MORROW SODALI

INSTITUTIONAL INVESTOR SURVEY 2017

CORPORATE GOVERNANCE IS NO LONGER JUST ABOUT THE ANNUAL MEETING

Index

FOREWORD

There is an increased emphasis being placed on Environmental, Social and Governance (ESG) considerations by the investment community. ESG considerations' shift into the mainstream is being propelled by regulatory changes and the proliferation of data substantiating that ESG integration can help increase risk-adjusted investment returns. Despite the current political uncertainty around the world, it appears that investors are determined to continue their push for progressive governance changes through increased engagement with individual companies. Asset owners are also continuing to demand from their asset managers whether they are executing responsibilities in line with the owners' investment objectives. Consequently, large institutional investors and pension funds are pushing for more aligned approaches to corporate governance across borders to support long-term value creation.

Ira Millstein announced to the world many years ago, that "corporate governance is not rocket science." Even with today's challenges, most companies are well equipped to deal with shareholder and governance concerns. Drawing on the resources and skills they have developed in public relations, market research, customer satisfaction and investor relations, companies can conduct effective outreach programs and manage the expectations of their shareholders. A change of attitude may be necessary for some companies to understand that it is in their interest to treat shareholders as a sounding board rather than as opponents. CEOs must be tasked with providing leadership and for setting the tone at the top. Boards should articulate a convincing strategic rationale for their governance decisions and most importantly, company management must initiate communication and engage with shareholders on governance matters, rather than waiting for activists to put them on the defensive.

Corporate boards are required to demonstrate that they are improving the integration of governance frameworks within their business strategy, sustainable economic performance and long-term value creation. The good news for companies is that shareholders give more attention to customized governance arrangements. Companies should emphasize the "one size fits all" approach is ineffective, does not benefit the company or shareholders however, the board must show willingness to articulate performance measures and business goals with sufficient detail and specificity. To do so, board members themselves should work harder to understand the business fundamentals of the companies they oversee and to articulate the strategic rationale for their governance policies and decisions.

The corporate governance landscape is rapidly changing and companies and investors must do more to improve trust in business and promote strong global economies. The proliferation of stewardship codes is a positive movement which heightens the pace of change for boards with an increase in demand for continuous improvement and transparency in 2017. Our annual survey focused on the core themes of governance to ensure that the investor insights are applicable to listed companies around the world. The results highlight some important takeaways on issues such as ESG Factors and Shareholder Engagement, Board Dynamics, Executive Pay and Shareholder Activism.

We very much appreciate the input of those investors who participated in our 2017 Institutional Investor Survey.

METHODOLOGY AND KEY FINDINGS

The survey was conducted over a two-month period through an online questionnaire from December 2016 to January 2017. Responses were received from a diverse mix of investors representing $24 trillion Assets Under Management (AUM) with 78% being asset managers and the remaining 22% being asset owners/pension funds. As for the geographic breakdown - 50% UK; 28% US; 18% Europe ex-UK; and 4% Asia.

As we continue to experience a greater convergence of global corporate governance practices, Morrow Sodali focused on four key broad themes that are globally applicable: (1) ESG and Shareholder Engagement; (2) Board Dynamics; (3) Executive Pay; and (4) Shareholder Activism.

Below are some of the key findings from the survey:

1. All survey participants (representing $24 trillion AUM) confirmed that they will communicate with activists. Although investors will evaluate each case individually, they are now more willing to lend an ear to activists' arguments. Close to 60 percent of respondents (representing $11 trillion AUM) said that they will listen to the activist only if approached with the remaining 40 percent suggesting that they will not only listen to activists reaching out to them but will also be willing to reach out to them if not contacted.

2. Poor financial performance is the key driver for traditional investor support for activist campaigns. We focused our survey to identify what other contributing factors lead traditional investors to support activist proposals. To this end, 60 percent of respondents (representing $10 trillion AUM) viewed poor governance practices as the most important contributing factor in leading them to support activist claims/proposals. This was followed by companies not acting on previous shareholder dissent. Both of these factors suggest that it is important for companies to continuously review their governance practices and disclosures as well as identify key areas for improvements through effective communication and dialogue.

3. Pay-for-performance will continue to be a perennial topic of conversation, as suggested by investors representing $10 trillion AUM, followed by board diversity and board refreshment tying in third place. A new key engagement driver in 2017 appears to be Climate Change, which topped the list with half of the respondents (representing $7 trillion AUM). This result is not surprising considering the Paris Climate deal and the aggressive targets that investors have set to reduce their portfolios' carbon footprint.

4. All investors participating in the survey confirmed that they will vote against the compensation/remuneration committee chairs or members in the case of chronic poor pay practices in 2017. This was one of only two survey questions where all investors agreed, reiterating that investors will pay more and more attention to how compensation committee members discharge their responsibilities in 2017.

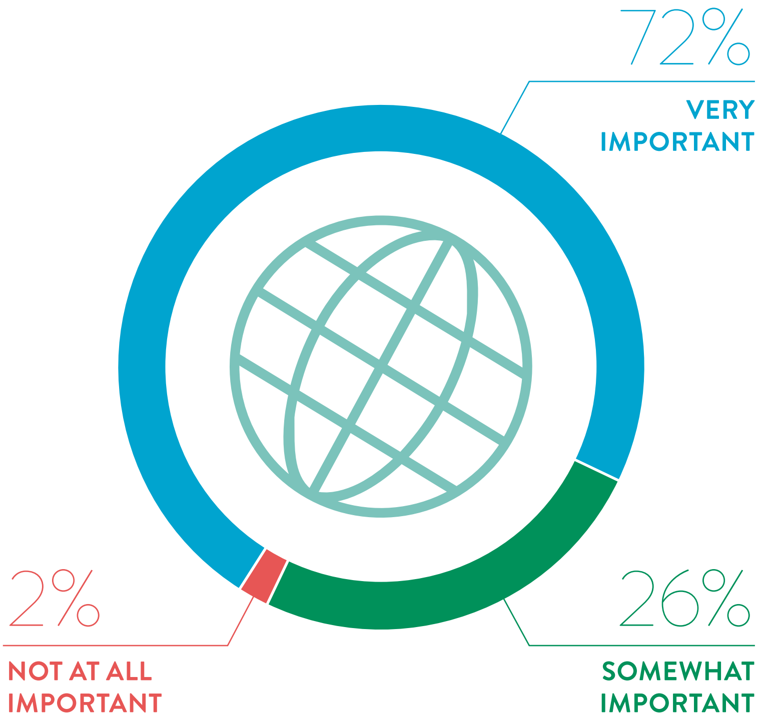
5. Investors representing $19 trillion AUM, or close to three-quarters of the respondents, viewed board members as their preferred counterpart when engaging with companies, followed by senior executives. To cater to this demand from investors, boards should seek assistance from their Investor Relations teams. In addition to market data and investor relations reports, the board should receive regular briefings on investors' engagement profiles and ESG policies.

6. The disclosure of the "Board Skills Matrix" was viewed as a key disclosure item by investors representing $18 trillion AUM when voting on director elections. The board skills matrix is not only useful for investors to determine whether the board comprises the necessary skills and expertise to deliver long- term value, but it is also useful for companies when looking for a new board member. Whilst the topic of diversity initially started with a focus on gender, the discussion has now evolved to an overarching belief that there should be a diversity of skills and thought.

7. The annual board evaluation has rapidly evolved beyond a mere compliance exercise and companies are increasingly warming to the idea of carrying out an external evaluation. Investors representing $19 trillion AUM viewed the disclosure of findings and recommendations of the evaluation exercise to be more important than the process used or the identity of the external provider undertaking the exercise.

8. Nearly three-quarters of respondents (representing $14 trillion AUM) view the disclosure on ESG factors to be very important. Most notably, however, is that only 2 percent of respondents viewed the disclosure of ESG information as not at all important. The results suggest that companies need to pay attention to the disclosure of their ESG performance on factors that are the most material within the industry they operate in as well as how effectively ESG risk factors are managed.

Q.01 HOW IMPORTANT IS THE DISCLOSURE OF MATERIAL ESG INFORMATION IN YOUR INVESTMENT/ DIVESTMENT DECISIONS?



Environmental, Social and Governance (ESG) considerations have moved into mainstream investing because of regulation, improving data and disclosure, the Paris climate deal and the increasing evidence that ESG integration can help in improving risk-adjusted investment returns. Hermes Investment Management, the USD 32 billion manager, recently found that, whilst equally important, the "G" in ESG is what really drives performance (an average of 30bps per month) and that the actual relationship is such that poor governance detracts from performance rather than good governance boosting it (access the report here[1]). We note that Cambridge Associates found that ESG made a stronger contribution to performance of companies in emerging markets than those in developed markets (access the report here[2]).

As evidence mounts highlighting the financial implications of ESG, the disclosure and accuracy of ESG related information has become increasingly more important so that investors can integrate it into their investment decision-making processes. As such, for a growing number of investors understanding how companies manage ESG-related risks and opportunities has been a critical source of information for them to reach investment/ divestment decisions.

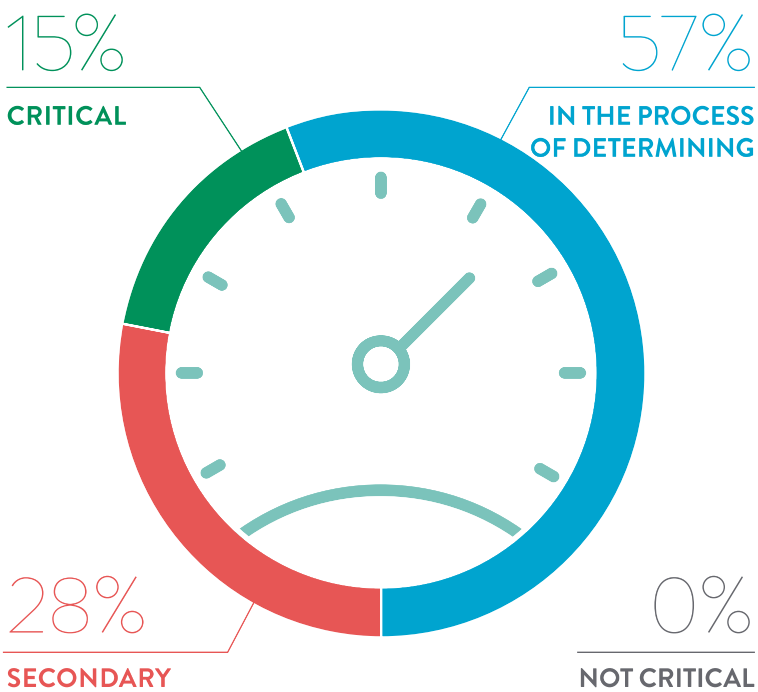
The investor survey results confirm this shift, with only 2 percent of respondents viewing the disclosure of ESG information as not at all important. Nearly three-quarters of respondents, (representing $14 trillion AUM), view the disclosure of such information as very important for their investment/divestment decisions. What this means for companies is that they need to determine what ESG factors are the most material for investors, based on their sector, and ensure the disclosure of their long-term strategy and targets for managing such ESG risk factors. Companies should explain how their ESG principles are aligned with best practices and with peer companies, how they determine the materiality of the audiences and how their decisions are expected to achieve long-term economic goals.

1) https://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2016/09/ESG-investing.pdf
2) https://www.cambridgeassociates.com/research/the-value-of-esg-data-early-evidence-for-emerging-markets-equities

Q.02

HOW IMPORTANT IS A COMPANY'S ESG PERFORMANCE WHEN TAKING FIXED INCOME RELATED INVESTMENT DECISIONS?

Companies have increasingly been accessing the debt markets as an important source of financing. The traditional ESG view sees equity holders as the main stakeholder interested in a company's non-financial performance whereas fixed income investors were considered to have less of an interest since their main goal is to receive back the principal and interest. This is an old-fashioned view and is changing fast!



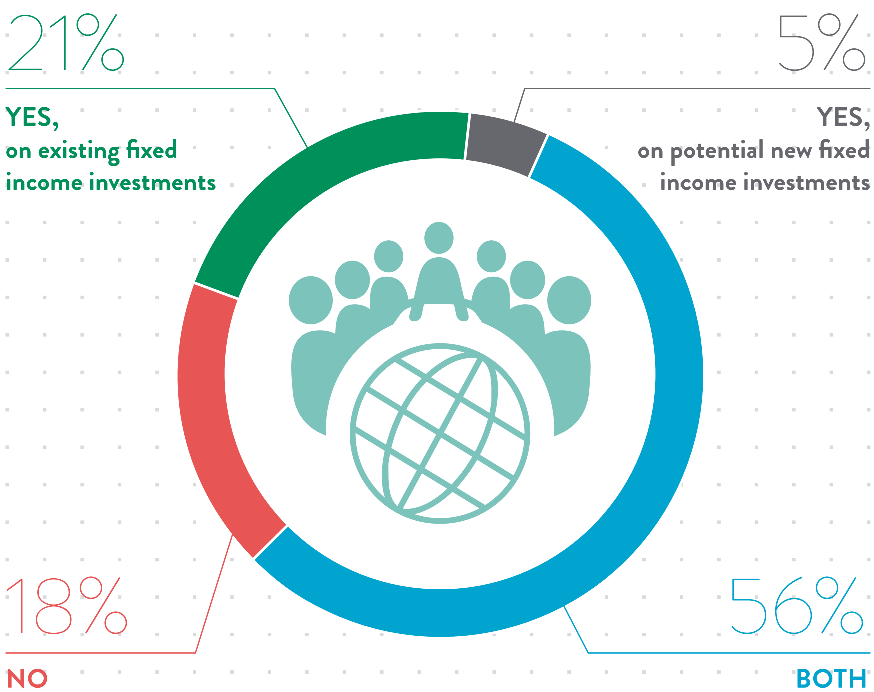
Prior to investing, fixed income investors have increasingly started to integrate ESG factors into their analysis to understand the company's ESG challenges and assess non-financial practices that could impact short and long-term returns. Furthermore, the secondary market for bond trading has started to become more liquid. Since the market price of a bond depends on a company's operational and financial performance, and accepting that the latter is influenced by the company's ESG performance, fixed income investors are also increasingly becoming interested in the ESG practices of bond issuers post-investment.

As recent as January 2017, PIMCO, the largest fixed-income investor, announced the launch of its Global ESG Investment Platform which comprises three key elements: negative screening, evaluation and engagement. What this means for companies is that they may be excluded from PIMCO's ESG portfolios if they have business practices that are misaligned with sustainability principles. Companies with stronger ESG performance will be favoured.

Furthermore, major credit rating agencies are now also incorporating ESG criteria into the company's credit rating, which can impact the bond's pricing.

Whilst 15 percent of the investors responded saying that ESG performance is critical when taking fixed income related investment decisions, the key takeaway here is that ESG integration in this asset class is still in its early days with 57 percent of the investors responding that they are still in the process of determining its impact. Having said that, we do note that none of the investors participating in our survey view ESG performance in this asset class as not critical.

Q.03 AS A BONDHOLDER, WOULD YOU BE INTERESTED IN MEETING WITH COMPANIES TO DISCUSS ESG ISSUES?

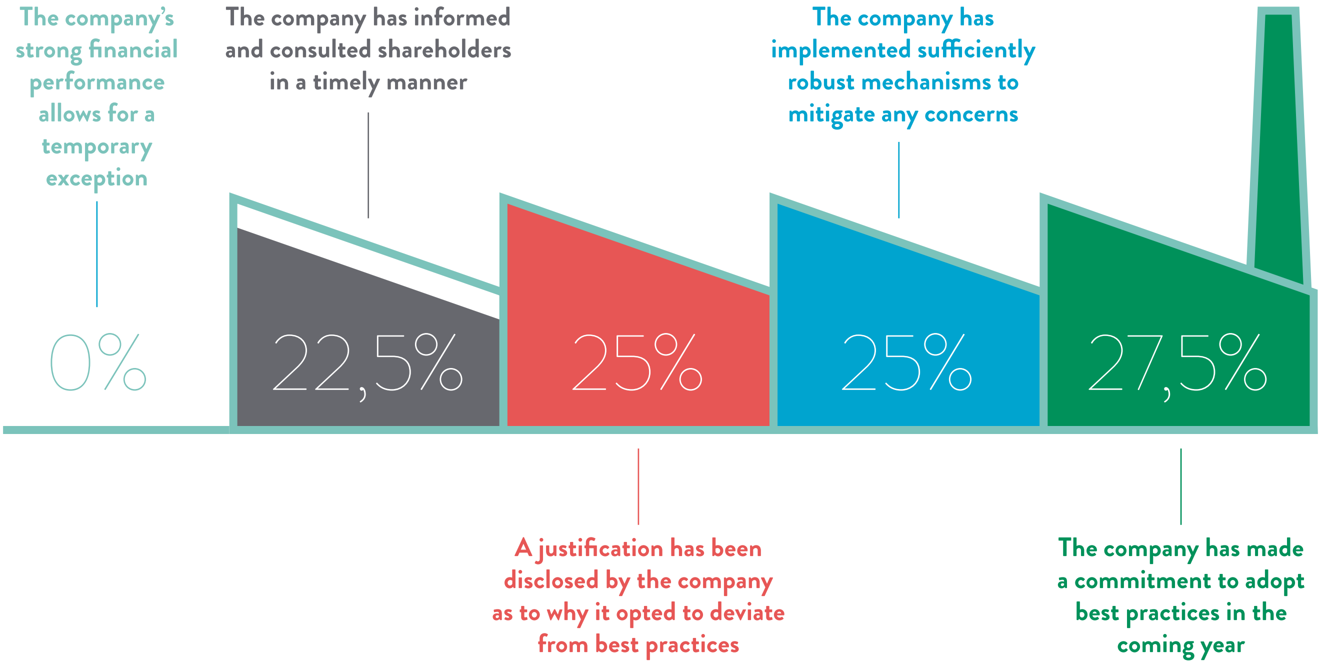


Fixed income investors, like equity ones, are not homogenous. They have different goals, expectations and sensitivities, so it is important for companies to know and understand their investors. The challenge for companies that issue debt starts with identifying their bondholders, which is more difficult than identifying their shareholders given the lack of transparency in certain markets and the complicated ownership chain. This critical step of identifying bondholders is needed to map the different constituents and determine what portion of the bondholder base has a long-term view of the company as they will most likely be integrating ESG factors into their investment decision-making processes.

We are witnessing an increased interest from companies to combine, where possible, a roadshow with both their equity and fixed income holders to discuss ESG issues. Investors, as evidenced by the results shown below, also express a strong interest to meet with their investee companies and initiate a dialogue with them. Only 18 percent of the respondents stated that they would not be interested in meeting their investee companies as fixed income investors to discuss ESG issues.

Q.04

IN CASES WHERE YOU OVERRIDE YOUR INTERNAL VOTING POLICY TO ALLOW FOR COMPANIES TO DEVIATE FROM CORPORATE GOVERNANCE BEST PRACTICES, WHICH OF THE FOLLOWING WOULD YOU CONSIDER THE MOST IMPORTANT WHEN HAVING TO JUSTIFY YOUR VOTE?

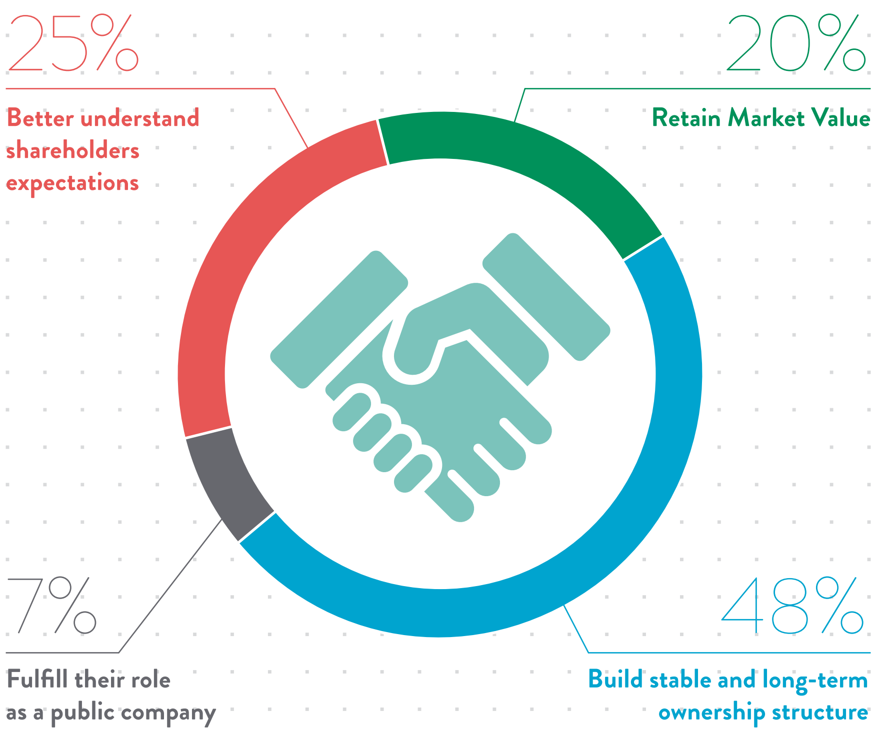


Most investors have adopted and made public their voting policy which can be accessed through their websites. These voting policies tend to provide broad parameters as to how they will evaluate proposals coming to a vote at general meetings but are by no means firm commitments. Investors are willing to deviate from their "house view" if there are compelling reasons to do so. To this end, investors were asked under which circumstances they would be willing to override their policy and support proposals that they may have normally voted against.

The responses from investors were evenly divided but they did send one clear signal – that companies with strong financial performance will not be granted flexibility to deviate from best practices. Best practice recommendations are there to guide the market and not for companies to follow blindly and tick the boxes.

Corporate governance can support value creation if it fits a company's specific situation – something that we have long-advised our clients. The fact that investors are forming in-house teams to evaluate their portfolio companies' governance practices allows for companies to deviate from the norm if they engage with them beforehand and disclose adequately their reasons for deviating.

Q.05 WHICH OF THE FOLLOWING DO YOU CONSIDER MOST IMPORTANT WHEN ARGUING WHY COMPANIES SHOULD ENGAGE WITH THEIR INVESTORS ON CORPORATE GOVERNANCE ISSUES?

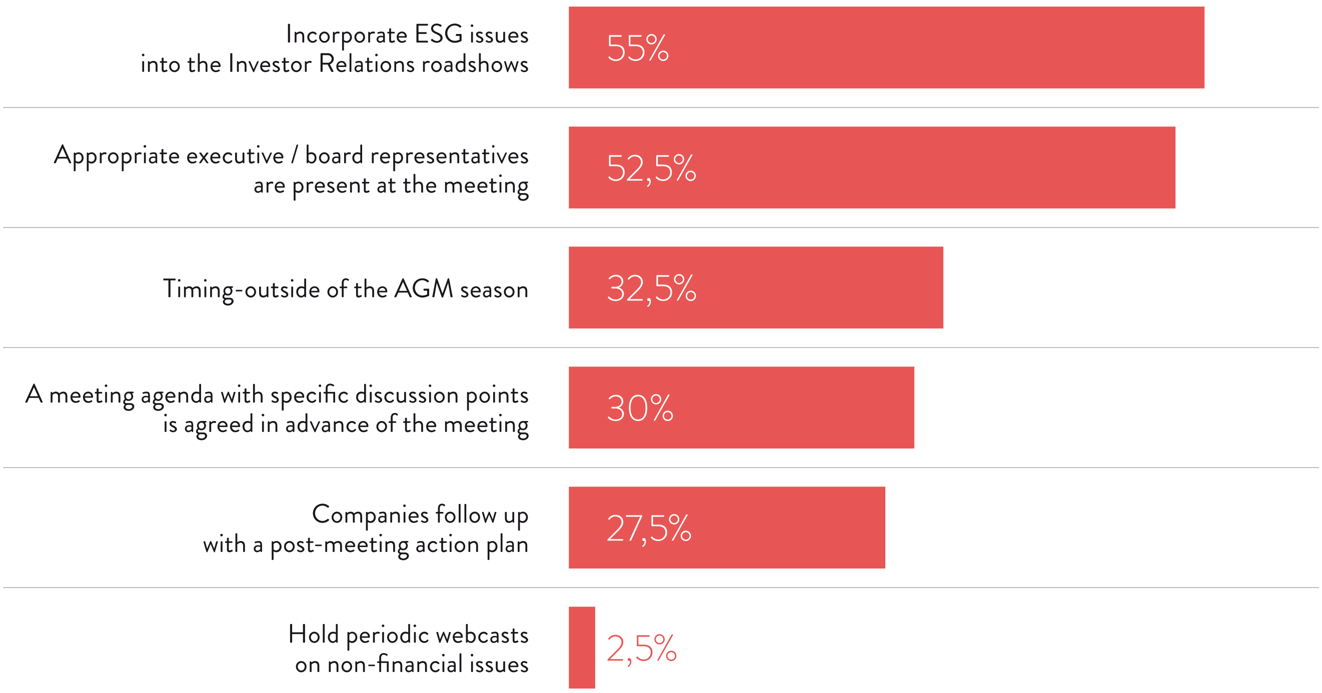


Changes in shareholder demographics have concentrated the voting power of global institutional investors. Even hybrid companies in developing markets – those with family ownership, majority controlling groups, voting agreements, or state-owned “golden shares” – will usually find among their minority shareholders some sophisticated global investors who bring critical perspectives, diverse investment strategies and a wide range of attitudes towards governance and activism.

Rules and best practice guidelines are raising the bar for institutional investors to be better stewards of their investments. Legislation and stewardship codes now require asset managers to increase their oversight and engagement with portfolio companies, monitor and evaluate directors diligently, and exercise voting rights with the same fiduciary care that governs their investment decisions.

What is less clear is why companies should share the responsibility of engaging with investors. To this end, investors were asked as to why companies should be motivated to do so. Nearly half of the investors, (representing $15 trillion AUM), considered engagement to be a way for companies to “build a stable and long-term ownership structure”. This was followed by a quarter of the respondents, (representing $4 trillion AUM), suggesting that engagement provides companies with the opportunity to better understand shareholders’ expectations.

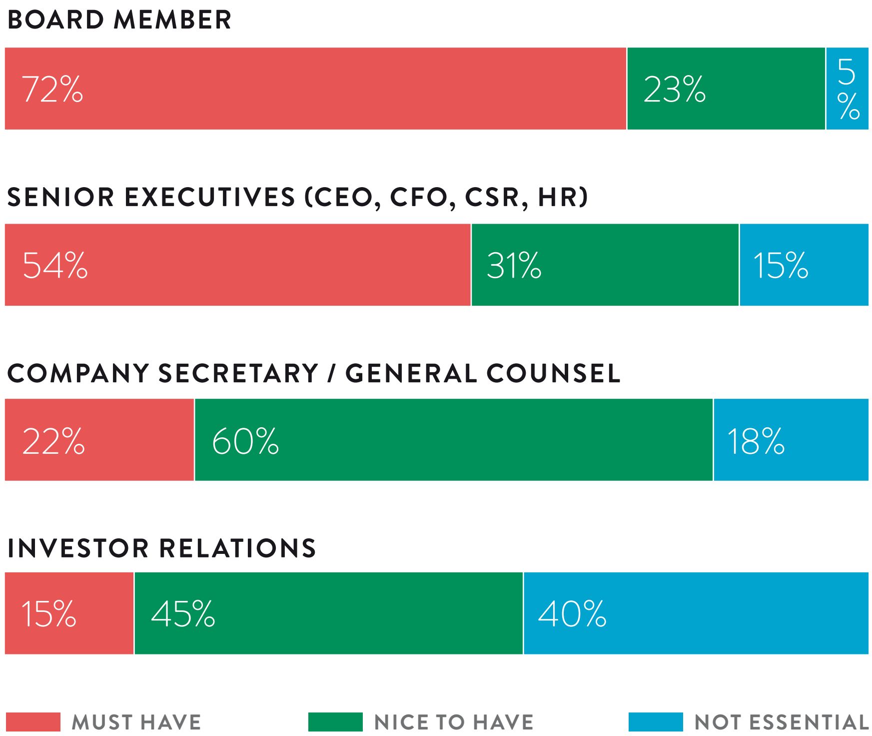
Q.06 HOW CAN INVESTOR-ISSUER ENGAGEMENT BE FURTHER IMPROVED AND MADE MORE EFFICIENT?



Institutional investors are expected to oversee and engage with portfolio companies; board members are expected to be fully informed and responsive to shareholder concerns. Engaging with investors has become easier for companies to execute over the years as investors make their ESG teams more available to meet with their investee companies. In a time-constrained world, the focus now is on the quality of the engagement between both parties. To this end, investors were asked as to how the engagement process between companies and investors could be further improved. Last year "a genuine commitment to improve" was the most important factor, followed by "the appropriate board representatives present at the meeting". This year the latter received a higher percentage of responses and again was the 2nd most important factor to help improve engagement.

However, we included an additional answer this year "companies start incorporating ESG issues into their traditional Investor Relations roadshows", and not surprisingly, more than half of the respondents agreed with this option. This is a clear sign that investors are incorporating ESG issues into their investment/divestment decisions and the disconnect that existed previously between portfolio managers and ESG teams is becoming a thing of the past. However, one challenge is that these roadshows now require company representatives to be well-versed in explaining the company's ESG practices and strategy. Issues like the timing of engagement and having an agenda continue to be important factors that determine the success of an engagement exercise.

Q.07 RANK IN ORDER OF PREFERENCE WHICH REPRESENTATIVE FROM THE COMPANY SHOULD CARRY OUT THE ENGAGEMENT EXERCISE WITH INVESTORS ON CORPORATE GOVERNANCE.



The benefits of an open dialogue between investors and issuers depend, among other things, on how well structured the engagement activity is. This includes setting a clear agenda for discussion which meets all parties' expectations on the topic to be addressed and requesting the participation of those issuer representatives who can best contribute to the quality of the discussion. Last year we asked investors whom they usually engage with on corporate governance matters and 72% of respondents suggested a board member or committee chair.

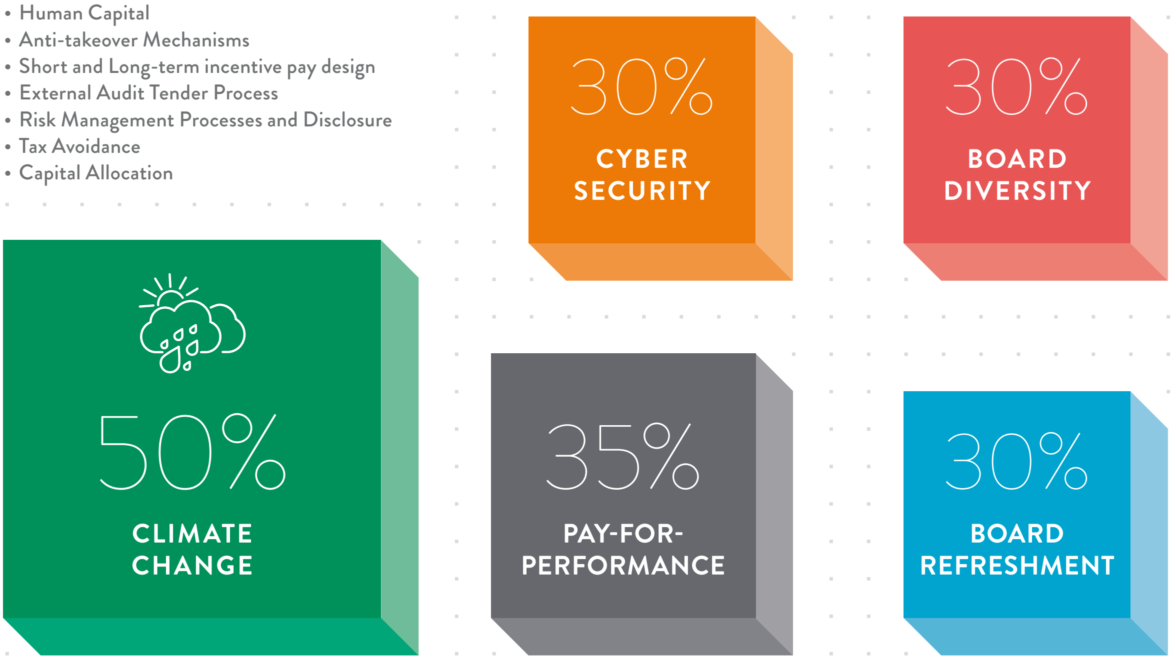
To this end, we note that investors again prefer to engage with a board member, with nearly three-quarters of the respondents, (representing $19 trillion AUM), viewing this as a "must have" for the engagement exercise.

Traditions of boardroom collegiality and privacy should not prevent directors from engaging with the shareholders who elect them. As such, the board should be better prepared with the assistance of the Investor Relations team, so directors can communicate and engage with shareholders in a constructive manner. The board cannot do its job effectively without information about share ownership and access to resources. In addition to market data and investor relations reports, the board should receive regular briefings about investors' engagement profiles and policies relating to governance, environmental practices and social policy. It is the responsibility of both the board and management to ensure that financial and sustainability goals are fully integrated into the company's periodic meetings with financial analysts and portfolio managers.

Q.08 WHAT 3 ESG ASPECTS WILL BE MOST IMPORTANT FOR YOU WHEN ENGAGING WITH COMPANIES IN 2017?

OTHER CRITERIA AVAILABLE

- Water Management
- Political Contributions
- Human Capital
- Anti-takeover Mechanisms
- Short and Long-term incentive pay design
- External Audit Tender Process
- Risk Management Processes and Disclosure
- Tax Avoidance
- Capital Allocation



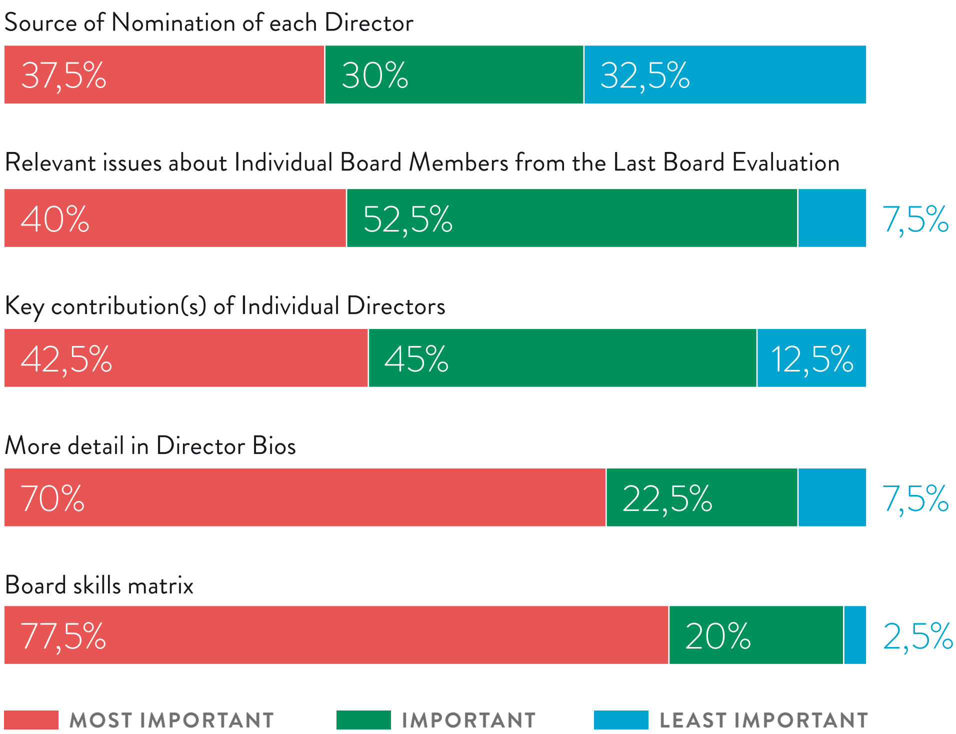
Although most investors now incorporate ESG factors into their investment decisions, the relevance of a specific factor is likely to differ based on the investor's profile and the sector and market considered. Last year board composition, shareholder rights and executive compensation were the key topics investors focused on.

Pay-for-performance, selected by investors with close to $10 trillion AUM, will continue to be a perennial topic of conversation, followed by board diversity and board refreshment tying in third place. The global spread of Say-on-Pay has transformed the dynamics of general meetings and governance debates. Say-on-Pay legitimizes shareholder scrutiny of companies' compensation decisions, which have come to be regarded as a reliable gauge of board competence and independence. Shareholders now routinely use their Say-on-Pay votes as a lever to hold boards accountable on a wide range of governance and performance issues.

However, a new key engagement driver in 2017 is Climate change which topped the list with half of the respondents (representing $7 trillion AUM), stating that they will be including this topic in their engagement exercises with companies. This result is not surprising considering the Paris Climate deal and the aggressive targets that investors have set to reduce their portfolios' carbon footprint.

Q.09

WHAT INFORMATION SHOULD BE DISCLOSED ABOUT BOARD COMPOSITION FOR YOU TO MAKE AN INFORMED VOTE ON DIRECTOR ELECTIONS?

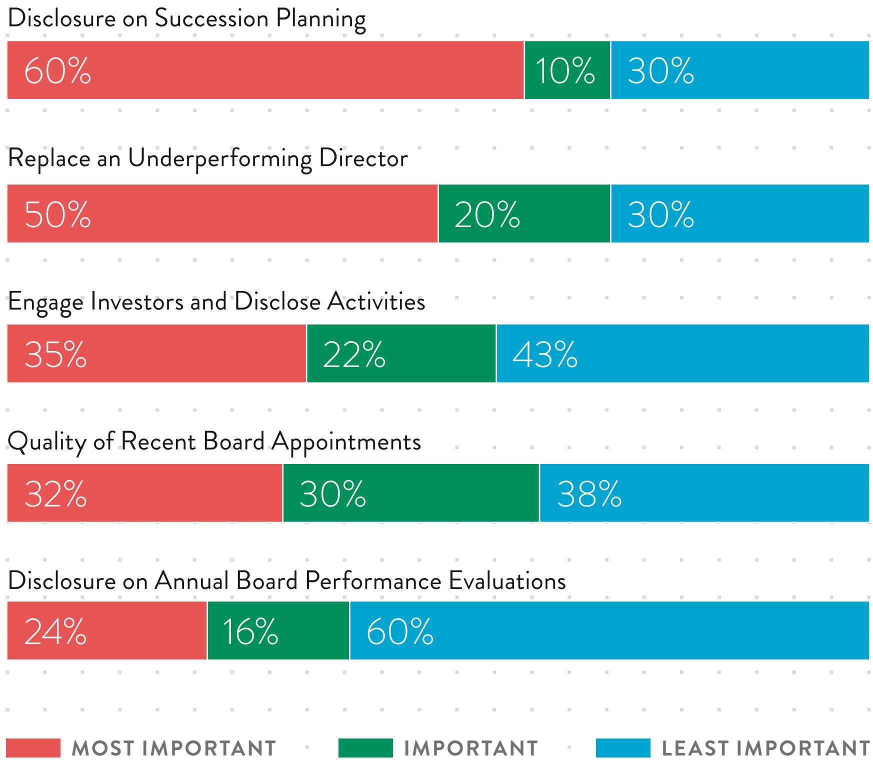


Investors expect boards to comprise members who possess the skills and experience needed to perform their tasks and lead companies toward the creation of long-term value. Access to timely and complete information about board composition is therefore essential to evaluate directors and build trust that the board is acting to protect the interests of shareholders. Over the years, with the support of regulatory measures, the level of transparency regarding board members has certainly improved to allow investors to cast informed votes.

Close to 78 percent of the respondents (representing $ 18 trillion AUM) would want to see companies disclose a "board skills matrix". The board skills matrix is not only useful for investors to determine whether the board comprises the necessary skills and expertise to deliver long-term value, but is also useful for companies when looking for a new board member. Whilst the topic of diversity initially started with a focus on gender, the discussion has now evolved to an overarching belief that there should be a diversity of skills and thought. Close to three-quarters of respondents, (representing $19 trillion AUM), continue to demand more detail on each individual director's biography, this being the key source of information for them to make an informed voting decision.

Q.10

WHAT ACTIONS HELP INCREASE YOUR CONFIDENCE IN THE BOARD'S REFRESHMENT PROCESS?

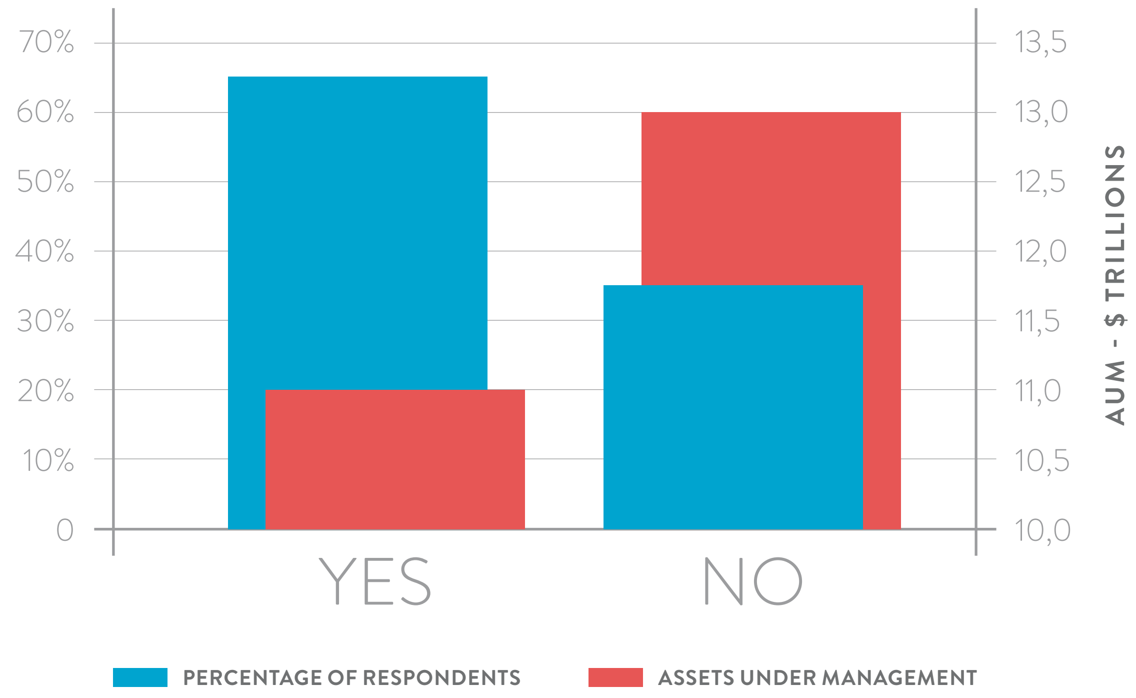


Shareholders place the board at the apex of the corporate governance triangle, they expect to be kept fully informed about how the directors are fulfilling their duty to act in the best interests of the company.

Whilst it is important to have tenured directors on the board to ensure continuity, companies need to provide assurance to investors that there is a constant appraisal of the boards skill matrix as part of the annual board evaluation to allow new perspectives to enter and prevent the board from getting entrenched.

Close to 90 percent of the respondents (representing $13 trillion AUM) want to see disclosure on the activities of "nomination committees regarding succession planning". This was followed by half of the respondents (representing $11 trillion AUM) saying that their confidence in the board's ability to refresh itself is increased when they can "replace underperforming directors".

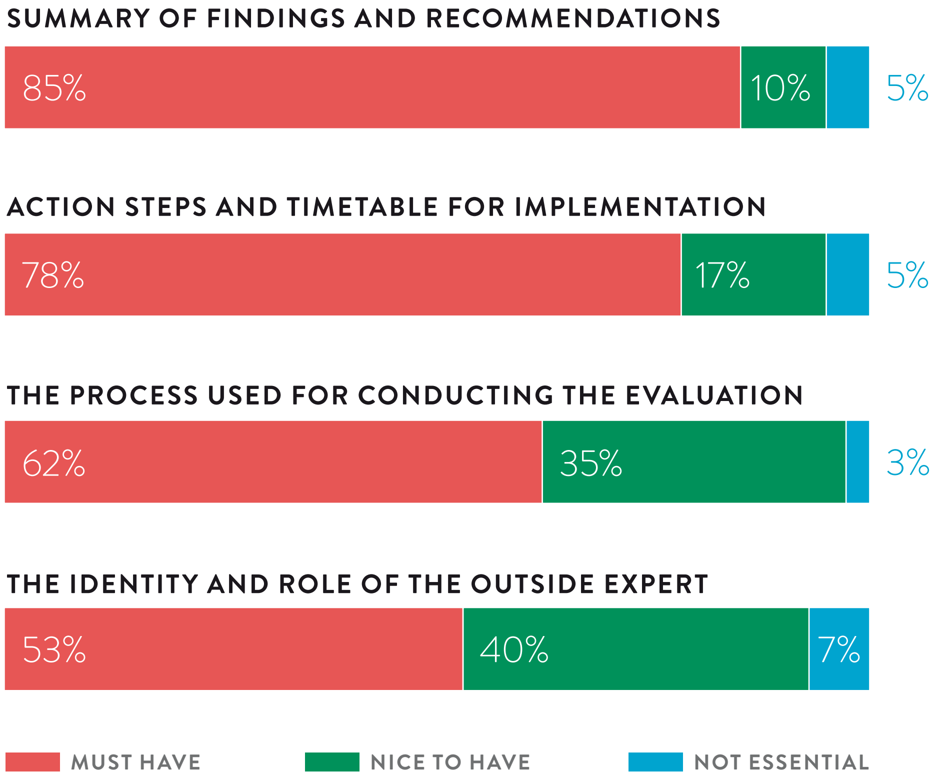
Q.11 IS TENURE ALONE A REASON FOR CONSIDERING A DIRECTOR NON-INDEPENDENT?



Tenure compromising one's independence has long been debated. First, proponents suggest that over time directors can develop familiarity and rapport with company executives/employees whilst serving on the board. Investors can make a strong case on this issue particularly if that director has served on the board concurrently with an executive, like a CEO. The second argument is that the independence of "thought" may be difficult to uphold over time as a director may be too attached to his/her previous decision that may no longer be in the best interest of all shareholders.

As such, to curtail these concerns, regulators have established thresholds which vary across jurisdictions, beyond which directors may not be considered independent. In certain jurisdictions, investors and proxy advisors have adopted more stringent criteria on independence than those laid out by local regulations, mainly in the form of shorter tenures. However, as displayed below, although more respondents indicated that tenure alone is a reason to consider a board member as non-independent, this represented just under half of the AUM (i.e. $11 trillion) surveyed. This may imply that those who responded "No", representing $13 trillion AUM, are larger investors who have more resources that affords them greater flexibility when evaluating director independence to take a more holistic view rather than simply using arbitrary thresholds.

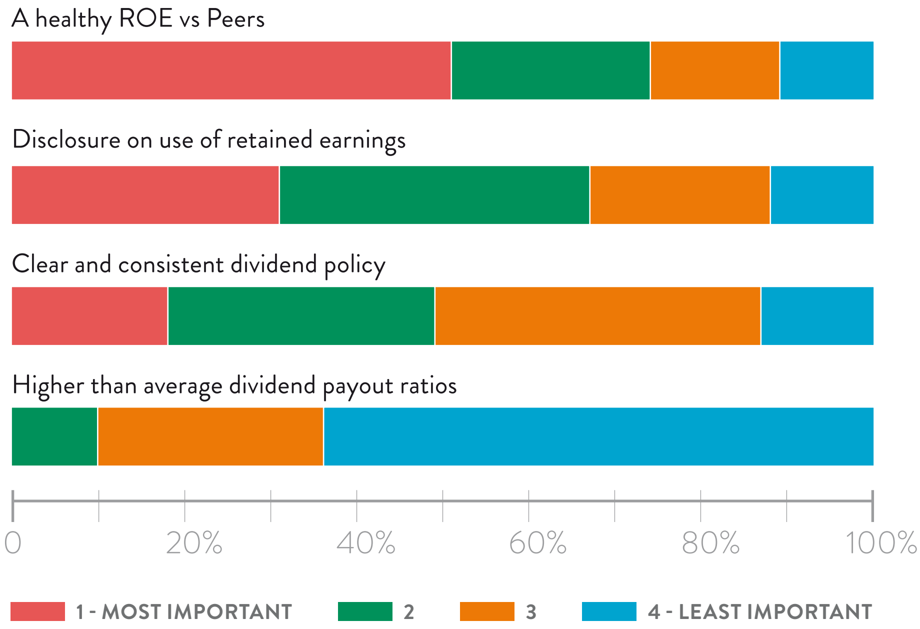
Q.12 WHAT INFORMATION SHOULD BE DISCLOSED ABOUT THE ANNUAL EVALUATION PROCESS?



The annual board evaluation has rapidly evolved beyond a mere compliance exercise into a key barometer for shareholders in assessing the functioning and progress of the board. Yet, it remains primarily a voluntary exercise, encouraged by governance codes, and performed as a self-assessment. Companies, however, are increasingly warming to the idea of carrying out an external evaluation with the support of an independent third-party expert at least every 3 years.

Given that this practice is still in its early days, the disclosure from companies of the process and its outcomes vary widely. Legal constraints or competitive concerns override transparency in companies' disclosure. Nevertheless, shareholders want to know that the board is in fact conducting a rigorous and objective review of the performance of individual directors, board committees and the board. The survey aimed to provide guidance to companies as to what information investors are looking for. As may be discerned from the data above, half of the respondents, representing $19 trillion AUM, considered all the surveyed criteria as a "must have", increasing to around 95 percent of all respondents when also considering what would form part of their "wish list" (or be "nice to have"), thus reflecting market expectations not only about transparency, but also actionable outcomes and improvements that the board may act upon.

Q.13 HOW DO YOU JUDGE THE EFFECTIVENESS OF A COMPANY'S CAPITAL ALLOCATION POLICY?



Capital allocation is one of the most important and complex tasks faced by both senior management and the board in maximizing long-term value creation. Moreover, poor capital allocation decisions exhibited at companies across the world has resulted in a new form of activism whereby investors demand the return to shareholders of unutilized funds or unrealized value, in the form of dividends, share buybacks, spin-offs et al.

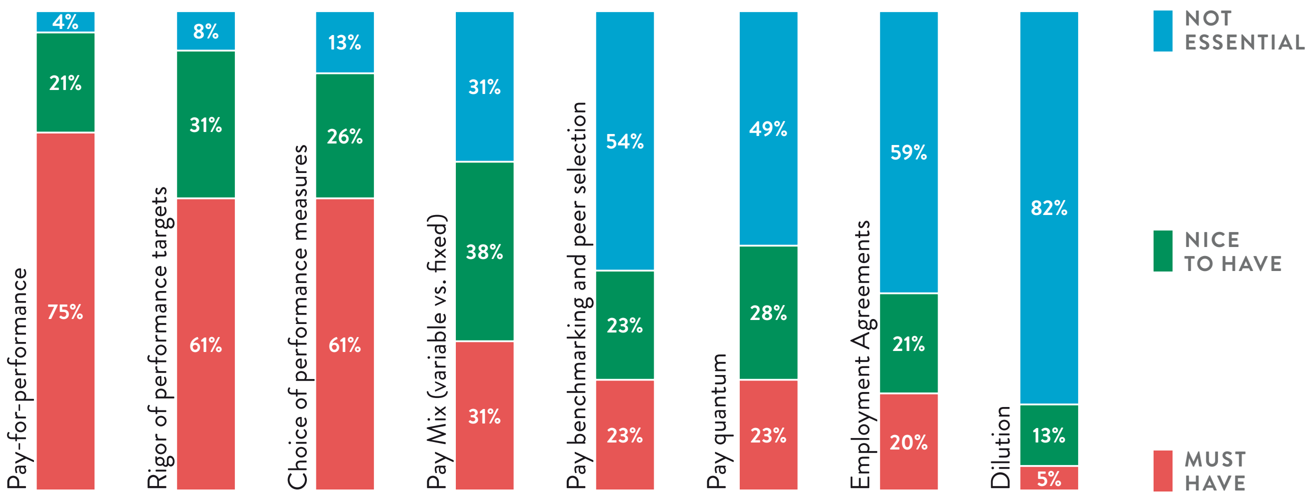
An appropriate balance must be struck between companies' capital expenditure to drive future growth and the liberation of surplus funds to shareholders in the absence of attractive investment opportunities. The latter has gained special relevance following the recent financial crisis and the extended recessionary period of near-zero or zero interest rates, deleveraging, credit contraction, increased risk aversion, poor performance and subsequent hoarding of cash by companies to avoid heavy tax penalties from repatriating profits.

A healthy Return on Equity (ROE) versus peers and transparency surrounding the use of retained earnings were considered as the most important tools when judging the effectiveness of a board's capital allocation decisions. Over two-thirds of the respondents (representing approximately $16 trillion AUM) selected these two factors. In turn, higher than average dividend payout ratios were considered as the least important factor by 64 percent of respondents (representing $10 trillion AUM), seemingly reflecting investors' preference for the reinvestment of funds to fuel growth, in the case of attractive investment opportunities. Finally, views on the importance of setting out a clear and consistent dividend policy were mixed (about "50-50") when assessing the effectiveness of a companies' capital allocation policies.

EXECUTIVE PAY

Q.14

RANK THE ISSUES IN EXECUTIVE REMUNERATION FROM THE MOST IMPORTANT TO THE LEAST IMPORTANT



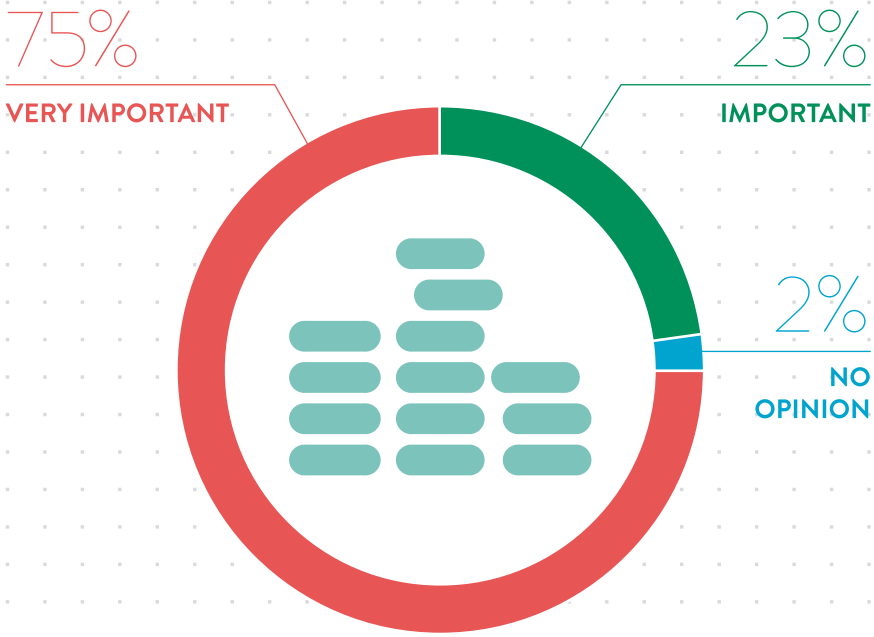
Executive pay has steadily become the focus of greater shareholder scrutiny, especially since the recent financial crisis, ensuing poor company performance and a less-than-proportional drop in executive pay and severance payments. Investors are now more sensitive than ever before on the need to bridge the gap between pay and performance, demanding increased disclosure and requesting the simplification of incentive schemes to better align senior management's interests with those of shareholders.

Say-on-Pay proposals, and other pay-related proposals continue to attract the largest number of negative votes. It is therefore paramount for boards, and especially compensation/remuneration committees, to better comprehend investor expectations with regards to executive pay practices when designing such incentive schemes. This makes sure that all the key aspects are appropriately identified and covered, assuring maximum alignment with shareholder interests and mitigating the principal-agent problem as far as possible.

With that objective in mind, the graph above identifies the key factors that investors evaluate when assessing an executive pay policy. A clear link between pay and performance remains the most sought-after feature when evaluating the adequacy of executive pay, as an average of over two-thirds of respondents, representative of between \$10 and \$17 trillion AUM, considered "pay-for-performance", the "choice of performance measures", and the "rigor of performance targets" set as the most important issues when evaluating pay.

Issues like pay mix, overall pay quantum and employment agreements appear to be secondary and implies that investors may be comfortable with high aggregate pay so long as they are adequately justified, and on par with actual long-term company performance. Companies may be surprised to see dilution being the least important factor for investors when evaluating pay, which would not have been the case a couple of years ago. To this end, it appears effective shareholder engagement, access to committee members and market practices, has contributed to investors feeling more assured that companies have understood their dilution tolerance level, depending on the company's industry and where its positioned within its life-cycle.

Q.15 HOW IMPORTANT IS IT FOR COMPENSATION/ REMUNERATION COMMITTEES TO DISCLOSE ITS DECISION-MAKING PROCESS WHEN DEFINING EXECUTIVE PAY, INCLUDING THE RATIONAL FOR DECIDING ON THE STRUCTURE AND MAGNITUDE OF OVERALL EXECUTIVE PAY?

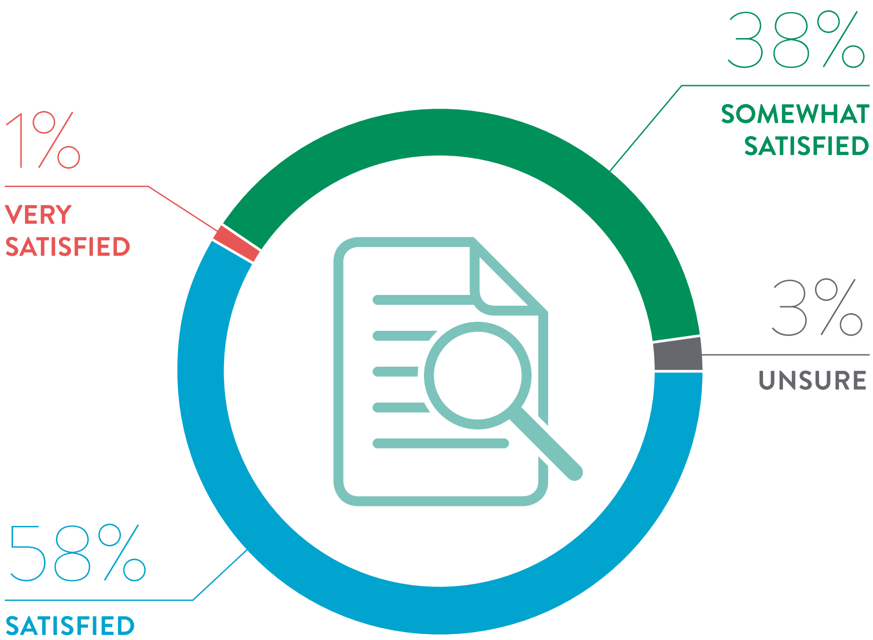


Celebrity CEOs and excessive CEO pay at high-profile companies in developed markets have alienated shareholders, attracted negative media attention and generated a widespread public resentment of business leaders. While rooted in broad cultural trends, the problems of overpaid CEOs, high CEO turnover and mistrust of business create serious challenges for board members and fodder for activists.

In line with growing shareholder scrutiny over executive pay, compensation/remuneration committees have found themselves in the spotlight to the extent that, on occasions, regulators have even dictated their separation by law in certain sectors, such as banking, to ensure the appropriate dedication and specialisation on an increasingly complex topic. Consequently, investors are looking to gain further insights into the decision-making processes of compensation/remuneration committee's to better understand the rationale behind a company's pay policy and practices, as well as the overall fit with the company's long-term strategy.

Not surprisingly, as displayed in the graph above, views run strong amongst respondents, 75 percent of investors (representing $17 trillion AUM), consider the "disclosure of the compensation committee's decision-making process" as very important, and 23 percent (representing $6 trillion AUM) deem it as important. Whilst 2 percent of respondents (representing $1 trillion AUM) had no opinion on this issue. None of the investors considered this sort of disclosure as not important.

Q.16 WHEN ENGAGING WITH COMPANY REPRESENTATIVES (MEMBERS OF THE BOARD/MANAGEMENT, ETC.) ON EXECUTIVE COMPENSATION MATTERS AND SAY-ON-PAY, HOW SATISFIED ARE YOU WITH THEIR LEVEL OF PREPAREDNESS AND KNOWLEDGE OF THE ISSUES THAT CONCERN YOU AS AN INVESTOR?

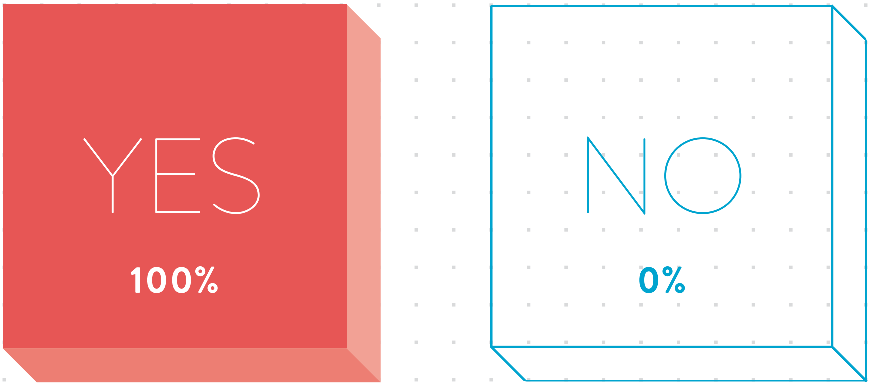


Executive pay has become the perennial topic of discussion between companies and investors in markets where pay issues come to a shareholder vote. Pay-related agenda items continue to receive the most scrutiny and tend to receive the most shareholder opposition. Thus, companies have now seen the benefit of engaging with their investors to reduce the level of opposition and better understand their concerns and expectations when structuring pay policies.

Clearly, to get the most out of the engagement exercise companies need to prepare accordingly, both in terms of determining the topics of discussion and choosing the appropriate representative to hold these discussions with investors. When companies prepare clear presentations, and send the appropriate representative(s) to meet with investors, engagement will deliver value to both the company and its investor. In many cases, even if the identified areas of concerns are not immediately addressed, investors are willing to allow a grace period or make allowances for certain company-specific factors if they see a genuine commitment to improve.

Only three of the respondents (representing approximately $1 trillion AUM) are very satisfied with the "level of preparedness" and the 'knowledge of the people to discuss pay issues", signaling that there is still room for improvement in this regard. 58 percent of respondents (representing $14 trillion AUM) are satisfied and slightly over one-third of the respondents (representing $8 trillion AUM) are "somewhat satisfied". None of the survey participants suggested that they were "not satisfied" with the level of preparedness.

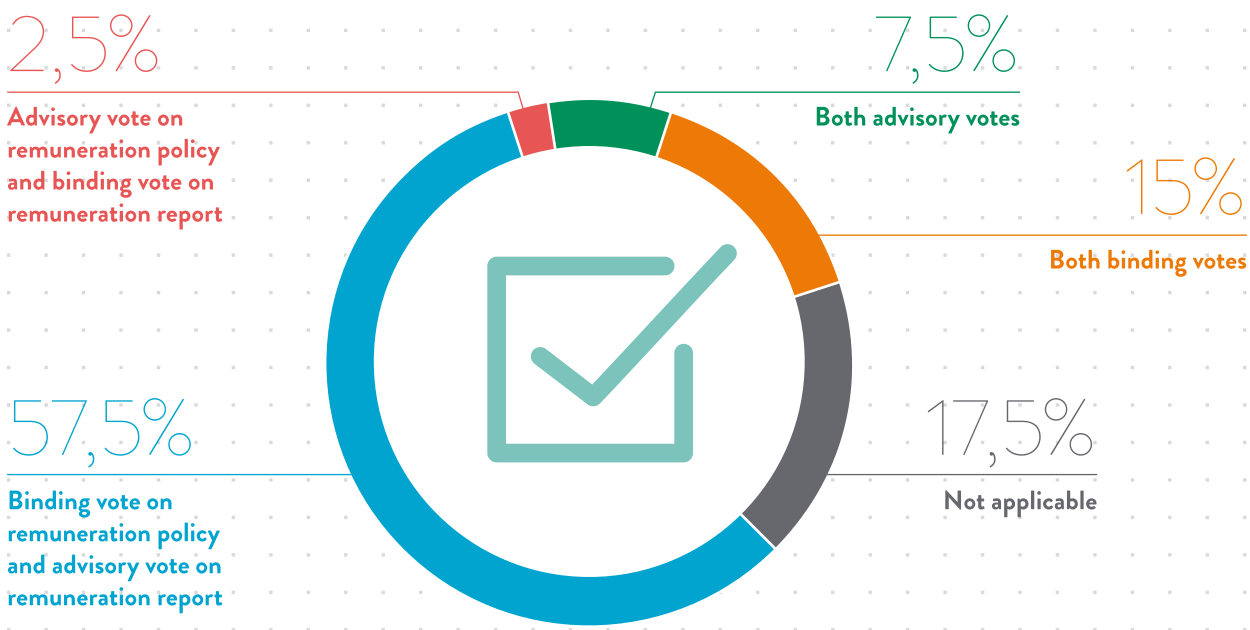
Q.17 WOULD YOU CONSIDER VOTING AGAINST THE COMPENSATION COMMITTEE MEMBERS AT COMPANIES THAT HAVE EXHIBITED CHRONIC POOR PAY PRACTICES?



Where there has been a significant level of opposition registered on pay-related proposals the reaction of compensation/remuneration committees should be swift and decisive. In some cases, there is little or no reaction, resulting in growing frustration from shareholders that manifests itself with against votes on the re-election of those compensation committee members that ultimately made those decisions.

This was one of the two survey questions where all investors agreed, suggesting that investors will pay more and more attention to how compensation/remuneration committee members discharge their responsibilities in 2017.

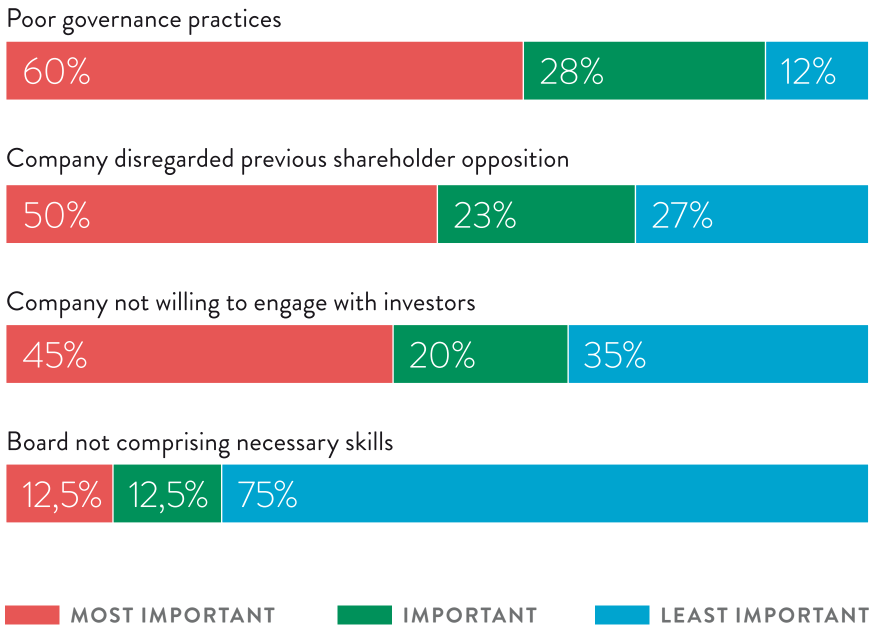
Q.18 DO YOU PREFER TO VOTE ON THE PAY POLICY OR RATHER, ACTUAL PAY-RELATED DECISIONS TAKEN DURING THE PERIOD UNDER REVIEW (I.E. THE COMPENSATION REPORT)? OR BOTH?



In response to public pressure after the financial crisis, while a significant number of markets have introduced shareholder votes on pay, there are significant differences in terms of the vote's nature, final objective and overall impact. In Europe, the still pending revision of the Shareholder Directive is expected to harmonize practices by introducing a model like that applied in the UK. This seems to be the approach preferred by investors when looking at the survey results. 58 percent of respondents (representing $14 trillion AUM), prefer a "binding vote on the pay policy" and "advisory vote on how that policy" was implemented during the period under review. Interestingly, 15 percent of respondents (representing less than $1 trillion AUM) prefer that both items are presented as binding proposals.

SHAREHOLDER ACTIVISM

Q.19 WHAT FACTORS WILL LEAD YOU TO SUPPORT ACTIVIST CLAIMS/RESOLUTIONS?



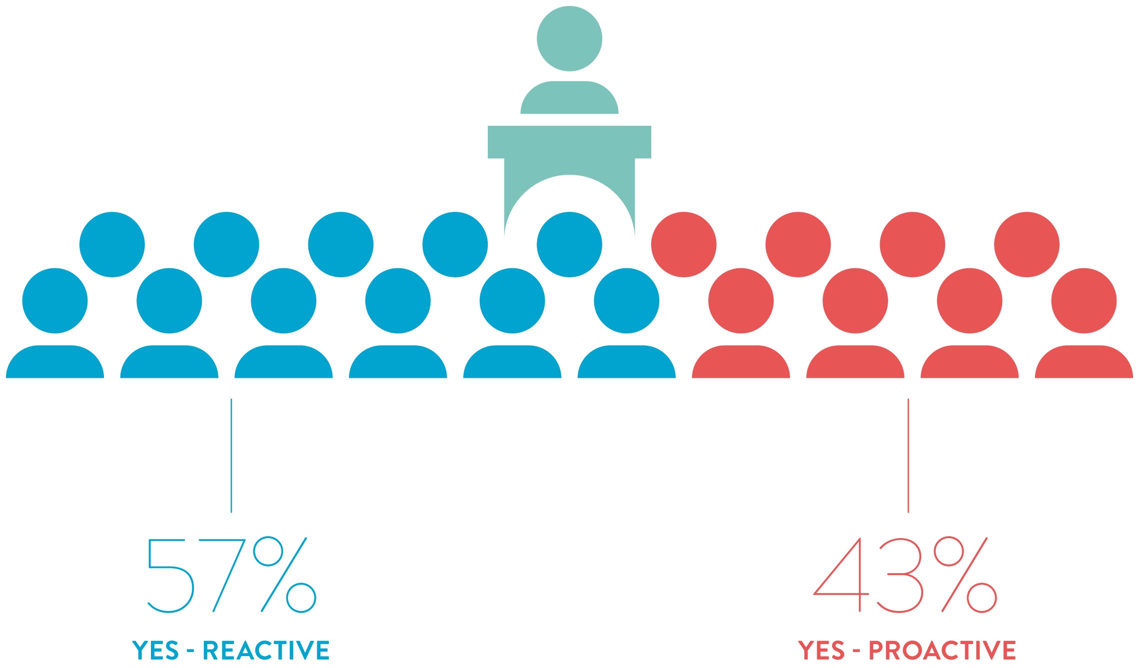
Activists are attracting both investment and votes from long-term institutional investors. Celebrity hedge fund managers are featured in the media as creators of value, defenders of shareholder rights and a force for market efficiency. Target companies, on the other hand, are routinely characterized as poorly run, inefficient or self/serving. In this turbulent environment companies are being bombarded with advice, most of which focuses on defensive strategies – how to defeat hedge funds, discredit activists and deflect shareholder demands.

Businesses create economic value while investors observe the process from an external perspective. Shareholder activists can indeed be effective in spotting inefficiencies and demanding improvements in policy or strategy, but their initiatives cannot be a substitute for good management. Boards and managers, not shareholders, must run businesses and define strategic goals. It is better to manage the business well and stay off activists' radar screen than to raise defensive barriers, treat shareholders as the enemy and wage war against them.

As poor financial performance is one of the primary drivers of traditional investor support for activist campaigns the survey focused on identifying those extra-financial aspects that might also have an important impact. To this end, 60 percent of respondents (representing $10 trillion AUM) viewed poor governance practices as the most important contributing factor in leading them to support activist claims/proposals. The next most important factor, per half of the respondents (representing $13.5 trillion AUM) is the "disregard by companies to previous shareholder dissent at general meetings". Finally, 45 percent of respondents (representing $9 trillion AUM) suggest that "companies not willing to engage with investors" is the third most important factor that leads investors to support activist campaigns.

Q.20

WHERE THERE IS AN ACTIVIST CAMPAIGN AT ONE OF YOUR PORTFOLIO COMPANIES, DO YOU ENGAGE WITH THE ACTIVISTS TO BETTER UNDERSTAND THEIR CLAIMS?



As activism is becoming more mainstream, it was considered interesting to better understand whether investors took a more proactive or reactive approach to communicating with activists. It is evident that many activist campaigns have evolved over time to become more sophisticated in identifying companies that have consistently underperformed with entrenched boards and senior management and craft campaigns that can enact change.

Although investors will evaluate each case individually, they are now more willing to lend an ear to activists' arguments. In this regard, all respondents confirmed that they will at least listen to the merits of an activist campaign. Close to 60 percent of respondents (representing $11 trillion AUM) said they will listen to the activist only if approached, with the remaining 40 percent suggesting that they will not only listen to activists reaching out to them but will also be willing to reach out to activists if not contacted.

CONTACTS

KIRAN VASANTHAM
Director - Investor Engagement
k.vasantham@morrowsodali.com
P. + 44 207 3550603
M. + 44 788 7955816

ALI SARIBAS
Director
a.saribas@morrowsodali.com
P. +44 207 3550614
M. +44 782 5303031

GIULIO PEDICONI
Managing Director
g.pediconi@morrowsodali.com
P. +44 207 3550617
M. +44 787 6762225

Offices

LONDON
103 Wigmore St
Marylebone, W1U 1QS
London, United Kingdom

NEW YORK
509 Madison Avenue
Suite 1206
New York, NY 10022

STAMFORD
470 West Avenue
Stamford, CT 06902

MADRID
Calle del Gral. Pardiñas, 15
Planta 1 - 28001
Madrid, Spain

PARIS
20 Rue Quentin-Bauchart
75008
Paris - France

ROME
Via XXIV Maggio, 43
00184
Rome - Italy

Local Partnerships:
GENEVA • SAO PAULO • MEXICO CITY • BEIJING • JOHANNESBURG

morrowsodali.com