NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

PROXY VOTING POLICY

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1. Introduction

1.1. NILGOSC's overriding obligation is to act in the best interests of the scheme beneficiaries. In this fiduciary role NILGOSC believes that environmental, social and corporate governance issues can affect the performance of investment portfolios. Therefore it will make the consideration of such matters part of its investment process.

1.2. NILGOSC expects the companies in which it invests to comply with best practice in terms of corporate governance and wishes to actively encourage improvements in global standards of corporate governance. However, NILGOSC believes that it would be counterproductive to expect companies in all markets to immediately adhere to the best practices which are now well established in the UK, especially if the idea of good corporate governance is not yet well developed in that country.

1.3. Many countries or regions now have corporate governance codes that operate only within those specific countries or regions. NILGOSC will support compliance with these codes in the relevant markets. However, the scope and detail of these codes vary considerably, and while some are well established, others have only recently been introduced and their guidelines have not yet become common practice. Additionally, a number of these codes fail to recommend adherence to the standards NILGOSC would eventually hope to see implemented.

1.4. This document seeks to set out NILGOSC's view on what it believes are the most important elements of good corporate governance and the principles which will be used to determine voting decisions on specific issues.

1.5. Detailed voting guidelines are included in a separate operational manual, which details how NILGOSC will vote on specific issues. As many of the matters raised at company AGMs are similar and straightforward, for example the appointment of auditors and the election of directors, this approach is designed to ensure consistency and fairness in voting.

1.6. The operational manual sets out the voting guidelines that NILGOSC will apply globally, as well as those which are only applied in certain markets due to variations in best practice and in the types of resolutions proposed to shareholders. NILGOSC has been informed by best practice guidance set out in the OECD Principles of Corporate Governance, UK Corporate Governance Code and other related governance best practice guidelines and corporate governance codes.

2. Voting

2.1. Proxy voting is a means of maintaining effective shareholder oversight of directors and company policies. Through the exercise of proxy voting rights, NILGOSC will seek to improve corporate behaviour in respect of business, social and environmental ethics in addition to meeting the Fund's fiduciary responsibility to add value to its investments.

2.2. NILGOSC will exercise its voting rights if possible at all company meetings and may vote against management if there are corporate governance failings.

2.3. NILGOSC has appointed a specialist corporate governance partner, Manifest[1], to coordinate its corporate governance and voting activities. NILGOSC avails of Manifest's corporate governance research service, which provides detailed information and financial analysis on which informed voting decisions can be made. Manifest casts votes electronically on NILGOSC's behalf in accordance with its bespoke voting policy.

2.4. NILGOSC uses its voting rights as a means of expressing concern over corporate governance issues. Many institutional shareholders choose to abstain from voting on a resolution rather than vote directly against it, believing that this approach will send a warning signal to a company. However, companies do not always disclose the level of abstentions, thereby portraying a higher level of support than it actually received on a particular resolution. NILGOSC believes that there should be no grey area when it comes to voting and therefore has a policy of not abstaining.

2.5. Some overseas markets impose costly trading restrictions. This includes the practice of 'share blocking' whereby restrictions are placed on the shares preventing the holder from trading from the time that votes are cast until the close of the company meeting. This is clearly a risk to investors who may be considering selling the shares. In such circumstances it may be more beneficial to NILGOSC to be free to trade the shares rather than to vote. Therefore, NILGOSC may choose not to vote shares in a meeting where share blocking is in effect.

2.6. In many markets, corporate governance operates on the basis of 'comply or explain.' Where companies choose to adopt a different approach to that which is set out in the relevant Corporate Governance Code, they are required to explain the reason to their shareholders, who must decide whether they are content with the approach that has been taken. Per the UK Corporate Governance Code, "*In providing an explanation, the company should aim to illustrate how its actual practices are consistent with the principle to which the particular provision relates, contribute to good governance, and promote delivery of business objectives. It should set out the background, provide a clear rationale for the action it is taking, and describe any mitigating actions taken to address any additional risk and maintain conformity with the relevant principle. Where deviation from a particular provision is intended to be limited in time, the explanation should indicate when the company expects to conform with the provision*."[2] NILGOSC supports this approach and will consider company explanations for deviation from best practice when making its voting decisions.

[1] Manifest reappointed as Proxy Voting agent from 1 November 2014.

[2] FRC: UK Corporate Governance Code. Comply or Explain: 3.

2.7. NILGOSC will vote in accordance with this policy while taking into consideration company explanations for deviation from best practice, as well as recommendations provided by Manifest where appropriate. Recommendations and advice from other sources, such as the Local Authority Pension Fund Forum (LAPFF) and investment managers, may also be considered.

2.8. NILGOSC is keen to improve its engagement with companies and, since October 2010, where practical, a letter has been sent to UK companies where NILGOSC has not voted in accordance with management recommendations at the AGM, providing a brief explanation for the voting decisions. It is hoped that by providing this explanation, the flow of information between companies and their shareholders can be improved. This policy has now been extended to include European companies.

2.9. When possible, engagement letters will be sent in advance of the AGM, giving the company the opportunity to respond and offer explanations for deviation from best practice. NILGOSC will consider any explanations received and may decide to amend voting decisions if the company's argument is sufficiently persuasive or if significant improvement is scheduled to take place within an appropriate time period. Where a response is received after the deadline for submitting voting decisions, or where the letter has been sent after the meeting, any explanations or further information will be recorded and considered in advance of the following year's meeting.

2.10. This guidance is not exhaustive and votes on matters not covered should be determined in accordance with the overall principles stated below, referring to the available research from Manifest and advice from investment managers and other sources.

2.11. In general, NILGOSC's decisions on voting are based on the interpretation of the facts disclosed to NILGOSC. This may result in voting in a manner that may not be in line with NILGOSC's stated voting policies.

2.12. **This is an evolving document and will be subject to continuous revision by NILGOSC.**

3. Audit & Reporting

3.1. NILGOSC believes that, as a matter of best practice and directors' stewardship duties, companies should put a formal resolution to the AGM seeking approval for the Report and Accounts.

3.2. Financial reporting should be as transparent as possible with all material issues clearly identified in the report and accounts. When the accounts are being approved, NILGOSC considers the failure of a company to make suitable disclosures on internal control and environmental, social and governance policies to be in breach of corporate governance best practice.

3.3. NILGOSC considers that the setting of dividends and allocation of profits should be proposed under separate resolutions and that dividends should be covered by earnings.

3.4. Auditors

3.4.1. NILGOSC expects that shareholders should be given the opportunity to vote on the appointment and payment of auditors. NILGOSC welcomes any separation of the resolution covering the appointment of the auditors from the setting of auditors' remuneration.

3.4.2. NILGOSC will generally support management proposals for the appointment of an auditor unless there is reason to question the auditor's independence and objectivity or if there is reason to believe that the auditor has rendered an inaccurate opinion.

3.4.3. The Audit Committee should be responsible for ensuring the independence and objectivity of the external auditors, as well as the effectiveness of the audit process. Where it is not normal practice for an Audit Committee to be set up, suitable alternative arrangements should be made to ensure the role is fulfilled.

3.4.4. NILGOSC believes that companies should seek shareholder approval of the Audit Committee Report, where applicable. NILGOSC will generally support the adoption of the report, providing that it complies with market best practice guidelines.

3.4.5. It is essential that the audit process is seen to be objective and independent, and NILGOSC will not support practices which may be perceived to compromise that objectivity, such as:

- Employing the auditor to provide advice on executive remuneration.
- Employing the auditor continuously for a period of ten years[3] without the function being put out to a competitive tender.
- The indemnification of auditors.
- Any restrictions on auditor liability.
- Very large non-audit fees or non-audit fees in excess of 100% of audit fees.

3.4.6. NILGOSC considers that auditors should not be employed simultaneously to provide non-audit services, as this may be perceived to compromise their objectivity. Where non-audit services are provided, the Audit Committee should

[3] FRC: UK Corporate Governance Code – provision C.3.7. EU Audit Directive 2014.

disclose the cost of these services and their policy on how auditor objectivity and independence is safeguarded.

3.4.7. NILGOSC will also take into consideration the level of non-audit fees over a period of three years when assessing auditor independence. When an auditor has been providing non-audit services to the company for a period of three or more consecutive financial years, the total non-audit fees in the fourth year shall be limited to a maximum of 70% of the average of the audit fees paid in the last three consecutive financial years.[4]

4. The Board

4.1. Board Composition

4.1.1. NILGOSC believes that an important shareholder role is to ensure that the balance of directors on any board is adequate to enable them to perform the varied roles expected of them. Irrespective of any constitutional requirements, the overriding principle is that the balance of the board composition should demonstrate a strong independent influence.

4.1.2. NILGOSC understands that in some markets the practice of having a significant independent influence on the board is relatively new, and that the number of independent non-executives is not yet at the level of the UK. However, it is essential to have enough independent non-executive directors (INEDs) for an adequate spread of views on the board and for membership of board committees.

4.1.3. NILGOSC will expect board composition to comply with best practice in the country of primary listing. Furthermore, NILGOSC will support any effort to ensure that a majority of the board is comprised of INEDs and will expect all boards to have at least one third independent directors.

4.1.4. Where the two-tier board system[5] is used, NILGOSC would expect that a majority of the Supervisory Board is made up of INEDs.

4.1.5. NILGOSC accepts that a number of countries have legislation mandating a certain percentage of employee representatives on the board. Similarly, some companies will have government representatives on the board. However, NILGOSC does not consider these individuals to be independent. NILGOSC expects companies in these countries to ensure that the board and its committees have adequate representation of truly independent directors.

4.1.6. In Japan most companies have a statutory auditor board[6], although since 2003, a "Board with Committees" structure has been permitted. NILGOSC considers the "Board with Committees" model best practice and strongly encourages companies to adopt it.

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[4] EU Audit Directive 2014.

[5] OECD: Principles of Corporate Governance, "Some countries have two-tier boards that separate the supervisory function and the management function into different bodies. Such systems typically have a 'supervisory board' composed of non-executive board members and a 'management board' composed entirely of executives."

[6] As Japanese boards are usually dominated by executive directors, Japanese Company Law requires statutory auditors (kansayaku) to be appointed. They are elected by shareholders and supervise the board of directors, broadly fulfilling the role of an audit committee in a "Board with Committees" structure.

4.1.7. Where Japanese companies have chosen to retain the statutory auditor structure, the independence of the statutory auditors is key to the effective oversight of the company. The statutory auditors should number at least three, the majority of whom should be independent. Statutory auditors should stand for re-election every four years, as required by the Japanese Code, and preferably more frequently.

4.1.8. Since May 2015 a third structure has been made available to Japanese Companies. The Company with Supervisory Committee structure will have a supervisory committee comprised of three or more directors, a majority of whom must be outside directors, which will audit the management of the company. Unlike under the statutory auditor structure, the Supervisory Committee members are also directors and can vote at Board meetings. NILGOSC will generally support a change to this structure, from the statutory auditor structure, provided that the outside directors appointed are considered independent of the company.

4.1.9. NILGOSC does not support the practice, in some French companies, of appointing "censors" to the board of directors.[7]

4.1.10. NILGOSC supports the principle of diversity and encourages boards to select new board members from a diverse pool of candidates.[8] NILGOSC considers that company reporting should include a description of the board's policy on diversity, including gender.

4.1.11. Per the UK Corporate Governance Code, "*The board should satisfy itself that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.*"[9] NILGOSC considers that companies should disclose their board succession plans.

4.2. Non-executive directors

4.2.1. NILGOSC considers that the independence of non-executive directors (NEDs) is an essential element of the board's composition. The number and balance of executive directors and NEDs is a matter for each board to determine with the approval of its shareholders. NEDs have two important roles on any board: supervisory and advisory. NEDs are responsible for ensuring that the board as a whole concentrates on maximising long-term shareholder value. Not only do NEDs bring an independent perspective to issues where the executive directors face a conflict of interest, they also strengthen the board by expanding its range of experience.

4.2.2. NILGOSC believes that NEDs should normally be wholly independent of the company and supports the inclusion of independence criteria in a country's corporate governance code or listing rules.[10] In addition to any such criteria, NILGOSC considers that a director's independence is impaired if he or she:

[7] Censors are non-voting advisors appointed to some French boards. Their role is not defined under French law and can be unclear, yet they can have considerable influence on the board.
[8] LAPFF Policy Guide on Environmental, Social and Corporate Governance Issues.
[9] FRC: UK Corporate Governance Code. B.2: Appointments to the Board.
[10] For example: NYSE Listed Company Manual Section 3: Corporate Responsibility 303A.02 Independence Tests.

- Is designated by the company as a non-independent NED.
- Is or has been an employee of the company or group within the last five years.
- Has, or has had within the last three years, a material[11] business relationship with the company directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company.
- Is a member of the company's pension scheme.
- Has close family ties with any of the company's advisers, directors or senior employees.
- Holds cross-directorships or has significant links with other directors through involvement in other companies or bodies.
- Represents a significant shareholder.
- Has served on the board for more than fifteen years from the date of his or her first election (or less if market-specific best practice).
- Represents employees or employee shareholders of the company.
- Is a government representative.
- Is a significant shareholder of the company, or is an employee or executive of a significant shareholder of the company.

4.2.3. While NILGOSC recognises that in some markets it is common practice for NEDs to receive additional remuneration such as stock options, it is NILGOSC's belief that this may impair independence. NILGOSC will evaluate independence on a case-by-case basis if a NED receives or has received additional remuneration from the company apart from a director's fee or participates in the company's share option or a performance related pay scheme, taking into account country-specific best practice guidelines, as well as any recommendation provided by Manifest.

4.2.4. In Australia, where it is a requirement that Australian resident NEDs receive superannuation contributions, this will not be seen as an impairment to independence. Per best practice guidelines, superannuation contributions should be included within the non-executive fee cap approved by shareholders.

4.2.5. NILGOSC believes that NEDs should meet in the absence of executives of the company as often as required and on a regular basis in order to empower them to serve as a more effective check on management.

4.3. <u>Director elections/nominations</u>

4.3.1. NILGOSC considers that it is fundamental to good corporate governance that all directors (Executive and Non-Executive) seek regular re-election by the shareholders, preferably at least every three years, although local best practice guidelines will be taken into account.

4.3.2. NILGOSC also believes that shareholders should be entitled to vote on the election of each director separately and it will generally oppose slate elections. However, where the laws of a country mandate a slate system, NILGOSC will vote for the proposal if the slate of directors proposed is greater than 50% independent.[12]

[11] NILGOSC will determine materiality in accordance with the Manifest policy.

[12] For example, the "voto de lista" system in Italy.

4.3.3. NILGOSC accepts that directors of any age can contribute effectively to board management and believes that directors, who in the opinion of the board as whole can still provide an active contribution, should not be barred from offering themselves for re-election solely on the grounds of age.

4.3.4. The board should disclose, in the annual report, sufficient information about directors to enable shareholders to make an informed decision on whether to support their election to the board. This should include, but not be limited to, biographical information, factors affecting independence, and board and committee meeting attendance.

4.3.5. According to the UK Corporate Governance Code, "*All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively*." NILGOSC considers that in order to do this NEDs should serve on a maximum of five boards. This should be reduced to four if the director is the Chair of the board or of another listed company's board, or one if the director is a full-time executive director at a listed company. NILGOSC will also take into consideration director's attendance at board meetings when determining whether to vote for his or her re-election.

4.3.6. In a two-tier board system where the Management board is appointed by the Supervisory board, it is doubly important that the election of Supervisory board members by shareholders follows best practice.

4.3.7. Per the UK Corporate Governance Code "*The company secretary should be responsible for advising the board through the chairman on all governance matters*."[13] NILGOSC considers that combining the position of Company Secretary with that of an executive director is likely to compromise the independence of the Company Secretary with respect to governance responsibilities to the board and the Chair.

4.3.8. Where directors are elected by cumulative voting, such as in Russia, NILGOSC will vote according to normal policy while taking into consideration any recommendations provided by Manifest.

4.3.9. In many European markets, the annual formal discharge of the board and management represents shareholder approval of actions taken during the year. Discharge is a tacit vote of confidence in the company's management and policies. It does not necessarily eliminate the possibility of future shareholder action, although it may make such action more difficult to pursue. NILGOSC will normally vote for the discharge of directors, including members of the Management board and/or Supervisory board, unless there is reliable information about significant and compelling controversies that the board is not fulfilling its fiduciary duties.

4.4. <u>Leadership</u>

4.4.1. NILGOSC considers that company boards should display a clear division of responsibilities at the top and is opposed to a chief executive becoming Chair in the same company.

4.4.2. The role of a Chair is to ensure that the board functions effectively, that appropriate procedures and structures are in place and that relevant issues are discussed. The board's role is to hold executive management accountable and

[13] UK Corporate Governance Code B.5: Information and Support.

accordingly, the board Chair should be seen as a separate role to that of an executive director with operational responsibilities. The role expected of a Chair may well also affect his or her ability to perform the function of a fully independent director. However, NILGOSC believes that it is important for the Chair to be independent on appointment.

4.4.3. In markets where local best practice guidelines recommend a separate Chair and CEO, NILGOSC may accept the combination of the Chair and CEO roles on a temporary basis (less than one financial year) provided the Company's explanation is compelling.

4.4.4. NILGOSC is aware that in some countries, the CEO and Chair roles are combined more routinely than is the case in the UK. In these situations, NILGOSC would expect the board to provide a written statement in the proxy materials discussing why the combined role is in the best interests of shareholders, and it should name a lead independent director (LID) whose role and responsibilities should be such that he or she provide an appropriate balance between the powers of the CEO and those of the independent directors.

4.4.5. NILGOSC would also support the appointment of a LID where the roles of CEO and Chair have been split but the Chair is an executive, a former CEO or otherwise not independent on appointment.

4.4.6. A LID should also be appointed if country-specific best practice guidelines recommend such a position, such as the Senior Independent Director (SID) in the UK.

4.4.7. Where a company has an Executive Chair or a combined Chair/CEO, that individual will be classified as an executive for the purposes of assessing board balance.

4.5. Committees

4.5.1. NILGOSC supports the establishment of the key committees of the board which include the Audit, Remuneration/Compensation and Nomination Committees.

4.5.2. Where committees of the board are established, their remit, composition, accountability and working procedures should be well defined and disclosed by the board.

4.5.3. The membership of the Audit Committee should be sufficiently independent to fulfil the role of that committee.[14] Ideally, it should consist exclusively of independent NEDs, at least three in number. Where the committee is not entirely independent, it should, at least, have a majority of independent members. At least one should have recent and relevant financial expertise.

4.5.4. In countries where it is not customary to have a board Audit Committee (e.g. Italy, Japan), a majority of the individual auditors should be independent and fulfil the role of the committee. However NILGOSC would support any effort to establish an Audit Committee consisting of independent directors.

4.5.5. The Remuneration Committee is responsible for setting the remuneration of executive directors and senior executives and overseeing the policy for remuneration throughout the company. The membership of the committee

[14] FRC: Guidance on Audit Committees September 2012.

should be sufficiently independent to fulfil this role. Ideally, it should consist exclusively of independent NEDs (at least three in number.) Where the committee is not entirely independent, it should, at least, have a majority of independent members.

4.5.6. A Nomination Committee should oversee all board and senior executive appointments. Ideally, it should consist of a majority of independent NEDs and have a minimum of three members.

4.5.7. In Sweden, where the Nomination Committee is usually composed of representatives of major shareholders and only one board member, the director in question should be independent.

4.5.8. Where the Nomination Committee and Remuneration Committee are combined, the composition of the combined committee should meet whichever guidelines are more stringent.

4.5.9. Where a two-tier board system is in operation, it is often customary that the Supervisory Board takes on the role of some or all of these committees. If this is the case, the board should be sufficiently independent to do this effectively. NILGOSC would also expect disclosure of how committee functions are fulfilled in this case.

4.5.10. Where a country's corporate governance code or listing rules impose stricter guidelines regarding independent membership of committees, NILGOSC would expect companies to adhere to those guidelines.

4.6. In order to ensure the continued effectiveness of the board, NILGOSC believes that every board should evaluate its performance and the performance of individual directors on a regular basis. Where periodical external evaluations are recommended in a country code, this should be undertaken.

5. Remuneration

5.1. NILGOSC acknowledges that management leadership, ability and effort are critical to the long-term success of the business and remuneration policies should be positioned to attract, retain and motivate management within best practice guidelines. NILGOSC considers it essential that any rewards for employees, in particular the remuneration of senior management, should be aligned with long-term benefits for shareholders.

5.2. The overriding principle is that NILGOSC will support companies whose remuneration policies and payments are compatible with the best interests of shareholders.[15]

5.3. When assessing remuneration policies, NILGOSC will give consideration to the Manifest remuneration grade as well as any other contentious issues raised by Manifest or other sources. Any LAPFF recommendation will also be considered.

5.4. In order to ensure full accountability over the entire remuneration issue, NILGOSC supports full disclosure of all elements of directors' pay. As a matter of good practice, the directors' policy on remuneration should be set out in the annual report and accounts and should reflect principles of general integrity, equity and affordability.

5.5. NILGOSC believes that, while it is appropriate for Remuneration Committees to make recommendations, any remuneration policy should be approved directly by the shareholders as a matter of principle. In the UK, companies are required to provide an advisory vote on directors' remuneration annually and a binding vote triennially.[16] NILGOSC would welcome a similar opportunity to vote on remuneration in other markets.

5.6. Remuneration disclosure, and the design of remuneration packages, should comply with relevant best practice guidelines.[17]

5.7. NILGOSC would also welcome the disclosure of specific performance targets that trigger awards, as well as maximum potential payouts, so that investors may judge if they are stretching.

5.8. Where remuneration consultants are appointed, a statement should be made available of whether they have any other connection with the company.

5.9. Lengthy rolling contracts remain a controversial issue for shareholders as they can find themselves in the position of paying large compensation awards to directors who have been dismissed following failure to perform. NILGOSC supports the view that executives should be appointed on rolling contracts of a maximum of one year. However, NILGOSC will consider supporting executive directors appointed with a rolling contract in excess of one-year that subsequently reduces to a one-year rolling contract within a three-year period.

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[15] On Manifest's Assessment of Total Remuneration report, NILGOSC will vote against the adoption of the companies' remuneration reports for a grade of D or below.

[16] The Companies Act 2006 (UK) as modified by the Enterprise and Regulatory Reform Act 2013.

[17] For example, the ICGN Executive Remuneration Principles and Policy Disclosure Guidance, the ABI Principles of Remuneration - November 2013 and the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010.

5.10. Per the UK Corporate Governance Code provision D.1.4, *"The remuneration committee should carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of early termination. The aim should be to avoid rewarding poor performance. They should take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss*."

5.11. NILGOSC believes that only basic salary should be pensionable and that executive pension arrangements should not be more favourable than those generally offered to ordinary employees.

5.12. NILGOSC does not support any payment to directors which is in excess of shareholder approved contractual rights or is not related to a performance target. Bonuses should not be excessive and should have adequate performance conditions attached.

5.13. NILGOSC believes that performance related payments should not be based solely on financial measures. NILGOSC encourages the inclusion of Environmental, Social and Governance (ESG) related and other non-financial goals in incentive arrangements, and believes that the management of risk, including ESG risk, should be taken into account when setting performance targets. NILGOSC would also expect the company to disclose the process undertaken by the company to identify such targets and an explanation as to why it considers them to be relevant.

5.14. NILGOSC considers that substantial, direct stock ownership by key executives and directors is the best way to align management and investor interests.

5.15. Long Term Incentives

5.15.1. NILGOSC recognises that incentive schemes can play an important role in contributing to company performance for the benefit of shareholders. However, such schemes should be structured in such a way as to link rewards to superior performance, provide sufficient incentive without encouraging imprudent risk taking, and which recognises contributions from all employees.

5.15.2. NILGOSC considers it the responsibility of the Remuneration Committee to evaluate the costs and benefits of long-term incentive schemes and ensure performance conditions are adequate. Full details of all plans should be disclosed, as well as the cost of new plans or material amendments to existing plans.

5.15.3. NILGOSC believes that shareholder approval should be sought for all new long-term incentive plans, or any material amendments to existing plans and that plans should have expiration dates.

5.15.4. NILGOSC does not believe that NEDs should participate in incentive schemes and will not support schemes which propose providing benefits to non-executives (awards of shares as part of normal directors' fees will be deemed acceptable).

5.16. Non-executive Remuneration

5.16.1. NILGOSC believes that NED fees should be reasonable in relation to peer companies and does not support any payment in excess of normal directors' fees.

5.16.2. Levels of remuneration for NEDs should reflect the time commitment and responsibilities of the role and should not include share options or performance related pay.

5.16.3. While NILGOSC recognises that in some countries performance related compensation for non-executives is the norm, or, as in Germany, is recommended in the Corporate Governance Code, NILGOSC believes that remuneration other than fees paid in cash or shares is inappropriate and may compromise independence.

5.16.4. NILGOSC does not believe that NEDs should participate in incentive schemes or receive retirement benefits. Payment of part, or all, of the director's fee in shares is considered acceptable.

5.16.5. In Australia, it is a requirement that Australian resident non-executive directors, receive superannuation contributions. Per best practice guidelines, superannuation contributions should be included within the non-executive fee cap approved by shareholders.

6. Shareholders' Rights

6.1. NILGOSC does not support proposed changes to any constitutional documents that reduce shareholder rights, are not in line with good corporate governance practices or are otherwise inconsistent with the interests of existing shareholders.

6.2. NILGOSC believes that shareholders should be able to vote on separate issues and is against companies bundling proposals into combined resolutions.

6.3. NILGOSC does not support the issue of shares with restricted voting rights or any other action which effectively restricts or diminishes the voting rights of shareholders.

6.4. NILGOSC supports confidential voting systems whereby all proxies and voting tabulations, which identify individual shareholders, are kept confidential from the company. Such voting systems can eliminate any real or perceived coercion against voters. However NILGOSC may wish to report to its own stakeholders how it has voted.

6.5. NILGOSC believes that all shareholders should be treated equally. Companies' ordinary shares should provide one vote for each share, and companies should facilitate the owners' rights to vote.

6.6. Supermajority provisions violate the principle that a simple majority of voting shares should be all that is necessary to effect change regarding a company and its corporate governance provisions. Requiring more than this may entrench managers by blocking actions that are in the best interests of shareholders.

6.7. NILGOSC will vote against a resolution if the Company has not provided sufficient background data to enable an informed voting decision to be made.

6.8. Anti-takeover Measures

6.9. NILGOSC requires that companies seek shareholder approval on any action which alters the fundamental relationship between shareholders and the board, including anti-takeover measures.

6.10. Poison pills (or shareholder rights plans) are tactics used by management fearing an unwelcome take-over bid. These plans can cause a variety of events to occur which may make a company financially less attractive to a potential acquirer. A poison pill can work in one of two ways:

6.10.1. Existing shareholders, with the exception of the acquirer, are permitted to buy more shares at a discount. Not only do shareholders get an instant return, they dilute the holding held by the potential acquirer and as a result, the takeover attempt is made more difficult and expensive.

6.10.2. Existing shareholders are permitted to buy the acquirer's shares at a discounted price after the merger. This also makes the takeover more difficult as acquirer's equity will be substantially diluted.

6.11. Greenmail payments are targeted share repurchases by management of shares from individuals or groups seeking control of the company. As only the hostile party receives payment, usually at a substantial premium over the market value of the shares, this practice discriminates against all other shareholders.

6.12. NILGOSC is not generally supportive of these types of anti-takeover measures.

6.13. In the UK, takeovers are regulated by the City Code on Takeovers and Mergers (the "Takeover Code"), a body of rules that is written and administered by the Panel on Takeovers and Mergers (the "Takeover Panel"). The Takeover Code applies to "listed UK public companies."[18]

6.14. According to the Takeover Panel, "*The Code is designed to ensure that shareholders are treated fairly, are not denied an opportunity to decide on the merits of a takeover and are afforded equivalent treatment by an offeror. It provides an orderly framework within which takeovers are conducted*."

6.15. Unless shareholders consent, the Code strictly prohibits management from employing any defensive tactics that would have the effect of frustrating an actual or anticipated bid. Rule 21 of the Takeover Code sets out the rules on frustrating actions and details the shareholder approval process as follows:

21.1 WHEN SHAREHOLDERS' CONSENT IS REQUIRED

During the course of an offer, or even before the date of the offer if the board of the offeree company has reason to believe that a bona fide offer might be imminent, the board must not, without the approval of the shareholders in general meeting:

(a) *take any action which may result in any offer or bona fide possible offer being frustrated or in shareholders being denied the opportunity to decide on its merits; or*

(b) (i) issue any shares or transfer or sell, or agree to transfer or sell, any shares out of treasury;
(ii) issue or grant options in respect of any unissued shares;
(iii) create or issue, or permit the creation or issue of, any securities carrying rights of conversion into or subscription for shares;
(iv) sell, dispose of or acquire, or agree to sell, dispose of or acquire, assets of a material amount; or
(v) enter into contracts otherwise than in the ordinary course of business.

6.16. Rule 9 of the Takeover Code states *"when a person or group acquires interests in shares carrying 30% or more of the voting rights of a company, they must make a cash offer to all other shareholders at the highest price paid in the 12 months before the offer was announced (30% of the voting rights of a company is treated by the Code as the level at which effective control is obtained)."*[19] NILGOSC would not normally support proposals for a waiver of Rule 9 of the Takeover Code[20] as the granting of waivers has the potential to allow for creeping control by the concert party.

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[18] The Takeover Code applies to all companies incorporated in the UK, the Channel Islands or the Isle of Man that are listed on the Official List. It also applies to certain companies whose shares are traded on AIM. The Irish Takeover Panel Rule 21 is substantially the same as that of the UK Takeover Code.

[19] http://www.thetakeoverpanel.org.uk/the-code/ "General Principles and Rules".

[20] Per The NAPF Corporate Governance and Voting Guidelines, "Investors are not for the most part supportive of Rule 9 waivers. Waivers are usually sought where a company proposes to institute a share buyback program in which a large investor or concert party intends not to participate and institutional investors are naturally concerned about the risk of creeping control. Where a company proposes such a resolution, it is best practice for the large shareholder to refrain from voting in order to avoid a possible conflict of interest.

7. Capital

7.1. Pre-emptive rights allow existing shareholders to share proportionately in any new issues of stock of the same class. These rights guarantee shareholders first refusal on the purchase of new issues of stock in the same class that they already hold. Pre-emptive rights therefore provide shareholders with some protection from involuntary dilution of their ownership holding. NILGOSC will not support any proposal which is inconsistent with good practice such as the rules of the Pre-emption Group of the London Stock Exchange or the equivalent standard institutional guidelines in other markets.

7.2. NILGOSC expects companies to repurchase shares in the market when it is advantageous for the company and its shareholders. Directors should seek shareholders' authority for such transactions for a period limited to about one year, and the amount should also be limited to no more than 10% of the issued equity.

7.3. All resolutions should conform to best practice guidelines in the relevant market.

8. Corporate Actions

8.1. NILGOSC supports mergers and acquisitions that enhance shareholder returns in the long term. NILGOSC therefore requires companies to fully disclose any relevant information and provide separate proposals on all issues requiring shareholder approval, in particular the effect of a merger or acquisition on directors' remuneration and compensation packages.

8.2. Major changes to the core business of a company and other major corporate changes which may materially dilute the equity or erode the economic interests or share ownership rights of existing shareholders, including major acquisitions and major dispositions and closures of businesses, should not be made without prior shareholder approval of the proposed change.

8.3. NILGOSC will normally support management-recommended proposals provided that the board has disclosed all relevant information and there are sufficient independent directors on the board.

8.4. However, NILGOSC does not support capital restructuring which is conditional on incentive payments being approved.

9. Sustainability

9.1. NILGOSC's legal and fiduciary duties require that non-financial factors do not drive the investment process at the expense of financial return for the Fund. Active disinvestment in companies purely for ethical, social and environmental reasons may have an adverse impact on fund returns.

9.2. However, NILGOSC supports the belief that good corporate governance includes the management of a company's impact on society and the environment. NILGOSC believes that failure to satisfactorily address these issues can result in higher operating costs, reputational damage and subsequent loss of confidence and shareholder value.

9.3. NILGOSC encourages all companies in which it invests to fully disclose and report its policies on social, environmental and ethical management. Additionally, NILGOSC believes companies should identify significant Environmental, Social and Governance (ESG) risks and opportunities and take account of widely accepted reporting standards such as the Global Reporting Initiative.[21]

9.4. The Remuneration Committee should consider ESG issues when setting the remuneration of executive directors.

9.5. NILGOSC will take into account market best practice guidelines regarding ESG reporting, as well as how established these practices are, when considering the adequacy of reporting.

9.6. As a local government pension fund, NILGOSC does not support payments to any politically related entity. NILGOSC considers it inappropriate that part of the return that rightfully belongs to shareholders should be diverted by way of a political donation. This includes non-monetary donations but excludes reasonable charitable donations. However, given the wide definitions of political "donation" and "expenditure" within the Companies Act 2006, NILGOSC will consider granting authority to UK companies. These companies must have no record of previous political donations or political expenditure, as well as a policy in place ensuring that no political donations will be made or that political expenditure will occur.

10. Shareholder Resolutions

10.1. While shareholder resolutions are rare at AGMs in Europe, they can provide an important tool for shareholders wishing to exact change at North American companies and are becoming increasingly common at AGM's in other markets.

10.2. Shareholder resolutions are proposed on a range of issues including but not restricted to, shareholders rights, compensation practices, environmental issues, human rights and animal welfare.

10.3. NILGOSC believes that these resolutions should be approached on a case-by-case basis, taking into consideration both whether the resolution is in line with NILGOSC policy and whether it is appropriate to the circumstances at the

[21] Per the GRI website (www.globalreporting.org): "The Global Reporting Initiative (GRI) is a non-profit organization that promotes economic sustainability. GRI provides all companies and organizations with a comprehensive sustainability reporting framework that is widely used around the world."

targeted company. In determining appropriateness, NILGOSC will consider the independence of the board, existing practices and levels of disclosure and whether the proposal relates to a core business decision better left to management, as well as any recommendation provided by Manifest or other sources.

10.4. The overriding principle is that NILGOSC will support those proposals which are compatible with NILGOSC policies and are in the best interests of shareholders.

10.5. NILGOSC will normally vote against shareholder resolutions which are not in the best interest of the shareholders, are overly restrictive in nature or would incur excessive cost to the company or are contrary to NILGOSC's stated policies.

10.6. NILGOSC will normally support the Management recommendation if there is insufficient information provided to support the shareholders' proposal.

10.7. NILGOSC may also on occasion co-file shareholder resolutions with other like-minded investors at a company meeting in order to influence change at the company provided that it is considered to be in the best interest of shareholders.