

UK CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY VOTING POLICY

2016

1. Introduction

Aviva Investors is a committed long-term investor. We aim to work with companies towards promoting a profitable, sustainable, long-term future for them, the capital markets and ultimately our clients. This document provides guidance for Board of Directors of UK companies on how we exercise our voting rights.

As a founding signatory to the UK Stewardship Code and the UN Principles for Responsible Investment (PRI), we believe that companies conducting their business in a responsible manner with good corporate governance, high standards of integrity and a sustainable business model deliver better long-term returns to shareholders. Over twenty years, we have developed a deep understanding of the conflicts, barriers and challenges to good governance and we use this insight to identify and address risks and opportunities within our clients' portfolios. Our overriding objective is to improve and protect our clients' returns over time.

We are finding that our clients are increasingly interested in holding us to account in our role as responsible investors and are scrutinising our voting and our approach to environmental and social issues.

On the global front, we have a strong commitment to international standards and principles of good governance such as the International Corporate Governance Network (ICGN) Global Corporate Governance Principles and take our responsibilities as signatories of the UK Stewardship Code seriously. We apply UK standards where these are appropriate but we apply this sensitively, respecting the different cultures and approaches within the country in which we are voting.

Our approach

We wish to support the Boards of the companies in which we invest in the effective management of the company. We see our role as one of partnership with the directors of the companies in which we invest in the creation of long-term value. To that extent, we fully recognise that there is no single answer for every company. We therefore carefully consider best practice guidance and the explanations which companies provide, to ensure that bespoke arrangements provide the necessary checks, balances and protection for shareholders. We look for how companies meet the spirit of good governance, not the letter, and we take into account past practice in forming our opinions. In short, we do not adopt a compliance mentality. We are interested in the principles of good governance and how these are achieved in practice to promote the best long-term prospects for the companies in which we invest.

What is important to us?

To us, the most important aspects of governance are the individuals on the board. We want to have confidence that the people are of high-calibre, appropriate for the company and independently minded. When we are confident that the board is capable of making good decisions in our interests, we are able to spend less time on issues, such as remuneration, which we believe has received a disproportionate amount of focus. This trust also enables us to give the board the benefit of the doubt in less clear cut situations. Consequently, we seek more meetings to discuss the calibre and appropriateness of the people themselves.

Where a significant percentage of shareholders vote against or abstain on a resolution, we expect the board to say how it intends to address this. Our interpretation of the Corporate Governance Code means we consider an abstention to be a strong signal to the board that concerns are present. We see an abstention as a useful voting option which should be taken into account. We believe that it should be common sense and good practice to engage with investors as a matter of course.

2. Policy

Our starting point is the latest iteration of the UK Corporate Governance Code. We believe this is a robust code outlining good governance practices. In forming our opinion of the governance of companies we also consider how they meet the spirit of good practice guidelines and also have regard to other best practice documents¹

The rest of this document highlights areas of focus and priority that may lead to engagement and voting action. This list covers issues that come up most often in our experience and is by no means exhaustive, so it is possible that we may raise concerns on matters not mentioned below.

3. Board leadership and effectiveness

We look for effective boards which safeguard shareholder interests and have the right skills and experience to take the company's strategy forward. This includes setting the company's values and standards. Therefore, we will look to see whether the individuals on boards give us this reassurance.

3.1 Board composition, balance. The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risk to be assessed and managed. We look to see that there is an appropriate mix of skills, knowledge experience and diversity required to meet the challenges and opportunities and strategic objectives of the company. In particular we recognise the important role of the chairman and independent non-executive directors in providing appropriate internal challenge to board discussions and decisions to ensure that all directors act in the best interests of the company.

We look for diversity of thought on boards, not just of gender but also of diversity in its broadest sense. Inclusive and diverse boards are more likely to be effective boards, better able to understand their customers and stakeholders and benefit from fresh perspectives, new ideas, vigorous challenge and broad experience. This in turn leads to better decision making. We would welcome disclosure on how this is achieved.

3.2 Gender diversity. Explanations are particularly important for companies that have chosen not to address or are facing challenges in addressing gender diversity. We are unlikely to support the resolution to adopt the Report & Accounts and/or the re-election of the Chairman of the Nomination Committee if we consider that the Board has not sufficiently addressed gender diversity and the reasons have not been adequately explained in the Report & Accounts. The Davies Review of Women on Board recommended all Chairmen of FTSE350 companies should set out the percentage of women they aim to have on their boards. In line with the UK Corporate Governance Code provision B2.4 "A separate section of the annual report should describe the work of the nomination committee, including the process it has used in relation to board appointments", Chairmen should disclose meaningful information about the company's appointment process and how it addresses diversity in the company's Annual Report including a description of the search and nominations process. We concur with both the Davies Review and the UK Corporate Governance Code. Given our previous engagement and voting stance on this topic we anticipate an increase in the number of instances where we escalate ongoing concerns regarding the lack of diversity and poor explanations by voting against chairmen and/or nomination committee chairs and engagement.

¹ Good practice guidelines

- ABI guidelines on Responsible Investment Disclosure
- ABI Principles of Remuneration (November 2013)
- ABI Report on Board Effectiveness (December 2012)
- BIS The Kay Review of UK Equity Markets and Long-Term Decision Making (July 2012)
- Davies Report on Women on Boards (February 2011)
- Women on Boards Davies Review Annual Report 2015
- FRC's UK Corporate Governance Code (September 2014)
- GC100 Directors' Remuneration Reporting Guidance
- ICGN Global Corporate Governance Principles
- NAPF 2014 Corporate Governance policy/guidelines
- The Pre-emption Group Guidelines (July 2008)
- Turnbull Guidance on Internal Controls (October 2005)

- 3.3 Standards and values.** We place particular importance on boards setting appropriate standards and values for the company both in terms of corporate responsibility and also on doing the right thing in the way companies make decisions. We believe a responsible culture with clearly expressed values mitigates risks to the long-term sustainability and reputation of companies and can prevent some of the poor practices we have seen from companies over the last few years. We encourage companies to observe the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting that accompanies the September 2014 update of the Corporate Governance Code.
- 3.4 Chairman and Chief Executive roles.** We view the separation of the Chairman and CEO roles as important to protecting shareholder value. We will be very reluctant to support such combinations unless there are exceptional circumstances, such as in the case of a brief transitional period. We are very unlikely to support a non-independent Chairman or an Executive Chairman or combined roles on a long-term basis.
- 3.5 Independence.** In assessing independence of non-executive directors, we consider directors that have not been appointed through a formal, rigorous and transparent procedure as not independent, in addition to criteria outlined in the UK Corporate Governance Code. Similarly, while pay should be sufficient to attract high-calibre individuals, directors with disproportionately high fees may also be deemed not independent.
- 3.6 Company Secretary.** Executive directors should not also act as company secretary.
- 3.7 Nomination committees.** Nominations committees should not be chaired by an executive director or a non-independent chairman of the company. The majority of the committee should be independent.
- 3.8 Succession planning.** Succession planning continues to be a cause of concern. We look to see that necessary arrangements are in place to manage succession of board members and senior management. Companies with good succession planning arrangements are generally seen to perform better over the long-term. Therefore, we prefer talent to be nurtured from within companies although we recognise that in some situations an external appointment may be appropriate. We may take voting action against chairmen and nomination committees if insufficient attention has been given to the succession arrangements at their companies, especially given only 54% of boards have a written succession plan².
- 3.9 Over-boarding.** We often vote against directors who have a significant number of other commitments. While we are willing to accept good explanations, as a general rule of thumb we see four non-executive appointments of listed companies as the maximum one individual can manage properly. This reduces according to the significance of the posts so, for example, we would not expect one individual to have four chairmanships.
- 3.10 Board evaluation.** We are supportive of board evaluations and agree that there should be an external evaluation at least every three years and, to the extent possible, the company should give an indication of the outcomes of the evaluation.
- 3.11 Annual re-election.** We support annual re-election of directors. We would encourage companies outside the FTSE350 to consider putting these arrangements in place.

4. Accountability

We expect companies to make disclosures on risk (to cover all material risks including environmental, social and governance (ESG), reputational, tax and cyber security risks) to help shareholders understand the risk and control issues facing the company and explain the steps taken on risk management and internal controls.

- 4.1 Internal controls.** Building on the long standing credence we place in the Turnbull Code it is important that Boards review their application of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and to communicate to their shareholders in a meaningful way on how they manage risk and internal controls.

² FT-ICSA Boardroom Bellwether survey 2015

In particular in line with the Guidance, the board should provide clear and concise information that is tailored to the specific circumstances material to the company and should avoid using standardised language which may be long on detail but short on insight. The reporting should be fair, balanced and understandable. From Aviva Investors' point of view we will focus on the very helpful guidance on the responsibility of the Board to set the tone from the top and embed the company's culture throughout the organisation. We would expect companies to be able to describe their culture in some detail.

- 4.2 Audit committee and auditor reports.** We look forward to more meaningful Audit Committee Reports as proposed in the UK Corporate Governance Code which we hope will assist shareholders' understanding of how the Audit Committee has operated in practice and the issues it has addressed.
- 4.3 Non-audit fees.** The integrity of the auditor's relationship with the company is compromised when a firm is paid excessive consulting fees on top of those paid for auditing services. Such arrangements have the potential to open the auditor process to a wide range of conflicts of interest. We often vote against auditors that receive significant non-audit fees unless fees can be explained e.g. by significant M&A activity. The nature of the non-audit fees should be disclosed.
- 4.4 Concerns over audit practices/ ongoing concerns over high non-audit fees.** Where there are concerns over accounting and auditing practices and/or the continuation of high non-audit fees without adequate explanations, we may consider voting against members of the audit committee
- 4.5 Re-tendering.** We expect companies to re-tender for new auditors every 10 years per the CMA Order³ This process should be explained in the accounts and where changing auditors is not considered to be in the best interests of the company then this should also be clearly explained.
- 4.6 Going concerns.** Per the changes in the latest iteration of the UK Corporate Governance Code we anticipate that most companies will discuss long-term prospects in the strategic report as part of the viability statement, thus coming under the scope of the safe harbour provisions of the Companies Act. These long-term prospects may include liquidity, solvency, and risk management, amongst others. The Code expects a board to include in its assessment of long-term viability a robust identification and assessment of the major risks of the business, and how any such material uncertainties will impact over this increased horizon of assurance. We consider the Environmental, Social and Governance (ESG) risks, covered in section 6, to be included in the scope of this assessment where pertinent. We will assess these statements as part of our process, detailed in section 8 of this voting policy, and engage accordingly, for instance, where there are areas requiring clarification or prompting concerns. The Corporate Governance Code advocates this narrative to cover a period of at least twelve months from the date of approval of the financial statements. Given our long-term outlook we encourage companies to capture the foreseeable business period' rather than the next 12 months and to accompany this with an explanation as to why a certain period was foreseeable in the context of the entity, its operational environment and business cycle.

5. Remuneration

A large proportion of this policy deals with remuneration. The new binding vote on remuneration policy and the continuation of the annual advisory vote on the remuneration report take up a considerable proportion of our resources. We are keen to maximise the time we have available for broader discussions around, for example, the calibre and appropriateness of the individuals on the board, rather than focusing the limited time only on their pay. To complement this approach, we have chosen to go into some detail here and further detail in Appendix 1.

Our policy was updated in early 2014 to reflect our views on new remuneration reporting regulations⁴ applicable from 1 October 2013. Our specific requirements for the vote on the remuneration report are detailed in Appendix 1.

³ The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

⁴ Large & Medium Sized Companies and Groups regulations

However, our approach to remuneration remains the same. In summary, we look for arrangements that are aligned with strategy and shareholder interests, hold management to account and only rewards value creation. We also look for remuneration arrangements that are, well-structured, understandable and not excessive. Pay arrangements should have a sufficient focus on the long-term and have adequately challenging performance conditions that align the directors' interests with those of shareholders.

5.1 Remuneration policy (the new binding vote)

- 5.1.1. **GC100 and Investor Group.** We are generally supportive of the Directors' Remuneration Reporting Guidance produced by the GC100 and Investor Group and would encourage companies to pay close attention to its guidance and especially where the guidance refers to sections that use the phrase 'investors generally expect'. This will provide some context for companies. We would expect the policy disclosures to be clearly linked to company strategy and KPIs.
- 5.1.2. **Annual Disclosure.** Although not required by the Reporting Regulations, it will be helpful to us and other shareholders if the Policy Table is disclosed in the Remuneration Report on an annual basis.
- 5.1.3. **Identifiable limits.** We would expect an identifiable limit for each of the different components within the policy. This need not necessarily be in monetary terms but expressed in a way that will allow shareholders to understand the potential maximums. For example, we would be unlikely to support disclosure that indicates there is no maximum limit.
- 5.1.4. **Discretion.** Similarly, while we expect companies to request a certain amount of discretion to deal with exceptional circumstances, we would be unlikely to accept discretion that gives companies freedom to exceed policy without any context or explanations of the extent to which the company would use that discretion.
- 5.1.5. **Performance conditions.** The Policy Statement for the Annual Bonus and long-term plans should disclose the likely performance metrics and weightings, with fuller details disclosed in the annual Remuneration Report.
- 5.1.6. **Recruitment.** We understand the need for flexibility in the event of external recruitments. However, our preference is that:
- a Any breach of normal limits should still be within the maximum limits set for payments for exceptional circumstances. If the policy allows for payments to go beyond the limits in the disclosed policy we will be unlikely to support the policy. We do not include buyout awards in our assessment as we recognise that there may be occasions when it is necessary to exceed the maxima quoted in the policy.
 - b Where there is compensation for loss from the previous employer, we would like an explanation on whether the payment is on a like-for-like basis and if not, what other issues have been taken into account. In essence, we would want to know if new recruits are being paid more than they are giving up and why. We also take into account quantum for buy-out awards. Even if the payment is on a like-for-like basis, there may be occasions where we consider the payment as simply too generous.

5.2 Annual Remuneration Report (the advisory vote). We have not changed our approach to the way we assess remuneration arrangements. We would look at the total package and form an overall view of the arrangements. We also look at a company's track record both on pay and on governance and the company's willingness to have open discussions with us.

We expect companies to explain and justify their pay arrangements in a meaningful way that is specific to the business and its strategy rather than statements that are boilerplate and generic.

We will be affording companies' freedom to construct pay arrangements which best suit their specific circumstances in order to promote better alignment to strategy and shareholders. In return, we will look for appropriate outcomes from pay arrangements and this will guide our voting decisions. If the outcomes are particularly inappropriate, in extreme cases, we may vote against executive directors. For specific details on our approach to voting on the remuneration report, please see Appendix 1.

6. Corporate responsibility

We believe companies that consider material environmental, social and governance (ESG) as part of their business strategy generate enhanced shareholder value over the long-term. We therefore support integrated disclosure of ESG issues within the Annual Report and Accounts and believe this should reflect an informed and considered deliberation of these issues by the board. We very much welcome integrated reporting <IR> and encourage our investee companies to adopt this wherever practical. We welcome the amendments to the Companies Act as outlined in the Strategic Report requirements and will indicate within our voting the extent to which we consider the company has met these requirements.

6.1 CR risks. We expect all large and listed companies to disclose information on their exposure to and management of key corporate responsibility risks. These may include, but are not limited to, issues associated with the environment and climate change, bribery and corruption, health and safety, human rights, modern day slavery and labour standards.

6.2 Organisation for Economic Co-operation and Development (OECD) National Contact Point (NCP). All companies operating in OECD countries are subject to the OECD guidelines for multinational enterprises which cover a range of principles for responsible business practice including on human rights, employment, the environment, anti-bribery and corruption, consumer interests, science and technology, competition and taxation. Where appropriate, we monitor the outcomes of the NCP mediation process. We expect transparency and due consideration by the companies in which we invest as to the recommendations to be covered in an appropriate public document, including but not limited to the next iteration of the Annual Report and Accounts or a separate regulatory news release. Where we consider the response has been insufficient we may capture this in our voting stance on the annual report and accounts and/or the re-election of the director with responsibility for such matters.

6.3 How we implement this policy. Where companies do not publish this information or where we see poor corporate responsibility performance or management practices, we may vote against or abstain from the resolution to adopt the Report and Accounts. In addition, where we consider this is warranted, we may also withhold support from the Remuneration Report (where ESG performance measure have not been appropriately integrated) or individual directors with responsibility (such as chair of a board sustainability committee or equivalent). This is applied to constituents of the MSCI World Index and FTSE 350.

7. Investment trusts

In the main, we support the principles in the AIC Code. However, there are two areas that we wish to bring to your attention.

7.1 Definition of Independence. The AIC's code does not recommend that long serving directors should be prevented from being considered independent but we believe that lengthy service can compromise independence. In addition, investments trusts should ideally comprise solely independent directors but we will support one exception. As such, we may vote against long serving non-executive directors although we would consider appropriate board refreshment as a mitigating factor.

7.2 Re-issue of treasury shares. In line with the IA guidelines, we are unlikely to support proposed share issues if the company has failed to provide a commitment that shares will not be issued at a discount to Net Asset Value (NAV). We note that the IA have changed their policy regarding the re-issue of Treasury shares where they are now comfortable with Treasury shares being re-issued at a discount as long as this is lower than the average discount at which all shares held in Treasury have been repurchased, and if the Investment Trust has provided a sufficient explanation for this. We are less likely to support this arrangement, and would need to be convinced that any re-issuing of shares at a discount is in the best interests of shareholders.

8. Our process

At Aviva Investors, we've always believed that companies conducting their business in responsible and sustainable manner are more likely to succeed, benefiting our customers and society as a whole. For more information please see our Responsible Investment microsite:

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<http://uk.avivainvestors.com/gb/en/individual/about-us/responsible-investment.html>

How we vote and engage with companies is becoming increasingly important to our clients. As investors we are being held accountable for our stewardship of the companies we are invested in and have disclosure requirements under the UK Stewardship Code. In order for our stakeholders to understand the way we work, we have set out our broad process as follows:

- 8.1 Oversight.** Primary responsibility for oversight of our policy lies with the Executive Team at Aviva Investors. The ESG and corporate responsibility elements of the voting and engagement strategy are overseen by an external Advisory Committee.
- 8.2 Integration with fund managers.** Issues in respect of our active holdings are decided in conjunction with our fund managers to ensure that all special circumstances and the company's strategy is taken into account.
- 8.3 Proxy agencies.** We use proxy voting agencies for information but will make our own decisions.
- 8.4 Engagement with companies.** We aim to inform all companies of our voting decisions. However, as we own a large number of companies we cannot always promise to do so before shareholder meetings. We will endeavour to do so where we hold at least 1% of the stock. Similarly, with remuneration consultations, we will respond directly where we hold more than 1% of the stock or where we are a top 10 shareholder. For smaller positions we will inform the Chairman annually, by way of letter, indicating where our voting direction and rationale can be found on our website.
- 8.5 Collaboration.** We collaborate with other shareholders where we have a significant interest in a company and on developing points of principle. However, we are careful to stay well within the concert party regulations.
- 8.6 Inside Information.** The decision as to whether we should become insiders (i.e. to be in receipt of non-public price-sensitive information on a company and hence unable to trade in the company's shares during that time) is taken on a case-by-case basis. As a general rule we are willing to be made insiders. However, we prefer to have a clear idea of when we will be released from being insiders and the information made public. Our preference is to be insiders for as short a time as possible, for example, for days rather than weeks. There are no Chinese walls regarding trading restrictions so when a security is added to our Stoplist, no fund manager is able to buy or sell the stock. This will also apply to personal dealing.

For a fuller description of how we operate, please see our Stewardship Code Statement on our website.

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Appendix 1: remuneration principles

These are the principles we would apply to the advisory vote on the remuneration report (also called the implementation report):

- 5.2.1 **Remuneration committee.** We would expect remuneration committees to be fully independent.
- 5.2.2 **Shareholding requirements.** We are very supportive of management holding a meaningful amount of shares in their company. We expect them to hold the shares in their own right and preferably not be gifted by share schemes. Unvested shares in incentive arrangements should not count towards the total.
- 5.2.3 **Pensions.** Ideally, pension entitlements should be the same as for the rest of the workforce. However, we recognise that industry practices are currently some way from this ideal and that it will take time to transition. Consequently, we look for differences in pension arrangements for executive directors and the rest of the workforce to be disclosed and justified.
- 5.2.4 **Simplicity.** We prefer pay arrangements that are clear and understandable. Cutting down on numerous plans would be one way of producing clarity. A number of companies have already done this. Care needs to be taken to ensure that performance conditions are not convoluted or overly complex.
- 5.2.5 **Balance of pay.** The right balance between fixed and variable pay will depend on the company. However, in general we prefer to keep fixed pay lower with higher pay for exceptional performance, subject to not incentivising inappropriate risk taking. Companies should justify why the balance is appropriate.
- 5.2.6 **Pay increases.** Companies should provide good reasons for any pay increases. We are highly supportive of rewarding exceptional performance over the long-term. However, falling behind the pay benchmark is not a sufficiently adequate reason on its own. Companies are unique and directors' pay should therefore reflect their differences. Care should be taken when using benchmarks as individual roles can be very different. We look to companies to explain pay increases in the context of additional returns for shareholders, how other employees will benefit and why it is deserved.
- 5.2.7 **Quantum.** We take quantum into account when assessing how we should vote, but this is not our primary concern. Nevertheless, excessive pay can represent a risk to the company both in terms of encouraging the wrong behaviours within the firm and also for the reputation of the company itself. As the economy continues to recover, some companies may argue that the amount of total pay should be increased. We would discourage this thinking and we will make our assessment on the explanations companies give us for the need for pay increases and what else they have considered in coming to their conclusions e.g. wider employee pay, performance and inflation.
- 5.2.8 **Living Wage.** Aviva plc is a London Living Wage accredited employer. As such, we see the value in paying the Living Wage. We are very supportive of investee companies who are accredited or taking steps towards being accredited albeit this is not yet a factor which directs our voting decisions on its own. For the avoidance of doubt we use the Living Wage Foundation's definition of the Living Wage rather than the Government's definition in its 2015 Budget.
- 5.2.9 **Payment at median.** Companies should be careful not to pay too much for median or threshold performance because we believe significant incentive awards should only be made for exceptional performance. The award for median (or threshold) performance has been creeping up over the last few years, largely as a result of grant levels going beyond 100% of salary.
- 5.2.10 **Disclosure of bonus measures and targets.** We expect specific targets to be disclosed for the year that is under review with sufficient transparency for shareholders to decide if any payments have been a fair reflection of performance. We believe that that reason given by some companies for providing limited disclosure being due to the "commercially sensitivity" of targets as expressed in the GC100 guidance has been used too loosely. We only expect to see this argument used sparingly. Where commercial sensitivity is used, then we expect sufficient additional information to be disclosed in the following year. If disclosure for bonus awards is poor, we are unlikely to support the remuneration report.
- 5.2.11 **Deferral of variable pay.** We would like to see a significant length of deferral. We are encouraged to see deferral also being applied under long-term incentive plans. Companies should explain any mitigating factors that may justify a lack of deferral in variable pay.
- 5.2.12 **Alignment to long-term strategy.** We welcome companies using their stated KPIs and targets as their performance

conditions under their share plans. This has the advantage of closely linking pay with what investors expect companies to achieve. However, please note, we would expect some element of the conditions to include TSR (see 'performance measures').

- 5.2.13 **Performance measures.** We are unlikely to support plans that, in our view, reward poor performance. We prefer TSR to be a component of LTIP performance. We are aware of the shortfalls of TSR but no performance measure is perfect and many are open to manipulation. Our view is that TSR is least manipulable over the longer term and will take into account operational performance. Importantly, it is the measure that most aligns company performance with shareholder returns and this is ultimately how all companies will be measured. We expect measurements of TSR, share price EPS and other performance measures to be constructed so that measurements are transparent, minimise arbitrariness and do not skew vesting in favour of participants.

Where possible, companies should minimise "cliff-edge" vesting. Sliding scales starting from a suitably low level of payment at the point where awards are made is preferred.

- 5.2.14 **Environmental, social and governance measures.** We also expect material ESG (environmental, social and governance) performance measures to be included, particularly for companies in high risk sectors. As with all performance measures these should be material to the business, clear and transparent with specified metrics and targets and measurable. ESG considerations may be introduced via malus mechanisms, for example, if an individual has damaged the company's reputation through unethical behaviour, or if the company has poor health and safety records or customer complaints). ESG considerations may also be incorporated as a form of underpin whereby certain ESG standards need to have been met before payout, even if all the financial targets have been met. We may vote against the remuneration arrangements where we consider the Company has not considered material ESG risks or performance issues in their remuneration arrangements.
- 5.2.15 **Malus and clawback.** We are supportive of malus and clawback. We support the drafting of provisions which enable performance adjustment or post-vesting clawback for executive directors' variable pay and specify the circumstances in which the remuneration committees would consider it appropriate to act.
- 5.2.16 **Performance periods.** We are looking to see long-term schemes move beyond performance periods of three years without a corresponding increase in reward value. Where there are mitigating factors that would justify a shorter performance period, these need to be carefully explained to shareholders.
- 5.2.17 **Retesting.** We do not support the retesting of performance conditions for annual plans.
- 5.2.18 **Change in control.** There should be no automatic waiving of performance conditions on a change in control situation where we expect awards to be pro-rated for performance and time.
- 5.2.19 **Dilution.** Dilution levels should not breach best practice guidelines as stated in the ABI's Principles of Remuneration 2013
- 5.2.20 **Discretionary payments.** We do not approve of discretionary payments and, in particular, we do not believe retention payments work. A properly thought out remuneration policy should be sufficiently retentive and reward exceptional performance.
- 5.2.21 **Recruitment.** Where recruitment payments are made we consider the following
- (i) Quantum
 - (ii) Whether the incentives are subject to performance conditions (only vested incentives from the previous employer should be compensated for without performance conditions)
 - (iii) Awards that are made in shares and are to be held over a number of years are more aligned with shareholder interest than immediate cash awards.
 - (iv) Companies should not pay more than a like-for-like replacement of what the appointee is losing.
- 5.2.22 **Exit payments.** Ideally, exit payments should be no more than 12 months base salary and should only be made when deserved.

- 5.2.23 **Tax arrangements.** Tax arrangements should not result in additional costs to the company or an increase in its own tax bill.
- 5.2.24 **Collateral and hedging.** We are not supportive of shareholdings being used as collateral for loans, or any form of hedging against achievement of performance conditions.
- 5.2.25 **Pay consultations.** When consulting on pay, we expect to see the total pay arrangements put into context. For example, base pay (and base pay rise expectations), bonuses (and anticipated maxima), benefits and LTIPs. Importantly, companies should also include pension entitlements as part of the consideration of the overall package. Therefore when consulting on a specific part of pay arrangements e.g. the LTIP, please put this in the context of all other elements of pay.