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## 1. INTRODUCTION

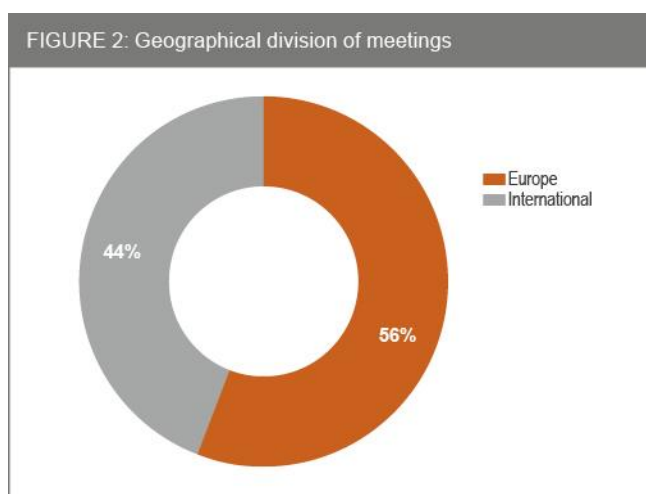
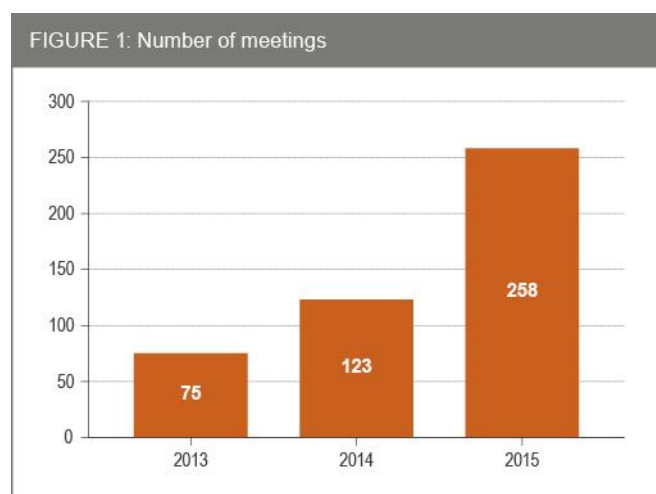
As a responsible investor<sup>1</sup>, Candriam pays particular attention to the corporate governance policies, structures and practices of the companies in which it invests on behalf of its customers. Candriam is convinced that sound corporate governance practices deliver long-term shareholder value.

*“Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as the board, the managers and the shareholders spelling out the rules and procedures for making decisions on corporate affairs. In doing this, it also provides the structure through which the companies’ objectives are set and the means of attaining those objectives and maintaining performance.”<sup>2</sup>*

The rights and equal treatment of shareholders, the accuracy of financial information, the accountability and independence of the board are the cornerstones of Candriam’s Voting Policy. Candriam analyses the resolutions on the agenda and, if an item raises corporate governance concerns (because it is unclear or not in the best interests of shareholders), votes “Abstain” or “Against”. Before casting a vote, Candriam ensures that it has the information required to justify its decision and, if need be, contacts the company in question. In 2012, Candriam initiated its Proxy Voting Engagement activity by sending letters to company chairmen to explain the rationale behind some of its voting recommendations.

## 2. 2015 PROXY VOTING REVIEW

In 2015, Candriam participated in 258 ordinary and extraordinary general meetings (compared to 123 in 2014) and voted on 4072 resolutions (Figure 1). The surge in the number of meetings is mainly due to the increase in our proxy voting scope, which is now international. Candriam participated in 145 meetings of European companies and 113 meetings of international companies (Figure 2).



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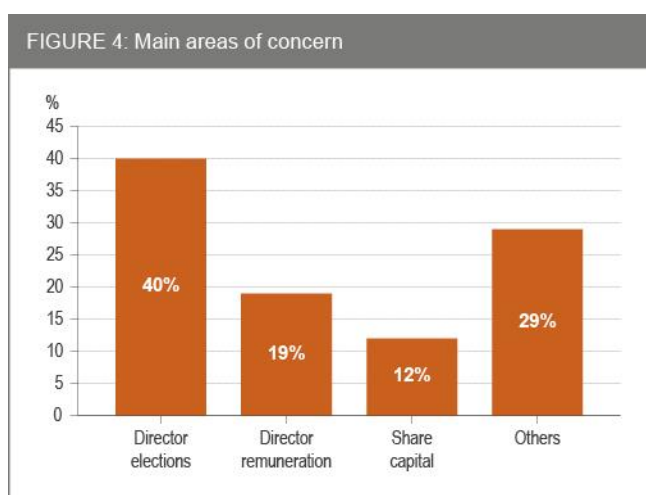
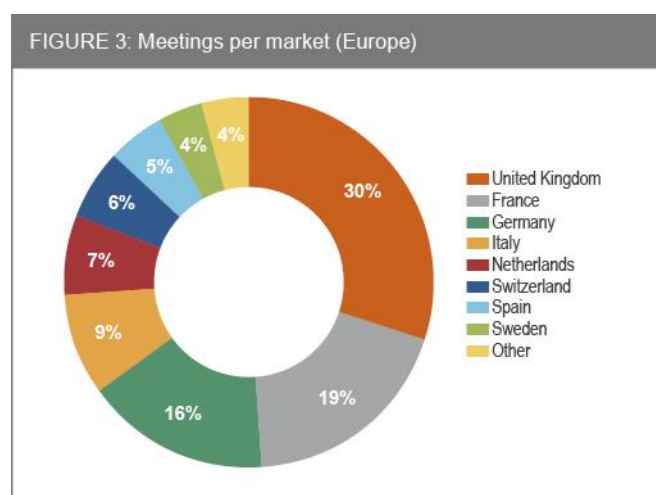
<sup>1</sup> Candriam has been a signatory to the UN Principles for Responsible Investment (UN PRI) since 2006.

<sup>2</sup> OECD

### 2015 Emerging Markets scope extension

In 2015, Candriam extended its Proxy Voting activities to Emerging Market companies (108 meetings). Members of Candriam's Proxy Voting Committee studied local corporate governance practices and codes and issued specific voting recommendations for these markets. Whereas most companies cited in this annual review are European, the statistics also encompass Emerging Market companies.

In Europe, the markets in which Candriam had the most annual or extraordinary meetings were the United Kingdom (30% of general meetings), France (19%) and Germany (16%), as shown in Figure 3 below.



As shown in Figure 4 above, contentious issues, representing 19% of the resolutions on the agendas (i.e. 762 resolutions), unsurprisingly revolved around three broad themes: director elections, share capital issues and remuneration issues.

40% of all Candriam "Against" or "Abstain" votes related to director elections (2014: 17%), 19% to remuneration (2014: 53%) and 12% to share capital issues (2014: 18%). Director remuneration is usually the most controversial issue in Europe. The extension of Candriam's scope might explain the relative importance of director elections as a "new" area of concern.

## 2.1. Board accountability and independence

### Candriam's principles

The Board of directors provides leadership and works towards companies' long-term prosperity and shareholder value; it sets the company's values and standards and establishes a framework for the effective assessment of risks and opportunities.

**Candriam believes that the composition of the board and its effectiveness are essential elements of good corporate governance.**

When voting for the appointment of directors, Candriam takes into consideration **the overall structure of the board**, e.g., the size of the board, the proportion of independent directors, the separation of power and the composition and quality of the board sub-committees. It also focuses on **the process by which directors are appointed**, e.g., appointment by slate, and on whether the information provided is sufficient to allow a clear view of competence and time commitments.

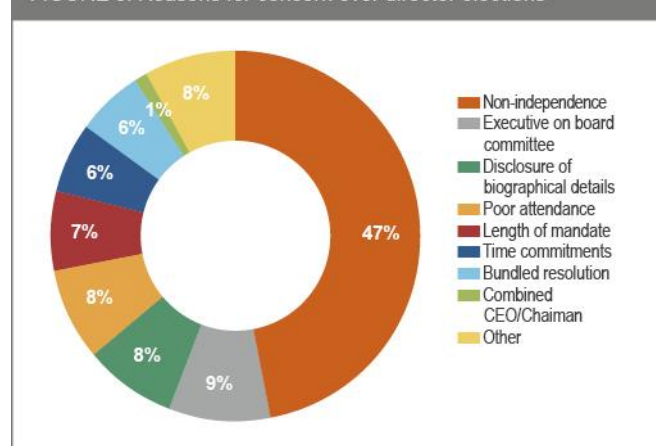
Item	Number	Percentage
Number of director-election resolutions	1,285	100%
"For" votes	988	77%
"Abstain" votes	86	7%
"Against" votes	211	16%

Overall board composition is of paramount importance because it has an influence on other areas of corporate governance such as remuneration and the equal treatment of shareholders. Figure 5 below illustrates the reasons for director-election concerns.

Candriam considers that the Board of directors should consist of a sufficient proportion of independent non-executive directors and that Boards should be at least one-third independent. The role of independent non-executive directors is to constructively challenge management strategy and decisions and to monitor management performance.

Candriam's assessment of independence is based on any links (e.g. private or professional) between a non-executive director and the company and its management that could possibly affect the exercise of objective judgment.

FIGURE 5: Reasons for concern over director elections



### **Independence and overall board structure**

Unsurprisingly, the main reason for casting “Against” votes on director appointments was our serious concerns over independence and overall board structure. Candriam considers that boards of directors should be at least one-third independent. Moreover, the audit, nomination and remuneration committees which roles are inter alia, to make recommendations to the board, should comprise a majority of independent directors. Candriam voted against directors on the grounds of lack of independence on 139 occasions. Voting against directors is one of the most serious decisions shareholders can make and Candriam does not take this issue lightly

Examples of dissent votes on these grounds are numerous. At Anheuser-Busch InBev SA, the Belgo-Brazilian brewer, for instance, Candriam opposed the (re-) election of two nominees because we considered them not to be independent on a board that was only 29% independent. Another example is Ryanair (Transport Operators; Ireland). Candriam had serious concerns about the overall board structure and independence of the board (less than 10%) and voted against the non-independent non-executive directors up for election.

### **Lack of biographical details**

One concern in 2015 was directors’ biographical disclosure: 8% of our votes Against directors was due to this issue. A prerequisite of shareholder democracy as far as director elections are concerned is that nominees’ biographical details and at least their names are known to investors when voting. On 23 occasions, Candriam had to vote against nominees because their names had not been disclosed before voting. This concerned, almost exclusively, Emerging Market companies (in, for example, Poland, Mexico and Indonesia).

### **Other issues**

Other reasons for opposing the (re-)election of directors included the concentration of powers at the helm of companies (combined Chairman/CEO) because we strongly believe that these roles are different and want to ensure that there is a balance of power at the helm of companies. Candriam voted “Against” the election of a combined Chairman/CEO on three occasions.

Finally, Candriam also abstained on director elections because of:

- directors’ poor attendance record at board meetings;
- the length of their mandates (more than 4 years) on 20 occasions;
- concerns over directors’ time commitments (directors holding more than five other board positions) on 18 occasions.

Candriam also abstained on 17 bundled resolutions proposed by companies for the election of directors, on the grounds that shareholders should be able to elect or re-elect directors individually.

## 2.2. Remuneration: disclosure and performance-related pay

### Candriam's principles

Remuneration is an important corporate governance issue as its structure has an impact on long-term performance. It also sets out the values of a company, and abuses or perceived abuses pose reputation risk. **Candriam believes that companies need to be able to attract and retain high-calibre individuals and motivate executives. However, an adequate remuneration package level/structure should be set up to prevent unnecessary risk-taking.**

Candriam's voting policy on director compensation is based on **the pay-for-performance principle**. As a balance should be struck between performance and risk-taking. Candriam focuses on disclosure and transparency as regards basic salary, short-term/long-term incentives, pension arrangements, excessiveness, recruitment incentives, other non-performance-related cash awards (such as relocation awards or school fees), termination provision and compensation recovery policies.

Candriam believes that **the remuneration of directors should be clearly set out**. It should ideally be composed of a fixed and a variable element (for executives). The fixed remuneration should be in line with national and sector standards. The variable element should be linked to company performance (and disclosed performance targets). Variable remuneration components should be intended to reward performance. Performance should be compared against a disclosed peer group benchmark. No executive director should be able to set their own remuneration and the remuneration of the CEO should be set out separately.

In 2015, Candriam voted on 350 resolutions on director remuneration. Remuneration remains high on investors' agendas and one of Candriam's main areas of concern.

Candriam expressed its serious concerns over 49% of the resolutions on director remuneration. Candriam voted "Against" the remuneration report when, for instance:

- the report did not include details of the performance targets attached to bonuses or long-term variable remuneration;
- remuneration increases were not explained or justified; or
- the performance targets attached to long-term variable remuneration were not sufficiently challenging.

Item	Number	Percentage
Number of resolutions on director remuneration	350	100%
"For" votes	178	51%
"Abstain" votes	0	0%
"Against" votes	172	49%

### Inadequate disclosure

Inadequate disclosure remains an important issue as far as remuneration is concerned. It was the most important reason for opposing resolutions on remuneration, as Figure 9 below shows: 45% of our “Against” votes on remuneration were due to poor disclosure. An interesting and extreme example is that of Ulker Biskuvi Sanayi A.S., a Turkish Food & Beverages company that did not provide remuneration information prior to the AGM. This led Candriam to vote Against the proposed director-remuneration package. Other less extreme examples of poor disclosure are numerous and appear across our geographical scope. Poor disclosure usually encompasses missing information on the performance conditions attached to short- and long-term incentives and the maximum awards available. It is difficult, if not impossible, to assess the appropriateness of pay packages if the remuneration policy is not clearly set out. In other words, investors can be at a loss to determine whether director remuneration is based on the pay-for-performance principle, if and when transparency is lacking.

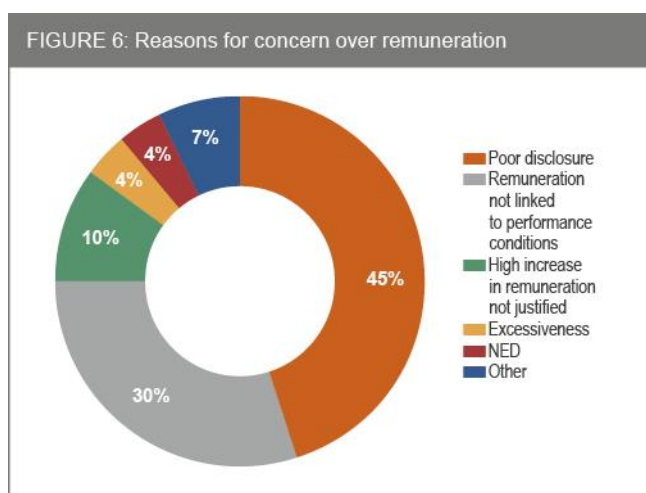
### Pay-for-performance

Poor disclosure was followed by the lack of challenging performance conditions attached to incentives (30% of Candriam Against votes on remuneration). The existence of performance conditions is a bare minimum; these need to be challenging, compared against a comparator group and geared towards performance. For instance, at Syngenta, the Swiss agrochemical giant, or at ArcelorMittal (Metals & Mining; Luxembourg), the proposed long-term incentive plans allowing for awards to be granted for below-peer group median performance led Candriam to vote Against.

This is indeed the occasion to reaffirm Candriam’s attachment to the pay-for-performance principle. At Standard Chartered (Banks, UK) for instance, Candriam voted Against the remuneration report because of a USD 1.88 million non-performance-related cash award paid to a nominee to replace awards from his previous employers. Whilst Candriam understands the need for companies to attract high-quality directors, these (non-performance) golden hellos are not appropriate because they deter retention. Candriam cast the same votes at Intertek Group (the UK commercial services company saw its remuneration defeated at the AGM) and National Grid (Utilities; UK), for instance.

### Unexplained remuneration increase

Other reasons for opposing a resolution on remuneration included unexplained increases in remuneration, whether in the form of salaries, short-term bonuses or long-term incentives. At Syngenta, for instance, the aggregate compensation increased by 45% in one year without a convincing explanation.



## 2.3. Audit and Reporting: assessing independence and objectivity

### Candriam's principles

External auditors are commissioned to carry out a rigorous and objective statutory audit for the benefit of shareholders. **The auditors must be independent of company management and should not provide services that could jeopardise their independence.**

Candriam believes that the audit should be an independent process. Auditors or the group to which they belong should not carry out tasks likely to affect their independence. The amounts of Auditor remuneration as external auditor and as consultant (or provider of other services) should be disclosed separately. **Remuneration for consultancy work should not exceed the audit remuneration fee** except in cases where such work has been the subject of a specific request from the Audit Committee. This aspect is analysed because fees that are perceived for non-statutory audit work could potentially undermine the independence of the audit.

Item	Number	Percentage
Number of auditor appointment-related resolutions	206	100%
"For" votes	201	93%
"Abstain" votes	2	3%
"Against" votes	3	4%

Investors can assess the objectivity of the audit process by assessing the nature of the services provided by the audit firm (for consultancy, for example) and/or the ratio of non-audit fees to statutory audit fees. The rationale behind this is that the commission of non-audit work (and the related non-audit fees) could impair the objective judgment of the auditor. Candriam voted against the (re-) appointment of the

audit firm when non-audit fees exceeded statutory audit fees. Three companies in the spectrum (Glanbia plc (Food & Beverage; Ireland), Tencent Holdings (Software; China) and Astro Malaysia Holdings (Media; Malaysia)) disclosed non-audit fees superior to the statutory audit fees.

However, shareholders should also look into auditor rotation. A recent report from Exane BNP Paribas<sup>3</sup> highlighted that 25% of the companies surveyed had not changed statutory auditors over the last 20 years. The idea behind auditor rotation is that long-standing auditors might a) audit their own (previous) work and/or b) become overly familiar with their clients. During the 2015 season, the long tenure of the audit partners was a reason for concern in 3% of auditor appointment resolutions.

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<sup>3</sup> Auditing - is it a going concern? Exane BNP Paribas; February 2014.



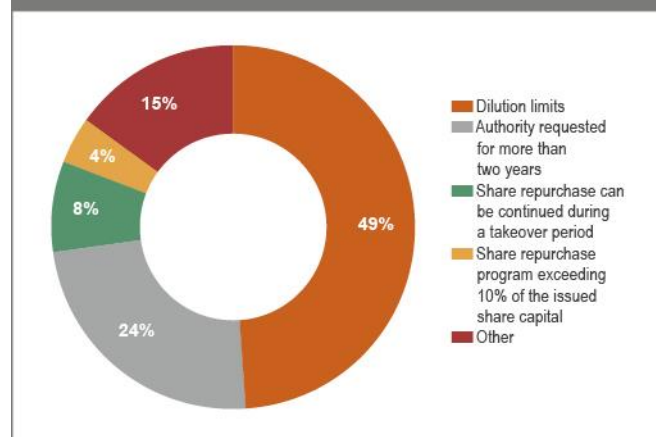
## 2.4. Share capital: dilution matters

### Candriam's principles

The decision to increase the share capital through the issue of new shares or other financial instruments such as warrants, convertible bonds or options should be taken at the General Meeting. **The authorities sought should not exceed two years.** Any planned increase should attribute subscription rights to existing shareholders. **Share capital increase with pre-emptive rights should be limited to 50% of the issued share capital.** These "pre-emptive rights" should be waived only in exceptional circumstances, as they carry economic value and protect against the dilution of voting power (if the capital increase means a rise in the number of voting shares). Any increase in share capital must respect the use of pre-emptive rights. **Any share capital increase that disregards pre-emptive rights above 20% must be convincingly justified.**

Item	Number	Percentage
Number of resolutions on share capital	584	100%
"For" votes	474	81.1%
"Abstain" votes	1	0.2%
"Against" votes	109	18.7%

FIGURE 7: Reasons for concerns over share capital



Unsurprisingly, dilution issues are Candriam's main reason for concern as far as share capital is concerned. Approximately half of our dissent votes targeted share issuances that did not respect our dilution limits. Examples are numerous and appear across our geographical scope. In addition, Candriam considers that authorities for issuance should not exceed two years, which they did on 27 occasions in 2015; this represents another – albeit less significant – source of concern.

## 2.5. ESG Shareholder resolutions

In 2015, there was a total of 84 shareholder resolutions. Most of them dealt with company-specific miscellaneous issues such as director elections and bylaw amendments. Six resolutions dealt specifically with ESG issues. As a responsible investor, Candriam takes ESG resolution seriously and cast votes on these resolutions after a thorough assessment.

### Environmental resolutions

BP shareholders asked the company to provide more information in its reporting on the risks and opportunities linked to climate change (regulations and carbon pricing, amongst others). Candriam welcomed the introduction of this resolution and voted accordingly.

At Statoil, Candriam voted in favour of a resolution (similar to a BP resolution) on reporting the risks and opportunities associated with climate change.

There were two other environmental resolutions at Statoil's AGM: the first requested the company to "implement a new strategy for a more sustainable development and administration of the company's resources and business". The proponent invited the board to consider terminating the exploration for new oil and gas sources nationally and globally, minimizing CO2 emissions, and to diversify the business with a focus on renewable energy. The second resolution requested the company to assess its strategy's resilience against IPCC's<sup>4</sup> AR scenarios and, if need be, to present a strategy to readjust the portfolio by pulling out of the implicated projects (fossil fuel investments, including Arctic, tar sands and extreme deep water).

Statoil is a "Leading" company in Candriam's Best-In-Class universe. Statoil's display, in particular, of one of the best operational performances in our scope highlights the board's grasp of environmental issues. The company has an excellent health & safety track record. In terms of environmental performance, Statoil has one of the lowest rates of flaring and one of the lowest oil sand CO2 intensity ratings in Candriam's scope of analysis. Candriam considered these resolutions too prescriptive and as seeking to micromanage the company.

### Social resolution

A shareholder resolution was also proposed at Total's annual general meeting. Proposed by the Central Works Council, it sought to "address the matter of a fair sharing of costs between shareholders and company employees". In March 2014, the Oil & Gas company had launched its "Cost Culture" programme to control and reduce investment and operating costs. The Central Works Council sought to make sure that the cost-saving program would not target employees only. After careful consideration and liaising with our Oil & Gas SRI analyst, Candriam decided to vote Against the proposal because the company's workforce management (training & career management; remuneration policies) is efficient and that it is a complex and strategic matter for which the management is best suited.

### Governance resolution

At NIKE, Inc., shareholder resolutions required the company to disclose more information on its political contributions and lobbying activities. Candriam voted in favour because it will lead the company to provide additional information on its trade association participation and activities.

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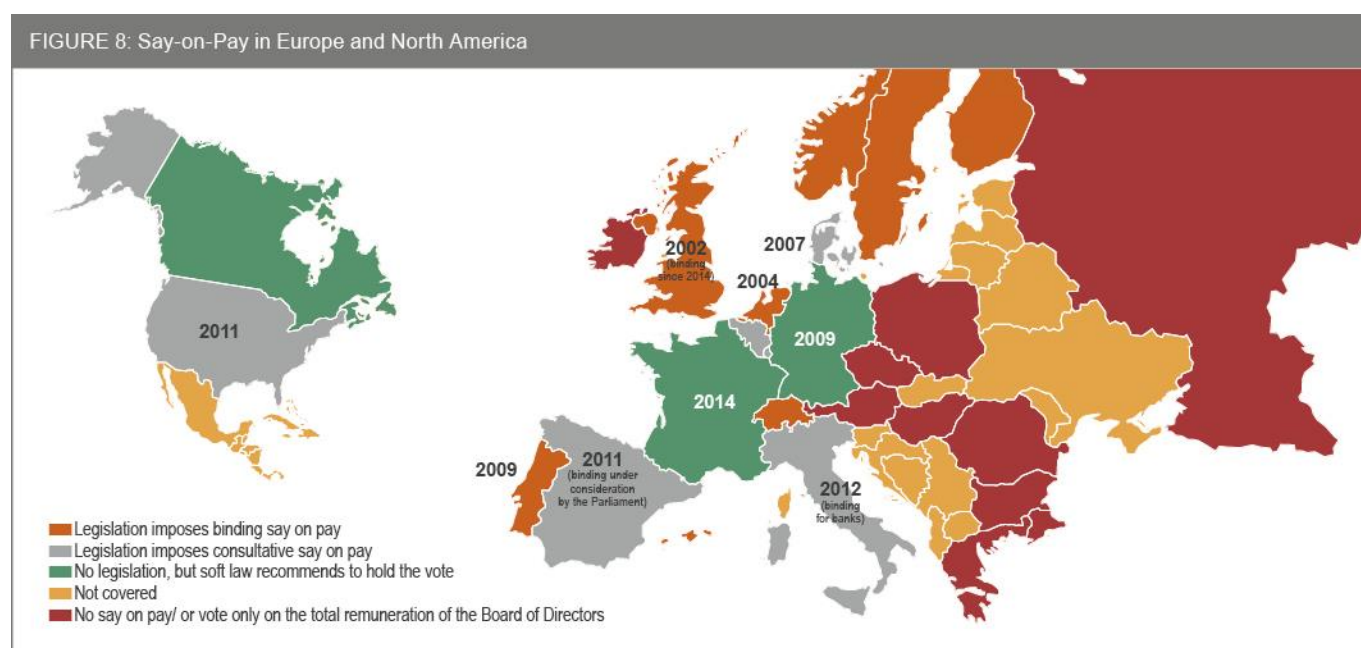
<sup>4</sup> Intergovernmental Panel on Climate Change

## 3. CORPORATE GOVERNANCE DEVELOPMENTS

2015 saw a number of interesting corporate governance developments such as the effects of the adoption of the Say-On-Pay principle and those of the Florange Act in France.

### 3.1. Say-on-Pay

Candriam strongly supports the Say-on-Pay principle as we consider that shareholders should have a say in directors' remuneration. Remuneration should be structured to encourage company performance and the alignment of shareholders' and directors' interests. The figure below shows the prevalence of the Say-On-Pay principle in Europe and North America.



The binding Say-On-Pay is only imposed in a handful of markets (UK, Scandinavia, Portugal, the Netherlands and Switzerland). In Switzerland, following the Minder initiative, the 2015 season was the first season with binding Say-on-Pay votes. The Minder Initiative gave shareholders the possibility to vote on executive pay and prohibited golden handshakes. The vast majority of binding pay resolutions were passed. Sika AG (Chemicals) was the only company that saw its compensation proposal defeated (this has to be seen in light of the dispute between the board and the controlling family).

In France, an advisory Say-on-Pay was introduced in 2014 and, as shown in the table below, the level of dissent increased during the “second Say-on-Pay season”. This shows that investors are now clearly looking into remuneration matters and how important, in their view, this issue is. This new scrutiny is also likely to make French companies better disclose and explain their policies.

Level and evolution of dissent on remuneration (France)			
Level of dissent	FY 2013	FY 2014	Change
Above 40%	2	12	500%
Between 30% and 40%	9	16	77.70%
Between 20% and 30%	9	22	144%
<b>Total (more than 20% dissent)</b>	<b>20</b>	<b>50</b>	<b>150%</b>
Total say on pay proposals	199	218	9.50%
<b>Total SBF120 companies included in the sample</b>	<b>108</b>	<b>105</b>	<b>-2.80%</b>

Source: ISS, Europ voting season review summary (2015)

### 3.2. Florange Act and Voting rights in France

Companies with double voting rights		Companies without double voting rights
Alcatel	Orange	Air Liquide
AXA	Pernod Ricard	Airbus
Alstom	Publicis	Arcelormittal
Bouygues	Renault	BNP Paribas
Carrefour	Safran	Cap Gemini
EDF	Saint-Gobain	Crédit Agricole
Danone	Sanofi	Gemalto
Essilor	Schneider	L'Oréal
Engie	Société Générale	Solvay
Kering	Technip	Unibail-Rodamco
Lafarge	Total	Vinci
Légrand SA	Valeo	
LVMH	Veolia	
Michelin	Vivendi	

In France, in the aftermath of the Florange Act, ordinary shares acquire double voting rights if held for at least two years, unless a resolution has been passed to keep the single voting rights. In other words, double voting rights have become the norm (if held for at least two years), single voting rights the exception.

This piece of legislation, which aims at encouraging long-term shareholding, is in contradiction with the one-share, one-vote principle, which ensures that ownership and control are aligned. Candriam supports resolutions that maintain this principle, a cornerstone of its policy.

The Florange Act was not a revolution, as approximately two-thirds of SBF 120 companies already allowed double voting rights in their memorandum of association<sup>5</sup>.

At the end of the 2015 AGM season, 28 CAC 40 companies had introduced or maintained double voting rights<sup>6</sup>. Seven CAC 40 companies adopted the double voting rights after their AGM (the French State owns more than 50% of the shares in three of these companies, namely, EDF, Areva and ADP).

<sup>5</sup> Minority report, Exane BNP Paribas, March 2015.

<sup>6</sup> Rapport 2015 sur le gouvernement d'entreprise et la rémunération des dirigeants de sociétés cotées, AMF Novembre 2015.

At Alstom, Engie, Orange, Renault, Veolia and Vivendi, a resolution seeking to maintain single voting rights was defeated.

Finally, shareholders in eight CAC 40 companies (including Air Liquide, BNP Paribas and Crédit Agricole) approved resolutions to maintain single voting rights.

## 4. PROXY VOTING ENGAGEMENT

In 2012, Candriam initiated a dialogue with companies and decided to send a letter to company chairmen when the rationale behind a voting recommendation required further explanation. It is in the same constructive spirit that, in 2015, Candriam sent three letters to Board chairmen to explain the reasons behind a vote or expressed our concern over a given issue. The first letter was sent to the chairman of LVMH, the French luxury goods company, to explain our concern and our vote Against a related-party transaction and the lack of information disclosed by the company. Candriam also contacted the chairmen of Volkswagen and Beiersdorf to reiterate our concerns over board independence.

## 5. KEY TAKEAWAYS

In 2015, Candriam extended its proxy voting scope and participated in 258 meetings, voting on more than 4,000 resolutions. The main concerns revolved around director elections, director remuneration and share capital issues.

Candriam rejected almost 50% of the resolutions on executive remuneration because of the lack of disclosure or absence of challenging performance conditions attached to long-term incentive plans. These results are not surprising as Candriam strongly encourages transparency and pay-for-performance.

Another recurring issue is that of board elections, where the main concern was independence. Candriam had concerns about 23% of director elections.

Candriam also carefully considered share capital issues and expressed its dissent on 19% of share capital resolutions.

Years change, corporate governance issues do not. It is easy to foresee that, in 2016, board independence and director remuneration will remain high on shareholders' agendas.

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