

M O R R O W
S O D A L I

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Proxy Advisor Policy Updates

AUSTRALIA

ISS, CGI Glass Lewis (CGI) and the Australian Council for Superannuation Investors (ACSI) have recently published their updated Australian proxy voting guidelines for the 2017-2018 period. Morrow Sodali has summarised the main changes and updates to the disclosed policies as it relates to remuneration practices, board composition and non-executive director (re)elections, and environmental and social governance concerns.

Remuneration

ISS

In its [updated proxy voting guidelines](#), ISS discourages companies from using benchmarking as the rationale for fixed pay increases “unless it is applied infrequently (at no more than three-to-five year intervals)”. In general, benchmarking remuneration in line with current market practice “should not be used as a justification for any substantial increase”. ISS also states that “post-freeze ‘catch-up’ salary increases” will generally not be supported. In regards to variable pay schemes, companies that use non-financial measures are encouraged to be transparent in their disclosures and draw a clear link between the performance measure objectives and their strategy. It should also be noted that ISS “expects the majority of the payout to be triggered by financial performance conditions”. Companies should also be aware that any increases to maximum STI opportunities “should be explicitly justified”. Similarly, any increases in the award size of LTI plans should be linked to “more challenging targets”. Operational hurdles under an LTI plan will be reviewed on a case-by-case basis.

ISS also regards one-off retention payments as ineffective “and therefore not typically supported”. Companies introducing new or additional short or long term incentives in addition to existing plans are “likely to be viewed sceptically” by ISS. It is also clearly stated that one-off payments in a change of control event will generally not be supported.

CGI Glass Lewis

In its most recently released [policy document](#), Morrow Sodali has not observed any major changes in CGI’s remuneration-related policy disclosure.

ACSI

In its [2017 Governance Guidelines](#), ACSI states that it will consider the quantum of total remuneration packages paid to executives (both actual and potential remuneration) when assessing a company’s remuneration arrangements. ACSI encourages companies to ensure that quantum of pay “is fair and reasonable having regard to factors such as the complexity of the organisation and internal pay relativities”.

In terms of variable remuneration, ACSI states in its guidelines that the vesting of incentives should not commence when performance is below the median of relevant peers.

Board Composition / Director Elections

ISS

In its voting guidelines for the 2017-2018 period, ISS states that the Chair of the Remuneration Committee, and possibly other members of that Committee, will be facing negative voting recommendations where “a serious breach in good practice is identified, and typically where issues have been raised over a number of years” in relation to a remuneration-related disclosure or practice.

CGI Glass Lewis

In its updated proxy voting guidelines, CGI has provided additional detail around the skills that should be observed on a company board depending on the specific industry sector. CGI further states that where a board has failed to address major issues of board composition, including the composition and mix of skills and experience of the

independent directors of the board, or has not disclosed its board skills matrix, CGI will consider recommending against the Chair of the Nomination Committee.

CGI also states that “when a substantial environmental or social risk has been ignored or inadequately addressed” it may recommend against “certain members” of the board who may have some influence over those practices.

ACSI

When assessing director (re)election proposals, ACSI indicates that it will now be considering the "length of the director's tenure on the company's board in light of the average overall board tenure".

In addition, 2017 was the first year that ACSI began to recommend against directors who sit on boards with no female director representation. According to their guidelines, ACSI may vote against boards with less than 30% women on a case-by-case basis.

Further commentary on board diversity by CEO of ACSI, Louise Davidson, can be found on page 14 of the most recent AICD report on [board gender diversity](#).

Environmental and Social Concerns

ISS

With an increase in the volume of ESG-related shareholder resolutions observed in the Australian market over the past few years, ISS has included a new section under its voting guidelines providing detail as to the treatment of these types of resolutions.

ISS states that it applies a common approach when evaluating such proposals. ISS has also stated that ESG-related resolutions will be examined on a case-by-case basis, “taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value”. It is interesting to note that, in the instance where an ESG resolution is considered supportable and the company decides to deny the vote of shareholders at a meeting, “this could be regarded as a negative factor when considering a vote on the re-election of the Chairman, or any relevant directors”.

CGI Glass Lewis

In its proxy voting guidelines, CGI states that where there is “a clear link between the subject of a shareholder proposal and value enhancement or risk mitigation, CGI will recommend in favour of a reasonable, well-crafted shareholder proposal where the company has failed to or inadequately addressed the issue”.

ACSI

ACSI has added a new section under its guidelines on board oversight of ESG issues and disclosure expectations with a focus on four key themes: climate change, labour and human rights, corporate culture and tax transparency. As stated in the guidelines, ACSI is expecting all board members to "maintain a robust oversight of all ESG issues that materially affect the business". The guidelines also provide further details on ACSI's expectations around ESG disclosures, with a focus on the materiality of risk exposure(s).

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