GLASS LEWIS

2020

PROXY PAPER™

GUIDELINES

AN OVERVIEW OF THE GLASS LEWIS APPROACH TO PROXY ADVICE

UNITED KINGDOM

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Guidelines Introduction

Corporate governance guidelines in the UK are based primarily on the UK Corporate Governance Code (the "Code"). The Code is maintained by the Financial Reporting Council ("FRC") and was last updated in 2018.

As a guideline for boards to discharge their duties to companies and their shareholders, the UK Code sets out principles and provisions of good practice in relation to board leadership, effectiveness and accountability; remuneration; and relations with shareholders. It operates on a "comply or explain" basis, whereby a thorough and acceptable explanation for a deviation from the UK Code's provisions may be provided in lieu of compliance. Recent revisions to the UK Code have attempted to clarify what constitutes a "meaningful explanation" in lieu of compliance, encouraging non-boilerplate disclosure from board committees and board leaders in communicating their roles and processes to shareholders. Under the two-tiered listing regime overseen by the Financial Conduct Authority ("FCA"), the revised UK Code applies to all companies with a "Premium", rather than "Standard", listing of equity shares on the London Stock Exchange ("LSE"), regardless of their corporate domicile.

Best practices in the UK are also heavily influenced by the Investment Association, a trade body for the UK asset management industry. Glass Lewis will therefore review companies' adherence to the Investment Association's principles. Further, we will consider the requirements of the UK Listing Rules as maintained by the FCA, which acts as the UK Listing Authority ("UKLA").

The Companies Act (the "Act") provides the legislative framework for regulation. The Act was last revised in 2006, with full compliance required by October 2009.

In addition, Glass Lewis' UK policy guidelines incorporate global corporate governance best practices and are reviewed annually to ensure they remain current with market practice, regulations, governance codes, and the evolving standards of exceptional corporate governance.

MARKET AND REGULATORY UPDATES

REVISED UK CORPORATE GOVERNANCE CODE

The revised UK Corporate Governance Code was published in July 2018. The major changes, other than the clear structural differences (fewer provisions and the removal of 'supporting principles'), are largely focused on corporate culture, stakeholder engagement and board composition, and are effective for issuers with financial years starting on, or after, January 1, 2019. As such, we expect to see widespread compliance and/or reporting against its provisions emerge during 2020.

The UK Code references the desire to move away from a prescriptive approach to comply or explain, and calls on investors and proxy advisors alike to pay due regard to a company's individual circumstances when evaluating performance. For its part, Glass Lewis will continue to take a holistic view of the operation and composition of the board and the prevailing culture at the company, rather than applying a mechanistic reading thereof. This approach is sure to be aided by the greater transparency and enhanced disclosure for which the new code advocates and which we welcome.

SUMMARY OF CHANGES FOR THE 2020 UNITED KINGDOM POLICY GUIDELINES

Glass Lewis evaluates these guidelines on an ongoing basis and formally updates them on an annual basis. This year we've made noteworthy revisions in the following areas, which are summarized below but discussed in greater detail in the relevant section of this document:

GENDER DIVERSITY

From 2020, we will consider recommending against the chair of the nomination committee at any FTSE 350 board that has neither met the 33% gender diversity target set out by the Hampton-Alexander Review nor disclosed any cogent explanation or plan to address the issue.

BOARD SKILLS

We have updated these guidelines to reflect the fact that we now include board skills matrices in our analysis of director election proposals at all companies listed in the FTSE 350 (previously, the FTSE 100), excluding externally managed investment trusts.

In addition, we have updated these guidelines to reflect the fact that we may recommend voting against the chair of the nomination committee if a board has not addressed major issues of board composition, including the composition, mix of skills, and experience of the non-executive element of the board.

AUDIT COMMITTEE MEETINGS

We have updated these guidelines to codify our approach to audit committee meeting frequency. Specifically, we will consider recommending against the election of the chair of the audit committee at any FTSE 350 company (excluding investment trusts) where the audit committee has, without explanation, failed to hold a minimum of three meetings during the year under review. This policy is supported by the Financial Reporting Council's recommendation that there should be no fewer than three audit committee meetings during the year.

SMALLER PREMIUM-LISTED COMPANIES

In line with the revised UK Code, which no longer makes certain exceptions for smaller companies, we now expect boards at premium-listed companies outside the FTSE 350 (i) to be at least 50% independent; and (ii) to hold annual, rather than staggered, director elections. Previously, we had only expected boards at smaller companies to be 33% independent and were generally accepting of staggered elections at their AGMs.

In 2020, we will generally accept explanations in lieu of compliance where a board has so far failed, but still intends, to meet the enhanced board independence expectation set out by the Code. In the absence of both, we will consider recommending against non-independent directors as appropriate. Beginning in 2021, however, we will generally expect boards to have had enough time to meet the Code's independence provision without the need for transitional explanations in lieu of compliance.

As a result of this harmonisation in approach across premium listed companies of all sizes, we have updated these guidelines to remove the section on smaller listed companies entirely. However, these guidelines continue to reflect the fact that audit and remuneration committees at smaller listed companies are only required to have a minimum of two, rather than three, members, as per the UK Code.

SALARIES AND PENSIONS

We have updated these guidelines to reflect current best practice as regards salaries and pensions. Specifically, we generally expect salary increase and pension contribution levels to reflect those awarded to a company's wider workforce.

INCENTIVE PLAN LIMITS

We have updated our guidelines to emphasise the fact that we expect all incentive plans to feature clear and transparent award limits, ideally expressed as a multiple of base salary per employee.

POST-EXIT SHAREHOLDING REQUIREMENTS

We have updated our guidelines to include post-employment shareholding requirements among the best practice features generally expected of remuneration policies.

THRESHOLD VESTING UNDER LTI PLANS

We have updated our guidelines to clarify the fact that we generally expect long-term incentive plans to allow for no more than 25% vesting for threshold performance.

REMUNERATION COMMITTEE DISCRETION

We have updated our guidelines to include the expectation that remuneration committees consider exercising downward discretion where a company has suffered an exceptional negative event, even if formulaic targets have been met. For example, investors may expect a remuneration committee to reduce an annual bonus pay-out and/or the size of an LTI grant following a significant decline in share price.

A Board of Directors that Serves the Interest of Shareholders

ELECTION OF DIRECTORS

The purpose of Glass Lewis' proxy research and advice is to facilitate shareholder voting in favour of governance structures that will drive performance, create shareholder value and maintain a proper tone at the top. Glass Lewis looks for talented boards with a proven record of protecting shareholders and delivering value over the medium- and long-term. We believe the boards that are best able to protect and enhance the interests of shareholders are independent, have directors with diverse backgrounds, have records of positive performance, and have members with a breadth and depth of experience.

The UK Code recommends that all directors at premium listed companies stand for election annually. Glass Lewis supports annual director elections as a means of increasing director accountability to shareholders. While we expect the vast majority of companies to comply with this provision, we recognise that some firms may have valid reasons to maintain a staggered electoral system in either the short- or long-term. We will not automatically recommend shareholders penalise boards that do not put all directors up for election annually; however, we believe any firms opting to deviate from this provision must provide a clear and reasonable explanation. Glass Lewis may recommend voting against one or more directors at boards that provide unsatisfactory or unjustifiable explanations for such a compliance failure, as well as with those that have significant performance or governance problems that shareholders are unable to address with their votes as a result of a staggered board election process.

If we find that a board's explanation for non-compliance is lacking, or there are significant director concerns that shareholders are unable to address due to staggered director elections, we may recommend that shareholders vote against the board chair.[1] However, we will continue to approach this issue on a case-by-case basis and with regard to the company's overall governance practices.

We note that shareholders may elect to "withhold" their votes or "abstain" from voting on a proposal, rather than casting their votes as either "for" or "against" the measure. Whereas an "against" vote is binding, an "abstain" is not a vote in law and allows shareholders to express reservations about a proposal without unseating the director.[2]

INDEPENDENCE

The independence of directors, or lack thereof, is ultimately demonstrated through the decisions they make. In assessing the independence of a director, we will take into consideration, where appropriate, whether that director has a track record showing he or she is able and willing to make objective decisions. Ultimately, our

determination of a director's independence takes into account applicable listing requirements, as well as his or her professional history.

We review each individual on the board and examine his/her relationships with the company, the company's executives and other board members. The purpose of this analysis is to determine whether pre-existing personal, familial or financial relationships (apart from remuneration as a director) are likely to impact the deci-

1 If the chair is not standing for election or is an executive director, we will recommend voting against the senior independent director.

2 Although proposals in the UK commonly receive at least some "abstain" votes, we typically only recommend this option to shareholders in rare circumstances, such as when insufficient information is available to provide an analysis or an "against" vote seems unjustified or inappropriate.

sions of that board member. We believe the existence of such relationships can make it difficult for a board member to put the concerns of shareholders above either his/her own interests or those of a related party.

To that end, we classify directors in four categories based on the type of relationships they have with the company:[3]

Independent Director — A director is independent if he or she has no material financial, familial[4] or other current relationships with the company,[5] its executives, its independent auditor or other board members, except for service on the board and standard fees paid for that service. Employment relationships with the company within five years, or business relationships/transactions that have existed within the three years prior to our analysis, are usually considered to be "current" for the purposes of this test.

In our view, a director who is currently serving in an interim management position is considered an insider, while a director who previously served in an interim management position for less than one year and is no longer serving in such a capacity may be considered independent. However, a director who previously served in an interim management position for more than one year and is no longer serving in this capacity is considered an affiliated director for five years following his or her return to non-executive status.

In addition, we apply heightened scrutiny to non-executive directors who have served on the board for more than nine years,[6] as we believe length of service may affect director independence. In such cases, we will assess the director's independence in light of the board's overall tenure and composition, as well as any other relevant factors. Further, we expect the company to provide an assurance as to the director's continued independence.

Non-executive Chair — We will classify a chair as non-executive if he or she was independent upon appointment and, outside of the role of chair,[7] continues to meet the independence standards outlined above.

Affiliated Director — A director is affiliated if he or she has a material financial, familial or other relationship with the company, its independent auditor or its executives, but is not an employee of the company.[8]

A director will normally be considered affiliated if he or she:

1. is a non-executive chair who was not independent on appointment or has a relationship with the company that falls into one of the categories below;

2. has served as a director for more than nine years, unless his or her continued independence is confirmed by the board;

3. has served as an employee of the company in the past five years;

4. is a significant shareholder or represents one (defined as holding 10% or more of the company's share capital);[9]

3 If a company does not disclose the independence status of a director, we will look for the presence of any relationships that may preclude independence, but in the absence thereof, will classify the director as a "non-executive" director of the company and treat them as independent for the purposes of our analysis.
4 "Familial" as used herein includes a person's spouse, parents, children, siblings, grandparents, uncles, aunts, cousins, nieces and nephews, including in-laws, and anyone (other than domestic employees) who shares such person's home.
5 "Company" includes any parent or subsidiary in a consolidated group with the company or any entity that merged with, was acquired by, or acquired the company.
6 Provision 10 of the UK Code identifies tenures of more than nine years as being likely to impair a non-executive director's independence.
7 Provision 9 of the UK Code states that the board chair should be independent upon appointment. Thereafter, the test of independence is generally accepted as being inappropriate given the significant time commitment required of the role at many UK companies.
8 If a company classifies one of its non-employee directors as non-independent, Glass Lewis will classify that director as an affiliate.
9 The UK Listing Rules define a "substantial shareholder" as "any person who is entitled to exercise, or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the company."

5. 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;

6. has close family ties with any of the company's advisers, directors or senior employees;

7. participates in the company's share option or performance-related pay scheme(s);

8. is a member of the company's pension scheme;[10] or

9. holds cross-directorships or has significant links with other directors through his or her involvement in other companies or bodies.

Definition of "**material**" — A material relationship is one in which the value exceeds:

- £50,000 (£25,000 for companies outside the FTSE 350), or where no amount is disclosed, for directors who personally receive remuneration for a service they have agreed to perform for the company, outside of their service as a director, including professional or other services;

- £100,000 (£50,000 for companies outside the FTSE 350), or where no amount is disclosed, for those directors employed by a professional services firm such as a law firm, investment bank or consulting firm where the firm is paid for services but not the individual directly. This limit also applies to charitable contributions to schools where a board member is a professor, or charities where a board member serves on the board or is an executive, and any commercial and real estate dealings between the company and the director or the director's firm;

- 1% of either company's consolidated gross revenue for other business relationships (e.g., where the director is an executive of a firm that provides or receives services or products to or from the company).

Inside Director — An inside director is one who simultaneously serves as a director and as an employee of the company. This category may include a board chair who acts as an employee of the company or is paid as an employee of the company.

VOTING RECOMMENDATIONS ON THE BASIS OF INDEPENDENCE

Glass Lewis believes that a board will most effectively perform the oversight necessary to protect the interests of shareholders if it is significantly independent. In line with the UK Code, we generally expect that at least half the board, excluding the chair,[11] should be independent.[12] In the event that more than half of the members, not including the chair, are affiliated or inside directors, we typically recommend shareholders vote against one or more of the non-independent directors in order to satisfy this guideline.

We are firmly committed to the belief that only independent directors should serve on a company's audit and remuneration committees.[13] A notable exception to this rule is the board chair, who may serve as a member of — but not chair — the remuneration committee, provided that he or she was independent upon appointment.[14] We also believe that the nomination committee should be majority independent.[15]

We typically recommend that shareholders vote against any affiliated or inside director serving on the audit or remuneration committee. We also recommend shareholders vote against any affiliated or inside director seek-

10 Provision 10 of the UK Code.

11 When the chair is an executive or is considered an affiliate due to any reason other than his position as chair, we will include him or her in the count of total number of inside/affiliated directors on the board.

12 Provision 11 of the UK Code.

13 Provisions 24 and 32 of the UK Code.

14 Provision 32 of the UK Code.

15 Provision 17 of the UK Code.

ing appointment to the nomination committee when that committee is not majority independent.

We refrain from recommending to vote against any directors on the basis of lengthy tenure alone. However, we may recommend voting against certain long-tenured directors when lack of board refreshment may have contributed to poor financial performance, lax risk oversight, misaligned remuneration practices, lack of shareholder responsiveness, diminution of shareholder rights or other concerns. In conducting such analysis, we will consider lengthy average board tenure over 9 years, evidence of planned or recent board refreshment, and other concerns with the board's independence or structure.

SEPARATION OF THE ROLES OF CHAIR AND CHIEF EXECUTIVE

Glass Lewis believes that separating the roles of corporate officers and the board chair is typically a better governance structure than a combined executive/chair position. This belief is consistent with the UK Code, which recommends that the roles of chair and chief executive should not be exercised by the same individual. The Code also states that a chair should be independent upon appointment, and that a former chief executive should not go on to be the chair of the same company.[16]

It can become difficult for a board to fulfil its role of overseer and policy-setter when a chief executive/chair controls the agenda and the boardroom discussion. Such control can allow a chief executive to have an entrenched position, leading to longer-than-optimal terms, fewer checks on management, less scrutiny of business operations and limitations on independent, shareholder-focused goal-setting by the board.

A chief executive should set the strategic course for the company, with the board's approval, and the board should enable the chief executive to carry out his or her vision for accomplishing the company's objectives. A failure to achieve the company's objectives should lead the directors to replace their chief executive with someone in whom the board has greater confidence.

We strongly support the appointment of a senior independent director with the authority to set the agenda for board meetings and lead sessions outside the presence of an executive chair[17], but we do not automatically recommend that shareholders vote against executives who chair the board. In the event that the board has an executive chair but lacks a senior independent director, we will recommend that shareholders vote against the nomination committee chair. We believe that the roles of chief executive and chair should be separated; however, if the board has an executive chair but also has a senior independent director, we will refrain from recommending shareholders vote against the nomination committee chair solely for this reason. Nevertheless, in the first year after a former executive takes up the role of chair, or of an executive chair's appointment, we may recommend that shareholders vote against the nomination committee chair, or senior independent director, as appropriate, if the board does not provide adequate justification for the appointment, in line with provision A.3.1 of the UK Code.

PERFORMANCE

The most crucial test of a board's commitment to the company and its shareholders lies in the actions of the board and its members. We look at the performance of these individuals in their capacity as board members and executives of the company, as well as their performance in different positions at other firms.

VOTING RECOMMENDATIONS ON THE BASIS OF PERFORMANCE

We are sceptical of directors who have a track record of poor performance in fulfilling their responsibilities to shareholders at any company where they have held a non-executive or executive position. We typically recommend voting against the election of directors who have served on boards or as executives at companies with a track record of:

- poor audit or accounting-related practices;

16 Provision 9 of the UK Code.

17 Provision 12 of the UK Code.

- poor nomination practices;
- poor remuneration practices;
- poor risk management practices; or
- other indicators of poor performance, mismanagement or actions against the interests of shareholders, such as failing to address significant and reasonable shareholder concerns.

Also, we will usually recommend shareholders vote against directors who fail to attend at least 75% of the board meetings and/or key committee meetings and do not provide an acceptable explanation for such poor attendance. However, we do not apply this 75% attendance threshold for first-year directors.

We typically expect UK boards to have audit, remuneration and nomination committees, although other types of committees, such as risk and governance committees, are also common. We hold the chair or the relevant committee members to the performance standards outlined below.

BOARD EVALUATION AND REFRESHMENT

Glass Lewis strongly supports routine director evaluation, including independent external reviews, and periodic board refreshment to foster the sharing of diverse perspectives in the boardroom and the generation of new ideas and business strategies. Further, we believe the board should evaluate the need for changes to board composition based on an analysis of skills and experience necessary for the company, as well as the results of the director evaluations. When necessary, shareholders can address concerns regarding proper board composition through director elections.

In our view, a director's experience can be a valuable asset to shareholders because of the complex, critical issues that boards face. That said, we recognise that in rare circumstances, a lack of refreshment can contribute to a lack of board responsiveness to poor company performance.

Some shareholders support term limits as a way to force change in such circumstances. While we understand that term limits can aid board succession planning, the long-term impact of such limits restricts experienced and potentially valuable board members from service through an arbitrary means. We believe that shareholders are better off monitoring the board's overall composition, including its diversity of skill sets, the alignment of the board's areas of expertise with a company's strategy, the board's approach to corporate governance, and its stewardship of company performance, rather than imposing inflexible rules that don't necessarily correlate with returns or benefits for shareholders.

BOARD COMMITTEES

THE ROLE OF A COMMITTEE CHAIR

Glass Lewis believes that a designated committee chair maintains primary responsibility for the actions of his or her respective committee. As such, many of our committee-specific vote recommendations deal with the applicable committee chair rather than the entire committee (depending on the severity of the issue). However, in cases where we would ordinarily recommend voting against a committee chair but the chair is not specified, we normally recommend voting against the longest-serving committee member or, if the longest-serving committee member cannot be determined, the longest-serving board member serving on the committee (i.e. in either case, the "senior director").

In our view, companies should provide clear disclosure of which director is charged with overseeing each committee. Therefore, in cases where that simple framework is ignored and a reasonable analysis cannot determine which committee member is the designated leader, we believe shareholder action against the longest serving committee member is warranted. This only applies if we would ordinarily recommend voting against the committee chair but there is either no such position or no designated director in such role.

In cases where there is a designated committee chair and the recommendation is to vote against the committee chair but the chair is not up for election because the board is staggered, we do not generally recommend voting against any members of the committee who are up for election; rather, we will simply express our concern with regard to the committee chair.

AUDIT COMMITTEE PERFORMANCE

Audit committees play an integral role in overseeing the financial reporting process because "while all directors have a duty to act in the interests of the company, the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control."[18]

Under the UK Code, the audit committee is required to report on the process by which it has assessed the effectiveness of the external audit, and any significant issues that were considered in relation to the financial statements. If non-audit services are provided, the committee should explain how the auditor's objectivity and independence are safeguarded.

In addition, only the audit committee (rather than management) should manage the appointment of an external auditor and be responsible for negotiating and agreeing audit fees. Further, the audit committee is responsible for tendering audit work not less than every ten years.[19]

When assessing an audit committee's performance, we are aware that such a committee: (i) does not prepare financial statements; (ii) is not responsible for making the key judgments and assumptions that affect financial statements; and (iii) does not audit the financial results. Rather, the audit committee monitors and oversees the processes and procedures performed by management and the auditors.

For an audit committee to function effectively, it should be independent and objective. In addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as an audit committee member.[20]

Glass Lewis generally assesses audit committees based on the decisions they make with respect to their monitoring role, and the level of disclosure provided to shareholders. Companies should provide shareholders with reasonable assurance that financial statements are materially free from errors through: (i) the quality and integrity of the statements and earnings reports; (ii) the completeness of disclosures necessary for investors to make informed decisions; and (iii) the effectiveness of the company's internal controls. The independence of the external auditors and the results of their work provide useful information by which to assess the audit committee.

When evaluating the decisions and actions of the audit committee, we typically defer to the judgment of its members; however, we usually recommend voting against the following members under these circumstances:

- The audit committee chair when non-audit fees are greater than audit and audit-related fees paid to the auditor for more than one year in a row (in which case we will also recommend against the authority to appoint the auditor and set its fees). For the purposes of this test, we consider audit-related fees to be those that are pursuant to legislation or for the audit of pension schemes, for example. Further, we are mindful of fees for one-time corporate finance transactions and due diligence work related to IPOs, mergers, acquisitions or disposals, and we may grant one-time exceptions when these fees make up a significant portion of the year's non-audit work.

- An audit committee member who sits on an excessive number of audit committees.[21]

18 Guidance on Audit Committees. Financial Reporting Council. April 2016.

19 Competition & Markets Authority Statutory Audit Services for Large Companies Market Investigation Order 2014.

20 "Good practice principles for Audit and Risk Assurance Committees". HM Treasury's Audit and risk assurance committee handbook. March 2016.

21 We generally consider serving on more than three audit committees to be concerning; however, we will evaluate a director's level of commitment on a case-by-case basis. Factors that we will consider include company size, their geographical distribution and an audit committee member's overall expertise, commitment levels and attendance record.

- The audit committee chair if the auditor's selection has not been put up for shareholder approval to fulfil its duty to shareholders.

- The audit committee chair when the company fails to disclose the fees paid to the auditor or a breakdown thereof for more than one year in a row (in which case we will also recommend against the authority to set the auditor's fees).

- The audit committee chair if the committee does not have at least one member who has a demonstrable financial background sufficient to understand the financial issues unique to public companies.

- The audit committee chair if the committee has failed to tender the audit work in the past ten years and has failed to disclose sufficient rationale for not having done so.

- The audit committee chair if the committee has failed to hold a minimum of three meeting during the year under review.[22]

- All members of an audit committee that re-appointed an auditor that we no longer consider to be independent for reasons unrelated to fee proportions.

- All members of an audit committee who served during a time when accounting fraud occurred in the company.

- All members of an audit committee who served during a time when the company failed to report or to have its auditors report material weaknesses in internal controls.

- All members of an audit committee who served during a time when financial statements had to be restated due to negligence or fraud.

- All members of an audit committee if the company repeatedly fails to file its financial reports in a timely fashion.

- All members of an audit committee if the company's non-audit fees included fees for tax services for senior executives of the company, or if such fees involved services related to corporate tax avoidance or tax shelter schemes.

- All members of an audit committee if the committee presided over a significant failure to oversee material environmental and social risks, in the absence of a separate committee with dedicated environmental and/or risk oversight functions.

Additionally, we believe that a committee with responsibilities as crucial as those of the audit committee requires a minimum of three members — or two for smaller companies – to adequately perform its functions. This guideline is supported by provision 24 of the UK Code. We will generally recommend shareholders abstain from voting on the audit committee chair if the committee has fewer than the recommended number of members.

REMUNERATION COMMITTEE PERFORMANCE

Remuneration committees have a critical role in determining the remuneration of executives. They are responsible for implementing policies that are aligned with strategy and agreed risk appetite, reward success fairly and avoid paying more than is necessary.

The remuneration process begins with employment agreements, including the establishment of terms relating to base salary, pension contributions, service contracts and severance arrangements. When establishing the

22 Guidance on Audit Committees. The Financial Reporting Council. April 2016.

terms of an employment agreement, it is important that such provisions reflect both the size of the company and current market practice. The remuneration committee is also generally responsible for approving variable, performance-based remuneration, including annual cash bonuses and awards granted under long-term equity-based incentive plans. In every case, we believe overall remuneration levels should be reflective of the company's size, relevant peer group and recent performance.

If a company's remuneration levels and practices significantly diverge from best practice and do not appear to reflect performance, we generally expect the remuneration committee to provide a thorough and convincing explanation for such a divergence. Glass Lewis also believes remuneration committees should regularly review a company's remuneration policies to ensure their continued effectiveness, as well as to respond to shareholder concerns if there is a relatively low level of support for the firm's remuneration proposals.

In evaluating a remuneration committee's performance, we also consider the overall structure and transparency of a company's remuneration practices, as disclosed in the remuneration report.

When assessing the decisions and actions of the remuneration committee, we typically defer to the judgment of its members; however, we usually recommend voting against the following committee members under these circumstances:

- The chair and/or all members of the remuneration committee if executive pay is excessive relative to the financial performance of the company.

- The chair and/or all members of the remuneration committee (who served during the relevant time period) if the board entered into excessive employment contracts and/or severance agreements with senior executives.

- The chair and/or all members of the remuneration committee if performance goals for incentive-based pay were inappropriately changed or lowered after an executive failed to meet the original goals or success became unlikely, or if performance-based remuneration was paid despite a failure to achieve the goals. At a minimum, we expect the board to provide a thorough and convincing explanation for the lowering or removal of any performance condition.

- The chair and/or all members of the remuneration committee if excessive employee perquisites and benefits were allowed.

- The chair and/or all members of the remuneration committee if we believe the pay policies described in the remuneration report are highly divergent from best practices or are otherwise not aligned with the interests of shareholders.

- The chair and/or all members of the remuneration committee when the board has maintained, in our view, poor remuneration practices in successive years, or if it has failed to adequately respond to a significant number of negative votes on recent remuneration proposals.

- The chair and/or all members of the remuneration committee when the remuneration report fails to disclose the relationship, if one exists, between the company's remuneration policy and the company's performance. We believe that, in order to align shareholder and executive interests, a significant portion of an executive's remuneration should be dependent on the company's performance.

Additionally, we believe that the remuneration committee performs a key service to the company, and that the associated workload cannot be satisfactorily performed by fewer than three members — two for smaller companies. This belief is supported by provision 32 of the UK Code. We will generally recommend abstaining from the remuneration committee chair when this committee has fewer than the recommended number of members.

Please see Section III for additional information regarding our standards for analysing executive remuneration in the UK.

NOMINATION COMMITTEE PERFORMANCE

Nomination committees are responsible for ensuring that the board contains the right balance of skills, experience, independence and knowledge to effectively oversee the company on shareholders' behalf. This process includes managing the terms and disclosure of board appointments, both in initial recruitment and on an ongoing basis, with an emphasis on progressive refreshment. When that balance does not reflect UK Code recommendations, the committee should disclose and justify those deviations. The committee should also set out the board's policy on diversity, with specific reference to gender, including details of any internal objectives and progress against them.

We expect the committee to meet all applicable disclosure requirements, and to take responsibility for board appointments and re-appointments. We usually recommend voting against the following nomination committee members under these circumstances:

- The committee chair when the roles of the chief executive and chair have not been split and a senior independent director has not been appointed.[23]

- All members of the nomination committee when the committee nominated or re-nominated an individual who has a significant conflict of interest, or whose past actions demonstrated a lack of integrity or inability to represent shareholder interest.

- The committee chair if the board has not conducted an external evaluation of its effectiveness within the past three years.

- The committee chair if the committee did not meet during the year but should have (i.e., new directors were nominated).

- The committee chair and/or all members of the nomination committee when the board consists of more than 20 directors or fewer than five (four for smaller companies).

- The committee chair if a non-executive director has served for more than nine years, but is not standing for annual re-election and there are governance concerns at the company.

BOARD-LEVEL RISK MANAGEMENT OVERSIGHT

Glass Lewis evaluates the risk management function of a public company board on a strictly case-by-case basis. Sound risk management, while necessary at all companies, is particularly important at financial firms which inherently maintain significant exposure to financial risk. We believe such financial firms should have a chief risk officer reporting directly to the board and a dedicated risk committee or a committee of the board charged with risk oversight. Moreover, many non-financial firms maintain strategies which involve a high level of exposure to financial risk. Similarly, since many non-financial firms have complex hedging or trading strategies, those firms should also have a chief risk officer and a risk committee.

When analysing the risk management practices of public companies, we take note of any significant losses or writedowns on financial assets and/or structured transactions. In cases where a company has disclosed a sizable loss or writedown, and where we find that the company's board-level risk committee contributed to the loss through poor oversight, we would recommend that shareholders vote against such committee members on that basis. In addition, in cases where a company maintains a significant level of financial risk exposure but fails to disclose any explicit form of board-level risk oversight (committee or otherwise)[24], we will consider recommending to vote against the board chair on that basis. However, we generally would not recommend voting against a combined chair/CEO or executive chair, except in egregious cases.

23 Provision 12 of the UK Code states that the board should appoint one of the independent non-executive directors to be the senior independent director.

24 A committee responsible for risk management could be a dedicated risk committee, the audit committee, or the finance committee, depending on a given company's board structure and method of disclosure. At some companies, the entire board is charged with risk management.

EXPERIENCE

We believe that a director's history is often indicative of future conduct. We often find directors with a track record of over-compensating executives or serving on boards where significant and avoidable disasters have occurred reappearing at different companies that follow these same patterns.

VOTING RECOMMENDATIONS ON THE BASIS OF EXPERIENCE

We typically recommend that shareholders vote against directors who have served on boards or as executives of companies with a track record of poor performance, over-remuneration, audit- or accounting-related issues and/or other indicators of mismanagement, poor oversight or actions against the interests of shareholders.

Similarly, we look carefully at the backgrounds of key committee members to ensure that they have the required skills and diverse backgrounds to make informed and well-reasoned judgments about the subject matter for which the committee is responsible.

OTHER CONSIDERATIONS

In addition to the three key characteristics we analyse in evaluating board members, as discussed above, we consider several other issues in making voting recommendations.

EXTERNAL COMMITMENTS

We will consider recommending that shareholders vote against a director who serves as an executive officer of any public company while serving on more than two public company boards, and any other director who serves on a total of more than five public company boards.[25] We generally count board chairships as two directorships given the increased time commitment associated with that role.

We believe that directors should have the necessary time to fulfil their duties to shareholders. In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis. In addition, recent research indicates that the time commitment associated with being a director has been on a significant upward trend in the past decade. As a result, we may consider relevant factors such as the size and location of the other companies where the director serves on the board, whether the director serves as an executive or non-executive director of any large privately-held companies, and the director's attendance record at all companies. We will also generally refrain from recommending to vote against a director who serves on an excessive number of boards within a consolidated group of companies or a director that represents a firm whose sole purpose is to manage a portfolio of investments that include the company.

CONFLICTS OF INTEREST

Irrespective of the overall presence of independent directors on the board, we believe that a board should be free of people who have identifiable conflicts of interest. Given the broad pool of director talent and the limited number of directors on any board, we believe shareholders are best served by board members who lack any personal conflicts to representing their interests on the board. Accordingly, we generally recommend shareholders vote against the following types of affiliated or inside directors:

- A director, or a director who has an immediate family member, currently providing material professional services to the company.[26] These services may include legal, consulting or financial services. We believe a director who receives remuneration from the company will have to make unnecessarily

25 Pursuant to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC ("CRD IV"), executives of significant financial institutions are prohibited from serving on more than two outside boards, while non-executive directors of significant financial institutions are limited to four outside directorships.

26 See definition of "material" under Independence.

complicated decisions that may pit his or her interests against those of the shareholders he or she serves. Where a director has a material business relationship with a company that falls under the normal course of business, we will generally refrain from recommending to vote against the director on that basis alone provided that the company has adequately disclosed the relationship and mitigated the potential for serious conflicts of interest and so long as the board and key committees are sufficiently independent.

- A director, or a director who has an immediate family member, who engages in material commercial, real estate or other similar deals, including perquisite-type grants from the company amounting to more than €50,000. Directors who receive these sorts of payments from the company may have to make unnecessarily complicated decisions that pit their interests against shareholders.

- Directors who maintain "interlocking" board memberships. Top executives who serve on each other's boards create an interlock that poses conflicts that should be avoided to ensure the promotion of shareholder interests above all else.[27] We find such relationships to be particularly worrisome for executives who cross-serve on each other's remuneration committees.

- We will typically recommend voting against a director who serves as an executive officer of any public company while serving on a total of more than two public company boards, and any other director who serves on a total of more than five public company boards.[27] We generally count board chairships at FTSE 350 companies as two directorships given the increased time commitment associated with that role.

BOARD RESPONSIVENESS

Glass Lewis believes that when 20% or more of shareholders vote contrary to the recommendation of management, the board should, depending on the issue, demonstrate some level of responsiveness to address the shareholder concerns, a belief supported by provision 4 of the UK Code. These include instances when 20% or more of shareholders: (i) abstain from (or vote against) a director nominee; (ii) vote against a management-sponsored proposal; or (iii) vote for a shareholder proposal. In our view, a 20% threshold is significant enough to warrant a close examination of the underlying issues and an evaluation of whether or not a board response was warranted and, if so, whether the board responded appropriately following the vote. While the 20% threshold alone will not automatically generate a negative vote recommendation from Glass Lewis on a future proposal (e.g. to recommend against a director nominee, against a remuneration proposal, etc.), it will be a contributing factor to recommend a vote against management's recommendation in the event we determine that the board did not respond appropriately. Further, we may, where appropriate, hold chairs and members of the relevant committees accountable via a recommendation against their re-election where the response to shareholder concerns has fallen below a qualitative threshold.

As a general framework, our evaluation of board responsiveness involves a review of publicly available disclosures released following the date of the company's last annual meeting up through the publication date of our most current Proxy Paper. Depending on the specific issue, our focus typically includes, but is not limited to, the following:

- At the board level, any changes in directorships, committee memberships, disclosure of related party transactions, meeting attendance, or other responsibilities.

- Any revisions made to the company's articles of incorporation, bylaws or other governance documents.

- Any press or news releases indicating changes in, or the adoption of, new company policies, business practices or special reports.

- Any modifications made to the design and structure of the company's remuneration program.

27 There is no look-back period for this situation. This only applies for public companies and we only recommend voting against the non-executive director.

Our Proxy Paper analysis will include a case-by-case assessment of the specific elements of board responsiveness that we examined along with an explanation of how that assessment impacts our current vote recommendations.

PROXY VOTING RESULTS

While the Companies Act does not require companies to disclose a detailed record of proxy voting results unless a poll has been demanded, we note that nearly all companies in the FTSE 350 Index currently provide full breakdowns of their voting results following their annual meetings. As such, at FTSE 350 companies we will generally recommend that shareholders hold the senior independent director responsible where a detailed record of the proxy voting results from the last annual meeting has not been disclosed. We acknowledge that the vast majority of management resolutions in the UK are approved by shareholders; however, opposition is not uncommon and generally indicates an issue noteworthy of action on part of the board.

Adequate disclosure of vote results is particularly relevant in the UK as shareholders frequently utilise their right to "withhold" or "abstain" from certain proposals as a way to voice dissent, albeit in a non-binding fashion. Such votes, although often quite substantial, are not counted in the final tally of votes, and resolutions may be passed despite high levels of shareholder abstentions.

BOARD SIZE

While we do not believe that there is a universally applicable optimum board size, we do believe that boards should have a minimum of five directors – four for companies listed outside the FTSE 350 – in order to ensure that there is a sufficient diversity of views and breadth of experience in every decision the board makes. At the other end of the spectrum, we believe that boards whose size exceeds 20 members will typically suffer under the weight of "too many cooks in the kitchen" and have difficulty reaching consensus and making timely decisions.

We typically advise shareholders to abstain from voting for the board chair with fewer than our recommended number of directors. With boards consisting of more than 20 directors, we typically recommend voting against the members of the nomination committee.

BOARD SKILLS

We believe companies should disclose sufficient information to allow a meaningful assessment of a board's skills and competencies. If a board has failed to address material concerns regarding the mix of skills and experience of the non-executive element of the board, we will consider recommending voting against the chair of the nomination committee or equivalent (e.g., board chair).

Our analysis of election proposals at FTSE 350 companies (excluding investment trusts) includes an explicit assessment of skills disclosure. We expect these companies to provide a robust, meaningful assessment of the board's profile in terms of diversity and skills in order to align with developing best practice standards.

If a board has not addressed major issues of board composition, including the composition, mix of skills, and experience of the non-executive element of the board, we will consider recommending voting against the chair of the nomination committee.

BOARD DIVERSITY

In accordance with best practice in the UK, FTSE 350 boards should strive for 33% female representation by 2020.[28] Further, in accordance with best practice each FTSE 100 board should strive to have at least one director of colour by 2021, or by 2024 in the case of FTSE 250 boards.[29]

28 FTSE Women Leaders. Hampton-Alexander Review. November 2018.

29 Report into the Ethnic Diversity of UK Boards. The Parker Review Committee. October 2017.

While Glass Lewis values the importance of board diversity, believing there are a number of benefits from having individuals with a variety of backgrounds serving on a board, we generally do not base voting recommendations solely on strict board diversity quotas. However, when a board fails to make progress towards best practice prevalent in the market and has not disclosed any cogent explanation or plan to address the issue, we may recommend voting against the nomination committee chair. We will also take into account a company's disclosed gender pay gap data and the composition of its executive pipeline when determining the severity of our concern in this regard.

ENVIRONMENTAL AND SOCIAL RISK OVERSIGHT

Glass Lewis understands the importance of ensuring the sustainability of companies' operations. We believe that an inattention to material environmental and social issues can present direct legal, financial, regulatory and reputational risks that could serve to harm shareholder interests. Therefore, we believe that these issues should be carefully monitored and managed by companies, and that companies should have an appropriate oversight structure in place to ensure that they are mitigating attendant risks and capitalising on related opportunities to the best extent possible.

Glass Lewis believes that companies should ensure appropriate board-level oversight of material risks to their operations, including those that are environmental and social in nature. Accordingly, for large cap companies and in instances where we identify material oversight issues, Glass Lewis will review a company's overall governance practices and identify which directors or board-level committees have been charged with oversight of environmental and/or social issues. Glass Lewis will also note instances where such oversight has not been clearly defined by companies in their governance documents.

Where it is clear that a company has not properly managed or mitigated environmental or social risks to the detriment of shareholder value, or when such mismanagement has threatened shareholder value, Glass Lewis may consider recommending that shareholders vote against members of the board who are responsible for oversight of environmental and social risks. In the absence of explicit board oversight of environmental and social issues, Glass Lewis may recommend that shareholders vote against members of the audit and/or risk committee responsible for overseeing risk exposure. In making these determinations, Glass Lewis will carefully review the situation at hand, its effect on shareholder value, as well as any corrective action or other response made by the company.

CONTROLLED COMPANIES

We make several exceptions for controlled companies on director independence standards. The primary function of a board is to protect the interests of shareholders; however, when a single individual or entity owns more than 50% of the voting shares, then the interests of the majority of shareholders are effectively the interests of that entity or individual. Consequently, Glass Lewis does not recommend voting against boards whose composition reflects the makeup of the shareholder population. In other words, affiliates and insiders who are associated with a firm's controlling entity are not subject to the one-half independence rule that we apply to non-controlled company boards.

Our independence exceptions for controlled companies are as follows:

- We do not require that controlled companies have boards that are at least one-half independent, excluding the chair. So long as the insiders and/or affiliates are connected with the controlling entity, we accept the presence of a majority of non-independent board members.

- The remuneration committee does not need to consist solely of independent directors. Similarly, we do not believe the nomination committee must comprise a majority of independent directors.

- We do not require controlled companies to have a standing nomination committee. Although a committee charged with the duties of searching for, selecting and nominating independent directors can be a benefit to all companies, the unique composition of a controlled company's shareholder base make such a committee less powerful and less relevant.

- Controlled companies do not need to have an independent chair or a senior independent director. Although, in our opinion, an independent director in a position of authority on the board is best able to ensure the proper discharge of the board's duties, controlled companies serve a unique shareholder population whose voting power ensures the protection of its interests.

We do not make independence exceptions for audit committee membership at controlled companies. We believe audit committees should consist solely of independent directors. Regardless of a company's shareholder structure, the interests of all shareholders must be protected by ensuring the integrity and accuracy of the company's financial statements.

SIGNIFICANT SHAREHOLDERS

Similarly, where an individual or entity holds between 10-50% of a company's voting power, but the company is not "controlled" and there is not a "majority" owner, we believe it is reasonable to allow proportional representation on the board and its committees (excluding the audit committee) based on the individual or entity's percentage of ownership. However, in the case of a significant but non-controlling shareholder, we generally apply heightened scrutiny to the overall board structure and, where applicable, compliance with the Listing Rules, to ensure that minority shareholder rights are protected. For premium-listed issuers with a 30% or larger shareholder, the Listing Rules (as revised in May 2014) stipulate that independent director elections be subject to approval by shareholders as a whole, and separately by all shareholders excluding the controlling shareholder. Further, such companies must enact a relationship agreement with such significant/controlling shareholders that sets out provisions ensuring that the company can operate independently of them.

INVESTMENT TRUSTS

Investment trusts pool investors' money and invest in the shares of a wider range of companies than most people could practically invest in by themselves. Generally, trusts delegate the task of investing to a professional fund manager. Investment trusts, similar to mutual funds, often maintain no permanent employees.[30]

Given the different structure of investment trusts relative to other publicly traded companies, we believe it is appropriate to apply a different set of corporate governance standards.[31]

The following is a summary of our significant policy differences for investment trusts:

- Unlike the chair of an operating company, the chair of a trust is still considered independent following appointment. So long as the chair is independent, a senior independent director is not required. However, we will recommend voting against a chair who is employed by or represents the investment manager.

- Boards may have a minimum of four directors, rather than five.

- Boards need not maintain standing remuneration or nomination committees.

- The chair of a trust may not serve on any other boards of trusts that are managed by the same investment manager as the company in question. In this case, we will recommend shareholders vote against the chair of the trust. Other non-executive directors may serve on boards that are managed by the same manager, but these directors will be classified as "affiliated" unless the company provides a reasonable explanation of their independence.

For additional exceptions related to share issuance authorities that we provide for investment trusts, please see the Capital Management section.

30 We do not generally consider internally-managed real estate investment trusts ("REITs") as "trusts" for corporate governance purposes, as they often function much like any other operating company.

31 Our policies are primarily based on The Association of Investment Companies ("AIC") Code of Corporate Governance.

Transparency and Integrity in Financial Reporting

ACCOUNTS AND REPORTS

In the UK, companies must submit their annual financial statements, director reports and independent auditor's reports to shareholders for approval at the AGM. Shareholder approval of such a proposal does not discharge the board or management, and these types of resolutions are usually limited to an acknowledgement of receipt of the annual report. We will usually recommend voting for these proposals, except when there are concerns about the integrity of the financial statements/reports. Should the audited financial statements, auditor's report and/or annual report not be available at the time of writing of our report, we will recommend that shareholders abstain from voting on this proposal. We believe that a lack of sufficient corporate information can prevent shareholders from making informed decisions.

In rare instances, we may also recommend that shareholders vote against this proposal if there are serious governance failings (e.g., none of the board members are independent) that shareholders are unable to address through normal channels, such as the election of directors. Also in rare instances, we may recommend that shareholders reject an annual report if the company has serious recurring problems negatively affecting shareholder value that we believe the board has not adequately addressed.

APPOINTMENT OF AUDITOR AND AUTHORITY TO SET FEES

We believe that the role of the auditor is crucial in protecting shareholder value. Shareholders rely on auditors to ask tough questions and provide a thorough analysis of the company's books. Auditors must ensure that the information ultimately provided to shareholders is accurate, fair and a reasonable representation of the company's financial position. The only way shareholders can make rational investment decisions is if the market is provided with accurate information about the fiscal health of the company.

Shareholders should demand the services of objective and well-qualified auditors at every company in which they hold an interest. Similar to directors, auditors should be free from conflicts of interest and should assiduously avoid situations that require them to make choices between their own interests and those of the shareholders they serve.

As entrenchment can erode the independence and effectiveness of the audit firm, the audit committee should ensure that audit work is tendered at least every ten years and that the auditor is rotated at least every twenty years.[32] In addition, the audit committee, rather than management, should serve as the auditor's point of contact.

We generally support management's recommendation regarding the selection of an auditor, and we will usually recommend granting the board the authority to fix auditor fees, unless we believe the independence of a returning auditor or the integrity of the audit has been compromised.

Our reasons for recommending that shareholders vote against the board's authority to appoint the auditor and/or set the auditor's fees include:

32 Statutory Auditors and Third Country Auditors Regulations.

- When non-audit fees are greater than audit and audit-related fees paid to the auditor.

- When the company has demonstrated aggressive accounting policies.

- When the company has poor disclosure or a lack of transparency in its financial statements.

- Where the auditor limited its liability through its contract with the company.

- When there have been recent material restatements or late filings by the company and the auditor bears some responsibility for the restatement or late filing (e.g., a restatement due to a reporting error).[33]

- When the company has, without a suitable explanation, failed to put its independent audit work to a tender within the past ten years. In addition, we may consider recommending against the audit committee chair for a continued failure in this regard and/or in the event that we have additional concerns as to the auditor's independence.

- When there are other relationships or issues of concern with the auditor that might suggest a conflict between the interests of the auditor and those of shareholders.

- When the auditor performs prohibited services, such as tax-shelter work, tax services for top executives or contingent-fee work, such as a fee based on the percentage of economic benefit to the company.

We are also mindful of fees for one-time corporate finance transactions and due diligence work related to mergers, acquisitions or disposals, and we may grant one-time exceptions when these fees make up a significant portion of the year's non-audit work. While we are generally opposed to a company's independent auditor providing a significant amount of services unrelated to the audit, given the auditor's intimate knowledge of the companies that they audit and the importance of these types of transactions, we consider their assistance in these matters to be acceptable, so long as their provision of such services does not persist.

33 An auditor is not required to perform an audit of interim financial statements and accordingly, in general, we do not believe auditor-related proposals should be opposed based on a restatement of interim financial statements, unless the nature of the misstatement is clear from a reading of the incorrect financial statements.

The Link Between Pay and Performance

Glass Lewis strongly believes executive remuneration should be linked directly with the performance of the business that the executive is charged with managing. We typically look for remuneration arrangements that provide for a mix of performance-based short- and long-term incentives, in addition to base salary. Glass Lewis reviews executive remuneration on both a qualitative basis and a quantitative basis. The guidelines in this section reflect our views on best practice generally, with specific regard to the UK.

REMUNERATION VOTING

In the UK, investors are provided with multiple platforms to demonstrate approval or register concerns regarding executive remuneration packages. From 2003, UK companies listed on the Main Market of the LSE have been required to prepare a directors' remuneration report and present it for shareholder approval on a non-binding, advisory basis annually.

Since 2014, the Enterprise and Regulatory Reform Bill has also required quoted UK-incorporated companies to submit their remuneration policy to a binding shareholder vote at least every three years, and as and when the board wishes to amend the policy.. In conjunction, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 introduced new reporting requirements for the directors' remuneration report, including a structural split between the Policy Report and Implementation Report to reflect the new voting structure.

The Policy Report sets out all components of executive remuneration, including the maximum amount payable under each component, the basis of performance measurement where applicable, and its connection to overall strategy. It should also explain the company's remuneration philosophy and all applicable policies relating to recruitment, service contracts and exit payments. No payments can be made outside of the approved policy without shareholder approval.

The Implementation Report sets out how the policy was implemented over the past fiscal year, and how it will be implemented in the current year. It is put to a non-binding, advisory shareholder vote annually and provides shareholders with an opportunity to weigh in on remuneration decisions during the past year, as well as ongoing structural issues. If the proposal does not receive majority approval, the company is required to submit its Policy Report to a binding vote at the next AGM.

We believe that Policy Reports should provide clear disclosure of an appropriate framework for managing executive remuneration. While this framework will vary for each company, it should generally provide an explicit link to the company's strategy, setting appropriate quantum limits along with structural safeguards to prevent excessive or inappropriate payments and particularly any reward for failure. Remuneration policies should also provide sufficient flexibility to allow boards to manage matters of recruitment, severance and professional development as they arise to avoid the necessity of seeking shareholder approval for policy amendments or special payments outside the policy.

For most companies, we expect a remuneration policy that complies with best practice to:

- emphasise incentive pay in the form of equity, weighted towards performance and/or holding periods of three or more years;

- incentivise executives based on goals aligned with strategy while avoiding overly complex structures or those that may encourage excessive risk-taking;

- set reasonable and transparent award limits, expressed as a multiple of base salary, for normal and exceptional circumstances;

- limit the application of discretion to clearly defined circumstances;

- include structural safeguards and risk mitigating features such as clawback/malus provisions, deferral, post-vesting holding periods and post-employment shareholding requirements;

- expressly comply with Investment Association recommendations regarding equity-related dilution;

- disclose a clear approach to recruitment, including reasonable award limits and delivery structures that align the interests of incoming executives with those of shareholders;

- disclose all relevant details of executive service contracts, limiting notice period entitlements to salary and benefits over 12 months or less, subject to mitigation; and

- comply with all disclosure requirements set out by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013.

When a company's executive remuneration policy deviates from these guidelines, we expect a clear and compelling rationale for why the proposed structure or practice is appropriate for the company. Some of the potentially troubling issues we will consider when analysing remuneration policies, and in particular when weighing a vote against these proposals, are as follows:

- The policy allows for high pay (as compared to the company's peers) that is not subject to relevant and challenging performance targets over the period and when such pay has not been merited by outstanding company performance over the period;

- We do not believe the terms of an equity-based scheme are appropriate (see "Incentive Plans");

- We do not consider the overall remuneration structure or the balance between short- and long-term incentive plans to be appropriate or in shareholders' best interests;

- Pay levels are benchmarked above median without sufficient justification;

- Service contracts provide for notice periods of longer than twelve months. For recruitment purposes only, we may approve longer contracts if they revert to one year or less after the initial term expires.

- Service contracts provide for the enhancement of employment terms or remuneration rights in excess of twelve months in the event of a change of control;

- The policy does not reflect appropriate share-based dilution limits;

- Performance targets are not sufficiently challenging, do not align with business strategy, or are well below actual past performance or strategic targets provided in guidance to shareholders, absent a compelling rationale for lowering the target;

- Non-executive directors are eligible for cash and/or equity awards on similar terms as those granted to executives; and

- The incentive structure relies on or allows an excessive level of committee discretion without appropriate justification.

Further, if the company has failed to sufficiently disclose the terms of its policy, we may recommend that shareholders vote against the proposal solely on this basis.

We believe the advisory implementation vote provides shareholders with an important opportunity to support or oppose remuneration policies and practices; as such our voting recommendations may reflect ongoing structural concerns as well as remuneration decisions and outcomes during the past fiscal year. In assessing implementation during the year under review, particular attention is paid to the alignment between performance and pay outcomes, and the committee's level of disclosure regarding any application of discretion.

In the case of companies that maintain poor remuneration policies year after year without any apparent steps to address the issues, we may also recommend that shareholders vote against the chair and/or other members of the remuneration committee. In addition, we may recommend voting against the entire committee based on the practices or actions of its members, such as approving large one-off payments, the inappropriate use of discretion in determining variable remuneration, or sustained poor pay-for-performance practices.

DISCLOSURE

Clear, succinct and comprehensive disclosure of the company's remuneration structure and practices is essential for shareholders to make an informed assessment. The level of explanatory disclosure provided by the committee is particularly important in relation to one-off exceptional issues (including recruitment), areas where the policy or practices deviate from best practice, or any application of discretion. In the case of recruitment grants, the committee should provide an explanation of the award's necessity, and of the methodology used in determining the size and structure of the award.

To facilitate an assessment of all payments and incentive awards and their relationship to performance and strategy, the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 provide for a uniform set of disclosures.

Individual pay is calculated as a "single total figure", comprising salary, pension and benefits, as well as any other applicable awards or payments. Incentive awards are reported in the final year of the performance period; as such, bonuses reflect awards in respect of, not paid in, the past fiscal year; whereas long-term awards will typically reflect the ultimate, vested value of awards granted three to five years previously, based on performance against targets and calculated using current share price for equity grants.

The terms of the incentive structure, including an explanation of how performance targets are determined, and the actual metrics and specific targets utilised where appropriate, should be disclosed and put in the context of the company's business strategy.

In addition, the regulations require that the Implementation Report disclose:

- directors' shareholdings, including a breakdown of directly held shares and shares under award, including those that have yet to vest;
- a comparison of company performance and CEO pay for up to ten years preceding the current fiscal year, based on the single total figure;
- a comparison of the change in CEO pay to that of a wider group of company employees;
- a comparison of the remuneration paid to all employees relative to shareholder distributions and any other uses of profit or cash flow deemed relevant by the directors;
- any other individuals or organisations that assisted the remuneration committee, including amounts paid in respect of consulting work; and
- voting results for all remuneration proposals at the prior general meeting.

Further, we recognise that the disclosure of pay ratios between the CEO and median or average UK-based employee may be useful in contextualising the levels of executive remuneration both within a business and within industries. As such, we encourage companies to disclose such pay ratios, accompanied by a description of the methodology for their calculation. However, while we believe the pay ratio has the potential to provide additional insight when assessing a company's pay practices, we will not base voting recommendations solely on such ratios in and of themselves.

ENGAGEMENT AND COMPANY RESPONSIVENESS

Engagement between the remuneration committee and shareholders can provide a constructive forum for dialogue, and in some cases allow companies to explain or address points of contention before they come to a vote. As such, we generally believe that the committee should be responsive to shareholder concerns regarding remuneration, particularly when remuneration proposals encounter significant opposition. As noted above, shareholder voting on remuneration proposals during the prior year should be disclosed in the Implementation Report, along with an explanation of any significant opposition and the board's response to such opposition, in accordance with the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. In the event of significant opposition to remuneration proposals, we will assess the responsiveness of the committee to shareholder concerns on a case-by-case basis.

In addition, where practicable boards should keep shareholders engaged with the remuneration process through regular dialogue and preemptive consultation, particularly in relation to any one-off exceptional issues, or changes to the remuneration policy and/or its implementation.

FIXED REMUNERATION

SALARY

In line with the Investment Association's Principles of Remuneration, we generally expect any proposed salary increase to be justified and appropriate when compared to increases awarded to the wider workforce. Where an exceptional increase is sought, the remuneration committee's rationale should be fully disclosed.

PENSIONS

We generally expect pension provisions for executive directors to be in line with those available to the majority of the wider workforce, in line with provision 38 of the UK Code and the Investment Association's Principles of Remuneration. While we expect that new executive directors be appointed on this level of pension contribution, we recognise that pension rates for incumbents may need to be reduced over time

INCENTIVE PLANS

Two primary concerns regarding a company's remuneration policy are the level of alignment between the interests of executives and long-term shareholders, and the potential for unmerited pay. For most companies, incentive-based pay, with an appropriate structure and safeguards, provides a means of addressing both issues.

STRUCTURE AND DURATION

We believe that incentives tied to long-term performance and holding restrictions provide the strongest alignment with the interests of long-term shareholders. The majority of the incentive opportunity should generally be subject to a performance period of at least three years. In addition, extended performance and/or holding requirements may serve to further enhance alignment.

Long-term incentives generally make up the largest component of the incentive opportunity in the UK, however most companies also provide short-term incentives. As short-term incentives usually reflect performance over a single year, we support the practice of deferring a portion of payouts into equity for multiple years, which can offset the initial short-term focus and discourage unnecessary risk-taking.

We generally believe that a significant proportion of incentive payouts should be delivered in equity to promote alignment with shareholder interests during the performance period and after. In the UK, long-term incentives are generally delivered in full-value performance shares, while short-term incentives are generally delivered in a mix of cash and deferred shares.

PERFORMANCE MEASURES

Performance measures should be carefully selected to relate to the specific business/industry in which the company operates and, especially, the key value drivers of the company's business. In relation to short term incentives, we recognise the value of including a balance of metrics, both financial and non-financial as appropriate. Nevertheless, given their more demonstrable link to shareholder value, we believe financial measures should account for a majority of the performance assessment employed under a short-term incentive plan. The remuneration report should provide a clear explanation for the performance measures selected and how they are calibrated in the context of the company's strategy.

Glass Lewis believes that measuring a company's performance with multiple metrics serves to provide a more complete picture of the company's performance; reliance on a single metric may narrow management focus and be more susceptible to manipulation. We generally believe that at least one metric should compare the company's performance to a relevant peer group or index. When utilised for relative measurements, external benchmarks should be disclosed and transparent. Internal benchmarks should also be disclosed and transparent, unless a cogent case for confidentiality has been fully explained.

Targets should be disclosed or, if performance is assessed on a discretionary basis, an explanation of the overall methodology and specific rationale for individual allocations should be provided. Glass Lewis accepts that some measures may involve commercially sensitive information, in which case an explanation of how performance compared to target should be provided in support of any payouts, and the actual targets and performance should be disclosed retrospectively. Generally, we expect companies to provide an indication of when the targets will be disclosed in the future, absent a cogent rationale for the absence of such an indication.

We generally defer to the board in setting the appropriate measures for incentivising executives; however, where the financial metrics used to determine payouts have been adjusted, such as to exclude exceptional items or other costs, the report should disclose how the calculation differs from reported accounting figures, and a rationale for these adjustments. Further, in the event that performance under such adjusted measures differs significantly from their reported accounting counterparts, we closely scrutinise any payouts driven by plans incorporating those measures.

In line with UK market practice, we believe that the receipt of equity awards by key executives should normally require the achievement of at least median performance against the selected benchmark, unless a cogent case for lesser performance has been fully explained. Further, we closely scrutinise plans that allow for more than 25% of an award to vest for threshold performance.

LIMITS

We believe that incentive programs should feature clear and transparent award limits, expressed as a multiple of base salary per employee. In addition, payouts should be reasonable relative to company performance, and total remuneration to those included in the plan should be broadly in line with amounts paid by the company's peers.

DISCRETION

Remuneration committees should retain a reasonable level of discretion to ensure that pay outcomes are justified and linked to performance, and that the implementation of the remuneration policy remains appropriate, including with reference to performance metrics and specific targets. The scope of potential discretionary powers, and any exercise of such discretion made during the year, should be clearly disclosed and justified.

More specifically, and in line with the Investment Association's Principles of Remuneration, we generally expect remuneration committees to consider exercising downward discretion where a company has suffered an exceptional negative event, even if formulaic targets have been met. For example, investors may expect a remuneration committee to reduce an annual bonus payout and/or the size of an LTI grant following a significant decline in share price.

RECOVERY PROVISIONS (CLAWBACK AND MALUS)

In line with provision 37 of the UK Code, all incentive schemes should allow for awards to be recovered or withheld in clearly defined circumstances, such as misstatement or misconduct. It should be clearly disclosed whether these provisions allow for the recovery of paid awards (clawback), or are limited to withholding or adjusting outstanding/deferred awards (malus).

DILUTION

Limits on the permissible amount of dilution to shareholders should be included in all executive and employee equity participation or incentive plans. Such a limit provides a measure of protection for the shareholders against excessive dilution. Best practice limits reflect the guidance of the Investment Association.

In the case of companies with established businesses, plan rules should limit dilution from any grant or series of grants, together with grants already made under all executive and employee plans, to 10% of total issued share capital in any 10-year period, with dilution relating to executive (discretionary) schemes limited to 5% over the same period. In the case of developing companies, we believe that higher limits may be reasonable, although a compelling rationale should be provided to shareholders before the plan is introduced.

RESTRICTED SHARE PLANS

In July 2016, the Investment Association's Executive Remuneration Working Group opened the door to restricted share awards ("RSAs") in an effort to simplify pay practices at UK companies and to allow for divergence from the so-called "one-size-fits-all LTIP model". Regardless of the specifics of a particular incentive plan, the Working Group affirmed that pay-setting should be carried out within a clear and simple structure that calls for alignment with shareholders' interest, recognition of company performance, and the implementation of a long-term strategy that is consistent with the approach taken for other employees.

Glass Lewis assesses all restricted share plans on a case-by-case basis; however, in line with Investment Association guidance,[34] we expect the following features at a minimum:

- The discount rate for moving from performance share awards to restricted share awards should be a minimum of 50%;
- The total vesting and post-vesting holding period should be at least five years;
- The grant of restricted shares should be accompanied by significant shareholding requirements, including a post-exit shareholding requirement of at least two years; and
- Restricted share awards should be subject to an appropriate underpin.

34 Principles of Remuneration. The Investment Association. November 2018.

REMUNERATION AT FINANCIAL INSTITUTIONS

Following the global financial crisis, UK and European regulators have directed significant attention to the reform of remuneration policies at financial institutions in order to mitigate risk to relevant stakeholders. Such firms are subject to specific regulatory requirements, namely the European Union's Capital Rights Directive ("CRD"), and the UK Remuneration Code, which is jointly maintained by the Financial Conduct Authority and the Prudential Regulation Authority.

In line with the approach advocated by UK and European regulatory authorities, Glass Lewis believes that remuneration structures at financial institutions often require unique consideration due to the heightened potential for shareholder value to be put at risk by poorly designed incentive programs. As such, we generally expect financial institutions to provide more robust justifications for any deviations from key best practice recommendations.

CAPITAL RIGHTS DIRECTIVE

The European Union introduced directives amending the existing Capital Requirements Directive in 2010 ("CRDIII") and 2013 ("CRDIV") in order to harmonise the supervision of remuneration practices at financial

institutions across the EU.[35] The amendments introduced with CRDIII established a requirement that national supervisory authorities directly oversee financial institutions' remuneration policies and practices in order to "promote sound and effective risk management."[36] The more notable provisions from CRDIII and CRDIV that apply to executive remuneration policies of affected firms[37] are the following:[38]

- Performance-related remuneration must take into account the overall company results as well as financial and non-financial criteria;
- Fixed pay should be high enough relative to variable pay to adequately compensate individuals and avoid excessive risk-taking;
- Variable remuneration plans should allow the possibility of receiving no payment in case of poor company performance;
- Variable remuneration cannot exceed 100% of fixed remuneration (or 200%, with shareholder approval);[39]
- At least 50% of variable remuneration must be granted in the form of equity-linked or derivative instruments;
- At least 40% of variable remuneration must be deferred over at least three to five years;[40]
- Up to 100% of variable remuneration, including equity deferral, must be subject to clawback or malus provisions; and
- Make-whole payments related to previous employment packages must also include retention, deferral, performance and clawback elements.[41]

35 Directives 2010/76/EU and 2013/36/EU of the European Parliament and of the Council of 24 November 2010 and 26 June 2013, respectively, amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

36 Article 22(1) of Directive 2006/48/EC ("CRDIII").

37 While all financial and credit institutions are affected by CRD III and CRD IV, a "proportionality rule" prevents all requirements from being strictly applied to smaller companies or to companies or individuals with less direct risk exposure.

38 Annex V. Article 11(23.1) of CRDIII.

39 Member states may set lower thresholds in national implementation laws. Shareholders must approve any increase in variable remuneration over the threshold of 100% of base salary by a 75% supermajority, or by a 66% supermajority if at least 50% of outstanding shares are represented.

40 For variable remuneration that is "particularly high," at least 60% must be deferred.

41 Buy-outs of variable remuneration. Prudential Regulation Authority. September 2016.

UK REMUNERATION CODE

The Remuneration Code was introduced in 2010 to reflect the recommendations of the G20's Financial Stability Board, and has been subsequently revised to align with CRD provisions relating to remuneration. It is intended to "ensure greater alignment between risk and individual reward, to discourage excessive risk-taking and short-termism and encourage more effective risk management," principally by ensuring that a significant proportion of pay for material risk takers, including executives, is at-risk and that issuers have the capability to adjust payout levels.

Under revised rules released in June 2015,[42] the deferral requirements for variable payouts to executives stipulated under CRD were extended to a three-to-seven year period, depending on the individual's level of responsibility, and such awards are now subject to clawback for at least seven years from the date of award (or up to ten years if an investigation into potential material failures has commenced). In addition, the revised

rules prohibit any variable pay for non-executive directors, and explicitly state that no variable or discretionary payments should be made to management of a firm that is receiving taxpayer support.

AUTHORITIES TO INCREASE VARIABLE REMUNERATION

As described above, in accordance with CRDIV, certain financial institutions are required to seek shareholder approval in order to grant variable awards that exceed 100% of fixed pay, subject to an overarching limit of 200% of fixed pay. In general, Glass Lewis will support such requests where a company has provided adequate rationale and demonstrated a close alignment between pay and performance.

Currently, CRDIV rules on variable pay only apply to significant financial institutions; however their application is currently under review and may be expanded going forward.

INVESTMENT ASSOCIATION

The Investment Association serves as one of the primary drivers of remuneration best practice in the UK. Its guidelines, most recently revised in November 2018, call for remuneration policies that "support performance, encourage the sustainable financial health of the business and promote sound risk management for the success of the company and to the benefit of all its stakeholders." It advocates the use of bonus deferral but cautions that this practice "should not result in an increase in the overall quantum of the bonus", and calls for clawback provisions in relation to both short- and long-term incentives.

More generally, the IA highlights the role of the remuneration committees in selecting "a remuneration structure which is appropriate for the specific business, and efficient and cost-effective in delivering its longer-term strategy." Further, while bonuses "should be clearly linked to business targets," the committee should consider reducing awards "if the business has suffered an exceptional negative event, even if some specific targets have been met." Similarly, "committees should also be aware of the multiplier effect that increases in base pay have on the overall quantum of remuneration." [43]

NON-EXECUTIVE DIRECTOR REMUNERATION

Glass Lewis believes that non-employee directors should receive appropriate remuneration for the time and effort they spend serving on the board and its committees. Director fees should be reasonable in order to retain and attract qualified individuals. At the same time, excessive fees represent a financial cost to the company and threaten to compromise the objectivity and independence of non-employee directors.

The UK Code states that non-executive director remuneration should not include share options.[44] Not only does the board lose objectivity when it allows non-executive directors to participate in such schemes, but in-

42 Strengthening the alignment of risk and reward: new remuneration rules. Prudential Regulation Authority. June 2015.

43 Principles of Remuneration. The Investment Association. November 2018.

44 Provision 34 of the UK Code.

dividual directors locked in by longer-term grants could be inhibited from expressing dissenting views and, in extreme cases, from taking the ultimate step of resigning. Any non-executive director fees delivered in equity should be granted on a nil-cost basis, free of any performance criteria or time-based restrictions on exercise to ensure that directors hold these shares on the same basis as the shareholders they represent.

In certain circumstances, such as with options granted in connection with an IPO, or at a company in the development phase that has limited cash resources, the granting of options to non-executives may be a reasonable method of remuneration, provided that there are no performance conditions linked to these awards. In most cases, however, we will classify as affiliated any non-executive director who has received share options, or shares subject to any vesting restrictions, more than one year after the company's flotation.

RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

We will recommend voting against proposals to grant retirement benefits to non-executive directors. Such extended payments can impair the objectivity and independence of these board members. Directors should receive adequate remuneration for their board service through annual fees.

AIM COMPANIES

Companies listed on London's Alternative Investment Market ("AIM") are exempt from the Enterprise and Regulatory Reform Bill and, as such, are not required to hold binding or advisory votes on executive pay. However an increasing number of AIM companies submit their remuneration report to shareholders voluntarily, including a smaller number that have complied with the voting requirements of the Regulatory Reform Bill by providing shareholders with a voice on a forward-looking remuneration policy, albeit on an advisory basis.

When assessing AIM company remuneration reports, we take a broadly similar approach as for main market issuers, particularly with regard to the alignment between executive and shareholder interests, and protections against unmerited pay. However, we recognise that the remuneration structure, and level of disclosure, may be less developed at AIM-listed issuers than at larger, more established firms.

INCENTIVES AT CONTROLLED COMPANIES

We occasionally see controlled companies at which the controlling party acts as an executive director. In many cases, this individual was a founder of the company, and their unique history with the firm and substantial shareholding negate the need for typical remuneration arrangements. As these individuals are aligned with shareholders via their substantial shareholdings, we do not believe that such firms need to offer the additional incentive of participation in a long-term incentive plan. However, we do believe that appropriate and meaningful incentive structures should be in place for other executive directors who are unaffiliated with the controlling shareholder.

SAVE AS YOU EARN ("SAYE") PLANS

Many companies listed on the LSE provide a way for all employees to acquire ordinary shares at a discount via salary sacrifice SAYE plans. Government regulations typically limit the discount of shares to 20% of their recent market price. Glass Lewis recognises the value of broad-based equity programs that encourage employees to invest in their company, thereby aligning their interests with those of shareholders. Further, these companies are bound by certain statutory limitations in terms of the amount of shares to be granted pursuant to any company share plan, as well as a monthly contribution limit in order to acquire shares.

Capital Management

AUTHORITY TO ISSUE SHARES WITH PREEMPTIVE RIGHTS

The vast majority of UK companies seek annual shareholder approval of the authority to issue shares with and without preemptive rights. In either case, companies typically do not anticipate using this authority, but rather place it on their ballots in order to provide the board with the flexibility to issue shares over the course of the coming fiscal year if needed.

In general, we will support the authority to issue shares with preemptive rights when the requested amount is less than or equal to one-third of issued ordinary share capital.[45] This authority should not exceed 15 months; however, we will generally not recommend voting against any authority with an expiry in excess of 15 months, as most companies continue to renew this authority on an annual basis.

Best practice in the UK, as prescribed by the Investment Association and the Pre-Emption Group, has traditionally limited the authority to issue shares with preemptive rights to one-third of issued ordinary share capital. During the economic downturn of 2008, however, difficulties in raising capital and disparate take-up rates at rights issues opened this issue to debate among a wide range of UK investor groups.

As a result, the Investment Association's predecessor, the Investment Affairs division of the Association of British Insurers ("ABI"), increased its ceiling on allotments to two-thirds of issued share capital, provided that the additional third apply to a fully preemptive rights issue only. The ABI also recommended that issuers adopt certain safeguards in the event that the extra authority was used, including the required annual election of all directors, with the intent that shareholders could vote against directors in the event of any perceived abuse of this increased authority.

We generally believe that the authority to issue shares on a preemptive basis will benefit shareholders by providing the company with the flexibility to finance operations and business opportunities; however, we are concerned that this increased authority will grant directors a dangerously high level of control over a company's share capital, possibly to the detriment of shareholders. Moreover, we note that the 2006 Companies Act allows issuers to abolish the concept of an authorised share capital. We are concerned that these two authorities leave very little shareholder control over capital management.

In light of such concerns, Glass Lewis will generally recommend voting against any authority allowing the board to issue shares representing more than one-third of issued share capital if such number of shares in excess of one-third is not specifically designated for a fully preemptive rights issue. In most other cases (i.e., one-third is designated for issuance with preemptive rights generally and one-third is designated for issuance in connection with a rights issue), we will generally view these authorities as standard and in the best interests of shareholders. In any case, we note that such rights issues generally qualify as Class 1 transactions under the Listing Rules and as such require further separate shareholder approval prior to any actual transaction.[46]

AUTHORITY TO ISSUE SHARES WITHOUT PREEMPTIVE RIGHTS

With regards to the authority to issue shares without preemptive rights, we generally view proposals to suspend preemptive rights for a maximum of 5% of the issued ordinary share capital of the company as non-contentious and routine, in line with the recommendations of the Pre-emption Group.[47] If the proposal seeks to allow

45 Share Capital Management Guidelines. The Investment Association. July 2016.

46 Chapter 10, UK Listing Rules. The Financial Conduct Authority.

47 Disapplying Pre-emption Rights — A Statement of Principles. Pre-emption Group. March 2015.

for issuances of more than 5%, we will apply heightened scrutiny and generally require companies to provide a thorough explanation to shareholders. The factors we will consider when analysing such a request include: (i) the company's short-term need for funding; (ii) whether the company has reasonably considered other funding options; (iii) the company's past actions; and (iv) the expected overall dilutive effect on shareholders. Further, we believe that this authority should be limited to 15 months.

However, we consider authorities requesting up to 10% of current issued share capital reasonable when the board provides an assurance that the portion of the authority in excess of 5% of the company's issued share capital will be limited to use in connection with an acquisition or specified capital investment, in line with the recommendations of the Pre-emption Group.

Glass Lewis seeks to limit shareholder dilution while also taking into consideration that certain companies, such as those listed on the AIM or in a development phase, may justifiably request authorities of more than 5% of issued shares. In these instances, Glass Lewis will generally recommend voting in favour of resolutions that seek an authorisation to issue shares without preemptive rights up to a 10% limit, even if the proposals do not include a thorough explanation.

INVESTMENT TRUSTS

Investment trusts present an additional exception to our guidelines for share issuance authorities. Given that the shares of trusts generally trade at a discount to their net asset value ("NAV"), share issuances have the potential to result in substantial and immediate economic dilution for existing shareholders. While investment trusts with a premium listing are prohibited from issuing shares below NAV regardless of their domicile, such restrictions do not apply to standard-listed trusts. Accordingly, in cases in which standard-listed trusts are seeking an authority to allot shares without preemptive rights in excess of the standard 5% limit, we will require a confirmation from the board that shares would only be issued at or above the prevailing NAV per share. Although we are generally concerned with significant voting dilution, any share issuances at or above NAV would not result in economic dilution to existing shareholders, and they would carry the added benefits of enhanced liquidity and costs, such as management fees, spread over a greater number of shares. As such, we generally consider such authorities to be in shareholders' best interests, and we will recommend shareholders approve share issuance authorities without preemptive rights of more than 5% of issued share capital, so long as shares will be issued at or above NAV.

AUTHORITY TO REPURCHASE SHARES

A company may want to repurchase its own shares for a variety of reasons. A repurchase plan is often used to increase the company's share price or EPS, distribute excess cash to shareholders, or provide shares for equity-based remuneration plans for employees. In addition, a company might repurchase shares in order to offset the dilution of earnings caused by the exercise of share options.

We will recommend voting in favour of a proposal to repurchase shares when the plan includes the following provisions: (i) a maximum number of shares which may be purchased (limited to 15% of a company's issued share capital in line with the requirements of Chapter 12.4 of the Listing Rules); and (ii) a maximum price which does not exceed the higher of (a) 5% above the average market value of the company's shares for the five business days before the purchase is made; and/or (b) the higher of the price of the last independent trade and the highest current independent bid on the market where the purchase is carried out (also in line with the requirements of Chapter 12.4 of the Listing Rules).

We often find proposals asking for an authority to make off-market share repurchases to be troubling. We recommend that shareholders vote against proposals asking for the authority to make off-market purchases (or contingent purchase contracts) that do not specify the maximum price for repurchases, as companies would then be authorised to make purchases at a large premium. Additionally, such purchases are outside the jurisdiction of the Listing Authority, and companies may be making off-market purchases without requesting any specific authority from shareholders.

CITY CODE ON TAKEOVERS AND MERGERS

Companies sometimes seek shareholder approval to waive Rule 9 of the City Code on Takeovers and Mergers (the "City Code"), which requires an all-cash offer be made by any party acquiring more than a 30% stake in a company. The requirement is also extended to any party currently carrying between 30% and 50% of the share capital to make a takeover offer when this stake is increased.[48] The City Code was instituted to ensure that all shareholders are treated fairly and not denied an opportunity to decide the merits of a takeover opportunity. It has also been designated as the supervisory authority to enact the requirements of the EU Directive on Take-over Bids. Offers must be made in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror during the 12 months prior to the offer.

We will analyse Rule 9 waivers on a case-by-case basis to determine the short- and long-term effect on current shareholders. Companies often put this proposal on a ballot when they are pursuing a repurchase program or a capital restructuring that would indirectly increase a significant shareholder's stake. While we typically find this proposal non-contentious, we will closely examine any measure that could potentially allow for a "creeping acquisition" through the increase in a significant shareholder's interest from below 50% to near or above 50% of the anticipated outstanding share capital following a repurchase, restructuring, or the exercise of vested awards.

ALLOCATION OF PROFITS/DIVIDENDS

We generally recommend supporting a company's determination regarding the payment of dividends (or nonpayment thereof). However, we will apply particular scrutiny where the company's dividend payout ratio, based on consolidated earnings, has decreased to an exceptionally low level (as compared with historic practice), or where a company has eliminated dividend payments altogether without explanation. We will also scrutinise dividend payouts that are consistently excessively high relative to peers (i.e. over 100%) where not justified by outperformance and without satisfactory explanation. We will recommend supporting uncovered dividends when we believe that such payouts are justified and will not negatively impact the financial health of the company in the long-term.

In most cases, we believe the board is in the best position to determine whether a company has sufficient resources to distribute a dividend or if the company would be better served by forgoing a dividend to conserve resources for future opportunities or needs. As such, we will only recommend that shareholders refrain from supporting dividend proposals in exceptional cases.

By law, real estate investment trusts ("REITs") are required to return 90% of the profits of the business arising in the relevant accounting period to shareholders in the form of a dividend. Given that REIT dividend payouts are monitored by law, we will not hold these companies to the standard dividend payout ratio outlined above.

DIVIDEND REINVESTMENT (OR SCRIP DIVIDEND) PLANS

We support plans that provide shareholders with the choice of receiving dividends in shares instead of cash. Scrip dividends allow the company to retain cash that it would otherwise distribute as a normal dividend. For shareholders, a dividend reinvestment plan offers a less expensive way to acquire additional shares without paying brokers' commissions or taxes.

48 The Takeover Code. The Panel on Takeovers and Mergers. September 2016.

Off-Shore Companies and the Alternative Investment Market

AIM-LISTED COMPANIES

As an adjunct to the Main Market of the LSE, the Alternative Investment Market ("AIM") allows smaller companies from a wide range of industries and countries to raise capital while remaining subject to public regulation. Approximately 900 companies are currently listed on the AIM. While some of these companies will continue to trade on the AIM for some time, many will eventually 'graduate' to the Main Market upon reaching adequate size and productivity.

Companies listed on the AIM are required to comply or explain against a recognised corporate governance code — namely the UK Code or the less stringent QCA Code. Given the diverse range of companies listed on the AIM, we expect their boards to be minimum 33% independent, in line with the QCA Code, though we recognise that some companies may aspire to the higher independence standard set by the UK Code.

As aforementioned, under the UK Code the chair is not considered strictly independent after appointment; however, many AIM companies continue to consider their chair independent. Where companies choose to comply with the QCA Code, deviation from best practice may be justified due to the small size of many AIM-listed boards and the relatively low level of responsibilities and remuneration associated with this role compared to chairs of larger companies. We will approach this issue on a case-by-case basis, considering the board's determination, the remuneration provided to the chair, and any other relationships that may compromise his or her independence. If we consider the chair of an AIM-listed company to be independent, we will include them in our independence count.

Companies listed on the junior exchange generally provide poorer disclosure and apply less stringent corporate governance practices; however, we have seen a push for tighter regulation and improved practices in this section of the market by investor groups in the UK.

OFF-SHORE COMPANIES (GUERNSEY, JERSEY, THE ISLE OF MAN)

Some companies listed on the LSE are incorporated outside the UK for tax or general business purposes. Specifically, companies incorporated in Guernsey, Jersey, the Isle of Man and other off-shore markets (collectively, "offshore companies") have historically been subject to neither the provisions of the UK Code nor UK Companies Law. However, under the two-tiered listing structure, companies with a Premium listing on the London Stock Exchange are required to comply with the UK Code regardless of their corporate domicile. While companies with standard listings remain exempt from the UK Code, they are required to comply with the regulations of the UK Listing Authority, also referred to as the FCA. Listing requirements are stipulated in the FCA Handbook, which, among other things, provides guidance on related-party transactions, capital requirements, shareholder notification rules and reporting deadlines. Unlike the UK Code, which operates on a "comply or explain" premise, the listing rules are strictly binding.

Still, we believe offshore companies with standard listings should adhere to the UK Code to the maximum extent possible and thoroughly explain any significant deviations. Additionally, while standard-listed offshore companies are not required to submit a remuneration report for shareholder approval, they sometimes do so, which we fully support. As with AIM-listed companies offshore companies tend to have weaker disclosure and corporate governance practices than Main Market firms.

REINCORPORATION

In recent years, we have seen several companies reincorporating from the UK to offshore or overseas jurisdictions while retaining a UK listing. In shifting away from the jurisdiction of the UK Companies Act, the following significant changes for investors may apply: (i) shareholders do not retain statutory pre-emption rights in the case of new issuances; (ii) directors do not need shareholder approval to issue and allot shares; (iii) companies are not required to disclose significant beneficial owners of the company's shares; (iv) there is no maximum limit in the law regarding political donations; and (v) the appointment of more than one corporate representative in respect of a single shareholding is prohibited.

In many cases, such companies provide assurances that they will voluntarily comply with the provisions of the UK Code. Further, companies often state that the reincorporation will not change the company's adherence to best practices in corporate governance and shareholder rights, and many often enshrine key elements of UK law into their articles. Moreover, premium-listed companies are required to comply with the UK Code.

Although we remain concerned that companies reincorporating offshore or overseas will be subject to somewhat more relaxed corporate governance standards, we will generally recommend voting in favour of such a proposal when management provides the above key assurances. Further, the UK Listing Authority's two-tiered listing regime (see Introduction) mitigates some of these concerns. However, if the terms of a reincorporation fail to provide assurances regarding the maintenance of adequate governance standards, we will consider recommending shareholders vote against such a proposal in order to preserve vital safeguards of shareholder rights.

Governance Structure and the Shareholder Franchise

SHAREHOLDER INITIATIVES, ENVIRONMENTAL & SOCIAL ISSUES

Unlike the North American markets, shareholder proposals are uncommon in the UK. This certainly does not indicate that UK investors are "inactive" or disinterested. Instead, there is typically more direct dialogue between shareholders and management in the UK, with groups such as the Investment Association and the National Association of Pension Funds ("NAPF") often leading these engagements. Direct discourse is particularly strong with regards to executive remuneration policies. Companies often seek shareholder input when making significant changes to remuneration practices and typically provide clear and thorough reports on executive remuneration in their annual reports.

In the relatively rare event of a submission of a shareholder proposal on a UK ballot, Glass Lewis will apply a case-by-case analysis. We generally favour proposals that are likely to increase shareholder value and/or promote and protect shareholder rights. We typically prefer to leave decisions regarding day-to-day management of the business, as well as policy decisions related to political, social or environmental issues, to management and the board, except when we see a clear and direct link between adoption of the proposal and some economic or financial issue for the company. We believe shareholders should not attempt to micromanage the business or its executives through the initiative process. Rather, we believe that shareholders should use their influence to push for governance structures that protect investors and hold directors accountable for management and policy decisions through the election of directors.

For a detailed review of our policies concerning compensation, environmental, social and governance shareholder initiatives, please refer to our comprehensive *Proxy Paper Guidelines for Shareholder Initiatives*, available at www.glasslewis.com.

EU SHAREHOLDERS' RIGHTS DIRECTIVE AND THE POWER TO CALL A MEETING

Although rarely exercised, both the Act of 2006 and the EU Shareholders' Rights Directive give minority shareholders of UK companies the power to call a general meeting and require written resolutions to be circulated, along with a written statement about the meeting's subject matter. The minimum ownership threshold required to call a meeting is 5% of the company's total voting rights, although to prevent the abuse of this power, there are some limits on the types of resolution that may be circulated in this way.

The directive also allows for the shortening of a company's general meeting notice period from 21 days to 14, subject to annual shareholder approval of a special resolution granting such an authority. This authority, which is routinely sought at UK AGMs, is contingent upon a company having adequate electronic voting and communication provisions in place.

Assuming that such an authority, once granted, has not previously been abused, we will generally recommend that shareholders vote for a board's authority to set general meeting notice periods at 14 days as long as companies provide an assurance that the authority would not be used as a matter of routine, but only when merited. As such, we expect that such an authority should only be utilised where there is an exceptional need for urgency and is to the advantage of shareholders as a whole.

Where such an authority is utilised, we will expect a company to give its reasons for the need to call a general meeting at short notice. As such, we may recommend that shareholders vote against any resolution proposed at a shorter notice meeting if the use of the shorter notice period has not been adequately justified or we believe that shareholders need more time to consider their voting decision due to the complexity of the matters proposed.

REPORTING CONTRIBUTIONS AND POLITICAL SPENDING

UK companies will sometimes seek shareholder approval to authorise the board, in accordance with sections 366 and 367 of the Act, to make political donations or incur political expenditures up to a disclosed monetary limit. These authorities are typically set forth as a precautionary measure to ensure a company does not inadvertently breach EU rules requiring shareholder approval for political spending. Companies seeking this authority will generally provide an assurance that they have not used this authority in the previous fiscal year and do not intend to use it in the subsequent fiscal year. On that basis, and absent any indication of abuse of this authority, we typically recommend shareholders approve political spending-related proposals.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

We will evaluate proposed amendments to a company's articles of association on a case-by-case basis. We are opposed to the practice of bundling several amendments under a single proposal because it prevents shareholders from judging each amendment on its own merits and is a practice which we believe negatively limits shareholder rights. In such cases, we will analyse each proposed change individually. We will recommend voting for the proposal only when, on balance, we believe that all of the amendments are in the best interests of shareholders.

A NOTE ON QUORUMS

Over the course of the 2008-2010 proxy seasons, most UK listed companies amended or adopted new articles of association in compliance with provisions that were added to the Companies Act in 2006. Additionally, many companies clarified in their new articles that two persons present at a meeting constitute a quorum. We understand that such a low threshold was intended to reduce the burden on overseas shareholders to physically attend meetings; however, we still find this to be an exceptionally low requirement, particularly given the recent movement toward electronic voting. One option to avoid this issue is to set quorums as a certain percentage of participating shareholders — in person or by proxy — rather than according to physical attendance. This practice is common in other markets, where quorums are typically set between 20% and 50% of participating shareholders and the requirement for physical attendance is waived.

DISCLAIMER

This document is intended to provide an overview of Glass Lewis' proxy voting policies and guidelines. It is not intended to be exhaustive and does not address all potential voting issues. Additionally, none of the information contained herein should be relied upon as investment advice. The content of this document has been developed based on Glass Lewis' experience with proxy voting and corporate governance issues, engagement with clients and issuers and review of relevant studies and surveys, and has not been tailored to any specific person.

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North America

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