MORROW SODALI

INSTITUTIONAL INVESTOR SURVEY 2018

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EXECUTIVE SUMMARY

The positive response to Morrow Sodali's 2018 Institutional Investor Survey goes to show how Institutional Investors continue to recognize the importance of their stewardship activities, working to improve their investee companies' ESG practices through corporate engagement and proxy voting. Also, fulfilling their fiduciary duty to their clients by driving changes that increase shareholder value. The rise of index funds has also increased reputational and regulatory pressure, causing both active and passive investment managers to ensure strong corporate governance oversight.

Board effectiveness and executive pay remain key issues for investors as we head into 2018. There is an increased demand for companies to disclose relevant aspects of their business strategy and more likelihood that Institutional Investors will support credible activist strategies compared with previous years.

Our results show that an increasing number of Institutional Investors will focus their attention on board effectiveness, looking at the skills of each board member, considering these as the most critical factor when evaluating directors. After skills and experience, gender was chosen as the most significant board diversity factor, with geography, age and ethnicity following behind.

Executive pay is still one of the main areas where boards and shareholders are likely to disagree during 2018. Institutional Investors are expected to *up the ante* when scrutinizing pay policies, demanding enhanced disclosure of pay metrics and seeking a closer alignment between pay and performance. Further pressure will come to bear on companies with excessive pay practices, particularly with the introduction of the CEO pay ratio.

When evaluating remuneration plans, Institutional Investors are interested in receiving information on the sustainability metrics used, particularly those linked to a company's risk management and business strategy. For example, the incorporation of climate risk into remuneration plans is likely to be a key topic for the most exposed industries.

Activism remains in the spotlight. The rise of Investment Stewardship strategies is redefining how Institutional Investors think about company performance and investment decisions. In this regard, many Institutional Investors confirm that they are more likely to support activists who put forward a credible story focused on long-term strategy. Institutional Investors are assigning more resources to assess companies' risks and opportunities and are collaborating more to better understand the merits of activist proposals.

Many of the emerging issues will no doubt resonate with our readers. We believe it's important to keep abreast of the many changes affecting proxy voting and corporate engagement. We hope the 2018 Institutional Investor survey results will provide companies with useful insights and help them navigate the complex world of corporate governance as they work to achieve their long-term strategic goals.

**Our 3rd annual investor survey has only been made possible thanks to the participation of Institutional Investors.
We would like to thank them all for taking the time to respond to our survey.**

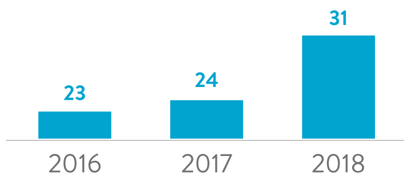
ABOUT THE SURVEY

This is Morrow Sodali's 3rd Annual Institutional Investor Survey. Forty-nine global Institutional Investors – managing a combined $31 Trillion in assets under management - took part. We continue to monitor the views of Investment Managers and Institutional Investors on a wide variety of global trends and emerging issues around the Annual Shareholder Meeting, ESG Engagement, Board Practices, Executive Pay, Activism and Investment Stewardship Strategies.

The purpose of this year's survey is to determine which issues will have priority for Institutional Investor's during the 2018 annual meeting season. Our goal is to alert clients to these issues and help them prepare to manage and engage effectively with their shareholders. Institutional Investors responding to this year's survey have the following characteristics:

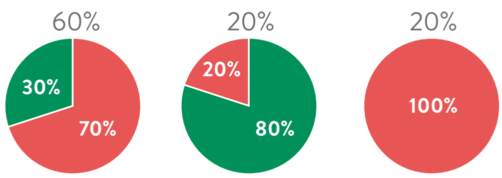
ASSETS UNDER MANAGEMENT

2018 $31 Trillion of assets under management
2017 $24 Trillion of assets under management
2016 $23 Trillion of assets under management



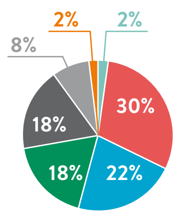
INVESTMENT STRATEGY: ACTIVE VS PASSIVE

Active $18 Trillion / **Passive $13 Trillion**
60% of respondents manage 70% Active / 30% Passive
20% of respondents manage 80% Passive / 20% Active
20% of respondents manage 100% Active / 0% Passive



ROLE OF RESPONDENTS

- Head of Corporate Governance 30%
- ESG Analysts 22%
- Responsible Investment Analysts 18%
- Head of Investment Stewardship 18%
- Portfolio Managers 8%
- Chief Investment Officers 2%
- General Counsel 2%



INVESTMENT STEWARDSHIP FOCUS

- **50% of the index/ETF/passive funds incorporate ESG or sustainability policies**
- All respondents surveyed are signatories of the Principles for Responsible Investment (PRI)
- Respondents with $11 Trillion AUM are signatories of the US Investment Stewardship Group
- Respondents with $21 Trillion AUM are signatories of the UK Stewardship Code

KEY INSIGHTS

Institutional Investors responding to Morrow Sodali's 2018 Survey revealed three critical areas of increasing concern:

1. The need for a clear articulation of a portfolio company's business strategy and goals.
2. More detailed information about the directors' skills, qualifications, experience and how each member contributes to the effectiveness of the board.
3. An explanation of the business rationale for board decisions and how they align with strategy and performance.

Based on our findings, we identified the following top priorities for 2018:

- **Investors will prioritize skills ahead of gender or ethnic diversity.** 71% of respondents representing $23 Trillion AUM overwhelmingly felt that "Skills" was the most important diversity criteria. 54% of respondents representing $17 Trillion AUM felt that engagement with shareholders on succession planning was the most important issue.

- **Unjustified pay will come under intense scrutiny say** 88% of respondents representing $24 Trillion AUM. Respondents want to see better alignment between pay and performance. This is up from 75% last year. 61% of respondents representing $17 Trillion AUM suggest the CEO pay ratio disclosure will gain a lot of attention and be a useful statistic. The rigor of incentive schemes will also come under the microscope according to 46% of respondents managing $17 Trillion AUM.

- **Investor collaboration around broader Annual Shareholder Meeting topics will increase exponentially.** Nearly two thirds of respondents representing $13 Trillion AUM stated collective engagement and collaboration with other shareholders related to annual general meetings is a powerful tool to help influence change.

- **Institutional Investors are increasingly likely to support a credible activist story** say 61% of respondents representing $18 Trillion AUM. Poor capital allocation is a key concern according to 54% of respondents representing $19 Trillion AUM. The Board's role in capital allocation will receive greater scrutiny.

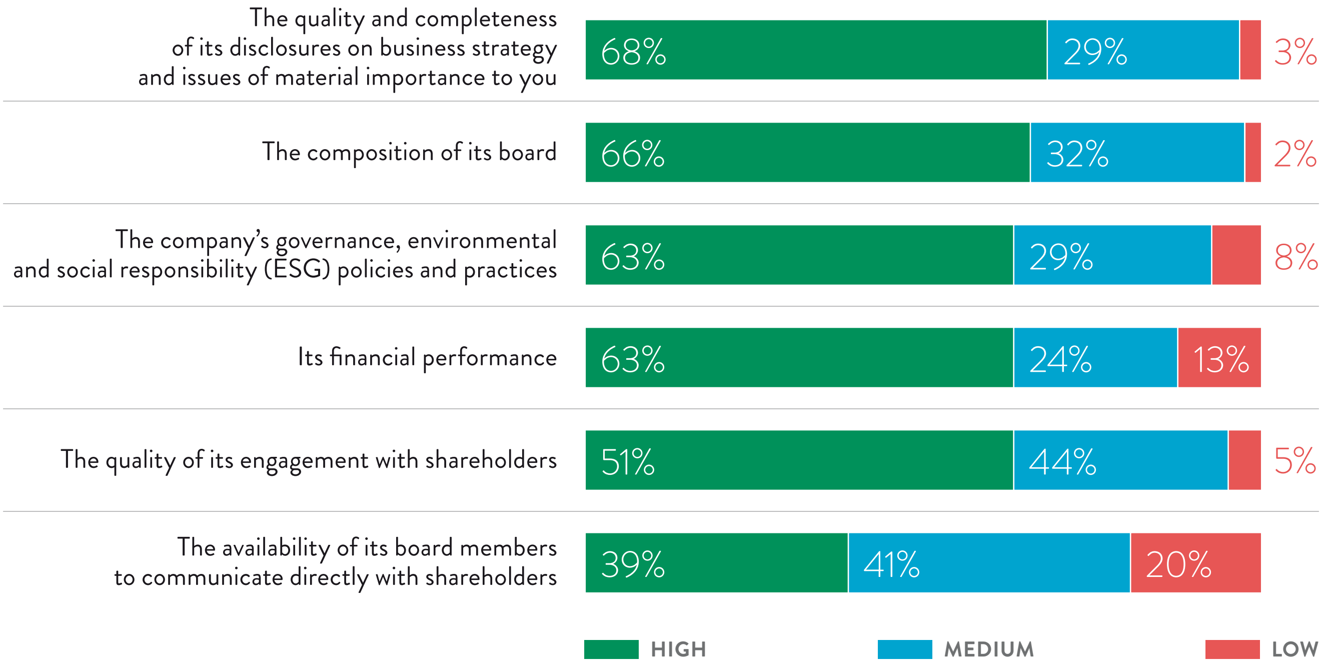
- **93% of respondents representing $30 Trillion AUM confirm ESG integration into investment decision making is either fully integrated or progressing towards full integration.** Respondents want to see companies better prepared to provide more detail around ESG risks and opportunities.

- **Investors seek enhanced disclosure around materiality and sustainable metrics linked to long-term business strategy** say 71% of respondents representing $20 Trillion AUM. There is more demand to understand a company's purpose and boards should provide more detail in the annual report and in particular, corporate governance statements.

What these answers tell us is that respondents to the Morrow Sodali survey are looking beyond compliance and one-size-fits-all voting policies. Instead they are seeking specific information from individual portfolio companies that will help them understand the fundamentals of the business and its strategic goals, the value contributed by the board of directors and the links between board policies and decisions, management's effectiveness and the company's long-term economic performance. This is good news for companies willing to make these disclosures, as it opens the path to closer relations with investors based on business fundamentals rather than compliance with external standards.

Respondents' answers to other questions further indicate that they are taking a more individualized approach to portfolio companies and moving away from standardized policy-based box-ticking voting criteria.

Q.01 LOOKING FORWARD TO THE UPCOMING ANNUAL MEETINGS OF YOUR PORTFOLIO COMPANIES, PLEASE INDICATE HOW IMPORTANT THE FOLLOWING FACTORS WILL BE WHEN TAKING YOUR VOTING DECISION ON DIRECTOR ELECTIONS AND OTHER AGENDA ITEMS:



This is a critically important time for directors, committee chairs and boards as we enter the 2018 Annual Shareholder Meeting season.

Investor expectations will intensify around the role the board plays in managing strategic oversight. Respondents increasingly want to know if the board is involved in evaluating, challenging and monitoring the company's strategy and challenging management in crisis situations.

Shareholders are increasingly focused on the composition of the board and expect each director to provide real contributions. Companies are now expected to play a pivotal role in addressing key societal issues and economic risks such as climate change, gender and ethnic diversity and stakeholder considerations. Director elections in many jurisdictions have received significant scrutiny in the past year. In the US the adoption of proxy access has increased dramatically allowing certain investors to nominate director candidates; in the UK we noticed a couple of stand-out negative director election votes linked to ineffective risk management.

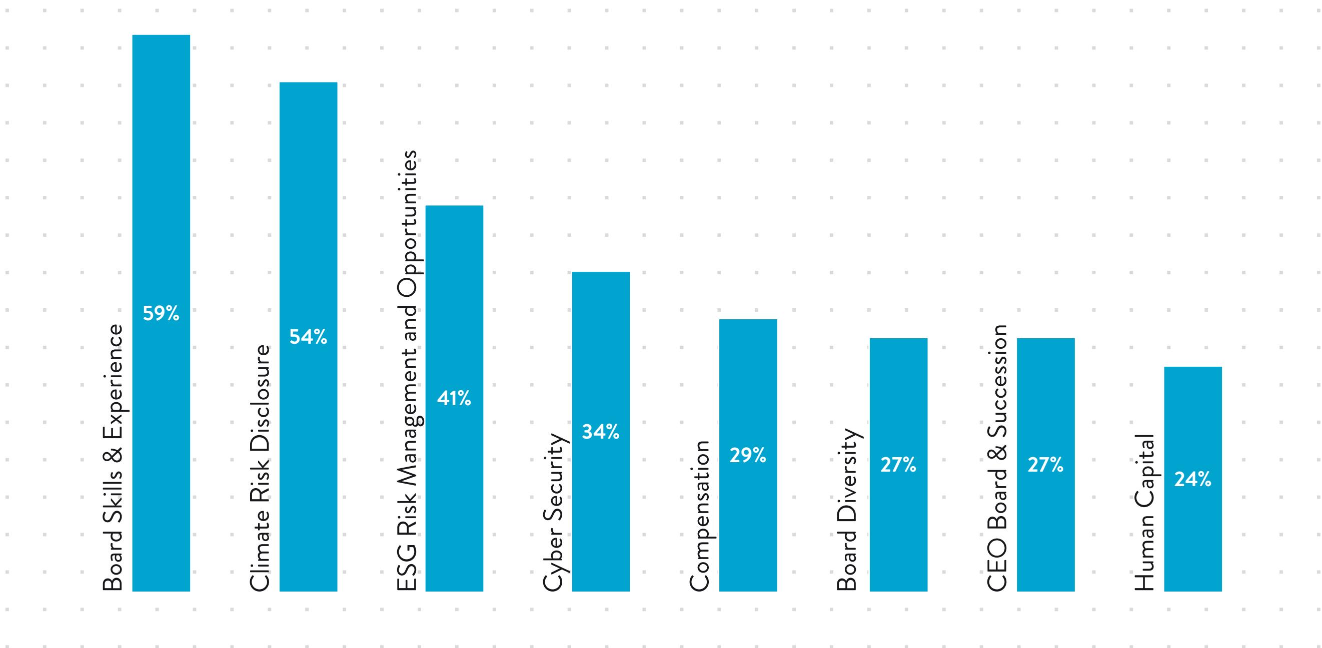
68% of respondents suggested "The quality and completeness of a company's disclosures on business strategy and issues of material importance" is the most important point of focus in 2018. Respondents want to know boards are heavily involved in evaluating, challenging and monitoring the company's strategy.

66% of respondents believe "The composition of its board" is the next most important point of focus when considering votes on director elections in 2018. This is particularly poignant given the green paper and governance reforms requiring companies to have independent Chairmen; FTSE 350 companies will need to be aware of investor expectations as they lag behind in this area.

The company's financial performance and ESG disclosure & practices received a score of 63% in terms of importance.

Q.02

WHICH 3 ESG TOPICS WILL BE MOST IMPORTANT TO YOU WHEN ENGAGING WITH COMPANIES IN 2018?



Corporate engagement is now a pivotal mechanism that investors use to monitor their investee companies. The mutual benefits, access and opportunity to create relationships has helped investors and companies improve the information flow and critically build a stable long-term relationship.

In this year's survey 59% of respondents will prioritize "board skills & experience." This is a significant increase of 50 percentage points on last year's 2017 survey. Respondents are turning up the heat on director accountability and oversight. Broader issues continue to evolve such as technology transformation, disruptions and stakeholder considerations.

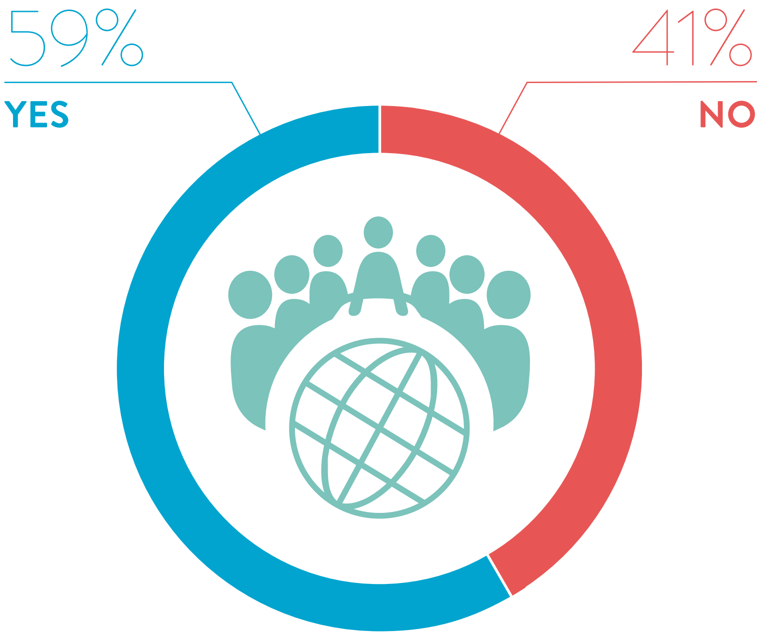
Just under two-thirds (54%) of respondents will focus engagement on "climate risk disclosure," this is an increase of 10 percentage points on last year's survey. Climate change has now become a mainstream long-term investment risk and respondents demand better disclosure around reporting metrics and financial impact linked to climate related risk.

The 3rd key focus point with 41% of investor responses will target "ESG risk management & opportunities" in 2018, this is compared to 24% in 2017. Respondents seek information on quantifiable ESG opportunities.

This is in comparison to last year's 2017 survey respondents that suggested climate change ($7 Trillion AUM) and pay for performance ($10 Trillion AUM) were the most important engagement topics, followed by board composition and cyber security. 2018 sees continued growth in environmental, social and corporate governance (ESG) engagement as a key mechanism for investors to identify risks and opportunities linked to the company's long-term business strategy.

Q.03

DO YOU EXPECT TO COLLABORATE WITH OTHER SHAREHOLDERS WITH RESPECT TO ISSUES OF IMPORTANCE AT ANNUAL MEETINGS?



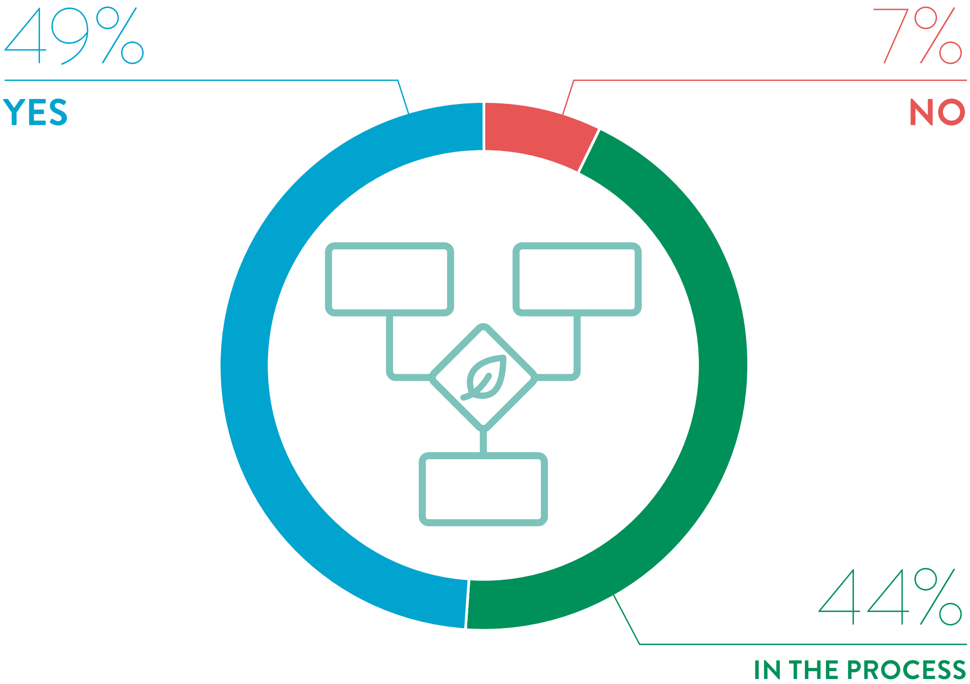
Shareholder Collaboration has increased exponentially and continues to be a powerful mechanism to seek change at companies with poor governance practices. In the US minority shareholder rights are under scrutiny from the Financial CHOICE Act restricting individual shareholder's ability to submit proposals on the agenda. In Japan, cross-holdings and the lack of truly transparent independent directors has always resulted in governance shortcomings.

However, the introduction of Investor organizations such as UK Investor Forum, US Investor Stewardship Group and Japan GO Investor Forum has changed the landscape. Creating established principles results in a framework for standardized corporate governance principles. These collective groups provide minority investors leverage as a collective voice to influence change.

59% of respondents confirmed they would collaborate with other shareholders with respect to important issues at annual general meetings and given the significance of the result, we went back to respondents to better understand the most frequent topics they will collaborate on in 2018. In the last decade we have noticed a sharp increase of shareholder collaboration around Annual Shareholder Meeting agenda items especially in the UK and US. Shareholders do recognize time constraints and resource challenges and see group meetings as an opportunity to discuss thematic issues or AGM issues.

Q.04

ARE ESG AND SUSTAINABILITY NOW INTEGRATED INTO YOUR INVESTMENT/DIVESTMENT DECISION-MAKING PROCESSES FOR ALL ASSET CLASSES?



Investors increasingly recognize ESG and sustainability as material to long-term financial outcomes. Investment Managers are ever more influenced by clients' objectives and stakeholder considerations as the focus on environmental, social and governance (ESG) issues continues to attract significant attention. More respondents gradually follow the Sustainability Accounting Standards Board (SASB) guidelines for investors, UN Sustainability Development Goals and recently endorsed Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

This year we asked investors to what extent ESG is integrated into their investment decisions.

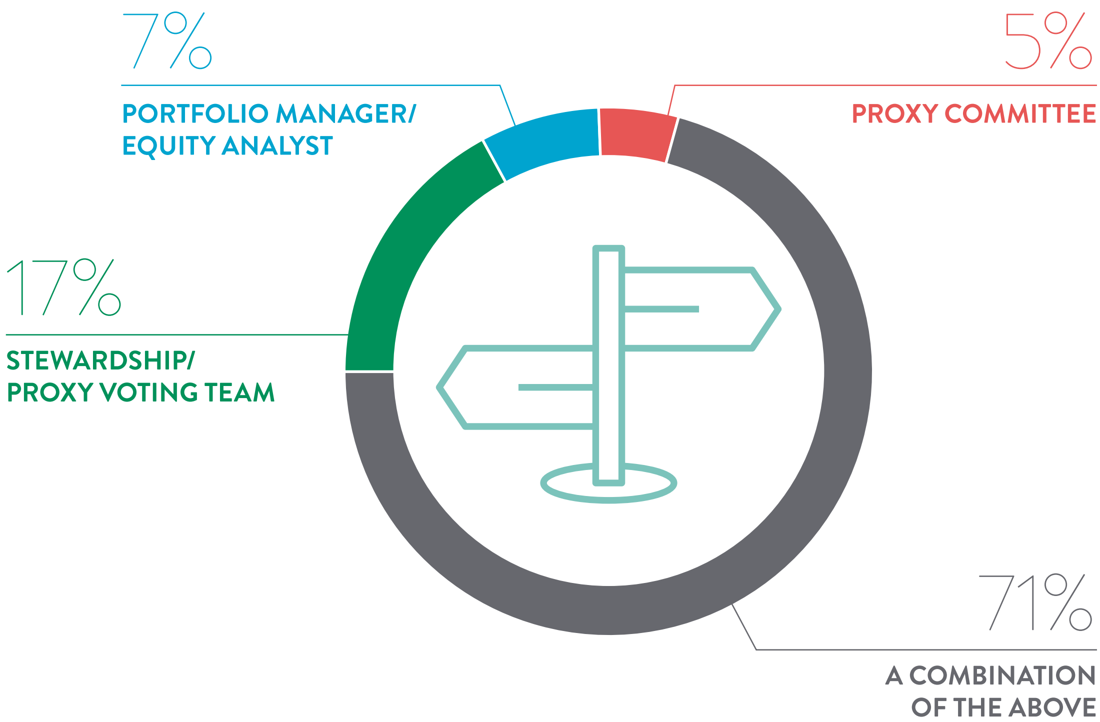
49% of respondents confirmed that ESG and sustainability indicators are fully integrated into their investment decision processes across all asset classes.

44% of respondents confirmed they are in the process and only 7% have zero or minimal ESG integration.

A combined 93% of respondents therefore are either fully integrated or progressing towards full integration. This portrays a strong message from investment managers on the direction in terms of assessment of ESG risks and opportunities within their investment portfolios.

In our 2017 survey 72% of respondents representing $14 Trillion AUM suggested "the disclosure of material ESG information was very important to their investment decisions."

Q.05 WHO IS INVOLVED IN MAKING THE VOTING DECISIONS IN THE GENERAL MEETINGS OF YOUR PORTFOLIO COMPANIES?



Over a decade ago most proxy voting decisions were determined by the Portfolio Manager particularly within the actively managed investment funds. The shift to index funds and Institutional Investors' increasing resources have contributed to a power shift away from Portfolio Managers. Corporate Governance and Investment Stewardship Analysts now tend to lead discussions related to the Annual Shareholder Meeting.

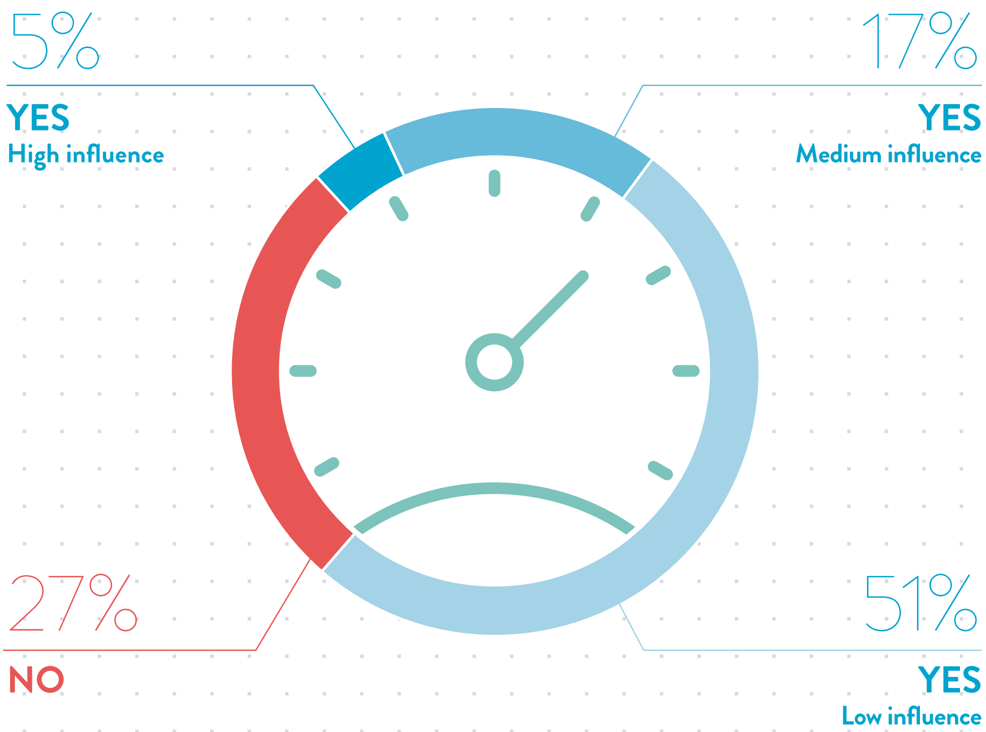
The flow of investment capital from active to passively managed strategies continues to grow rapidly. Consequently, and under some external pressures, large index managers increasingly play an important role enforcing stewardship responsibilities and protecting the long-term interests of client assets. Questions have been asked, and to their credit, index managers have taken a proactive approach, becoming active stewards. They have increased the size of their corporate governance teams and developed detailed market policies.

71% of respondents confirmed that a combination of the stewardship team and investment decision makers take proxy voting decisions at Shareholder Meetings.

17% of respondents confirmed that the stewardship team will manage the vote decision and only 7% of voting decisions are controlled by Portfolio Managers.

Q.06

DO YOU SUBSCRIBE TO ESG RESEARCH AGENCIES? IF SO, INDICATE HOW INFLUENTIAL THE RATINGS ARE TO YOUR VOTING AND/OR ENGAGEMENT DECISIONS?



ESG and Sustainable investing has gained momentum in recent years and there is greater demand from investors for better ESG disclosure expected in key markets and sectors. Investors continue to seek credible research to help reduce the knowledge gap on how these types of investments can significantly improve risk-adjusted returns. Research firms specializing in environmental, social and governance analysis fill this gap and investment managers have become more attuned to the usefulness and availability of this information. Investment Managers also inform us the demand for ESG mandates from clients (asset owners) increased exponentially.

51% of respondents confirmed they subscribe to ESG research agencies with a low impact on voting decision/engagement targets. A further 17% suggested they have a medium influence on voting decision/engagement targets.

Q.07

DO YOU SUBSCRIBE TO PROXY ADVISORY FIRMS? IF SO, HOW IMPORTANT ARE THEIR RECOMMENDATIONS WHEN YOU MAKE VOTING DECISIONS?

Over time, regulators and market participants have increasingly recognized the influence of proxy advisors on investors' votes and have pushed for stringent regulation of the proxy advisory industry. As recent as December 2017 The Corporate Governance Reform and Transparency Act of 2017 was approved with the intention of increasing the transparency of shareholder proxy advisory firms. Many observers believe that the influence of proxy advisors is significantly overstated, and that stringent regulation may do more harm than good while others suggest it will have a positive impact and increase competition in the industry.

Proxy advisor policies are becoming stricter and their reports are an important source of information for their clients to help make an informed decision in a timely manner.

For investors, the rise of in-house governance teams reduces some of the concerns raised by issuers and requires an extra layer of analysis when considering agenda items. Some investors subscribe to one or more proxy advisors and generally do not follow their recommendations strictly.

63% of respondents confirmed that their recommendations only have a "low influence" on their final vote decisions.

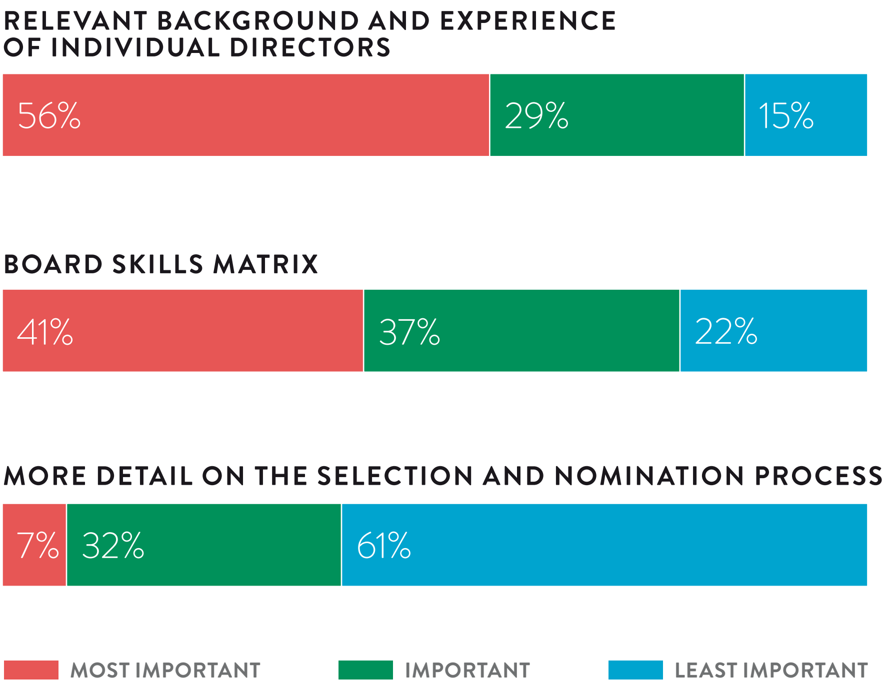
32% stated proxy advisor recommendations have a "medium influence" on their final vote decisions.

Only 5% of respondents informed us that proxy advisor recommendations have a "high influence" on their final vote decision.

BOARD COMPOSITION

Q.08

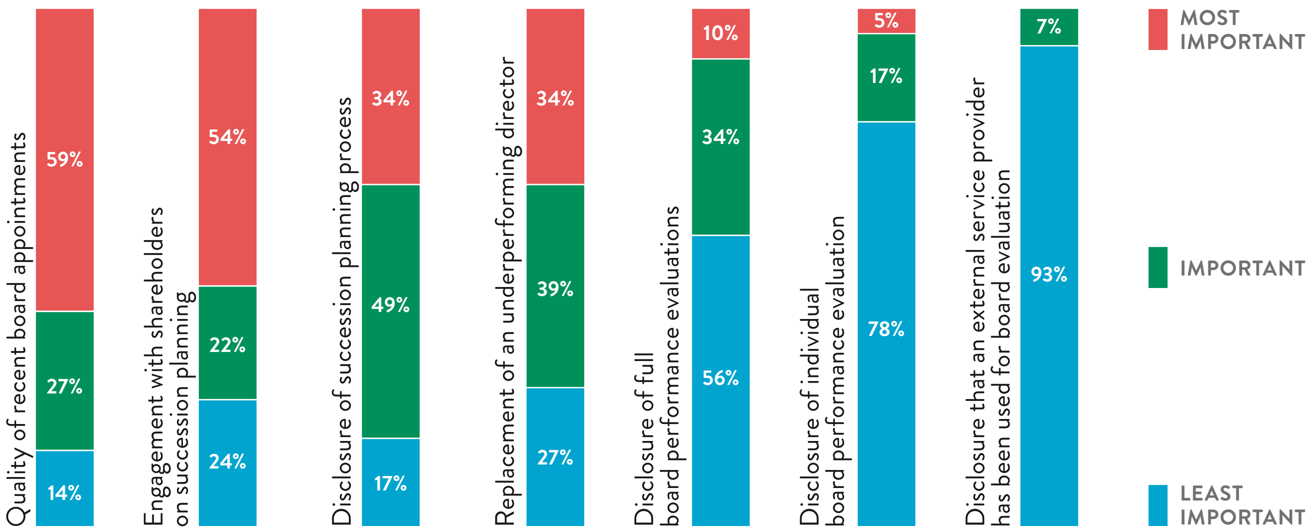
WHAT INFORMATION SHOULD BE DISCLOSED ABOUT A BOARD'S COMPOSITION SO THAT YOU CAN MAKE AN INFORMED VOTE ON DIRECTOR ELECTIONS?



Investors increasingly demand that boards and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to carry out their responsibilities and duties both effectively and to the highest standards possible. Access to adequate, timely and complete information about the make-up of boards is therefore essential to enable an investor to make a judgement on the suitability of individual directors. Transparency around board composition has substantially increased in recent years, thanks to a combination of regulatory developments as well as changes to corporate governance codes across the world. Both regulators and investors have placed much greater emphasis on the appointment process of directors, ensuring that directors are appointed on merit against objective criteria and with consideration to the benefits of having in place a diverse board, capable of providing independent oversight of management.

Over 56% of respondents believed that the most important topic concerning a company's composition was the relevant background and experience of individual directors, while 41% of respondents believe that the disclosure of a board skills matrix is the most important. This stands in stark contrast to more detail on the selection and nomination process, where only 7% of respondents felt this was the most important issue.

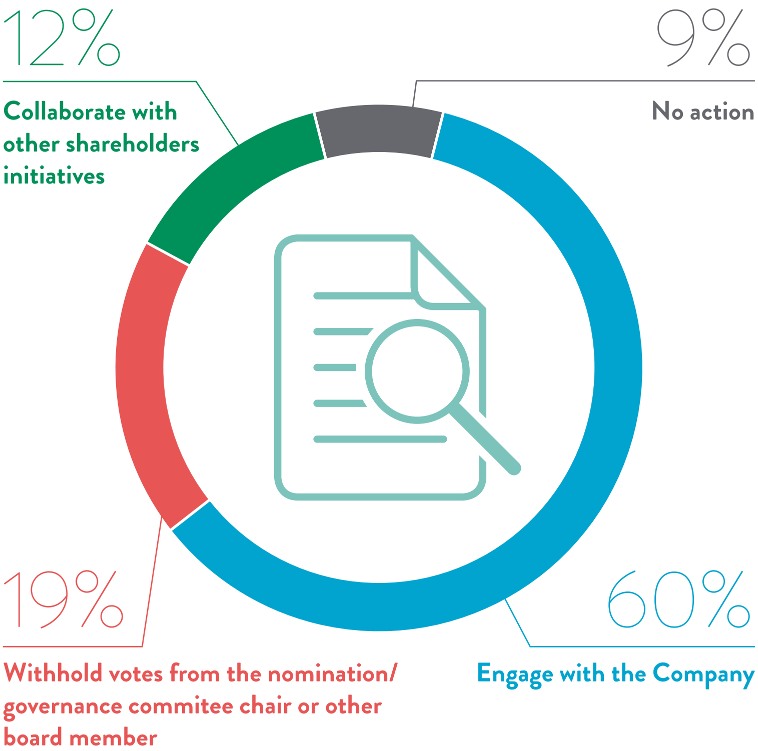
Q.09 WHICH OF THE FOLLOWING INCREASE YOUR CONFIDENCE IN THE BOARD'S REFRESHMENT PROCESS?



A core tenet of good corporate governance is the requirement for boards to explain, to investors, that there exists a formal, rigorous transparent and continuous process for monitoring the composition of the board. The board should look to satisfy both itself and investors that plans are in place for the orderly succession for appointments. This is important for maintaining an appropriate balance of skills and experience within the company and, crucially from an investor perspective, to ensure regular and progressive refreshing of the board. The days of simply appointing directors to the board of a public company on a whim or a wink and a nod are long gone.

59% of respondents considered the disclosures around the quality of recent board appointments were the most important and **54% of respondents** felt that engagement with shareholders on succession planning was the next most important. This demonstrates the importance that respondents attribute to engagement with the board and arguably is representative of a growing desire by respondents, especially ESG practitioners, to be more involved in promoting long termism at companies, of which succession planning, nominations and board evaluations are naturally crucial to. 93% of respondents felt that the least important topic was disclosure that an external service provider has been used for the board evaluation.

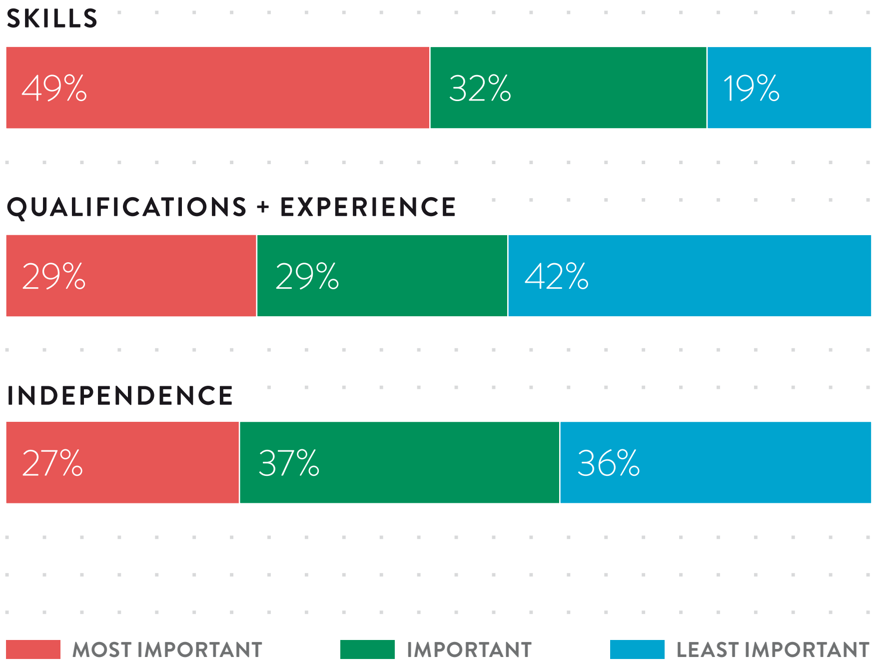
Q.10 IF A COMPANY DOES NOT ALLOW DIRECT COMMUNICATION BETWEEN DIRECTORS AND SHAREHOLDERS, WHAT ACTION WILL YOU TAKE?



Regular and direct dialogue between directors and shareholders is of a vital importance to a company's long-term health. This should be ongoing and not done just at times of crisis or ahead of Shareholder Meetings. As identified in the 2017 survey, rules and best practice guidelines are raising the bar for institutional investors to be better stewards of their investments. Stewardship codes exist across the globe, from UK to Japan. Moreover, corporate governance codes have significantly changed how companies engage with shareholders and other key stakeholders, including employees, customers and suppliers. Moreover, this theme will inevitably take on greater importance in the coming years, not least because of the forthcoming changes to the UK Corporate Governance Code and the anticipated consultation on the UK Stewardship Code, expected in 2018. The UK's approach to governance and stewardship, and the core principles that make up the Codes, have generally been replicated globally and therefore, much greater emphasis on effective engagement between boards and shareholders can be anticipated.

Building on last year's questions with respect to engagement, this question clearly showed that most **respondents (close to 60%)** were prepared to engage with the board; **19% of respondents** instead considered they would rather withhold votes from the nomination/governance committee chair or other board member. Moreover, **close to 12% of respondents** would collaborate with other shareholder initiatives. This is a testament to the commitment by global respondents to proactively seek to promote good corporate governance and ensure that the boards make decisions for the long-term interests of the company. Moreover, many global respondents have substantially increased their ESG resources, with many teams now focused on engagement. While it is impossible to engage with every company, respondents have much more capacity than they did a decade ago and are therefore more willing to perform a proactive stewardship role, promoting responsible investments across their portfolio. Moreover, the UK market benefits from both the Investor Forum and the Investment Association which allow respondents to work together, when appropriate, and engage on difficult and contentious governance issues at companies. **Only 9% of respondents** would take no action if the company did not permit communication. This very low score demonstrates that very few respondents are prepared to sit back and not engage directly with companies.

Q.11 WHICH IS MORE IMPORTANT TO YOU WHEN EVALUATING DIRECTORS: INDEPENDENCE; SKILLS; QUALIFICATIONS AND EXPERIENCE?



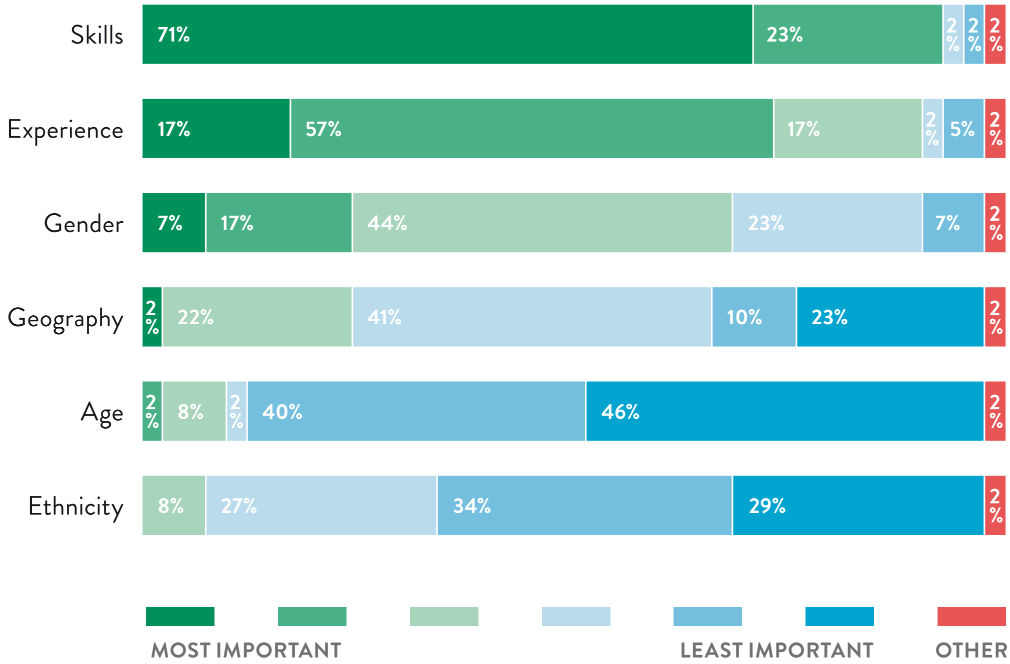
In the 2017 survey, close to two-thirds of respondents (representing $19 trillion AUM) explained that more detail on each individual director's biography was an important source of information for them to make an informed voting decision. Investors increasingly demand that companies are run by directors who not only possess the right experience and skills, but can also demonstrate their independence, not just at the time of their appointment but throughout their tenure on the board. Greater emphasis has been placed on ensuring that boards are composed of directors that fulfil a much greater skills matrix as well as demonstrating independence criteria.

Building on the results of the 2016 and 2017 survey, investors were asked to identify, in order of rank, what factors (independence, skills and qualifications/experience) were most important.

Skills (49%) and **Qualifications + Experience** (29%) were viewed by respondents as the most important.

Comparatively, **27% felt independence** was the most important issue here. Although skills were clearly the most popular in this instance, the relative closeness between all three options demonstrates that independence, skills and qualifications/experience are all imperative. This is not only the view of respondents, as demonstrated by this survey, but also that of many corporate governance codes. The current UK Code (2016), for instance, assigns an equivalent weighting to the three principles.

Q.12 WHICH DIVERSITY CRITERIA ARE MOST IMPORTANT TO YOU?

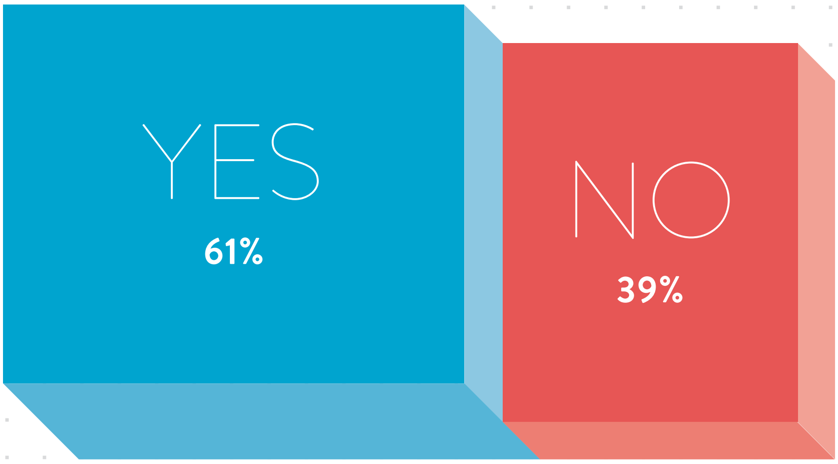


Boardroom diversity has been one of the most dominant corporate governance themes in the last decade. Initiatives to increase gender equality on the boards dominate the minds of regulators and governments. Corporate Governance Codes and regulations have sought to change the make-up of boards, moving from ones dominated by "pale, stale, males" to ones more representative of the society that they operate within. In recent years, we have seen the diversity debate shift from one solely focused on gender to one that looks to increase the make-up and composition of boards in other ways, including ethnicity and geography. The Parker Review (into ethnicity on UK boards) was published in October 2017, proposing that each FTSE 100 Board should have at least one director from an ethnic minority background by 2021 and for each FTSE 250 Board to do the same by 2024. The debate around boardroom diversity will continue to develop over the next few years and will no doubt continue to be a focus for investors, regulators and governments alike.

71% of respondents overwhelmingly felt that "Skills" was the most important diversity criteria. 17% of respondents ranked "Experience" as the next most important and 7% of respondents ranking "Gender" third. 46% of survey participants felt that "Age" was the least important diversity criteria while another 29% of respondents expressed the same view for "Ethnicity". These results demonstrate that while gender, ethnicity and age diversity are of course important they should not in any way distract boards from recruiting directors who have the right skills and experience for the roles. The focus on gender diversity remains a perennial issue across markets and should remain the focus of respondents and the companies themselves.

In the 2017 survey, 30% of respondents identified "board diversity" as one of their top three ESG topics for that Annual Shareholder Meeting season. Looking to develop this theme further, respondents in this year's survey were asked which diversity criteria were the most important to them.

Q.13 CEO VS MEDIAN EMPLOYEE PAY, DO YOU FIND THIS RATIO USEFUL?



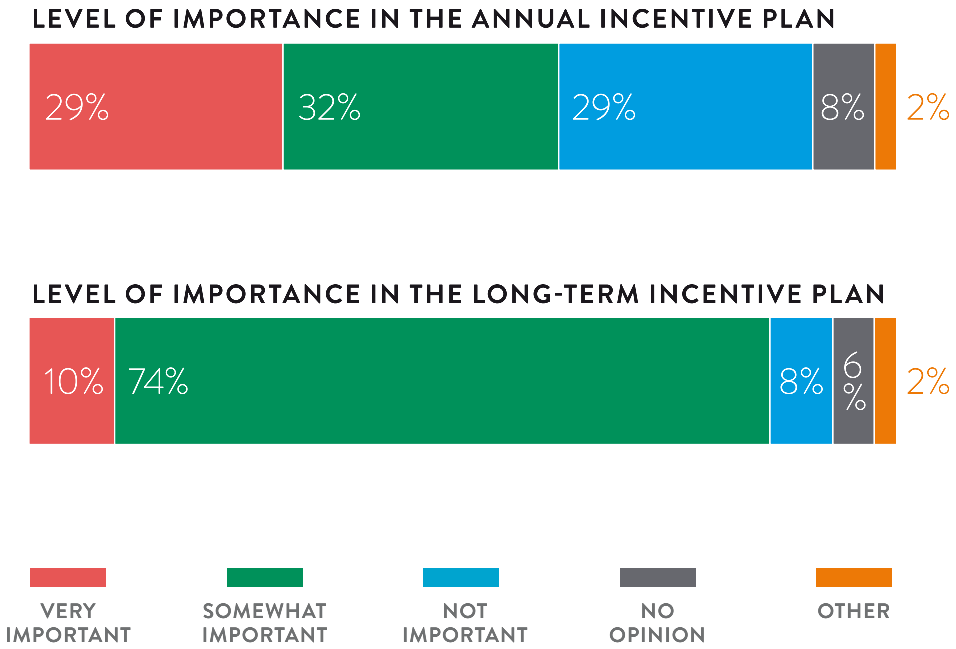
Governments, society and other key stakeholders continue to believe CEO pay is excessive and has simply gotten out of hand. In the UK and US, regulators and policy makers have tried unsuccessfully, it would seem, to address these concerns. Investors now seek a more effective approach to link executive pay to the interests of employees and other long-term stakeholders.

Companies are expected to disclose CEO pay ratios in the UK and US from January 1st, 2018 and it is likely to reignite a fierce debate around executive pay.

61% of respondents suggest the pay ratio will be a useful statistic. Many respondents stated that this is a good starting point but "it may not have immediate value however the statistic would be useful to track over time and compare with peers." While many US respondents suggested "the ratio between the CEO vs NEO is more important and valuable." Some of the respondents also indicated "a better tool would be CEO pay vs the average in the executive committee." Finally, many respondents suggest companies should continue to increase engagement with key stakeholders to discuss the logic behind the rationale and its appropriateness.

The pay ratio mechanism will certainly put the spotlight on company pay, however questions are being raised whether this alone will effect change. Respondents want the culture within capital markets to change; businesses, remuneration consultants, headhunters and other key players, such as shareholders, will all play important roles.

Q.14 HOW IMPORTANT IS THE INCLUSION OF SUSTAINABILITY PERFORMANCE METRICS AND TARGETS IN THE CEO SHORT-TERM AND/OR LONG-TERM INCENTIVE PLANS?



Shareholders are getting more comfortable demanding more information around environmental and social considerations as evidence based research champions the value of sustainable practices.

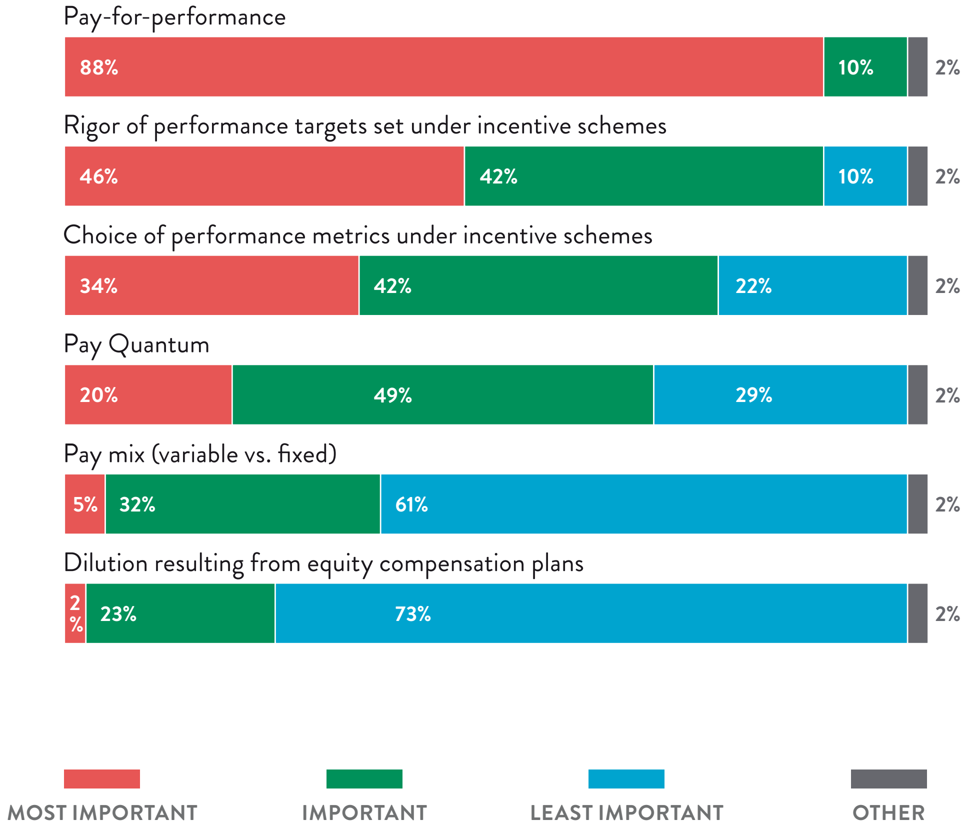
Only 29% of respondents say it is "very important" to include sustainability performance metrics and targets in the CEO's short-term incentive plan, with 32% suggesting it was "somewhat important" and the remaining 29% stating it was "not important".

However, in relation to the CEO's long-term incentive plan **74% of respondents suggested it was "somewhat important"** to include sustainability performance metrics and targets.

Organizations are more frequently considering disclosing whether and how performance metrics, including links to remuneration policies, take into consideration climate-related risks and opportunities. Climate-related risks are receiving more attention but whether related performance metrics should be incorporated into remuneration policies needs further assessment. Respondents want to see enhanced disclosure and continue pushing for progress.

Q.15

RANK THE FOLLOWING EXECUTIVE REMUNERATION ISSUES



Executive pay continues to be the focus of significant shareholder scrutiny, especially given the squeeze on employees' wages, the excessive rise of executive pay and the continued misalignment of pay for performance. The link between executive pay and company performance is negligible according to many and this fuels arguments for reform of corporate compensation packages.

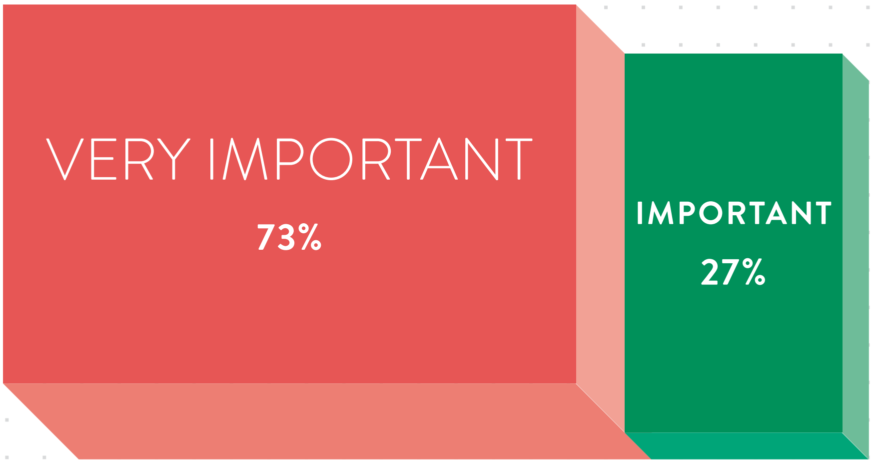
Overwhelmingly, **88% of Respondents stated**, "pay for performance" is the most important executive remuneration issue. This is a 13-percentage point increase on last year's results.

"Rigor of performance targets set under incentive schemes" was the second most important issue with **46% of respondents** suggesting it as a key issue. However, compared to last year, this was a 16 percent point drop.

Further reforms are in progress in key markets. The UK public register identifying companies with significant against votes was launched in December 2017 and the disclosure of CEO pay ratio is due in both the UK and US in 2018.

Q.16

HOW IMPORTANT IS IT FOR THE COMPENSATION/ REMUNERATION REPORT TO DISCLOSE IN DETAIL THE METRICS AND CRITERIA THAT ARE THE BASIS FOR PAY DECISIONS, INCLUDING CRITERIA RELATED TO BUSINESS STRATEGY AND PERFORMANCE?



Investors increasingly expect remuneration committees to create the right remuneration structures for their businesses and strategy, which clearly links pay to the long-term success of the business.

It is expected that remuneration committees make better long-term decisions. It is important that the Remuneration Committee Chair has a proper understanding of the company strategy and its performance drivers.

Investors recognize the sensitivity behind disclosure of targets but there is an appetite for better explanations why a target might be commercially sensitive and for companies to provide more color on the timeline for metrics to be disclosed.

Investors seek more granularity around how performance metrics are aligned with the implementation of the company's long-term strategy, and how they are linked to long-term value creation for shareholders.

73% of respondents agreed that it is "very important" to have better disclosure on metrics/ criteria especially those related to business strategy and performance.

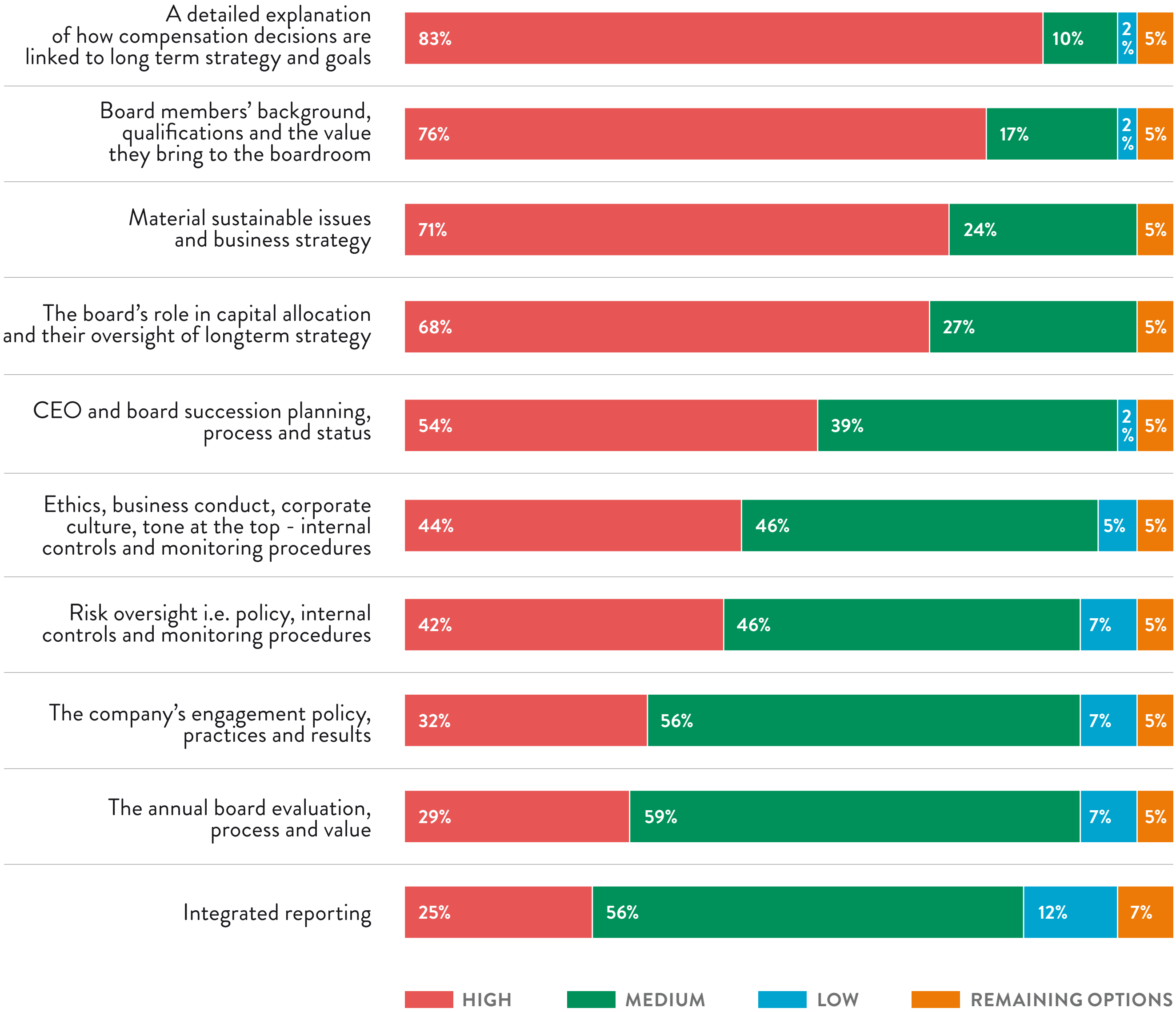
The remaining respondents **(27%) agreed** it is "important" to have better disclosure of metrics/criteria especially those related to business strategy and performance.

Perhaps even more importantly, zero respondents agreed it was "not important".

DISCLOSURE

Q.17

PLEASE INDICATE THE TOPICS ON WHICH YOU WOULD LIKE TO SEE MORE DETAILED DISCLOSURE BY PORTFOLIO COMPANIES AND RATE THEIR IMPORTANCE



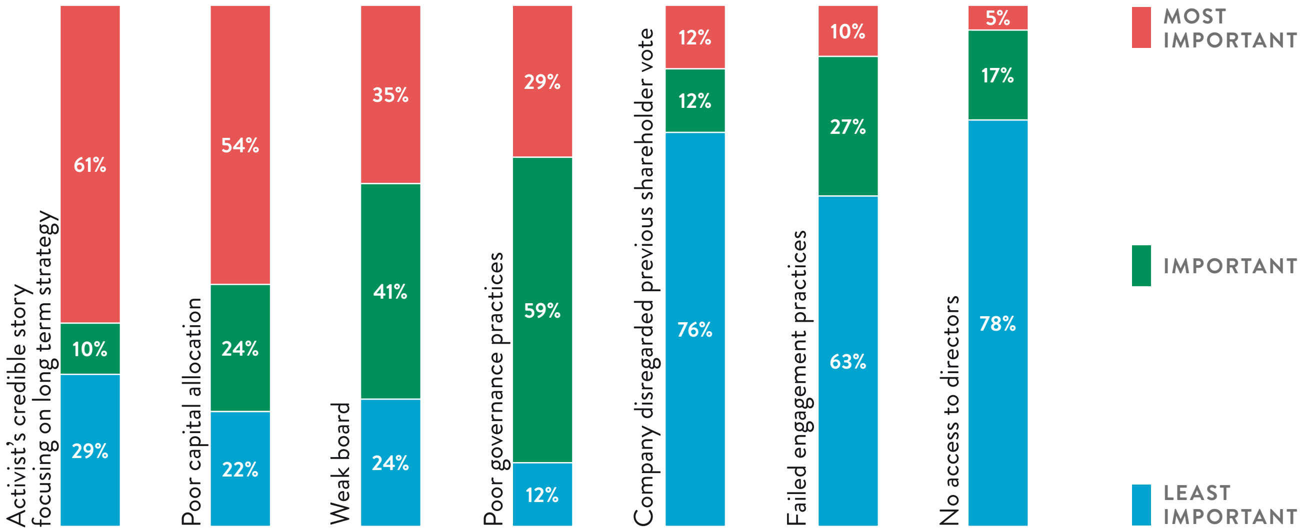
83% of respondents feel there needs to be better disclosure on 'how compensation decisions are linked to long term strategy and goals'.

76% suggested more granularity around the 'Board members' background, qualifications and the value they bring to the boardroom' would be helpful.

The third most important aspect is more disclosure around 'Material sustainable issues and business strategy', with 71% of respondents highlighting this point. We are seeing a strong recurrence throughout the survey of investor focus related to long-term business strategy.

ACTIVISM

Q.18 IN ADDITION TO FINANCIAL PERFORMANCE, WHAT FACTORS LEAD YOU TO SUPPORT ACTIVIST CLAIMS/RESOLUTIONS?



The debate around the long-term effects of activists investing in companies are not yet well understood, and it is still highly contentious. In some corners you will find supporters championing the role activists play in holding corporate leaders accountable for poor decision making, however some opponents believe activist strategies drive executives away from long-term decision making. The consensus is that many find that activist investor activity must be examined on a case by case basis.

This year 61% of respondents said the most important factor that would lead to respondents supporting activist campaigns is an **"Activist's credible story focusing on long term strategy"**. Understanding the strategies from an activist's view point can be extremely insightful, specifically those focused on generating long-term value with focus on governance issues and enterprise risk management.

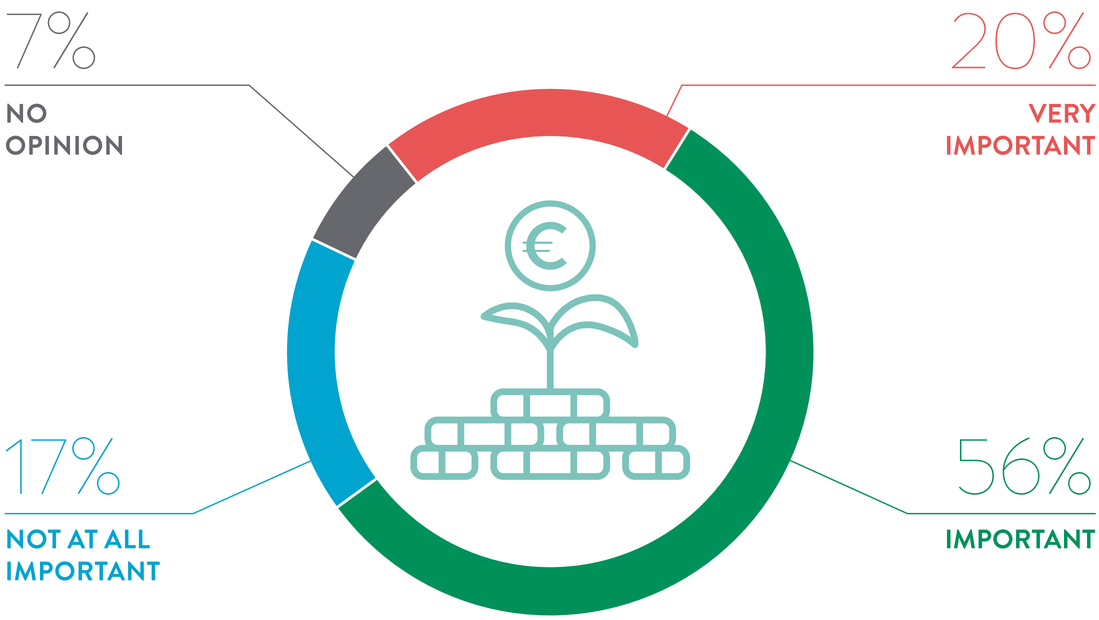
Last year in a separate question we asked respondents how they judge the effectiveness of a company's capital allocation, this year it was included in our activism related question.

Interestingly, **"Poor capital allocation"** was the second most important factor with **54% of respondents** citing this as a key factor that might influence shareholders to support an activist campaign.

In our 2017 survey poor governance practices was the most important factor leading investors to support activist claims. It is worth noting this year that 88% of respondents thought it was either "important" or "most important" that "poor governance practices" could lead to investors supporting a credible activist story.

Investors want companies to monitor the internal and external risks to help identify signals or conflicts. This process will contribute towards taking decisive and effective action at the critical moments.

Q.19 DISTRESSED DEBT RESTRUCTURING PROPOSALS: IN ADDITION TO FINANCIAL CONSIDERATIONS, HOW IMPORTANT ARE ESG FACTORS/CORPORATE GOVERNANCE REFORMS WHEN TAKING YOUR VOTING DECISION?

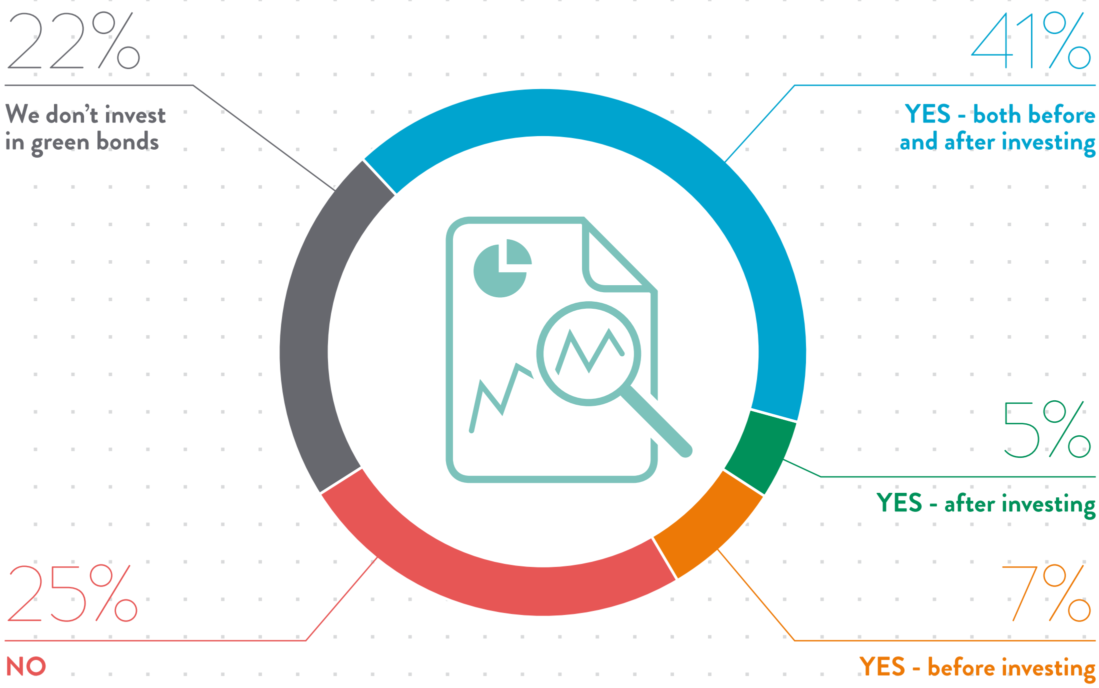


Companies that have issued public debt and and comply with their interest and principal repayment commitments may decide to have a distant relationship with their bondholders. However, once a company starts to face financial difficulties and requires the proactive participation of its fixed income investors, this "distant" relationship needs to change quickly. The company is required to communicate and negotiate with bondholders that could be spread worldwide.

When voting in favor or against a proposal presented by the company during a distressed debt restructuring situation, **76% studied the ESG factors and corporate governance reforms involved in such proposals**.

These results continue the pattern we saw in last year's institutional investor survey, in which fixed income investors confirmed they did integrate ESG factors into their analysis when making decisions. The traditional ESG view seeing equity holders as the main stakeholders interested in a company's performance is old-fashioned, and companies should bear this in mind – including during distressed debt restructuring situations.

Q.20 GREEN BONDS: IF YOU INVEST IN GREEN BONDS, DOES YOUR STEWARDSHIP TEAM ENGAGE WITH THE RELEVANT COMPANIES ON ESG ISSUES TO MONITOR THE RELATED RISKS AND OPPORTUNITIES?



Green bonds are a relatively new financial instrument and are issued to fund projects that have a positive effect on the environment, such as: renewable energies, energy efficiency, sustainable waste and water management, sustainable land use or clean transport.

We have seen substantial growth in green bond issuances with benefits to both investors and issuer companies. Annual green bond issuance rose from US$ 3 billion in 2011 to US$ 95 billion in 2016. The Organization for Economic Co-operation and Development (OECD) estimates that by 2035, the green bond market could increase to US$ 4.7-5.6 trillion in outstanding bonds. This increase in green bonds' investment is clearly reflected in the survey results: **almost 80% of respondents surveyed confirmed they invest in green bonds**.

It is important for green bond issuer companies, and for organizations that are considering issuing this instrument for the first time, to be aware of the level of due diligence investors perform when investing in green bonds. Second opinion agencies release independent reports on the environmental quality check of the issuer's framework for selecting projects and investments for green bonds funding, and credit rating agencies have also been adapting their tools to assess green bonds in the last two years.

CONTACTS

KIRAN VASANTHAM
Director - Investor Engagement
k.vasantham@morrowsodali.com
P. + 44 207 355 0603
M. + 44 788 795 5816

OLIVER PARRY
Corporate Governance Director
o.parry@morrowsodali.com
P. +44 207 355 0926
M. +44 782 530 3031

GIULIO PEDICONI
Managing Director
g.pediconi@morrowsodali.com
P. +44 207 355 0617
M. +44 787 676 2225

Offices

LONDON
103 Wigmore St
Marylebone, W1U 1QS
London, United Kingdom
P. +44 207 355 0921

NEW YORK
509 Madison Avenue
Suite 1206
New York, NY 10022
P. +1 212 825 1600

SYDNEY
135 King Street
Suite 25.02, Level 25
Sydney NSW 2000
P. +61 2 80 22 79 35

STAMFORD
470 West Avenue
Suite 3000
Stamford, CT 06902
P. +1 203 658 9400

MADRID
Calle del Gral. Pardiñas, 15
Planta 1 - 28001
Madrid, Spain
P. +34 9142 91 412

PARIS
20 Rue Quentin-Bauchart
75008
Paris - France
P. +33 1 441 78007

ROME
Via XXIV Maggio, 43
00184
Rome - Italy
P. +39 06 45212800

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