

**Algemeen Pensioenfonds KLM**



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## **Voting Guidelines for Global Equities**

**Version 2020**

### General Principles

Het Algemeen Pensioenfonds KLM (the pension fund) has developed and implemented policies and procedures to ensure that the fiduciary obligation to vote proxies in the best interest of its beneficiaries is fulfilled.

The pension fund actively exercises its rights as shareholders to promote responsible and sustainable practices in companies where it invests.

Based on that fiduciary obligation, we have adopted the Global ESG Guidelines (“Guidelines”) described in this document. The Guidelines consider global best practice guidelines such as the [ICGN Global Corporate Governance Principles](#) of Corporate Governance and the [G20/OECD Principles of Corporate Governance](#), [UN Guiding Principles on Business and Human Rights](#) and the potential impact on [UN Sustainable Development Goals \(SDGs\)](#). The Guidelines provide a general framework for the pension funds proxy voting analysis and they apply globally; however, they permit the discretion to reflect local laws or standards where applicable.

Information about the progress of engagements is, if relevant, taken into account in the voting direction.

The pension fund has decided not to vote on shareholder meetings of Air France-KLM and other airlines, to avoid a conflict of interest situation.

### 1. Section 1 – Audit and Reporting

#### 1.1. Reports and Accounts

We expect companies to provide their Reports and Accounts signed off as complete by a

qualified auditor ahead of the Annual General Meeting (“AGM”). In the event of a qualified opinion, we believe the company should provide a full comprehensive explanation.

We see the robustness of financial controls and integrity of financial statements as the basis for the healthy functioning of the investee’s companies.

The quality of information on the company’s governance, its changes, its positioning in relation to good market practices and its relations with stakeholders are key elements for shareholders. They are therefore fully integrated into the pension funds voting decisions.

#### 1.2. External Auditor Appointment and/or Remuneration

We expect all companies to provide robust disclosure in relation to a resolution seeking election or ratification of the external auditor. In particular, we expect an explanation of any changes in the external auditor and a report on the competitive tender process of a new external auditor.

We place high importance on the independence of the external auditor. We believe that high levels of non-audit fees can undermine the auditor’s independence and can affect the quality of audit and therefore, we expect companies to provide a clear breakdown of both audit and non-audit services. The pension fund may vote against the re-election of the external auditor in instances where the aggregate non-audit fees exceed the fees paid for audit-related services.

## 2. Section 2 – Board

### 2.1. Composition

The pension fund considers that the Board must be composed in such a way as to bring together a sufficient number of independent directors, at least 50% for non-controlled companies, and at least three (3) independent directors in the case of controlled companies.

We believe that a healthy gender balance can positively influence group dynamics, leading to better decision-making. Consequently, we support companies disclosing diversity policies including the specific diversity targets set by the Board.

### 2.2. Director Elections

The pension fund considers it essential for companies to provide detail information on each candidate director before the vote at the meeting (names, core competencies and qualifications, diversity characteristics and skills brought to the Board of Directors that would justify the choice of the candidate and current mandates).

Over-commitment is considered by the pension fund as a serious concern as it could potentially compromise the quality of the Board and, where directors hold full-time directors' executives' positions, their executive responsibilities.

We support the re-election of directors at regular intervals (ideally annually) to ensure the effectiveness of the Board and the accountability to shareholders. Consequently, we will be in favour of the declassification of the Board.

### 2.3. Leadership

We believe that the roles of the Chair and Chief Executive Officer ("CEO") should be

separated to ensure a clear division of responsibilities at the top of the company.

We have a strong preference for an independent non-executive Chair of the Board and we expect a Senior/Lead Independent Director to be appointed in such circumstances.

### 2.4. Board Committees

We encourage all Boards to set up at least three key Board Committees: an Audit Committee, a Nomination Committee, and a Remunerations Committee.

The key committees should be comprised of non-executive directors and whilst the pension fund expects the Audit Committee to be fully independent, the expectation for the Nomination and Remuneration Committee is to be, at least, 50% independent.

We also expects at least one member of the Audit Committee to have audit, accounting, or appropriate financial expertise.

The Board should disclose publicly the main role and responsibilities of each committee.

## 3. Section 3 – Capital

### 3.1. Capital Authorities

We believe that share issuance required shareholder approval. We will support only reasonable share issuance authorities, and, to this end, we will assess the impact of the authority on the shareholder value in the long term and the dilutive effect of the issuance, with a maximum of 20% of the share capital to be issued without pre-emptive rights.

### 3.2. Share Buyback Authorities

We will generally support a company proposal to implement a share buyback scheme up to a limit of 20%. We believe that buybacks at a significant premium to market price can be in

detriment of shareholders' interests and we will not support premiums above 15% of the market price.

When the company specifies its intention to use the authorisation during a takeover bid, we believe that the share buyback becomes an anti-takeover measure and the vote will be negative.

### 4. Section 4 – Remuneration

#### 4.1. General Principles

The pension fund supports annual votes on executive remuneration as it provides shareholders with a regular communication channel to express their views and concerns regarding the company's executive compensation practices.

We expect companies to disclose the compensation paid to directors on an individual basis and with a level of detail which will permit shareholders to conduct a fair assessment of company practices.

#### 4.2. Remuneration Policy

When looking at the remuneration arrangements, we will consider the level of linkage between the performance measures used in the incentive pay elements and the key performance indicators ("KPIs") defined by the company. We are supportive of the introduction of ESG issues when setting performance targets for incentive remuneration.

We expect companies to set an appropriate level of fixed pay. We will not support changes in salary for the lead executive by more than 10% without an appropriate explanation.

The pension fund supports the introduction of a clawback/malus policy. In addition, we

encourage all companies to require management to build up a substantial shareholding in the company in order to better align their interest with the interests of shareholders.

We believe that severance payments to executive officers should be set at a reasonable level. Generally, we will not support severance payments higher than 12 months' fixed pay. All incentive awards should be time pro-rated and tested for performance, including in the event of an early termination due to the change in control.

Golden parachutes are closely monitored by the pension fund and we will expect these plans to have double trigger conditions.

#### 4.3. Remuneration Report

In the event of a significant level of dissent received at the most recent previous vote on a remuneration report resolution, we will assess the company's response and explanations on a case-by-case basis.

We expect companies to disclose the performance metrics used for performance compensation along with the targets set against the performance achieved for the year under review.

#### 4.4. Long-Term Incentive Schemes

The pension fund expects companies to provide an acceptable level of disclosure Long Term Incentive Plans ("LTIP"); as such, we expect companies to provide full details of the performance conditions applicable for the LTIP plan in the coming year.



We support long term incentives where:

- There is a minimum performance period of three (3) years.
- No vesting under relative performance metric is allowed for performance below median.
- The vesting scale is designed to encourage higher level of performance.
- Re-testing is not allowed.

### **4.5. Non-Executive Fees**

We believe that non-executive compensation should be structured in a way that aligns their interest with the long-term interests of shareholders and does not compromise their independence. To this end, we are not in favour of non-executive directors receiving performance-based compensation, retirement benefits or excessive perks.

## **5. Section 5 – Shareholder Rights**

### **5.1. Voting Rights**

The pension fund support the “one-share, one-vote” principle and as a result we will not support the introduction of multiple-class capital structures or the creation of shares with voting rights disparity.

### **5.2. Meeting Procedures**

We consider the ability to call a special meeting or to put resolutions to a shareholder meeting’s agenda to be a fundamental shareholder right. We encourage companies to establish thresholds for shareholder resolutions that are high enough to prevent abuse, but low enough to allow issues that concern a large number of smaller shareholders to be raised in shareholder meetings. To this end, we support ownership thresholds between 25-10% of the issued share capital.

We believe that shareholders should be able to nominate candidates to the Board of Directors. We support proxy access proposals with a reasonable ownership threshold and duration requirements.

### **5.3. Anti-takeover Provisions**

Generally, the pension fund does not support anti-takeover mechanisms. When a renewal of an existing poison pill is proposed the resolution will be assessed on a case-by-case basis, taking into account the rationale provided by the company and the impact on existing shareholders in the event of deployment.

### **5.4. Corporate Transactions.**

We expect all significant changes in the structure of a company to be approved by shareholders. Likewise, we expect companies to provide sufficient information to enable investors to have an informed voting decision. We will assess corporate transactions on a case-by-case basis, opposing those that are not in line with shareholders’ interests and/or when disclosure is below good market practice.

## **6. Section 6 – Shareholder Proposals**

### **6.1. General Principles**

The pension fund follow a framework for voting on shareholder proposals that enables votes in favour of value-adding resolutions, and against resolutions that are misaligned with good governance and shareholder value. Case-by-case considerations will be taken for proposals that are considered investment decisions or are non-routine items.

### **6.2. Political Donations**

We do not support using shareholder funds for political donations. We expect companies to

provide full disclosure and justification for substantial political expenditures.

## 7. Section 7– Environmental and Social

### 7.1. General Principles

The pension fund makes use of the SDGs to identify ESG-risks and opportunities. We have identified the themes set forth below as priorities.

### 7.2. Climate Change & Clean Energy



The pension fund expects companies to have a strategy for reducing carbon emission, to be clear about targets set and to report on the progress

achieved.

Generally, we support proposals that enhance disclosure and provide shareholders with a better view of the company's practices. To this end, we support the adoption of globally recognised reporting frameworks such as Task force on Climate related Financial Disclosures ("TCFD").

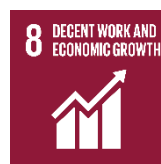
We generally support shareholder proposals calling for the reduction of Green House Gas ("GHG") emissions, subject to the assessment of the Company's practices and improvements achieved. We also vote in favour of shareholder proposals requesting a report/disclosure of the company's goals on GHG emissions from operations and/or products, as appropriate.

### 7.3. Climate Change & Clean Energy



The pension fund expects companies to report on the energy consumption outside and within the organisation as well as setting targets to reduce this consumption. We support companies that work towards the increase of renewable energy consumption.

### 7.4. Decent Work and Economic Growth



The pension fund believes that providing decent jobs is one of the most fundamental ways in which businesses contribute to economic growth. We will support shareholder proposals seeking reporting of human capital data, including composition of the workforce, employee turnover, absenteeism rates, gender diversity and other useful indicators that help investors assess companies' human capital management practices.

The pension fund will expect companies to have in place a whistleblower mechanism to report on non-compliance in its own operations and available to all employees.

### 7.5. Responsible Consumption and Production



The pension fund encourages companies to adopt sustainable practices and to integrate sustainable information into their reporting cycle. We generally support proposals requesting that companies to report on its policies, procedures, and oversight mechanisms related to toxic/hazardous materials or product safety in its supply chain.



## 7.6. Industry, Innovation and Unfractured



The pension fund believes that technological innovation and applications play key roles in accomplishing the SDGs. We support companies that encourage innovation and substantially increase the number of research and development workers. Additionally, we expect companies to increase resource-efficiency over time and to adopt environmentally sustainable technologies and industrial processes.

## Framework Shareholders Proposals

### 1.1 Introduction

Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around environmental, social and governance (ESG) practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change. A minority are binding, such as proposals to amend the articles of association (rather than requesting the board to do so) and thus may be subject to a higher majority.

An increasing number of shareholder proposals are put forward on environmental and social related issues, such as climate change and human rights, although the majority of proposals continue to address traditional governance issues i.e. board, remuneration and shareholder rights related matters. This document sets out a framework for voting on shareholder proposals that enables votes in favour of value-adding resolutions, and against resolutions that are misaligned with good governance and shareholder value. **Case-by-case considerations will be generated for proposals that are considered investment decisions or are non-routine items, thereby requiring the pension funds vote confirmation.**

### 1.2 General

The pension fund will support those shareholder proposals which seek governance improvements in cases where compelling arguments are made by the proponent and where the proposal follows international good practice. The pension fund will favour environmental & social related proposals that seek improved disclosure, risk assessment and oversight rather than those that seek operational changes.

#### High-Level Voting Approach:

<b>Vote in Favour</b>	<ul style="list-style-type: none"> <li>• The resolution improves transparency and disclosure.</li> <li>• The resolution improves governance and/or shareholder rights.</li> </ul>
<b>Vote Against</b>	<ul style="list-style-type: none"> <li>• The resolution is overly prescriptive and seeks to change strategy or make operational changes.</li> <li>• There is insufficient disclosure provided by the proponent to make an informed voting decision.</li> <li>• The resolution would diminish governance and/or shareholder rights.</li> </ul>
<b>Case-by-Case Considerations</b>	<ul style="list-style-type: none"> <li>• The resolution is considered an investment decision (i.e. M&amp;A related).</li> <li>• The resolution seeks to amend capital decisions (i.e. to increase dividend).</li> <li>• The resolution relates to a proxy contest.</li> <li>• The resolution is non-routine.</li> </ul>



## 1.3 Governance Proposals

### Board

We will vote in favour of shareholder proposals that seek:

- The introduction of the majority vote standard on director elections.
- The declassification of the Board and/or introduction of annual director elections.
- The introduction of a policy requiring the Chairman be an independent director and/or separation of the CEO and Chairman roles.
- The introduction of workforce representation on corporate boards.
- The introduction of a policy on board diversity, a report on diversity or a diversity target.
- The introduction of key oversight committees on the Board (Audit, Nomination, Remuneration and Sustainability).
- The nomination of a director with ESG expertise.

The pension fund will vote in-line with management where a shareholder seeks the removal of a director or the election of a director, other than in proxy contests (case-by-case). We will vote against proposals that are misaligned with the above policy issues.

### Shareholder Rights

The pension fund will vote in favour of proposals that seek:

- The introduction of the right to take action by written consent.
- The introduction of the right to call special meetings and amendments to existing provisions to bring them in-line with good practice standards.
- The introduction of proxy access provisions (i.e. the right to nominate directors) and amendments to bring them in-line with good practice standards.
- The removal of supermajority voting provisions.
- Recapitalisation plans to eliminate dual-class structures.
- The elimination of exclusive forum provisions.
- A report on proxy voting and policies at an asset manager.
- The removal of limitations on shareholder rights i.e. voting caps.
- Enhanced disclosure of AGM minutes and/or the disclosure of voting results (including vote counting practices for shareholder proposals) and confidential voting practices.

The pension fund will vote in-line with management and against shareholder proposals where the resolution would diminish shareholder rights.

### Remuneration

The pension fund will vote in favour of proposals that seek:

- The introduction of ESG-related performance conditions.
- Enhanced disclosure on the remuneration granted to directors.
- The disclosure of the CEO employee pay ratio.
- The adoption and/or expansion of clawback provisions or a report on the application of clawback.
- The introduction of a bonus deferral mechanism.
- The removal and/or limitation of accelerated vesting provisions.
- The introduction of a shareholder vote on severance pay.
- The introduction and/or strengthening of shareholding and retention requirements.
- The Adoption of a policy that financial metrics be adjusted to exclude the impact of share buybacks.
- The prohibition of tax gross ups.
- The introduction of an advisory vote on remuneration.

The pension fund will vote against remuneration-related proposals on shareholder proposals that are considered too restrictive on the remuneration committee decision-making processes or are out-of-step with good practice standards.

### Audit

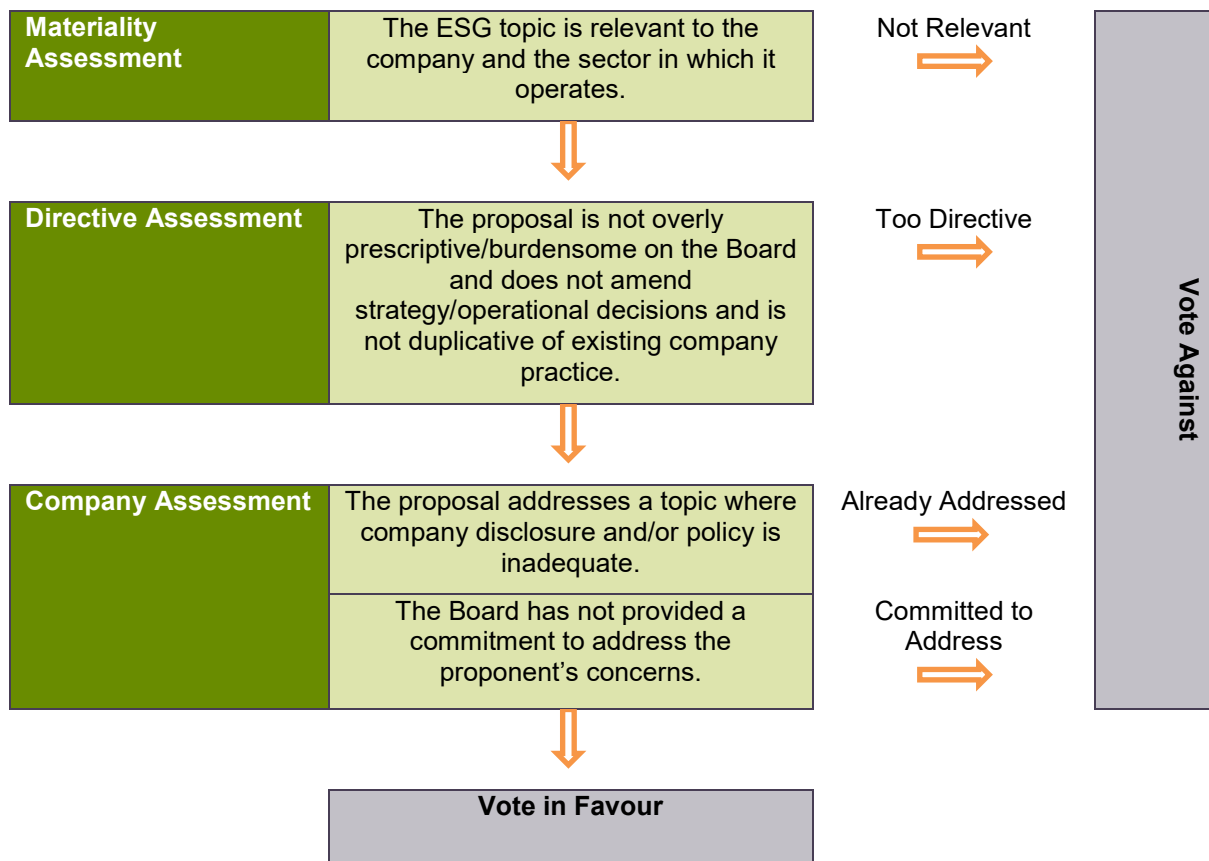
The pension fund will vote in favour of proposals that seek:

- Enhanced disclosure on audit and non-audit fees.
- The adoption of a good practice cap on non-audit fees.
- The introduction of a good practice policy on auditor rotation.
- A special audit/examination of a material controversy/incident.

The pension fund will vote in-line with management where shareholders seek to remove the auditor or to appoint an audit firm where there are no concerns with the quality of the audit.

### 1.4 Environmental and Social Proposals

The pension fund will apply the following voting framework when voting on E&S / Sustainability-related shareholder proposals to allow for a consistent and reliable voting approach.



The pension fund will support all shareholder proposals that seek:

- Enhanced disclosure on climate change related risks and opportunities.
- The introduction of science-based targets aligned with the Paris Climate Agreement.
- The publication of a Sustainability Report.
- The adoption of reporting against internationally recognised standards i.e. GRI, SASB, UNSDG etc.

The pension fund will vote against E&S shareholder proposals if:

- The resolution is put forward by a climate change sceptic.
- The resolution is a “shadow proposal” i.e. proposals on ideological diversity and proposals on religious freedom and free political speech. These proposals are proposed by activists for political purposes.