AUSTRALIA

Proxy Voting Guidelines
Benchmark Policy Changes for 2024

Effective for Meetings on or after July 1, 2024

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Coverage Universe

Current ISS Policy:	New ISS Policy:
In the Australian market, the core ISS benchmark policy applies to all companies in the S&P ASX300 Index, excluding certain types of investment trusts. The ASX Corporate Governance Council's Principles and Recommendations recognizes that when assessing the practice of a smaller company outside the ASX300, investors should be mindful of the individual circumstances of the business, including its size and complexity. Smaller companies may not have the resources to be able to comply with all the principles and recommendations, and there may be different requirements for these entities. Accordingly, the core ISS policy recognizes these exceptions on a case-by-case basis.	In the Australian market, the core ISS benchmark policy applies to all companies in the S&P ASX300 Index, excluding certain types of investment trusts. The ASX Corporate Governance Council's Principles and Recommendations recognizes that when assessing the practice of a smaller company outside the ASX300, investors should be mindful of the individual circumstances of the business, including its size and complexity. Smaller companies may not have the resources to be able to comply with all the principles and recommendations, and there may be different requirements for these entities. Accordingly, the core ISS policy recognizes these exceptions on a case-by-case basis. ISS Australian benchmark policy applies to foreign-incorporated companies with a sole or primary listing on the ASX.

Rationale for Change:

The update to 'Coverage Universe' clarifies ISS Australia coverage for foreign-incorporated companies which are solely listed or have a primary listing on the ASX. The new policy in voting on director elections clarifies ISS position to hold directors of foreign issuers accountable for failing to comply with Australian market corporate governance standards.

General

Delisting

Current ISS Policy:	New ISS Policy:
None	**General Recommendation:** Generally, vote case-by-case on proposals which seek to delist a company from a stock exchange. Unlisted companies will be subject to a less stringent level of disclosure and corporate governance requirements and will forego a number of market and regulatory protections available to listed companies. In addition, there will be no formal market mechanism to enable shareholders to trade their shares. Exceptional circumstances which may warrant support include where: ▪ There has been a substantial fall in market capitalization that no longer justifies listing. ▪ The company has provided sufficient time for shareholders to exit their investments on market, even at a substantial loss. ▪ The company discloses sufficient information under which shareholders may be able to trade their shares off-market. ▪ Profitability, costs, net assets, and other compelling factors outweigh the need for retaining a listing.

Rationale for Change:

The new section on delisting clarifies ISS position on companies which seek to delist from a stock exchange. Concerns are raised for:

- a diminution of shareholder rights in an unlisted environment as disclosure and corporate governance requirements would be less stringent.
- the likely loss of liquidity and marketability of shares.

The company's specific circumstances including poor profitability, small market capitalization, costs of maintaining a listing, and any other specific business factors would be expected to be disclosed by the company in support of the delisting proposal.

Board of Directors – Director Elections

Voting on Director Nominees

Current ISS Policy:	New ISS Policy:
When voting on director nominees, take into consideration: ▪ The overall composition of the board; ▪ The composition of the audit, remuneration, risk (if applicable), and nomination committees; ▪ Skills of the individual directors; ▪ Individual directors' attendance records; and ▪ Service on other public company boards.	When voting on director nominees, take into consideration: ▪ The overall composition of the board; ▪ The composition of the audit, remuneration, risk (if applicable), and nomination committees; ▪ Skills of the individual directors; ▪ Individual directors' attendance records; ▪ Persistent poor corporate governance practices and lack of board response; and ▪ Service on other public company boards.

Rationale for Change:

The additional provision clarifies ISS' position of holding directors accountable when persistent and egregious problematic practices are identified and there is a lack of response from the board.

Foreign-Incorporated Companies

Current ISS Policy:	New ISS Policy:
None	Foreign-incorporated companies with a sole or primary listing on the ASX are expected to comply with local market corporate governance practices which include director elections, a non-binding vote on the remuneration report, and equity grants. Generally, vote against the chairman of the board or other directors standing for election if the company does not comply with local market corporate governance standards.

Rationale for Change:

The new policy in voting on director elections clarifies ISS' position to hold directors of foreign issuers accountable for failing to comply with Australian market corporate governance standards. There are an increasing number of New Zealand and other foreign incorporated issuers with a sole or primary listing on the ASX which are presently not complying with local market corporate governance standards, including failing to present a non-binding vote on a remuneration report.

Voting on Director Nominees in Uncontested Elections

Problematic Remuneration Practices

Current ISS Policy:	New ISS Policy:
Generally, vote against members of the remuneration committee if the remuneration resolution at the previous general meeting received support of less than 75 percent of votes cast, taking into account: ▪ The company's response in addressing specific concerns, engagement with institutional investors, and other compensation practices; ▪ The company's ownership structure; ▪ Whether the issues are considered to be recurring or isolated; ▪ Whether the director has served on a remuneration committee of a non-associated company which has demonstrated problematic remuneration practices; and ▪ Whether the level of support was less than 50 percent.	Generally, vote against the board chair or chair of the remuneration committee, or members of the remuneration committee (depending on which directors are standing for election at the AGM) if problematic practices are identified, and particularly if issues have been raised in prior years, taking into account: ▪ The company's response, or if there was a lack of sufficient response, in addressing prior years' specific concerns on remuneration, and engaging with institutional investors; ▪ The company's ownership structure; ▪ Whether the issues are considered to be recurring or isolated; ▪ Whether relevant directors have also served on a board or remuneration committee of a non-associated company where problematic remuneration practices were also identified; and ▪ If any remuneration-related resolutions in the last five years have received support of less than 75 percent of votes cast.

Rationale for Change:

The additional provision on Problematic Remuneration Practices clarifies ISS position of holding remuneration committee members accountable when persistent and egregious problematic practices are identified and there is a lack of response from the board. This provision is not dependent on the company having received a "remuneration strike" during the prior financial year.

Problematic Risk and Audit-Related Practices

Current ISS Policy:	New ISS Policy:
Generally, vote against members of the risk committee who were in place if: ▪ A material failure in audit and risk oversight by directors is identified through regulatory investigation, enforcement or other manner; or ▪ There are significant adverse legal judgments or settlements against the company, directors or management. Generally, vote against members of the audit committee as constituted in the most recently completed fiscal year if: ▪ The entity receives an adverse opinion of the entity's financial statements from the auditor; or ▪ Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees.	Generally, vote against the board chair or chair of the risk committee, or members of the risk committee (depending on which directors are standing for election at the AGM) if: ▪ A material failure in audit and risk oversight by directors is identified through regulatory investigation, enforcement, or other manner; or ▪ There are significant adverse legal judgments or settlements against the company, directors, or management. Generally, vote against members of the audit committee as constituted in the most recently completed fiscal year if: ▪ The entity receives an adverse opinion of the entity's financial statements from the auditor; or ▪ Non-audit fees (Other Fees) paid to the external audit firm exceed audit and audit-related fees and tax compliance/preparation fees. ....

Rationale for Change:

The update clarifies ISS position of holding the board chair accountable for material failures of risk oversight and significant adverse legal judgments.

Late Lodgement of Notice of Meeting and Materials

Current ISS Policy:	New ISS Policy:
None	Generally vote against the board chair, the chair or members of the governance committee or the whole board when the company fails to lodge a notice of meeting at least 28 days before an AGM, or shareholder meeting generally, as prescribed by the Corporations Act. This represents the minimum standard for corporate governance amongst ASX listed entities. Larger companies are expected to lodge their notices of meeting 35 or more days ahead of the AGM. Generally vote against the board chair or chair of the governance committee (or other relevant directors) when a company adds a resolution to the meeting agenda with less than 28 days' notice prior to the shareholder meeting. For the avoidance of doubt, this policy applies to non-Australian domiciled companies that are listed on the ASX. Any late lodgement of a notice of meeting places at risk a shareholder's ability to fulfil their fiduciary obligations in appropriately considering and voting on resolutions.

Rationale for Change:

The new section on late lodgement of notices and materials clarifies ISS' position on holding directors accountable when companies lodge their notice of meetings late or when companies give too short a notice period when adding new resolutions to shareholder meetings. This policy is necessitated because of the appearance of historically Australian companies with primary listing on the ASX, having changed their corporate domicile and have started pursuing late lodgement of Notices of Meeting below the minimum request and accepted by the Australian Corporations Act of 28 days.

Climate Accountability

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>None</td><td>For companies that are significant greenhouse gas (GHG) emitters, through their operations or value chain[1], generally vote against the board chair in cases where ISS determines that the company is not taking the minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy.

Minimum steps to understand and mitigate those risks are considered to be the following, and both minimum criteria will be required to be in alignment with the policy:

▪ Detailed disclosure of climate-related risks, such as according to the framework established by the Task Force on Climate-related Financial Disclosures (TCFD), including:
  ▪ Board governance measures;
  ▪ Corporate strategy;
  ▪ Risk management analyses; and
  ▪ Metrics and targets.
▪ Appropriate GHG emissions reduction targets.

At this time, "appropriate GHG emissions reductions targets" will be for a company's operations (Scope 1) and electricity use (Scope 2) as follows:

▪ The medium-term GHG reduction targets, or
▪ Net Zero-by-2050 GHG reduction targets.

Targets should cover the vast majority of the company's direct emissions.</td></tr>
<tr><td>Footnotes:</td><td>[1] Companies defined as "significant GHG emitters" will be those on the current Climate Action 100+ Focus Group list.</td></tr>
</table>

Rationale for Change:

The new section on climate accountability will bring the AU Policy in line with other markets that already have this in their policy documents.

Remuneration

Discussion

Current ISS Policy:	New ISS Policy:
Discussion Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should be aligned to the long-term strategy, and companies are encouraged to use the statement by the chairman of the remuneration committee to outline how their chosen remuneration approach aligns with the company's strategic goals and key performance indicators (KPIs). The remuneration committee should also closely examine the behaviour that the design of a remuneration package will promote. A good performance target is aligned with company strategy, future direction, performance and shareholder value creation, without promoting or rewarding disproportionate risk-taking or impacting negatively on corporate reputation. Targets should be challenging but realistic and should closely reflect a company's ongoing business expectations. Where non-financial objectives are used as part of the performance conditions, ISS expects the majority of the payout to be triggered by the financial performance conditions. There should also be a clear link between the objectives chosen and the company's strategy. Pay should not be excessive and remuneration committees should exercise due caution when considering pay increases. Any increases in total remuneration for executives should not be out of line with general increases in the market and at the company. Remuneration committees are discouraged from market benchmarking for pay reviews, unless it is applied infrequently (at no more than three-to-five-year intervals). One-off pay awards to address concerns over the retention of an executive have frequently been shown to be ineffective and are therefore not typically supported by ISS. Many investors are concerned that remuneration has become too complex and question its effectiveness in motivating management. Thus, remuneration committees are encouraged to adopt simpler remuneration structures. In	**Discussion** Remuneration should motivate executives to achieve the company's strategic objectives, while ensuring that executive rewards reflect returns to long-term shareholders. Pay should be aligned to the long-term strategy, and companies are encouraged to use the statement by the chairman of the remuneration committee to outline how their chosen remuneration approach aligns with the company's strategic goals and key performance indicators (KPIs). The remuneration committee should also closely examine the behaviour that the design of a remuneration package will promote. A good performance target is aligned with company strategy, future direction, performance and shareholder value creation, without promoting or rewarding disproportionate risk-taking or impacting negatively on corporate reputation. Targets should be challenging but realistic and should closely reflect a company's ongoing business expectations. Where non-financial objectives are used as part of the performance conditions, ISS expects the majority of the payout to be triggered by the financial performance conditions. There should also be a clear link between the objectives chosen and the company's strategy. Pay should not be excessive and remuneration committees should exercise due caution when considering pay increases. Any increases in total remuneration for executives should not be out of line with general increases in the market and at the company. Remuneration committees are discouraged from market benchmarking for pay reviews, unless it is applied infrequently (at no more than three-to-five-year intervals). One-off pay awards to address concerns over the retention of an executive have frequently been shown to be ineffective and are therefore not typically supported by ISS. Many investors are concerned that remuneration has become too complex and question its effectiveness in motivating management. Thus, remuneration committees are encouraged to adopt simpler remuneration structures. In

particular, the introduction of new or additional short-term incentives or long-term incentive share award schemes on top of existing plans is likely to be viewed skeptically. Remuneration arrangements should be clearly disclosed, and sufficient detail should be provided about the performance conditions adopted to allow shareholders to make their own assessment of whether they are appropriate. Benchmarking remuneration into line with accepted good market practice should not be used as justification for any substantial increase in the size of the overall package.	particular, the introduction of new or additional short-term incentives or long-term incentive share award schemes on top of existing plans is likely to be viewed skeptically. Remuneration arrangements should be clearly disclosed, and sufficient detail should be provided about the performance conditions adopted to allow shareholders to make their own assessment of whether they are appropriate. Benchmarking remuneration into line with accepted good market practice should not be used as justification for any substantial increase in the size of the overall package.
Remuneration committees should have the flexibility to choose a pay structure which is appropriate for the company's strategy and business needs. When forming a view on such arrangements, ISS will pay particular attention to the following points:	Remuneration committees should have the flexibility to choose a pay structure which is appropriate for the company's strategy and business needs. When forming a view on such arrangements, ISS will pay particular attention to the following points:
▪ How consistent the remuneration practices are with the good practice principles set out in these voting guidelines; ▪ The linkage between the remuneration practices and the company's strategic objectives; ▪ Whether or not there is an appropriate long-term focus; ▪ The extent to which the proposals help simplify executive pay; and ▪ The impact on the overall level of potential pay. Any proposal which provides for a greater level of certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards.	▪ How consistent the remuneration practices are with the good practice principles set out in these voting guidelines; ▪ The linkage between the remuneration practices and the company's strategic objectives; ▪ Whether or not there is an appropriate long-term focus; ▪ The extent to which the proposals help simplify executive pay; and ▪ The impact on the overall level of potential pay. Any proposal which provides for a greater level of certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards.
Boards must avoid rewarding failure or poor performance; for this reason, ISS does not support the re-testing of performance conditions or the re-pricing of share options under any circumstances. Implementing a tax-efficient mechanism that favours the participants should not lead to increased costs for the company, including the company's own tax liabilities.	Boards must avoid rewarding failure or poor performance; for this reason, ISS does not support the re-testing of performance conditions or the re-pricing of share options under any circumstances. Implementing a tax-efficient mechanism that favours the participants should not lead to increased costs for the company, including the company's own tax liabilities.
Engagement initiated by remuneration committees is expected to be in the form of a meaningful, timely and responsive consultation with shareholders prior to the finalisation of the remuneration package; it should not just be a statement of changes already agreed by the remuneration committee.	Engagement initiated by remuneration committees is expected to be in the form of a meaningful, timely and responsive consultation with shareholders prior to the finalisation of the remuneration package; it should not just be a statement of changes already agreed by the remuneration committee.
	Shareholders will not be able to assess a company's remuneration structure if disclosure is poor. In this case, any award of bonuses or incentives may appear

	discretionary and excessive and any link to company performance may not be clear.

Rationale for Change:

The updates to the Remuneration section seek to clarify and strengthen the policy on remuneration by including the specific problematic remuneration practices which may lead to against recommendations. The update improves presentation and reduce ambiguity.

Remuneration Report

Current ISS Policy:	New ISS Policy:
General Recommendation: Vote case-by-case on the remuneration report, taking into account the pay of executives and non-executive directors, including where applicable: ▪ The quantum of total fixed remuneration and short-term incentive payments relative to peers; ▪ Whether any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; ▪ The listed entity's workforce; ▪ Financial performance and alignment with shareholder returns; ▪ The adequacy and quality of the company's disclosure generally; ▪ The appropriateness and quality of the company's disclosure linking identified material business risks and pre-determined key performance indicators (KPIs) that determine annual variable executive compensation outcomes; ▪ The existence of appropriate performance criteria against which vesting and the quantum of cash and equity bonuses are assessed prior to any payment being made; ▪ Whether appropriate targets for incentives, including in the STI or LTI, are in place and are disclosed with an appropriate level of detail; ▪ Whether performance measures and targets for incentives, including in the STI and LTI, are measured over an appropriate period and are sufficiently stretching; ▪ Any special arrangements for new joiners were in line with good market practice; ▪ The remuneration committee exercised discretion appropriately, and such discretion is appropriately explained; and ▪ The alignment of CEO and executive pay with the company's financial performance and returns for shareholders based on the ISS Quantitative Pay-for-Performance Evaluation. Where a remuneration report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall	**General Recommendation:** Vote case-by-case on the remuneration report, taking into account the pay of executives and non-executive directors, including where applicable: ▪ The quantum of total fixed remuneration and short-term incentive payments relative to peers; ▪ Whether any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well-explained and not excessive; ▪ The listed entity's workforce; ▪ Financial performance and alignment with shareholder returns; ▪ The adequacy and quality of the company's disclosure generally; ▪ The appropriateness and quality of the company's disclosure linking identified material business risks and pre-determined key performance indicators (KPIs) that determine annual variable executive compensation outcomes; ▪ The existence of appropriate performance criteria against which vesting and the quantum of cash and equity bonuses are assessed prior to any payment being made; ▪ Whether appropriate targets for incentives, including in the STI or LTI, are in place and are disclosed with an appropriate level of detail; ▪ Whether performance measures and targets for incentives, including in the STI and LTI, are measured over an appropriate period and are sufficiently stretching; ▪ Any special arrangements for new joiners were in line with good market practice; ▪ The remuneration committee exercised discretion appropriately, and such discretion is appropriately explained; and ▪ The alignment of CEO and executive pay with the company's financial performance and returns for shareholders based on the ISS Quantitative Pay-for-Performance Evaluation. Votes against may be warranted if there are multiple or significant occurrences of negative factors, such as:

qualified recommendation of a "For", whereas a single, serious deviation may be sufficient to justify an "Against" vote recommendation. In cases where a serious breach of good practice, or departure from accepted market standards and shareholder requirements, is identified and typically where issues have been raised by shareholders over one or more years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may also receive a negative voting recommendation.	▪ **Remuneration is considered excessive.** This includes any significant increases to fixed remuneration that are not satisfactorily explained, such as, for example, being the result of a promotion or a change in role. Companies are discouraged from passing CPI increases to fixed remuneration because of the multiplier effect in STI and LTI, especially when there is considerable history of STI and LTI vesting accompanied by poor disclosure of the incentive structure. Remuneration is considered excessive when the quantum is substantially higher than market capitalisation peers and/or the ISS selected peer group. ▪ **Lack of adequate disclosure of performance measures.** Disclosure will be considered lacking when the following information is not disclosed: specific performance measures, weighting of each measure; quantified and numerical targets for each measure, and full and clear disclosure of non-financial measures (and justification why these are not "Day Job" duties). Some examples of duties normally considered "Day job" responsibilities are: leadership, HR policies, net promoter scores, culture, employee satisfaction, etc). Non-financial measures should be relevant to the business and related to creating shareholder value. ▪ **Misalignment of pay and performance.** Bonuses are considered to be misaligned when they are not adequately justified by disclosure and results. Downward discretion may be expected when results are poor, share price is down or there are major safety incidents. Substantial weighting to financial measures is expected for STI bonuses while the LTI awards are expected to be substantially based on financial outperformance. Any removal of performance hurdles in the STI or LTI is considered a major concern. In this respect, the granting of Restricted Share Units (RSUs) in this market is not generally accepted and is considered to be misaligned with shareholders. The ISS Quantitative Pay-for-Performance Evaluation will also be considered for any misalignment of CEO pay with the company's financial performance and returns for shareholders. ▪ **Upward board discretion.** The use of upward discretion for bonuses is generally not accepted by shareholders. ▪ **Additional remuneration.** This includes any payment or award of one-off, discretionary, retention, guaranteed or sign-on bonuses that is not justified and on top of any existing remuneration structures. ▪ **No STI deferral.** The lack of a deferral mechanism in the STI is an outlier amongst companies in the ASX 300. It is expected that a substantial component (generally 50 percent) of bonuses is deferred into equity with

	vesting requirements or holding locks over a two-year period and subject to clawback and malus provisions. ▪ **Discretionary variable incentives.** When maximum award limits for the STI and LTI plans are not disclosed (i.e., not defined as a percentage of fixed pay and therefore fluctuates year on year), it is not possible to verify that the incentive awards are uncapped/discretionary or not. ▪ **Changes to performance or vesting conditions, repricing of options and the ability to retest targets.** Any retrospective changes to performance measures or targets, vesting periods, exercise price or other vesting conditions for awards that are in-flight is seen as a material corporate governance concern. The ability to re-test performance targets is inconsistent with market practice and now seldom seen in Australia as it is not looked upon favourably by many investors. Any retrospective lookbacks to grants RSUs or shares for past performance is not aligned with shareholder expectations that incentive awards should be based on future outperformance. ▪ **Short performance period.** The minimum accepted performance period for LTIs is three-years. This is considered short for the larger companies in the ASX 100, many of which are moving to periods of four or five years, or more. ▪ **Unjustified increases to incentive opportunities.** Any substantial increase in quantum of an STI or LTI should be accompanied by appropriate increase in performance targets. ▪ **Concerns for appropriateness of target rigor.** Performance measures and targets for incentives, including in the STI and LTI, should be measured over an appropriate period and be sufficiently stretching. Targets that are set at a much lower level compared to the prior year's actual results are not considered sufficiently rigorous. Any reduction in targets compared to the prior year targets will need to be clearly explained and justified by the company. For relative measures, any vesting for below median performance (i.e., for less than 50th percentile achievement) is not sufficiently rigorous. Where a remuneration report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall qualified recommendation of a “For”, whereas a single, serious deviation may be sufficient to justify an “Against” vote recommendation. In cases where a serious breach of good practice, or departure from accepted market standards and shareholder requirements, is identified and typically

	where issues have been raised by shareholders over one or more years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may also receive a negative voting recommendation.

Long Term Incentive Plan and Share-Based Grant Considerations

<table>
<tr><th>Current ISS Policy:</th><th>New ISS Policy:</th></tr>
<tr><td>The elements of the long-term incentive plan (and proposed grants of equity awards) are evaluated by ISS according to the following criteria:

<u>Options</u>

▪ Two different types of options should be distinguished:
  ▪ Grants of market-exercise-price options ("traditional options") have an in-built share price appreciation hurdle, where the share price must increase above its "strike price" at the grant date for the executive to have an incentive to exercise, and
  ▪ Grants of zero exercise price options ("ZEPOs") have no exercise price and the executive pays nothing to the company on exercising these rights.

<u>Exercise Price</u>

▪ Option exercise prices should not be at a discount to the prevailing market price at the grant date. (Many Australian companies now issue performance rights or performance shares, which are ZEPOs. These are not treated as “discounted” rights, but the requirements regarding vesting period, performance criteria, etc., apply equally.)
▪ Plans should not allow the repricing of out-of-the-money options.
▪ The allocation of ZEPOs should not be based on a discounted price of a company's securities (or "fair value"), which has the effect of increasing the number of equity awards which are granted, and could exponentially increase the value of the incentive or share-based payment received by the executive upon any vesting.

<u>Vesting Period</u>

▪ There should be appropriate time restrictions before rights can be exercised (if securities can vest in a timeframe which is less than three years, this is not considered to be an appropriate representation of a shareholder's long-term horizon for an ASX listed entity).</td><td>The elements of the long-term incentive plan (and proposed grants of equity awards) are evaluated by ISS according to the following criteria:

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</table>

Performance Hurdles
 	
▪ Generally, a hurdle that relates to total shareholder return (TSR) is viewed favourably by many shareholders compared to a hurdle that specifies an absolute share price target or an insufficient accounting measure of performance (such as earnings per share (EPS)).
▪ Where a relative hurdle is used (comparing the company's performance against a group of peers or against an index), no vesting should occur at below-median performance, and the peer group should be appropriate and defensible (e.g. the peer group is not to be unacceptably small, or "cherry picked").
▪ A sliding-scale hurdle is required, under which the percentage of rights that vest increases according to a sliding scale of performance (whether absolute or relative) - a hurdle under which 100 percent of the award vests once a single target is achieved (i.e. no "cliff vesting") - is not considered appropriate given that it may act as a disincentive to performance if it subsequently becomes difficult to achieve, or if it is easily achieved.
▪ Where an absolute share-price target is used, executives can be rewarded by a rising market even if their company performs relatively poorly. In addition, even if a share-price hurdle is set at a significantly higher level than the prevailing share price, then the hurdle may not be particularly stretching if the option has a long life or there are generous re-testing provisions.
▪ Accounting-related hurdles do not necessarily involve shareholder value creation before an incentive or share-based grant vests. An accounting-based performance hurdle may allow incentives to vest, and executives to be rewarded, without any medium to long-term improvement in total shareholder return having been delivered. Growth in EPS may, but does not always, translate into an improved share price and increased dividends over the medium to long term. Accordingly,
  ▪ An EPS hurdle can lead to executive reward without any increase in shareholder return in the case of ZEPOs, which may not be the same if incorporated with traditional options.
  ▪ An EPS hurdle can more readily be supported if used with traditional options, rather than with ZEPOs, although the use of traditional options in the Australian market is quite limited.
▪ An EPS target must be sufficiently demanding, or stretching, such that a hurdle should require a substantial cumulative growth rate in EPS. In order to assess whether an EPS hurdle is sufficiently demanding, ISS will consider
	▪ The minimum accepted performance period is three years. This is considered short for the larger companies in the ASX 100, many of which are moving to periods of four or five years, or more.
	
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	  ▪ An EPS hurdle can lead to executive reward without any increase in shareholder return in the case of ZEPOs, which may not be the same if incorporated with traditional options.
	  ▪ An EPS hurdle can more readily be supported if used with traditional options, rather than with ZEPOs, although the use of traditional options in the Australian market is quite limited.

EPS forecasts published by analysts and any earnings guidance provided by management. If a sliding-scale EPS hurdle is used, a significant proportion of the options are to vest only for EPS performance that exceeds consensus analyst forecasts. ▪ Operational hurdles are non-market and non-financial targets which are generally accompanied by unclear disclosure and often difficult to assess. Examples may include delivery of strategic projects, production targets, or discovery of mining reserves. ISS will assess these hurdles on a case-by-case basis, in order to establish if the hurdle is sufficiently demanding and capable of creating longer term shareholder value. These would more generally be accepted when used in conjunction with traditional options to align more closely with a tangible increase in shareholder value in excess of the strike price. <u>Re-testing</u> ▪ A re-test is where the performance hurdle has not been achieved during the initial vesting period, and the plan permits further testing of the performance hurdle on a later date or dates. Many investors, in markets like the U.K., do not support re-testing of performance criteria on share options or other share-based incentive awards, on the basis that retesting undermines the incentive value of such awards. Such provisions have not been uncommon in the Australian market. However, as companies have moved toward annual grants of awards that mitigate the concerns over “cliff-vesting,” and the increasingly held view among institutional investors that re-testing does not constitute best practice, companies have now moved to a minimal number of re-tests, or they have eliminated re-testing altogether. ▪ In cases where re-testing exists, ISS will evaluate the type of re-testing, either fixed-base or rolling, and the frequency of the re-testing. (Fixed-base testing means performance is always tested over an ever-increasing period, starting from grant date. This is less concerning than re-testing from a rolling start date.) Where a company has a particularly generous re-testing regime, and has not committed to significantly reduce the number of re-tests, vote against a resolution to approve the plan in question, or a grant of rights under the plan. This may also warrant a vote against the remuneration report, depending on other aspects of executive and non-executive remuneration practices. In the case of new plans, as a best practice,	▪ Targets will be assessed having regard to the company's prior performance and any relevant market factors. ▪ Operational hurdles are non-market and non-financial targets which are generally accompanied by unclear disclosure and often difficult to assess. Examples may include delivery of strategic projects, production targets, or discovery of mining reserves. ISS will assess these hurdles on a case-by-case basis, in order to establish if the hurdle is sufficiently demanding and capable of creating longer term shareholder value. These would more generally be accepted when used in conjunction with traditional options to align more closely with a tangible increase in shareholder value in excess of the strike price. <u>Re-testing</u> ▪ A re-test is where the performance hurdle has not been achieved during the initial vesting period, and the plan permits further testing of the performance hurdle on a later date or dates. Many investors, in markets like the U.K., do not support re-testing of performance criteria on share options or other share-based incentive awards, on the basis that retesting undermines the incentive value of such awards. Such provisions have not been uncommon in the Australian market. However, as companies have moved toward annual grants of awards that mitigate the concerns over “cliff-vesting,” and the increasingly held view among institutional investors that re-testing does not constitute best practice, companies have now moved to a minimal number of re-tests, or they have eliminated re-testing altogether. ▪ In cases where re-testing exists a vote against the remuneration report, depending on other aspects of executive and non-executive remuneration practices. In the case of new plans, as a best practice approach, companies should not include re-testing provisions. <u>Transparency</u> ▪ Methodology for determining exercise price should be disclosed. ▪ Sufficient information should be presented to demonstrate that the scheme will reward superior future performance. ▪ Proposed volume of securities which may be issued should be disclosed to enable shareholders to assess the dilutionary impact. ▪ Time restrictions before options can be exercised should be disclosed.

companies should not include re-testing provisions, but evaluate on a case-by-case approach basis. Transparency ▪ Methodology for determining exercise price should be disclosed. ▪ Sufficient information should be presented to demonstrate that the scheme will reward superior future performance. ▪ Proposed volume of securities which may be issued should be disclosed to enable shareholders to assess the dilutionary impact. ▪ Time restrictions before options can be exercised should be disclosed. ▪ Any restrictions on disposing of shares received should be disclosed. ▪ Full cost of options to the company should be disclosed. ▪ Method used to calculate the cost of options should be disclosed, including the discount applied to account for the probability of equity incentives not vesting. ▪ Method of purchase or issue of shares on exercise of options should be disclosed. Dilution of Existing Shareholders' Equity ▪ Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital. Level of Reward ▪ Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. Eligibility for Participation in the Scheme ▪ Scheme should be open to all key executives. ▪ Scheme should not be open to non-executive directors. Other	▪ Any restrictions on disposing of shares received should be disclosed. ▪ Full cost of options to the company should be disclosed. ▪ Method used to calculate the cost of options should be disclosed, including the discount applied to account for the probability of equity incentives not vesting. ▪ Method of purchase or issue of shares on exercise of options should be disclosed. Dilution of Existing Shareholders' Equity ▪ Aggregate number of all shares and options issued under all employee and executive incentive schemes should not exceed 10 percent of issued capital. Level of Reward ▪ Value of options granted (assuming performance hurdles are met) should be consistent with comparable schemes operating in similar companies. Eligibility for Participation in the Scheme ▪ Scheme should be open to all key executives. ▪ Scheme should not be open to non-executive directors. Other ▪ Plans should include reasonable change-in-control provisions (i.e. pro rata vesting and size of awards). ▪ Plans should include "good leaver"/"bad leaver" provisions to minimize excessive and unearned payouts (see below for a discussion of the approach to resolutions seeking approval for termination benefits to executives generally and under equity plans). ▪ Plans should have appropriate malus and clawback provisions. Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a qualified 'For', with the qualification noting the breaches which investors would

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