

GLOBAL CORPORATE GOVERNANCE AND CORPORATE RESPONSIBILITY VOTING POLICY

2019

1. Introduction

Aviva Investors are committed to being long-term responsible stewards of our clients' assets. We actively exercise our rights as shareholders to promote responsible and sustainable practices in companies in which we invest.

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

We are global investors and believe that principles of good corporate governance are universal. However, we apply our guidelines sensitively, reflecting the different cultures and approaches within the country in which we are voting.

Our approach

We seek to establish a supportive and constructive relationship with the boards of companies we invest in. We are keen to understand the specific business and commercial context of a company and recognise that no single governance model can or should apply to all companies. We therefore carefully consider the explanations which companies provide for departures from best practice, to ensure that bespoke arrangements provide the necessary checks, balances and protection for shareholders. We look at 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.

2. Policy

Our guidelines consider global best practice guidelines such as the [ICGN Global Corporate Governance Principles](#) and the [G20/OECD Principles of Corporate Governance](#) but is also informed by our investment philosophy and numerous years of voting experience. Certain local market best practice guidance such as aspects of the [UK Corporate Governance Code](#) will be more prominent in our policy than in other codes where we consider such areas to have significant importance. Therefore, in certain areas our expectations may differ from or exceed standard market requirements. This document highlights areas of focus and priority that may lead to engagement and voting action. The topics cover issues that occur most often in our experience and is not intended to be exhaustive.

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. The board is responsible for testing and approving corporate strategy and should provide clear and concise disclosure on how the board composition, governance structures and corporate culture have been designed to support this process. We welcome disclosure around how sustainability considerations have been factored into long-term corporate strategy

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. In addition to our expectations that Director biographies should be disclosed, we consider it important that companies explain if there is the 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 chair and independent non-executive directors in providing robust 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 and view diversity through a broad lens, including gender, ethnicity, nationality, skills and experience. 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. In terms of reflecting on the views of stakeholders such as employees, we consider that companies are best placed to identify the most appropriate engagement practices that are best for them – but again, this should be properly explained.

3.2 Gender diversity. We have long been strong supporters for more women in senior management and were one of the first asset managers to factor in gender and diversity in our voting policy. We expect all companies to consider gender diversity and we will not support the report & accounts resolutions and/or the re-election of nomination committee chairs if progress and explanations as to how companies have been addressing the issue are considered inadequate. Further, despite an increase in women on boards over recent years, we think there is still much to be done especially in respect of more female appointments to senior management and executive positions. As such, we continue to encourage companies to develop their talent pipeline and culture (accompanied by helpful disclosures) to improve in this area.

3.3 Standards, values and culture. 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 and embedded 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. In our discussions with companies we seek to understand how their boards shape, embed and oversee culture in their organisations. Where material cultural issues in the firm are evident, we will hold directors accountable / consider voting against the relevant Board members.

3.4 Independent chair. We have always viewed the separation of the chair and chief executive roles and in particular, an independent chair as fundamentally important in protecting shareholder value. For non-independent chairs, we would look at the process undertaken to mitigate the risks such as the appointment of a strong senior independent director and other factors such as whether this arrangement is for a brief, transitional period. Further, there is a need for much better disclosure in the report & accounts as to why a non-independent chair, is considered to be in the best interest of the Company and its shareholders. We would typically use the same criteria for the chair that we use to assess the independence of non-executive directors (see section 3.5), with one exception. Given the nature of their role, the nine year rule is less relevant for the chair. Although as per non-independent chairs, we are reluctant to support long serving chairs unless the Company has made a strong justification or there are other exceptional circumstances.

3.5 Independence. It is vital that Boards comprise a sufficient number of independent directors in order to ensure the appropriate checks and balances. Whilst we think that this number should typically be at least half of the Board directors, we are mindful that this may not be practical for all markets and all companies (for example, those markets that require employee representatives) and hence, explanations are important in such scenarios. Audit and Remuneration committee should be entirely independent. We are likely to vote against non-independent directors (including executives when deemed necessary) where there are concerns over the lack of independent representation on the board and /or key committees. In assessing the independence of non-executive directors, we consider those who have not been appointed through a formal, rigorous and transparent procedure as not independent, in addition to the following criteria:

- is or has been an employee of the company or group within the last five years;
- has, or has had within the last three years, a material business relationship with the company, either directly or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- has received or receives additional remuneration from the company apart from a director's fee (or is paid disproportionately high fees), participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;
- has close family ties with any of the company's advisers, directors, senior employees or the founding family;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder (or government stake);

- has served on the board for more than nine years from the date of their first appointment.

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.

- 3.6 Company Secretary.** Beyond their normal course of duties, company secretaries often provide advice and counsel to the board chair, executive director and others. They are also typically an initial contact point for investors and accordingly, should be able to respond to questions and any concerns. To ensure objectivity, a company secretary should not also be an Executive director. Where companies consider there to be special reasons that justify them performing both roles, these should be adequately explained.
- 3.7 Succession planning.** 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. To ensure that there is a formal, rigorous and transparent procedure for board refreshment and new appointments, Nomination committees should not be chaired by an executive director or a non-independent chair of the company. Further, the majority of the committee should be independent. We may take voting action against chairmen and nomination committees if insufficient attention has been given to the succession arrangements at their companies.
- 3.8 Over-boarding / time commitments.** Board members, including some executives may become overstretched if they have taken on numerous other directorships. We expect boards and nomination committees to seek greater comfort that new directors (or existing directors taking on additional roles) can devote the time required with consideration given to their roles on the other boards, and the size and complexity of such companies. Further, Boards need to think about how their time commitments may change in the event any of the companies may experience challenging times or M&A activity. 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, for example, an individual having more than two chair positions may be problematic. Also, executive directors should have no more than one non-executive role. Any material concerns including insufficient justifications, will be reflected in our voting on the relevant directors including the nomination committee chair. In addition, if directors have poor attendance records without strong justifications, we would typically vote against their re-election.
- 3.9 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.
- 3.10 Annual re-election.** We support the annual re-election of directors (individually, not multiple directors bundled under a single resolution) as this enhances their accountability to shareholders. Where annual re-election is not local practice, we would encourage companies to put such arrangements in place or as a minimum we would expect directors to come up for re-election every three years. We will consider taking voting action when they are being elected for longer periods.

4. Accountability

We expect all companies regardless of their market of listing to make the report and accounts available ahead of the AGM, and in particular, sufficiently in advance of voting deadlines so shareholders are able to make informed decisions on the relevant resolution. Such disclosures should also cover all material risks including environmental, social and governance, reputational, tax and cyber security to help shareholders understand the risk and control issues facing the company and explain the steps taken on risk management, mitigation and internal controls. Poor transparency (or timeliness of information) are likely to result in us voting against resolutions.

- 4.1 Internal controls.** It is important that boards communicate to their shareholders in a meaningful way on how they manage risk and internal controls. 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.

- 4.2 Audit committee and auditor reports.** Meaningful audit reports assist shareholders' understanding of how the audit committee has operated in practice and the issues it has addressed. We encourage enhanced disclosure of the process for identifying and reviewing specific revenue streams, assets, business segments and geographies for more in-depth scrutiny.
- 4.3 Audit and non-audit fees.** The integrity of the auditor's relationship with the company may be compromised when a firm is paid excessive consulting fees on top of fees paid for auditing services. Such arrangements have the potential to open the audit process to a wide range of conflicts of interest. Both audit and non-audit fees should be disclosed. A breakdown of the non-audit fees should also be provided. We are inclined to vote against auditors where there is insufficient information on fees or auditors who have received significant non-audit fees unless these have been adequately explained e.g. they were related to significant M&A activity.
- 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 and Rotation.** Whilst some consider that a rotation of auditors may reduce audit quality because it takes a significant amount of time to learn in-depth how a client operates, our overriding view is that changing long serving auditors will ensure a more independent and effective audit. As such, we consider companies should re-tender for new auditors every 10 years per the CMA Order¹ and rotate the auditor every 20 years. We welcome companies following similar practices even if they are listed in markets where there are no regulations on this issue. 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. We would consider voting against the re-election of the auditors when they served as auditors in excess of 20 years.
- 4.6 Going concerns.** It is vital that companies discuss their long-term prospects, for example in the strategic report as part of the viability statement. 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 to the business, and how any such material uncertainties may impact the business 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 where there are areas requiring clarification or prompting concerns. Given our long-term outlook we encourage companies to capture the 'foreseeable business period' rather than say, 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.
- 4.7 Cyber security.** This is an increasingly significant operational, legal, commercial and reputational risk. We expect boards to describe the extent to which they provide oversight of cyber-risks and control mechanisms in place. This should include a clear understanding of vulnerabilities, levels of investment in technology, people and processes, and implementation of crisis management protocols. Boards must be able to demonstrate the existence of appropriate skills and experience amongst directors that will enable the appropriate level of oversight of cyber risks. The extent and manner in which these oversight responsibilities are delegated through the business will be subject to heightened shareholder scrutiny.
- 4.8 Data Protection.** Increased regulation around data protection covers a number of areas including processes for withdrawing consent for use of personal data, deletion of personal data (right to be forgotten) and child protection. This may result in significant costs and operational challenges to companies. We expect boards to assess the business impacts of the regulation

¹ The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

or voluntary improvements to data protection to ensure operational readiness, update compliance frameworks including crisis management, and provide appropriate levels of disclosure.

4.9 Share Buybacks. Whilst buybacks may be a sensible strategy, there are concerns that in some cases it is to the detriment of the longer-term prospects of businesses. We would typically not be supportive of general authorities that allow for shares to be bought back at a premium of more than five percent of the share price. Further, when voting on share buy-back proposals we expect quality disclosures including:

1. Clear rationale for future buyback programmes beyond assurances of enhancements to earnings per share. Explanations should include how share buy-backs would be positive for the long-term future of the company and specifically, how the board assesses buy-backs against other investment opportunities.
2. Better disclosure on previous share buy-back programs that have been made in the year under review. We believe there should be more specific disclosure including volumes, prices and how purchases have created long term value for the company.
3. More details on the effect of share buybacks on remuneration arrangements for executive directors and senior management.

4.10 Dividends. Whilst we support almost all dividend payments, there may be occasions where the amount proposed or paid is considered too high or too low, dependent on the company's financial position and other circumstances - at which point, we would consider voting against the dividend payment or even relevant directors. As such, it is important that companies explain their policy on dividends and properly justify their decisions of dividend amounts.

4.11 Share issue authorities. Although share issue criteria differ from market to market, in respect of authorities seeking to issue shares without pre-emption rights we seek to ensure there is reasonable protection for existing shareholders. Given their dilutive effect, we have a strong preference for general authorities, to be limited to no more than 10%, unless a clear justification and strategic rationale is provided to shareholders. We also consider that share authorities should be put to shareholders on an annual basis, as over the year there may be significant changes in company circumstances or in market conditions. We are likely to vote against share authorities if these conditions haven't been met.

4.12 Double Voting Rights and anti-takeover defences. We believe that companies should have share structures that support the one share, one vote principle to ensure all shareholders are treated equally. We are likely to vote against the relevant resolutions when companies are either seeking to establish or continue the practice of double / unequal voting rights (such as Amendments to Articles). The same applies to share authorities which may be used as anti-takeover devices. When there are material concerns over the share structures or the use of share authorities which are not considered to be in the interests of shareholders generally, we are likely to vote against management too.

4.13 Sustainable borrowing. We expect the board and audit committee to provide robust oversight of the health of the balance sheet, future funding arrangements, optimum gearing levels, and ensure consistency with the agreed risk appetite of the business. This should include stress testing the balance sheet against various earnings, cash flow, and asset and liability valuation scenarios. The audit committee should review relevant metrics related to debt covenants and ensure the company is providing suitable levels of disclosure to the market.

Where we have concerns over the sustainability of a company's absolute level of debt or relative gearing, we may vote against proposals that seek to increase borrowing limits, expand lending arrangements, or issue new debt and other interest-linked securities. Where we consider there has been an egregious failing of oversight we may also vote against members of the audit committee.

4.14 Stakeholder Engagement. We believe that for companies to thrive over the long-term, they must maintain constructive and positive relationships with wider stakeholders. The Directors' Duties outlined in the UK Companies Act describes the responsibilities of directors to 'have regard to' the interests of wider stakeholders to deliver enlightened shareholder value. We expect the board to describe how key stakeholders are identified, mechanisms of engagement selected and implemented, and the extent to which stakeholder interests have been considered when deliberating on key business decisions. Where we have material or ongoing concerns over the actions of directors, we will vote against the relevant directors.

5. Remuneration

We look for executive incentive arrangements that are aligned with strategy and shareholder interests, hold management to account and only reward long-term value creation. We also look for remuneration structures 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. Companies should be mindful of outcomes and ensure that actual pay-outs delivered to management are appropriate in light of the experience of shareholders and to some extent employees and other key stakeholders.

Where we feel that remuneration arrangements and decisions are fundamentally misaligned with the interests of shareholders and the company, we may consider voting against members of the remuneration committee and the chair of the board.

Given the high level of interest in our voting policy on remuneration related proposals we have provided further details of our approach in Appendix 1.

6. Corporate responsibility

We believe companies that consider material environmental, social and governance (ESG) factors as part of their business strategy, will 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 reflects an informed and considered deliberation of these issues by the board. We very much welcome Integrated Reporting (<IR>) and encourage companies to adopt this wherever practical.

6.1 Climate change and 2 degree scenarios. We are strong supporters of the recommendations of the FSB Taskforce on Climate-Related Financial Disclosures². This includes a requirement to stress-test business models against 2 degree policy scenarios. Climate risk remains an important consideration in our long-term valuation of companies, and we expect boards to be able to demonstrate 'climate competency' in their communications with investors. We expect companies to begin reporting climate risks, strategy, policies and performance against the Taskforce disclosure framework. This should include stress testing of business models and assets against various climate policy scenarios. We will vote against the report and accounts of companies operating in high impact sectors that have not made sufficient progress in providing the market with investment relevant climate disclosures

6.2 Corporate Responsibility 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. We welcome the report from the Corporate Human Rights Benchmark (CHRB) that states that as more and more firms in the apparel, agriculture and extractives sectors engage on human rights, they are creating a "race to the top" on the issue as benchmarks highlight good performers. The same applies to the World Benchmarking Alliance (WBA) which aims to develop, fund, house, and safeguard free, publicly available corporate sustainability benchmarks aligned with the Sustainable Development Goals (SDGs).

Where companies do not publish this sufficient 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 measures have not been appropriately integrated) or individual directors with responsibility (such as the chair of a board sustainability committee or equivalent). We are also likely to support shareholder resolutions that reflect our general views on sustainability risks, reporting and emerging best practice.

² <https://www.fsb-tcfd.org/publications/final-recommendations-report/>

6.3 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 companies and boards on the recommendations of any NCP processes impacting the company. 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.

7. Investment trusts

7.1 Independence. For Investment trust Boards where the members are all non-executive directors, these directors should ideally all be independent, but we will support one exception. Further we believe that lengthy service can compromise the independence of directors, even for investment trusts. As such, we may vote against non-independent, including long serving directors, although we would consider appropriate board refreshment as a mitigating factor.

7.2 Re-issue of treasury shares. We will not 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). Further, we are unlikely to be supportive of the re-issue of Treasury shares at a discount to NAV, even if the price represents a premium based on the average discount at which all shares held in Treasury had been repurchased. We 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 believe that companies conducting their business in a 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: <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. In order for our stakeholders to understand our stewardship philosophy, policy and activities, 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.

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 a company's strategy is appropriately 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. As we own a large number of securities we are unable to engage with all companies ahead of their shareholder meetings to discuss our position if we are intending to vote against or abstain on resolutions. We will endeavour to do so where we hold at least 2% of the stock or where we are a top 10 shareholder. Similarly, with remuneration consultations or offers of meetings on corporate governance issues, we will prioritise our resources by the size and value of our holding, and the materiality of any concerns. In addition, we write to companies on an annual basis to advise of any changes to our voting policy and where our voting records 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 within 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 the expected period we are likely to remain inside. Our preference is to be insiders for as short a time as possible (days rather than weeks). There are no Chinese walls regarding trading restrictions so when a security is added to our Stoplist, trading is restricted across all Aviva Investors funds. This will also apply to personal dealing.

For a fuller description of how we operate, please see our Stewardship Code Statement on our website: (www.avivainvestors.com)

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Appendix 1: remuneration principles

These are the principles we would apply to binding and advisory votes on remuneration arrangements.

We look at the total package and outcomes and form an overall view of the compensation arrangements. We also look at a company's track record both on pay and governance. 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.

- 5.1 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. We would be unlikely to support disclosure that indicates there is no maximum limit.
- 5.2 Discretion.** We believe that remuneration committees should retain some level of discretion to ensure that remuneration outcome closely reflect company and management performance. However, the scope and restrictions to the exercise of discretion should be clearly outlined to shareholders beforehand.
- 5.3 Performance conditions.** The policy statement for the annual bonus and long-term plans should disclose the performance metrics and weightings, with fuller details disclosed in the annual remuneration report. The chosen performance measures should be clearly aligned with the strategic and operational priorities for the company.
- 5.4 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 disclosed limits 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 previous employment, we would expect 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 to be excessive.
- 5.5 Annual Disclosure.** Although not required by the Reporting Regulations, it will be helpful to shareholders if the policy table is disclosed in the remuneration report on an annual basis.
- 5.6 Abstentions.** When disclosing in the report & accounts the levels of shareholder support for past remuneration reports, companies should not exclude abstentions from the total number of votes cast. Taking into account the abstentions will provide a truer reflection of the extent of shareholder support.
- 5.7 Remuneration committee.** We would expect remuneration committees to be fully independent.
- 5.8 Shareholding requirements.** We are 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 exclusively gained through vested share awards. Unvested shares in incentive arrangements should not count towards the total.
- 5.9 Holding periods for executives retiring from the business.** To ensure management are thinking about the long-term health of the business, including succession arrangements in the period before they retire, we consider it to be good practice that any bonuses that are subject to deferral in shares, should remain deferred upon their retirement, until the end of the holding period. The same should apply for LTIP performance and holding periods. We also consider that shareholding guidelines should continue for a period after executives have retired from the business.

- 5.10 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.
- 5.11 Simplicity.** We prefer pay arrangements that are clear and understandable. Cutting down on numerous plans would be one way of producing clarity. Care needs to be taken to ensure that performance conditions are not convoluted, repetitive or overly complex.
- 5.12 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, while guarding against incentivising inappropriate risk taking. Companies should justify why the balance is appropriate.
- 5.13 Quantum.** Quantum is increasingly becoming an important consideration, especially given the numerous examples we've seen for what can only be considered as excessive. Such outcomes 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. We will make our assessment based on the explanations companies provide for the overall pay levels and other exceptional factors.
- 5.14 Pay increases and salary positioning.** Companies should provide good reasons for any pay increases. We are supportive of rewarding exceptional performance over the long-term but companies should explain pay increases in the context of additional returns for shareholders, how other employees will benefit and why it is deserved. Falling behind the pay benchmark is not a sufficiently adequate reason on its own. Companies are unique and directors' pay should therefore reflect these differences. Care should be taken when using benchmarks as individual roles and companies can be very different.
- Substantive salary increases immediately after the Company has made a large acquisition would not be considered appropriate without good reason. The integration/success of an acquisition needs to have been proved first. If retention and integration challenges are considered to be key issues, then we would prefer to see slightly more performance-related pay potential.
- 5.15 Salaries / remuneration packages for new joiners.** Unless there are exceptional circumstances, salaries/pay packages for new directors should not be more than their predecessors, particularly if predecessors were in post for a significant amount of time and delivered strong performance.
- 5.16 Living Wage.** Aviva plc is a London Living Wage accredited employer. As such, we see the value in paying the Living Wage. We are supportive of investee companies who are accredited or taking steps towards being accredited. For the avoidance of doubt, we use the Living Wage Foundation's definition of the Living Wage in the UK rather than the Government's definition in its 2015 Budget.
- 5.17 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 welcome the revised GC100 guidance in the UK on what is expected i.e. the decision to withhold disclosure should not be taken lightly, and only where there are company-specific circumstances that lead the directors to "positively form the opinion that" the information is commercially sensitive. If disclosure for bonus awards is poor, we are unlikely to support the remuneration report.
- 5.18 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').
- 5.19 Performance measures.** We prefer Total Shareholder Returns (TSR) to be a component of LTIP awards. We are aware of the shortfalls of TSR but no performance measure is perfect and many are open to manipulation. 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, earnings 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 initial vesting level is preferred.

We will carefully consider proposals to introduce restricted shares on a case-by-case basis. Companies should provide clear justification of the benefits to shareholders of granting executives share awards without performance conditions. When considering the merits of such proposals, we will evaluate the discount levels applied to the total award, the business rationale, extended holding periods, and the long-term vesting history of previous performance based share awards.

5.20 Environmental, social and governance measures. We expect material environmental, social and governance (ESG) performance measures to be included in variable incentive arrangements, particularly for companies in high risk sectors. As with all performance measures, these should be material to the business, clear and transparent with specified measurable metrics and targets. ESG considerations may be introduced via malus and clawback mechanisms, for example, if an individual has damaged the company’s reputation through unethical behaviour, or the company has a poor health and safety record. ESG considerations may also be incorporated as a form of underpin or hurdle. We may vote against remuneration arrangements where we consider the Company has not considered and reflected material ESG risks and performance.

5.21 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 vest for exceptional performance. We prefer not to put a limit in place for how much should vest for threshold performance as there are numerous factors to consider (such as the positioning of salaries and pay overall relative to the size of the Company, and how challenging we consider the threshold targets to be). However, when Long Term Incentive Plans were first introduced, it was generally accepted practice that 25% of the award could vest for median (or threshold) performance awards as award levels were typically at 100% of salary. Grant levels over the last few years have increased significantly so when justifying such levels, companies should be mindful of what this means in terms of percentage of salary vesting for threshold performance.

5.22 LTIP Performance periods. We expect long-term schemes to 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, this need to be carefully explained to shareholders.

5.23 Deferral of variable pay. We would like to see a significant length of deferral. We are pleased to see deferral being applied to both short and long-term incentive plans. Companies should explain any mitigating factors that may justify a lack of deferral in variable pay.

5.24 Share options / share appreciation rights. We are supportive of share options (or other forms of share appreciation rights) as an alternative structure for long term incentive arrangements. Whilst there are issues and past practices that have led to share options falling out of favour, such as dilution, large block grants and their impact on accounting, none of these are insurmountable. We think companies should consider variations of share options or Share Appreciation Rights (SARs) that have the same alignment as past plans but with fewer shortfalls.

5.25 Pro-rating for time for departing directors’ LTIP awards. We have seen an increasing number of cases where LTIP awards for departing directors were not pro-rated for time. LTIP awards that are subject to the usual performance conditions and time periods are a positive feature because they allow for executives to be rewarded for their contribution in the period before they leave the business. However, our view is that the award size should typically be pro-rated to reflect how much time has elapsed between when the LTIP awards were granted and the executive’s departure.

5.26 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.

5.27 Retesting. We do not support the retesting of performance conditions for incentive plans.

5.28 Change in control. There should be no automatic waiving of performance conditions on a change in control situation and expect awards to be pro-rated for performance and time.

5.29 Dilution. Dilution of shareholders through the issuing of shares to employees can represent a significant transfer of value. New share awards, when aggregated with outstanding awards under all of the company's other schemes, should not exceed 10% of the issued ordinary share capital (or 5% in respect of executive / discretionary schemes in any rolling 10 year period, unless there are strong justifications which need to be clearly presented).

5.30 Discretionary and retention payments. We do not approve of discretionary payments and do not believe retention payments work. A coherent remuneration policy should be sufficiently retentive and reward exceptional performance.

5.31 Recruitment. Where recruitment payments are made we consider the following:

- (i) Justification of the quantum of awards
- (ii) Whether the incentives are subject to performance conditions (only vested incentives from the previous employer should be compensated for without performance conditions)
- (iii) Whether the compensation is granted in restricted shares
- (iv) The extent to which recruitment awards are a fair reflection of the expected value of payments forgone.

5.32 Exit payments. Ideally, exit payments should be no more than 12 months base salary and should only be made when deserved and legally obligated. We acknowledge that market practice in some countries allows for more than 12 months pay on termination of contracts and in such case we will look to see if there are any mitigating factors for us to be able to support such arrangements,

5.33 Tax arrangements. Revisions in individual tax arrangements should not result in additional costs to the company.

5.34 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.

5.35 Pay consultations. When consulting on pay, we expect to see any proposed revisions placed within the context of the long-term needs of the business and the impact on each element of executive compensation. Importantly, companies should also include pension entitlements as part of the consideration of the overall package.

5.36 Pay Ratios. The concept of pay ratios is relatively new but we consider that over time, this information will be useful for investors and be another lens in which to assess the appropriateness of executive remuneration arrangements, and having regard to both historic and sector trends.