

# Proxy Voting Policy

## Union Investment's voting guidelines

### Union Investment sees its role as that of a responsible, active shareholder

Union Investment portfolio managers regularly influence the management and business policy of public limited companies at annual general meetings. They act in the interests of investors and exclusively for the benefit of the invested assets. Union Investment supports all actions that will sustainably increase the value of a company in the long term and votes against any actions that go against this objective. Because it focuses on investors' interests, Union Investment has also put in place various organisational structures to avoid potential conflicts of interest with an adverse effect on investors that might result from exercising its voting rights.

#### Details of proxy voting policy

Union Investment sees its role as a responsible, active shareholder that focuses on investors' interests at all times. We cast our votes in accordance with the current Union Investment Proxy Voting Policy.

#### Shareholders' rights

Union Investment votes against multiple voting rights and it will reject proposals for them at annual general meetings.

Shareholders are entitled to information and codetermination (e.g. to elect and appoint the members of a company's supervisory and management boards).

Major shareholders should have the right to convene extraordinary general meetings. No action should be taken that could demonstrably harm the interests of minority shareholders.

#### Requirements for supervisory boards and management boards

Responsibilities within management and supervisory bodies (management boards, supervisory boards, committees) should be clearly defined and segregated.

Individual persons should not exercise undue power and it should be possible to monitor them adequately.

Supervisory and management board members should be competent and free of any conflicts of interest.

Candidates' qualifications for membership of a company's supervisory and management boards (e.g. former terms of office, qualifications, age, nationality, career history and other directorships) must be disclosed in the agenda for the AGM if they have not been disclosed earlier. Supervisory board members should not be over the age of 75 at the time their term of office ends. The equivalent age limit for management board members is 65.

The supervisory board advises and supervises the management board and it is responsible for monitoring and assessing the performance of the management board.

The supervisory board should examine its efficiency annually. Every three years, it should have its efficiency reviewed by an external body and report openly on this review.

Companies should report which individual members of its supervisory board have attended which supervisory board and committee meetings. A critical view is taken of the failure to provide this information, and of members whose attendance rate is less than 75 percent of meetings, unless there is good reason for the absences.

It should be possible for shareholders to ratify the actions of members of supervisory and management boards on an individual basis. Where this is not possible, Union Investment will vote against the ratification of the acts of a company's supervisory board members or management board members in their entirety.

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if one of the members has failed to fulfil any of the criteria necessary for ratification.

### Composition

The composition of a company's supervisory board and management board should be suitably diverse.

Supervisory boards should be independent, i.e. at least 50 per cent of its members should be independent. Employee representatives are deemed to be neutral, and they are not included when calculating the independent majority on a supervisory board.

Members of supervisory boards are deemed to be independent if they have no business relationship or personal relationship with the company or its management board that could cause a conflict of interest. If supervisory board members receive any remuneration from the company that is not connected with their duties as members of the supervisory board, they are not deemed to be independent. Supervisory board members are also not regarded as independent if they have been in their post for more than ten years, if they represent a shareholder whose stake equates to more than 10 per cent of the voting rights or if they were previously a member of the company's management board.

If there is serious doubt as to the competence and impartiality of a supervisory board, Union Investment will also vote against the independent candidates who have been proposed.

No more than two former members of a company's management board should be members of its supervisory board. If several former management board members are nominated, Union Investment will always give preference to existing supervisory board members.

Union Investment takes into account the number of external supervisory board positions held when assessing the suitability of candidates as members of a supervisory board. The number of supervisory board seats held should not exceed five.

Any person who is a member of the management board of a listed company should not sit on more than two supervisory boards of companies outside that company's group (only one

in the case of the chair of the management board), with chairmanship of a supervisory board being counted as equivalent to two seats. Union Investment takes a negative view if the number of seats held on external supervisory boards exceeds this standard.

### Supervisory board chairpersons

Union Investment is not in favour of the same person chairing both the company's management board and its supervisory board. The same applies to a member of a management board becoming chairperson of the same company's supervisory board without a cooling-off period of two years.

The chairperson (CEO) of a company's management board should not simultaneously chair the supervisory board of a company that does not belong to the same group.

The chairperson of the supervisory board should not chair the audit committee.

### Committees/other bodies

Union Investment takes the composition of committees into account when assessing the suitability of candidates as supervisory board members. Supervisory boards should form committees with specialist expertise. Senior positions on these specialist committees should be occupied by independent experts who represent the interests of investors in an appropriate manner. Union Investment believes that the majority of members of such committees should be independent. A critical view is taken of committees with a lower proportion of independent members.

A company's nominations committee should consist exclusively of representatives of its shareholders. The audit committee should include a financial expert, and its chairperson should be independent.

No former management board members should be appointed to supervisory bodies in the same company without a cooling-off period of two years.

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### Remuneration of management and supervisory boards

#### General requirements

Remuneration of the members of management and supervisory bodies should be in line with the long-term growth of a company's enterprise value. It should be easy to understand and transparent. The remuneration granted to a company's management and supervisory boards should focus on the long-term performance of the company and it should not encourage excessive risks to be taken.

A remuneration committee should determine the amount, type and scope of the remuneration, as well as the criteria for entitlement to the variable remuneration components.

The same remuneration system should be applied to all members of a management board.

Quantifiable limits for total remuneration should be set.

Where commitments regarding occupational pension provisions are agreed, these should be defined contributions, and should be linked exclusively to the fixed remuneration. No defined benefit dependent on final salary should be agreed or extended for new pension plans or the extension of existing policies.

It should be possible to reduce (malus) or reclaim (claw-back) the management board remuneration for gross breaches of duty or grossly unethical behaviour, material breaches of the duty of care, or breaches of compliance and governance guidelines.

Severance packages and other contractual agreements between a company and its managers are viewed critically. Managers should not be compensated or rewarded for mismanagement.

Companies should ensure that management board members' contracts of employment do not provide for payments in excess of two years' remuneration if they leave the board early (upper limit on severance pay) and that a maximum that is equivalent to the remaining period of their contract of employment is set. Terminations that occur within twelve months of an employment contract being extended should be scrutinized particularly closely.

If a contract is terminated at the request of a management board member, or for cause that is the responsibility of the management board member, no severance payment should be made.

When assessing remuneration, Union Investment takes into account market practice, industry norms (corporate governance codes, best-practice standards, etc.) and market-specific remuneration criteria.

### Structure of the variable remuneration component

Provided they are in line with market and industry norms, Union Investment expects the following quality aspects to be applied to variable remuneration components:

- Appropriate personal investment in shares, comprising at least the amount of one gross annual fixed remuneration, to be reached within four years
- Ambitious target return in absolute and relative terms, with an assessment period of at least three years
- Appropriate scope (horizontal and vertical adequacy)
- Long-term horizon and transparency
- Non-financial key performance indicators (key sustainability indicators, e.g. environmental or social factors)

A critical view is taken of retrospective changes to performance measures which make it easier to achieve specified targets. Special indicators should be avoided; a well-founded reason should be provided for exceptional cases.

The equity investments of management boards should be protected against breaches of insider trading regulations by specific compliance processes (e.g. automated purchasing process on a pre-defined date).

### Transparency

The remuneration report should contain the total remuneration amount, the assessment bases for the variable remuneration components, comments on the pay-for-performance relation, and the maximum amount of remuneration achievable along with the relevant requirements for each individual management board member (i.e. by name).

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The contribution of each remuneration component to the long-term performance of the company should also be evident. The remuneration report should provide information about threshold, target and maximum values of the assessment bases (KPIs), their weighting, and the target achievement for variable remuneration for the last financial year.

Discretionary remuneration adjustments (positive or negative) by the supervisory board should be explained in a transparent manner.

A remuneration increase should be plausibly justified, with information regarding the peer group taken into account.

The remuneration of the board of management, and above all any planned material adjustments of the remuneration system, should be a regular subject of discussions between issuer and investor. The relevant dialogue should take place in good time before the AGM.

Major changes to the remuneration system for a company's management and supervisory boards should be added to the agenda for approval at its AGM. The remuneration scheme should be put before the AGM at regular intervals, at least once every four years. If a remuneration scheme is approved by fewer than 75 per cent of the votes, it should be improved and then put to the vote at the next AGM.

### Special features of supervisory board remuneration

In addition to fixed remuneration, supervisory board members should receive performance-related remuneration that reflects the long-term performance of the company. The long-term success factors should be disclosed. The remuneration of individual supervisory board members should also be disclosed.

### Liability, responsibility and ratification of the acts of management

Union Investment will not ratify management acts when legal proceedings regarding corporate responsibility are under way or there is other evidence of serious misconduct.

Union Investment does not approve of full exemption from liability for company executives.

If a company takes out D&O liability insurance for its management board, the policy should include an appropriate excess of at least 10 per cent of any claim.

### Corporate actions

Capital increases are in the interest of shareholders, provided the new capital generates a return that is higher than the cost of capital. Union Investment does not differentiate between contingent and authorised capital.

Union Investment is generally critical of large-scale capital increases and capital increases that do not include pre-emption rights. For this reason, requests to increase capital that do not confer pre-emption rights and that are for more than 10 per cent of share capital are generally rejected, as are increases in capital of more than 20 per cent of share capital, except in legitimate, exceptional cases.

When a company raises capital it must always disclose the amount of its reserve capital and the ratio of reserve capital to share capital. Pre-emption rights should be regularly tradeable on stock exchanges.

If a company fails to find suitable investment opportunities that at least cover its capital costs, Union Investment prefers it to pay dividends rather than buy back shares. Consequently, Union Investment does not generally support share repurchase programmes or the associated use of derivatives.

Legitimate reasons, explaining the company's long-term strategy for corporate actions, must always be provided for requests to approve capital increases or share repurchases.

### Attitude towards takeovers

Union Investment only welcomes takeover bids that include an appropriate takeover premium. Union Investment will vote in favour of takeover bids, provided the purchase price reflects the fair value of the company's shares and shareholders cannot expect to obtain a higher price elsewhere.

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A company's management board should not take any actions that prevent the success of any takeover bid ('poison pill') if it has not been authorised to do so by its shareholders (AGM) or supervisory board.

### External auditor

External auditors should not be appointed for a period longer than five years. The auditor-in-charge should be named in the company's annual report.

Audit firms should not undertake overly extensive advisory roles at the companies they audit.

If the fees paid to an audit firm for its advisory work at a company are disproportionately higher than those it receives for auditing the company, Union Investment will vote against appointing that audit firm.

### Transparency

If a company's annual reports or other important disclosure standards fail to meet the minimum requirements regarded by Union Investment as prudent, Union Investment will abstain from voting on the agenda items relating to them, and in particularly striking cases it will vote against them.

### Social, ethical and environmental accountability

Union Investment expects companies to be managed responsibly and in such a way that social, ethical and environmentally relevant factors are taken into account in addition to purely financial targets.

### Disclaimer

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Contact: Union Investment Luxembourg S.A., 308, route d'Esch, L-1471 Luxembourg-Gasperich

All information, illustrations and explanations are presented as at 1 April 2019 unless stated otherwise.

Union Investment will support targets based on those factors, provided they are in the long-term interests of shareholders and thus enhance long-term enterprise value. The non-financial declaration should be informative and, as a minimum, should be subject to a 'limited assurance' audit conducted by an external auditor.

A negative view is taken of violations of international humanitarian standards and norms such as the Oslo Convention on Cluster Munitions and comparable treaties. As a signatory to the PRI (Principles for Responsible Investment), Union Investment encourages companies to support initiatives for increasing disclosure of sustainability data.

Because of the growing relevance of carbon dioxide emissions for enterprise valuation, companies with high market capitalisation (e.g. DAX 30) and companies whose business model will be significantly influenced by climate change should sign up to the Carbon Disclosure Project and ensure that their emissions are fully disclosed. Companies should provide transparent, comprehensive reports about the incorporation of sustainability in their corporate strategies, particularly if their business model exposes them to special risks. German companies should be guided by the German Sustainability Code.

All sustainability reports provided must be informative and any statements in them must be verifiable. This particularly applies to content that can be measured in statistical terms.