

## Liontrust Policy December 2018– Europe Proxy Voting Guidelines

The policy applies, as far as appropriate, to all European markets<sup>1</sup> (excluding those in the UK, Ireland and UK tax Havens) for all main index companies and companies with a market cap greater than US\$3bn (or currency equivalent)\*. We actively vote as an extension of our engagement and to signal support or concerns about a company's practices and proposals.

We recognise that companies are not homogeneous and some variation in governance structures and practice is to be expected. Reflecting the need for some practical flexibility, corporate governance models are increasingly operating on a “comply or explain” basis, which is an approach we are supportive of.

In making our final voting decisions we seek to have regard to any company specific context and clarifications, as well as local market standards. Within practical limits we aim, where possible, to raise issues of concern and engage with companies ahead of the General Meeting. Our core holdings are prioritised in this regard.

Main index companies are determined based on their membership in a major index and/or the number of ISS clients holding the securities. For Sweden, Norway, Denmark, Finland, and Luxembourg, this is based on membership on a local blue chip market index and/or MSCI EAFE companies. For Portugal, it is based on membership in the PSI-20 and/or MSCI EAFE index.

\* Companies with a market cap greater than US\$3bn (or currency equivalent) – a buffer of US\$500m (or currency equivalent)\* will be applied for growing companies to allow management to adapt our policy recommendations, thus companies under US\$3.5bn (or currency equivalent) shall adapt the main ISS policy guidelines.

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<sup>1</sup> Austria, Belgium, Bulgaria, Croatia, the Czech Republic, Cyprus, Denmark, Estonia, the Faroe Islands, Finland, France, Germany, Greece, Greenland, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Spain, Slovakia, Slovenia, Sweden, and Switzerland.

Voting Issue	Liontrust Policy	Vote Recommendations
<b>Financial Statements and Statutory Reports (M0105)</b>	<p>We may withhold support from the Report &amp; Accounts in certain instances including the following:</p> <p>Where adequate disclosure has not been provided.</p> <p>Where the auditor has emphasised a matter or where the auditor has provided a qualified opinion.</p>	<p><b>Against</b> where adequate disclosure has not been provided (e.g. annual report not disclosed in time).</p> <p><b>Abstain</b> where auditor has emphasised a matter in its opinion.  <b>Against</b> where the auditor has qualified their opinion.</p>
<b>Appointment of Auditors and Auditor Fees (M0101, M0109, M0136)</b>	<p>We hold that the Audit Committee should pay particular attention to the provision of non-audit services by the external auditor.</p> <p>Where non-audit services have been provided by the auditor, we will consider carefully both the actual value of non-audit services provided as well as the ratio between the audit and non-audit fees.</p>	<p><b>Against</b> if a big 4 auditor and if non-audit fees are more than 33% of audit fees.</p> <p><b>Abstain</b> if outside big 4 auditors and if non-audit fees are more than £500,000 (or market equivalent) or are more than 33% of audit fees.</p> <p><b>Against</b> if outside big 4 auditors and if non-audit fees of five consecutive years and more than 33% of audit fees.</p> <p><b>Abstain</b> if excessive non-audit fees are more than 33% of audit fees and an adequate explanation is given.</p> <p>Rotation of auditors<sup>2</sup>:  <b>Abstain if after 10 years and</b> where the company have indicated that they are in the process of an audit tender with the intention of rotating the audit firm or have stated their intention to rotate their auditor in the upcoming financial year.</p>

<sup>2</sup> Implementation note: In case no information provided / disclosed on the rotation of auditors and the Company has retained the same audit firm in excess of ten years, vote Against.

		<p><b>Against</b> after ten years and there is no intention to rotate the Auditor in the upcoming financial year.</p> <p>- The EU Audit Directive requires the Audit Committee (AC) to rotate the external auditor after a tenure of 10 years.</p> <p>Transition rules require that ACs switch auditor if (by 16 June 2014) the company has been audited by the same firm for more than:</p> <ul style="list-style-type: none"> <li>▶▶ 20 years, a new auditor is required for first FY beginning on or after 17 June 2020.</li> <li>▶▶ Between 11 and 20 years, a new auditor is required for first FY beginning on or after 17 June 2023.</li> <li>▶▶ Less than 11 years, a re-tender is required before 17 June 2016.</li> </ul> <p>We shall continue to vote against this proposal until the company states their intention to rotate the audit firm in the upcoming financial year.</p>
<p><b>Company Boards (M0201) – Director Elections</b></p>	<p>We hold that for companies in the main index we expect the majority of a Board to consist of independent directors. We will vote against non-independent directors if a majority of the board is not independent.</p> <p>For companies outside of the main market index, we seek to ensure that there is appropriate independent non-executive director and representation on the Board and would look for a board that is one third independent. Similarly, for companies which require employee representatives on the Board, we look to ensure that at least one-third of the Board comprises of independent directors.</p> <p>We consider that companies should provide shareholders the opportunity to vote for candidates on an individual basis and the use of bundled elections for directors is behind best practice.</p>	<p><b>Against</b> if non-independent NED and board is less than 50% independent.</p> <p><b>Against</b> if non-independent NED and board is less than one-third independent.</p> <p><b>Abstain</b> if bundled election and board majority independent.</p> <p><b>Against</b> if bundled election and board &lt; majority independent.</p>

	<p>For <i>voto di lista</i> (similar to slate elections) where lists are published in sufficient time, we will recommend a vote on a case-by-case basis, determining which list of nominees it considers is best suited to add value for shareholders.</p> <p>We expect directors to be able to dedicate sufficient time to the role. We will vote against any director that we feel is overboarded. Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.</p> <p>Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.</p>	<p>In line with ISS.</p> <p><b>Against</b> if a Director is considered overboarded.</p> <p>To be applied:</p> <p>In Austria, Belgium, Denmark, Finland, France, Germany, Italy, Luxembourg, the Netherlands, Norway, Spain, Sweden, and Switzerland, at widely-held companies, vote against a candidate when s/he holds an excessive number of board appointments, codes, as defined by the following guidelines:</p> <ul style="list-style-type: none"> <li>› Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.</li> <li>› Also, any person who holds the position of executive director (or a comparable role) at one company and a non-executive chairman at a different company will be classified as overboarded.</li> </ul> <p>CEOs and Chairmen</p> <p>An adverse vote recommendation will not be applied to a director within a company where he/she serves as CEO; instead, any adverse vote recommendations will be applied to his/her additional seats on other company boards.</p> <p>For chairmen, negative recommendations would first be applied towards non-executive positions held, but the chairmanship position itself would be targeted where they are being elected as chairman for the first time or, when in aggregate their chair positions are three or more in number, or if the chairman holds an outside executive position.</p>
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<p><b>Director Elections – Chair of Nomination Committee</b></p>	<p>We may withhold support from the re-election of the Chair of the Nomination Committee:</p> <p>Where there is a regulatory requirement in a country for a particular percentage of women on boards.</p> <p>Less than 15% of the board comprised of women</p> <p>Less than 30% of the board comprised of women (but greater than 15%).</p>	<p><b>Against</b> where the company does not adhere to the regulatory requirement for a particular percentage of women on boards<sup>3</sup>.</p> <p><b>Against</b> if fewer than 15% of women on the Board.</p> <p><b>Abstain</b> if fewer than 30% of women on the Board (but greater than 15%).</p>
<p><b>Election of CEO/Chairman</b></p>	<p>We hold that a Chairman should be an independent non-executive director on appointment.</p> <p>However, once appointed a Chairman will no longer be considered either independent or non-independent.</p> <p>We will take into consideration on a case-by-case basis the election of a former CEO as Chairman or the election of an Executive Chairman. We will vote <b>Against</b> where a Company is seeking the election of a combined CEO and Chairman.</p>	<p><b>Against</b> if a Chairman is being elected for the first time and Chairman is non-independent on appointment.</p> <p><b>For</b> if all subsequent proposals to elect a non-executive Chairman.</p> <p><b>Against</b> if an Executive Chairman unless an adequate explanation is given.</p> <p><b>Against</b> if there is a combined CEO/Chairman.</p>
<p><b>Term of Office</b></p>	<p>Director terms should not exceed more than three terms as we feel that longer terms of office reduce director accountability to shareholders.</p>	<p><b>Abstain</b> if 4 year term of office.</p> <p><b>Against</b> if 5 year term or more of office.</p>

<sup>3</sup> Please refer to 'European Quotas' (at the end of this document): Belgium (33%), France (40%), Germany (30%), Italy (33.3%) and Norway (40%). Only to be applied to ISS Core Companies + Companies with market cap = or > 3.5bn.

<p><b>Audit and Remuneration Committees</b></p>	<p>We will vote against any non-independent Director sitting on the Audit or Remuneration Committee.</p> <p>For companies with employee representation on the Board, we expect the majority of the Audit and Remuneration Committees to consist of independent directors (excluding employee representatives from the calculation, whose board membership is required by local law, and are not elected by shareholders).</p>	<p><b>Against</b> if non-independent NED on Audit or Remuneration Committee.</p> <p><b>Against</b> if an Executive Director on Audit or Remuneration Committee.</p> <p>In line with ISS.</p>
<p><b>Share Plans (M0501, M0503, M0507, M0509)</b></p>	<p>For all Executive Share Plans we hold that performance targets should be applied, should be disclosed, should be sufficiently stretching and should be sufficiently long term.</p> <p>The dilutive effects of share plans should adhere to recommended guidelines.</p>	<p><b>Against</b> for Share Plans where performance targets are not applied/disclosed.</p> <p><b>Against</b> for Share Plans where performance targets are not considered to be sufficiently stretching.</p> <p><b>Against</b> for plans with less than 3 year vesting.</p> <p><b>Against</b> if dilution limits should not exceed recommended best practice of 10% in 10 years for all schemes.</p> <p>Otherwise, with ISS.</p>
<p><b>Remuneration Report (M0550) / Remuneration Policy</b></p>	<p>We determine the vote on the Remuneration Report in the context of overall levels of remuneration.</p> <p>Adhering to best practice guidelines, we will consider carefully the level of disclosure, where there are significant concerns over quantum of pay or where significant increases in salary have been granted without a clear justification.</p> <p>In line with our policy on Share Plans performance targets should be disclosed (for both short and long term incentives) and be sufficiently stretching.</p>	<p>- If ISS voting against use explanation.</p> <p>- Poor disclosure</p> <p><b>Against</b> if there are concerns over quantum/increase in base pay (&gt;10%) without appropriate justification.</p> <p><b>Against</b> share plans/annual bonus where performance targets are not applied/disclosed.</p> <p><b>Against</b> share plans where performance targets are not considered to be sufficiently stretching.</p>

	<p>We are typically opposed to discretionary payments.</p> <p>Appropriate vesting levels are expected and the dilution of share schemes should adhere to recommended guidelines.</p>	<p><b>Against</b> if discretionary payments have been made and are without proper justification by the Company.</p> <p><b>Against</b> for plans with less than 3 year vesting.</p> <p><b>Against</b> if dilution limits exceed recommended best practice of 10% in 10 years for all schemes.</p>
<p><b>Share Issuances/Capital Structure (M0329/M0331/M0300s)</b></p>	<p>We will vote in line with recommended best practice on general share issuance requests and will consider on a case-by-case basis for specific requests.</p>	<p><b>Against</b> if issue with pre-emptive rights exceeds more than 100% (50% in France) of the currently issued share capital.</p> <p><b>Against</b> if issuance of shares without pre-emptive rights exceeds more than 20% (10% in France) of the currently issued share capital.</p>
<p><b>Organisational/Structure /M&amp;A (M0400s)</b></p>	<p>We will evaluate on a case-by-case basis on all Company structure related items including reorganisations, mergers, acquisitions, related party transactions and any bid waivers.</p>	<p>Refer</p>
<p><b>Fix Maximum Variable Compensation Ratio (M0571)</b></p>	<p>We will consider on a case-by-case basis remuneration policies in the overall context of executive pay.</p>	<p><b>Against</b> resolutions which breach local best practice.</p>
<p><b>Article Amendments (M0106,M0122, M0126)</b></p>	<p>We will consider on a case-by-case basis article amendments proposed. Should the articles be deemed to undermine shareholder rights, we will withhold support.</p>	<p><b>Against</b> if articles undermine shareholder rights or unfavourably change the board structure.</p>
<p><b>Political Donations</b></p>	<p>We will generally vote for the resolution to authorize EU political donations and expenditure, we will withhold support if :</p> <ul style="list-style-type: none"> <li>› The company made explicit donations to political parties or election candidates during the year under review;</li> <li>› The duration of the authority sought exceeds one year and the company has not clarified that</li> </ul>	<p><b>Against</b> if the company made explicit donations to political parties or election candidates during the year under review</p> <p><b>Against</b> if the duration of the authority sought exceeds one year and the company has not clarified that separate authorisation will be sought at the following AGM should the authority be used.</p>

	<p>separate authorisation will be sought at the following AGM should the authority be used; or</p> <p>› No cap is set on the level of donations.</p>	<p><b>Against</b> if no cap is set on the level of donations.</p>
<p><b>Approve Special Auditors' Report Regarding Related-Party Transactions (France) (M0123)</b></p>	<p>We will consider on a case-by-case basis related part transactions taking into consideration disclosure and transparency around arrangements and the performance targets attached to any severance pay arrangement. We will consider carefully any transaction with potentially significant conflicts of interest.</p>	<p><b>Against</b> related party transactions which lack disclosure, or which have potentially significant conflicts of interest (in line with ISS).</p>

### Items to be referred for internal consideration:

- Mergers & Acquisitions
- Mandatory Takeover Bid Waivers
- Reincorporation Proposals
- Shareholder Proposals
- Other non-routine items/controversial items.

### Appendix:

- Liontrust endeavours to ensure that our policy adheres, where recommended, to local corporate governance codes or established by local best practice

### Our Definition of Non-Independent Director:

- Significant shareholder (over 3% of Company)
- An employee or pre-executive of the company
- Currently provides professional services to the company
- Has a senior role at one of the Company's advisers
- Relative of executive (or former executive) or senior employee
- Founder/co-founder/member of founding family
- Former executive (five year cooling off period)
- Has been on the board for more than 9 years



- Has had within the last 3 years, a material business relationship with the company
- Conflicting or cross directorship with executive directors or the Chairman of the Company

## European Quotas

Belgium - 33.3% quota since Jan 2017 (Jan 2019 for small companies/controlled companies). Non-compliance with the quota is sanctioned by the suspension of benefits (financial or otherwise) for members of the board of directors.

France - 40% quota since Jan 2017. The quota applies to companies listed on a regulated market and “large companies” - the law states if the company fails to comply, appointments that are not in line with the quota are immediately nullified.

Germany - 30% since 2016. The quota is comes into effect from January 2016 and is applicable to listed companies with full employee co-determination (i.e. where 50% of supervisory board members must be employee representatives by law). Approx. 110 companies in total. It applies to the entire supervisory board by default (i.e. both the shareholder and employee benches). Either side can opt out and require that both benches fulfil the quota individually. If company is not fulfilling the quota, elections that are in breach of the quota may be legally challenged and nullified

Italy - 33.3% quota since 2015. Note that board terms are generally three years in Italy. The quota is applicable to management boards and supervisory boards (i.e. executives and non-executives). Non-compliance results in a warning in the first instance, followed by financial sanctions and, in the case of continued non-compliance, the potential dissolution of the board.

Norway - Quota is typically 40% (depends on board size). The quota depends on the size of the board, though point four is cited most often: (1) If the board of directors has two or three members, both sexes shall be represented; (2) If the board of directors has four or five members, each sex shall be represented by at least two members (3) If the board of directors has six to eight members, each sex shall be represented by at least three members; (4) If the board of directors has nine members, each sex shall be represented by at least four members, and if the board of directors has more members, each sex shall represent at least 40 percent of the members of the board.