Voting Policy Remuneration

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Introduction

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

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

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

Policy

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

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

Remuneration Policy: Content

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

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

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

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1) To be applied especially in the Dutch market: MN is not in favor of matching share plans where the shares to be matched are not subject to additional performance criteria.

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

In addition, in 2018, PMT will vote against the election of the Chairman of the remuneration committee (except new nominees), if the 2018 remuneration report (or policy) resolution warrants a vote against according to the PMT guidelines and, at the same time, the latest remuneration report (or policy) resolution voted also warranted a vote against according to the PMT guidelines. This guideline will also be applied in case of one single bundled resolution if the Chairman of the remuneration committee is among the nominees.
In those countries (such as Switzerland) where the same director is submitted to shareholder vote twice at the same meeting, once in his capacity of director and once in his capacity of member of the remuneration committee, PMT will vote AGAINST the Chairman of the remuneration committee both in his/her capacity of chairman of the remuneration committee and in his/her capacity as director.

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

Remuneration Policy: Procedure

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

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

Employee Stock Plans

Vote FOR broad restricted stock plans which would benfit employees as opposed to executives and upper management.

Advisory Vote on Say on Pay Frequency

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

Non-Executive Director Compensation

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

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

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