement to be "most and very important"** with only 10% suggesting this statement was "not at all important".

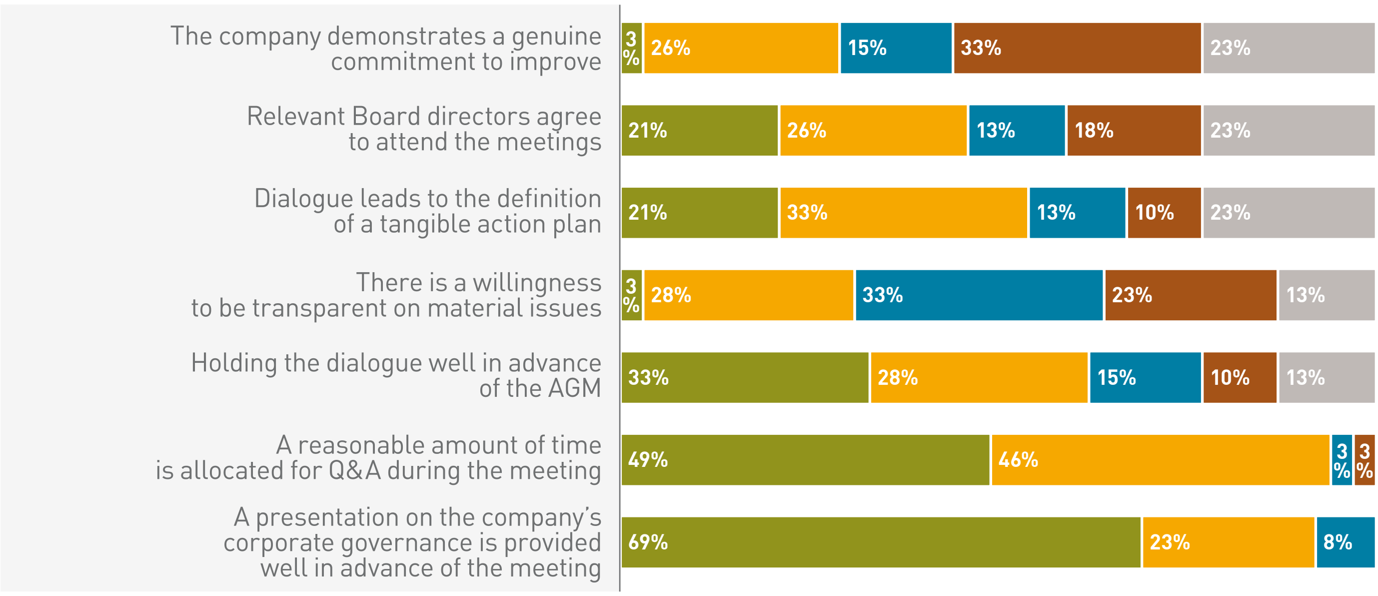
With the current economic climate, technological advances, social media and cyber risk challenges, investors are closely evaluating if the board maintains the **right skills and expertise** in line with the current and future challenges of their business cycle.

51%

of investors consider "most" and "very important" the opportunity to engage on board composition and director elections

QUESTION 6

PLEASE MARK IN ORDER OF IMPORTANCE WHAT FACTORS MAKE DIALOGUE WITH A COMPANY SUCCESSFUL?



Investors closely monitor the **"company's ability to demonstrate a genuine commitment to improve"** as the "most" and "very" important factors when "assessing if dialogue is successful".

56% consider "most and very important" that the engagement efforts should result in a **progressive outcome** that aligns the interests of companies and its stakeholders.

Investors expect **improvements regarding the attendance of board directors**, and consider it as a "most and very important" factor that defines successful engagement; 41 % of investors agree with this statement.

Investors expect a **tangible action plan** following dialogue; 33% agree this statement is "most and very important".

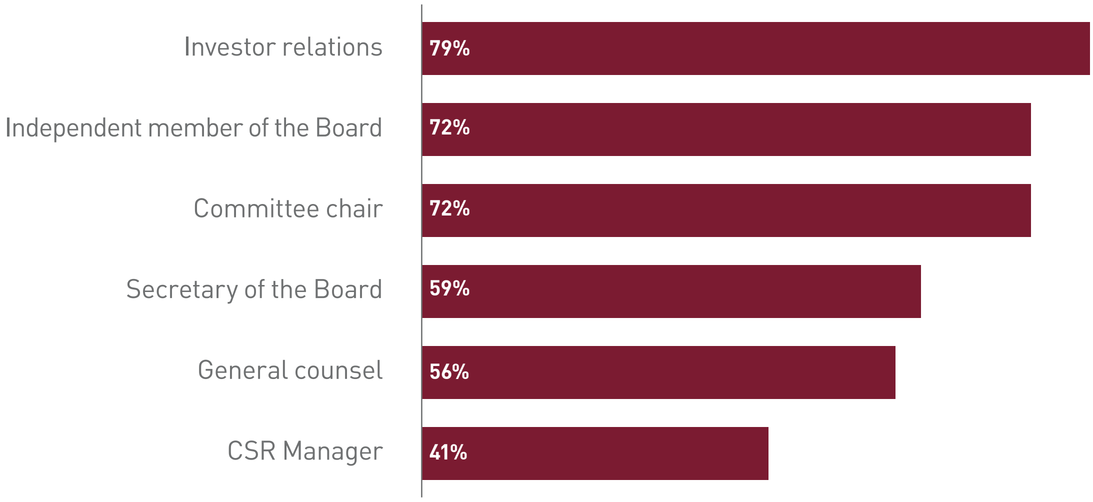
KEY:
- Not at all important
- Slightly important
- Moderately important
- Very important
- Most important

56%

of investors consider "most" and "very important" company's ability to demonstrate a genuine commitment to improve

QUESTION 7

PLEASE MARK WHICH COMPANY REPRESENTATIVES YOU USUALLY TALK TO WHEN ENGAGING IN DIALOGUE WITH COMPANIES? YOU CAN SELECT MORE THAN ONE OPTION.



Noteworthy is the fact that investors frequently engage in dialogue with **"Independent Directors" 72%** and **"Committee Chairs"**, also 72%.

There is no surprise that **"Investor Relations" is the top indicator with 79%**.

59% hold regular meetings with the Secretary of the Board whilst **56%** of their time is dedicated to dialogue with the General Counsel.

Finally **41% maintain regular dialogue with the CSR Manager** which should not go unnoticed.

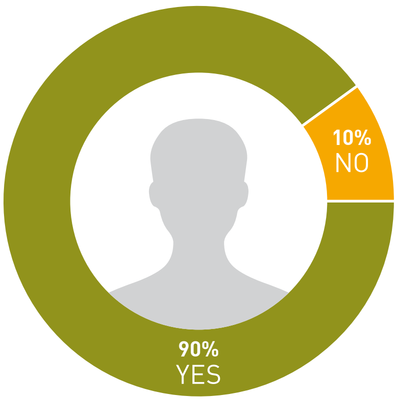
Investor Relations plays a pivotal role acting as a conduit to all relevant internal departments and all stakeholders externally.

QUESTION 8

WHEN A COMPANY OPERATES WITH A COMBINED CEO/CHAIRMAN,
DO YOU REQUIRE THE APPOINTMENT OF A LEAD INDEPENDENT DIRECTOR?

The concept of the combined Chair/CEO has received a good battering by Corporate Governance purists over the last few years and still today much debate exists around the strengths and weaknesses of this set-up. It's not inaccurate to say that general opinion is in favour of the separation of the two roles.

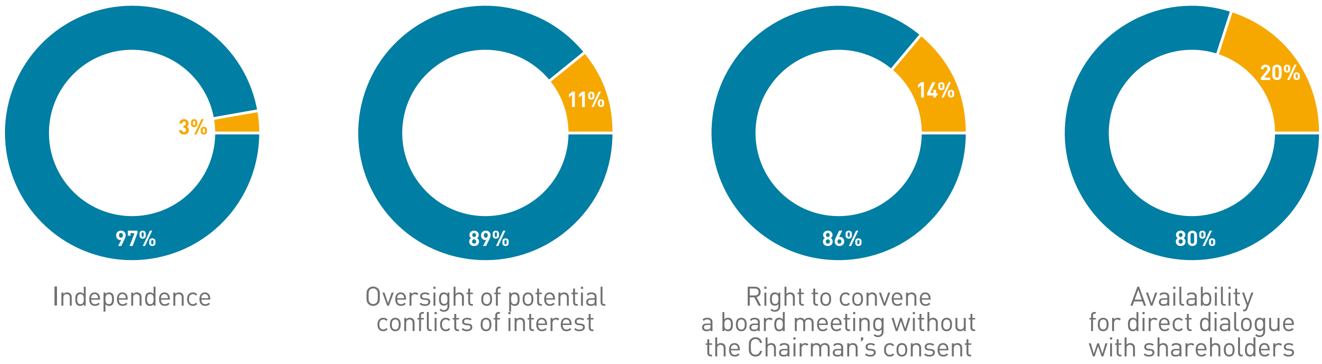
Rightly or wrongly, investors in general maintain reservations about a combined role and companies must better understand international best practices to provide a compelling argument to justify it.



90% of investors indicated the need for a Lead Director when a company operates with a combined CEO/Chair role with only **10% considering having an LD as not important**.

QUESTION 9

IF SO, WHAT POWERS SHOULD THE LEAD DIRECTOR HAVE?
PLEASE CHOOSE ONE OPTION PER STATEMENT.



KEY:
- Not that important
- Nice to have
- Pre-requisite

When it comes to implementing a Lead Director (LD) **97% said independence is a "pre-requisite"**.

This was followed by 89% agreeing that it was a "pre-requisite" that the LD had oversight of **potential conflicts of interest**.

Only 14% think its "nice to have" and almost unanimously 86% think it's a "pre-requisite" that the LD has a **right to convene a board meeting without the Chairman's consent**.

Finally 20% believe it is "nice to have" whilst 80% think it's a "pre-requisite" that the LD is available for **direct dialogue with shareholders**.

A Lead Director must fulfil the critical role of management oversight and set the agenda for board meetings. Investors believe Lead Directors are the best individuals to target for ESG material issues and if LDs are not accessible this sends the wrong signal.

QUESTION 10

PLEASE MARK IN ORDER OF IMPORTANCE THE ACTIONS THAT CAN INCREASE INVESTOR CONFIDENCE AND SUPPORT FOR THE BOARD OF DIRECTORS.

Investors have a strong focus on the effectiveness of board leadership and believe companies need to better understand what investors consider as key drivers for improved board leadership.

Investors want to see an **increase of engagement with independent directors**; 59% concur with this sentiment suggesting it was "most and very important".

59% think it's "most and very important" that companies increase disclosure of **how the board evaluates and challenges Management**.

Only 10% of investors think it's "most important" to see an **increase in disclosure on board evaluation processes and results** and more than 49% believe it is either "slightly important" or "not at all important".

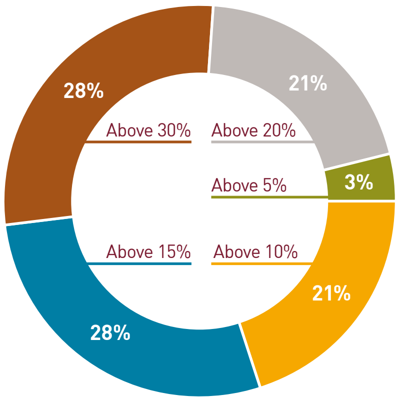
59%
of investors want to see an increase of engagement with independent directors

59%
of investors want to see an increase on disclosure of how the board evaluates and challenges Management

QUESTION 11

IN SAY-ON-PAY PROPOSALS, WHAT NEGATIVE VOTE SHOULD CAUSE DIRECTORS TO AMEND THE COMPENSATION PLAN? PLEASE CHOOSE ONE OPTION ONLY.

Say-on-pay continues to be a challenging issue for both companies and shareholders.
In the US last year more than 2,700 companies held say-on-pay votes with a meaningful number receiving low vote support and significant investor resistance to executive compensation programs. Over 200 companies received votes below 70 percent and say-on-pay measures failed at the meetings of approximately 65 companies.



Companies should consider amending the compensation plan when they receive **above 15% of votes against their say on pay (SOP)** policy according to 28% of investors.

A further 28% of investors suggest changes should be made when receiving **more than 20% against votes for the SOP**.

A further 21% think **negative votes above 30% should trigger** directors to amend their compensation plan.

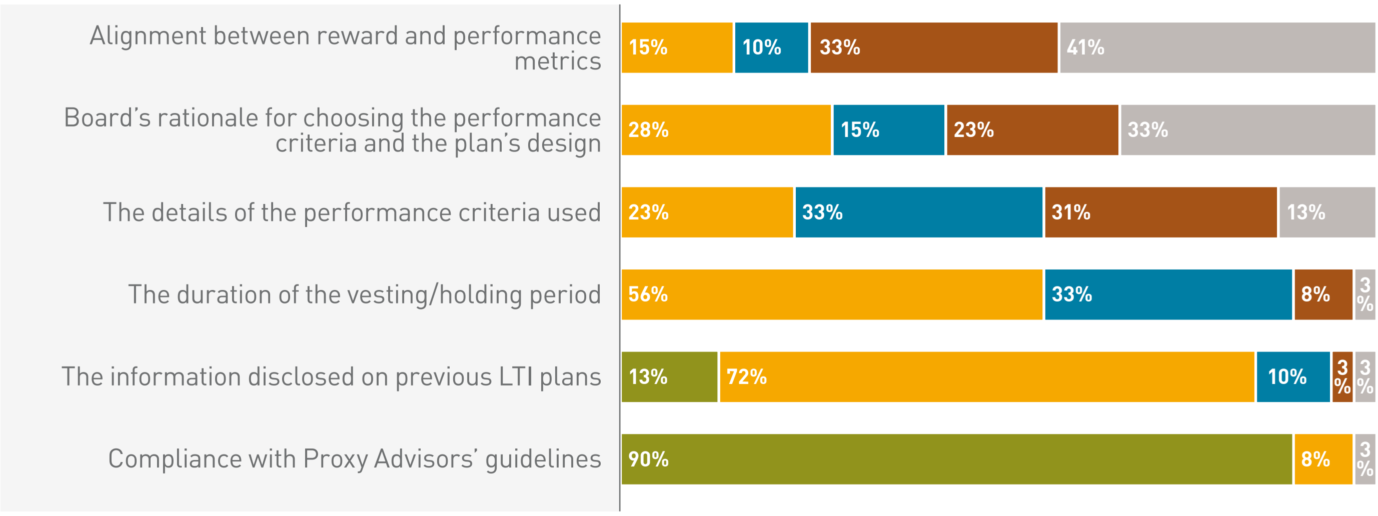
Only 3% suggested directors should review their compensation plan if **SOP against votes were above 5%**.

QUESTION 12

WHEN YOU ANALYSE THE IMPLEMENTATION OF A NEW LONG-TERM INCENTIVE PLAN, PLEASE MARK IN ORDER OF IMPORTANCE WHAT THE MOST IMPORTANT FACTORS ARE THAT YOU CONSIDER.

The UK Corporate Governance Code (2012) emphasised that the level of executive remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully without paying more than is necessary for this purpose. The capability to understand, develop and review executive compensation packages and the effectiveness of communicating with various stakeholders are building blocks for achieving this goal.

KEY:
- Not at all important
- Slightly important
- Moderately important
- Very important
- Most important



Investors want to see **better alignment between reward and performance metrics**; 74% of investors agreed this was the "most and very important" statement.

56% believe the **board's rationale for choosing performance criteria and the plan's design** were "most and very important".

A significant **90% indicated compliance with proxy advisor recommendations was "not at all important"** and 72% stated information disclosed on previous LTIPs was "slightly important".

74%

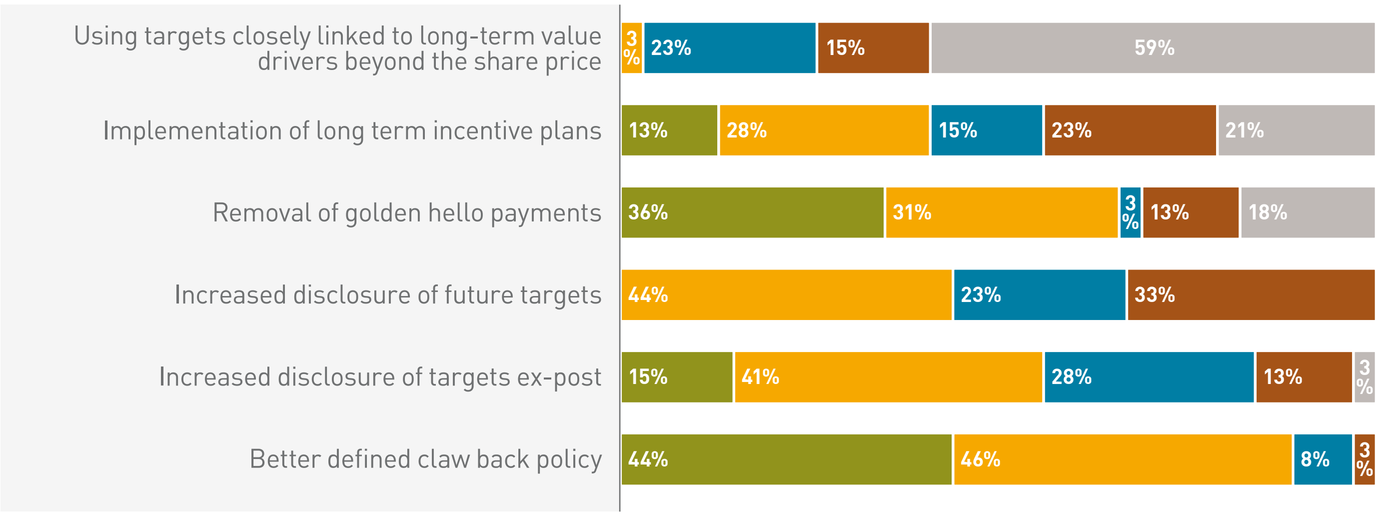
of investors consider "most" or "very important" to see better alignment between reward and performance metrics

QUESTION 13

PLEASE MARK IN ORDER OF IMPORTANCE THE PROVISIONS THAT WOULD IMPROVE THE ALIGNMENT OF EXECUTIVE COMPENSATION WITH SHAREHOLDER INTERESTS.

Long-term incentive plans have been encouraged by the regulators as a way to tie executives to the firm's performance over years, rather than short-term financial reporting periods. The ultimate challenge is to demonstrate that the remuneration of executives is aligned with shareholder interests.

KEY:
- Not at all important
- Slightly important
- Moderately important
- Very important
- Most important



Investors overwhelmingly agree that **targets linked to long-term value drivers, are "most important"**; 74% of investors considered this indicator "most and very important".

The **implementation of long term incentive plans attracted 44% support from investors** as "most and very important".

33% of investors believe it is "very important" that companies increase the **disclosure of future targets**.

On the other hand, **44% of investors think it is "not at all important" to better define the claw back policy**, and a further 46% believe it is only 'slightly important'.

The **removal of golden hello payments** received mixed support with 18% of investors considering it "most important", 31% and 36% suggest it is either "slightly important" or "not at all important" respectively.

74%
of investors consider that targets linked to long-term value drivers are "most and very important"

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