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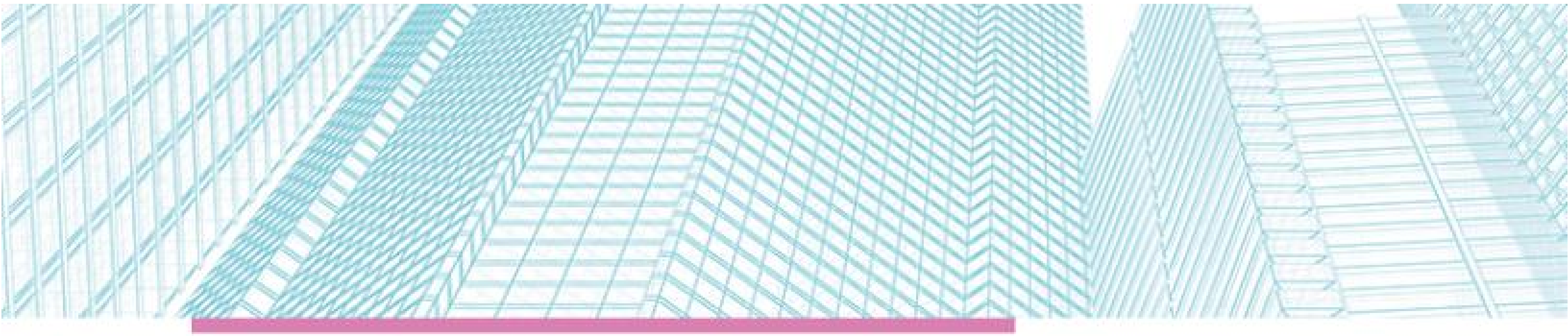
The Investment Engineers



Proxy Voting Report

Period: July 01, 2019 - September 30, 2019

Votes Cast	**2776**	**Number of meetings**	**286**
For	2456	With management	2436
Withhold	0	Against management	340
Abstain	4		
Against	313		
Other	3		
Total	**2776**	**Total**	**2776**

In 159 (56%) out of 286 meetings we have cast one or more votes against management recommendation.

General Highlights

Cybersecurity in the Boardroom
Making the right decisions when voting by proxy at AGMs always depends on having the right information at hand. Increasingly, this means being aware of the most material ESG risks a company is facing, and determining whether executives and supervisory boards are equipped to manage these risks. A rapidly developing threat to many corporates, especially those operating in technology-driven sectors, is cyber risk. Our sector knowledge as investors, coupled with lessons from our engagement on cybersecurity, ensures that we are fully aware of this topic's materiality and vote accordingly at shareholder meetings.

Cybersecurity can initially appear a very technical subject. In reality, though, the crux of the issue lies in governance structures responsible for oversight of an organization's attitude towards and policies on cybersecurity. Cybersecurity is above all a human risk, with consultancy Willis Towers Watson estimating that around two-thirds of breaches are caused by employee negligence or malicious acts. A far lower percent of incidents is driven by external threats. As a result, cyber risk's human angle firmly places it into the realm of board's risk supervision role.

Therefore, we expect companies to implement a robust governance structure to manage their approach to cybersecurity, and to design and implement a strategy which mitigates these risks. The board of directors should provide oversight of the strategy and consider cybersecurity as an enterprise-wide risk, and should therefore have the appropriate skills and experience in place to act as a sufficient counterweight to operational cybersecurity personnel. The executives whose role relates to the implementation of the strategy should have appropriate KPI's included in their compensation. Ideally, the Chief Executive's remuneration should also be linked to cybersecurity KPIs, if these represent a material risk to the company's core business.

This year we encountered several cybersecurity-related shareholder proposals up for vote. A notable example was when a proposal asked a major telecommunications company to issue a report assessing the feasibility of tying executive compensation to cybersecurity and data privacy KPIs. We voted in favor, along with around 12% of shareholders, as cyber risk presents material threats to the company operating in the telecommunications arena. The proposal aligned nicely with our engagement objectives, seeking to strengthen accountability for cyber risk in large organizations. Even though such proposals remain unusual for the time being, we expect to see an increased focus on cybersecurity in shareholder resolutions in the future.

The CEO Successorship
Changes in senior executive positions introduce inherent risks to companies and their shareholders. Russell Reynolds, a governance consultant, identified that over a 12-year period (2003-2015) the average departing S&P500 CEO had a tenure of 5.9 years. The company's ability to carry out its strategy and respond to new competitive challenges might be jeopardized by boards and CEOs that do not identify succession planning as a key priority. It is crucial to have a robust succession planning process in place to ensure a smooth transition.

This is arguably one of the more interesting responsibilities of the nominating committee. Sufficient objectivity in both formulating and executing the policy on succession planning is vital. As such, we encourage companies to have only non-executive directors serving on this committee and solely independent directors shall be involved in the process of nominating candidates for key executive positions. The CEO can provide advice to the committee to ensure the company has a forward-looking approach towards executive talent development. As the transition evolves and the process turns toward the board's selection of finalist candidates, we expect the CEO's participation to diminish.

When undertaking a CEO transition, one of the most contentious topics is the pay package offered to both the outgoing and incoming CEO. According to Alex Edmans, professor at LSE, executive pay should encourage long-term thinking by tying company leaders' remuneration to long-term share price even after they leave the organization. Post-holding requirements could encourage CEOs to be actively engaged in the succession planning strategy of the company. When it comes to the final pay package provided to good leavers, we expect that severance payments must not exceed two years of the executive's base salary in line with international corporate governance best practices. In markets such as Spain and Italy it is common to exceed this threshold, often leading to a larger proportion of votes against compensation plans including such excessive severance payments.

Sign-on bonuses provided to newly hired executives help to attract top talent and improve retention rates. It is sensible to compensate newly appointed CEOs for the remuneration foregone from previous employers. However, this shall involve a reasonable quantum, bearing in mind the potential costs to shareholders. In general terms, we view positively sign-on payments provided in stock and attached to performance targets, as it ensures that executive interests will be aligned with shareholders' priorities.

Voting Highlights

AusNet Services - 07/18/2019 - Australia
Proposal: Election of Chairman

AusNet Services is an energy delivery service provider. The Company engages in electricity distribution and transmission, and owns gas distribution assets in Victoria, Australia.

Accountability is seldom instant, and this holds particularly true for cases of misconduct amongst board members. It can often take years before directors are held accountable for their actions and are reprimanded accordingly. This is in part due to the difficulty of identifying misconduct, but also because investigations can take a while – as was the case for Australian financial services company, AMP Limited.

In 2018, the Australian Royal Commission began investigating allegations that AMP was charging fees to customers without providing any service between 2008 and 2015. These allegations were ultimately proven true and AMP began its initial remediation plan of paying back AUD 216 million to roughly 300,000 affected customers. Although the chairman and CEO both resigned in an attempt to renew the board and regain stability, AMP's share price has fallen by over 50% since September 2017.

During AusNet's 2019 AGM, we voted against the re-election of Peter Mason as chairman of the board due to his previous position as chairman at AMP Limited. His board membership at AMP (2005-2014) overlaps with the period of misconduct identified by the Royal Commission's investigation, which indicates a degree of responsibility for the fees-without-service scandal. The primary role of the chairman is to ensure that the board is effectively overseeing the implementation of the company's strategy and the creation of long-term shareholder value. Given the implications of AMP's misconduct, director Mason did not fulfill his role during his tenure as chairman. Many other investors share this sentiment, as 57% of the votes cast by proxy were against director Mason's re-election to AusNet's board. However, with the company's largest shareholders (Singapore Power and State Grid Corporation of China) supporting his re-election on the day of the poll, the final opposal rate was only 23.5%.

On the one hand, AusNet delivered positive shareholder returns of 14% last financial year and dividends are also expected to rise. On the other, director Mason's tenure at AMP has compromised investor confidence in his ability to carry out his responsibilities as chairman. Despite the company's current strong financial performance, we believe that appointing the chairman to the board poses a risk for the company, as it can jeopardize its corporate governance given the nominee's negative track-record, which in turn can hurt long-term returns.

Mckesson Corporation - 07/31/2019 - United States
Proposal: Advisory Vote on Executive Compensation

McKesson Corporation distributes pharmaceuticals, medical-surgical supplies, and health and beauty care products throughout North America. The Company also develops, implements, and supports software that facilitates the integration of data throughout the health enterprise. In addition, McKesson offers analytic, care management, and patient solutions for payers.

The widely accepted notion that pay should reflect performance still proves challenging for many executive compensation plans. Choosing metrics and a peer-group that accurately capture performance is the first obstacle. The second is the structure of the payout itself, which may be in the form of cash or stock, and possibly be subject to holding requirements. Ultimately, compensation tends to be a contentious topic since shareholders, executives, and the board can have differing views on how to best assess and quantify performance.

At McKesson Corporation, the disconnect between executive pay and performance has been an ongoing point of shareholder concern. The company's total shareholder return (TSR) and earnings per share (EPS) have been negative for several years, and there has been a considerable decrease in the company's Free Cash Flow, yet the CEO and other executives are paid well above their peer group. This indicates that executives are being disproportionately awarded compared to shareholders, which becomes especially evident when looking at the company's competitors, who have higher TSR and EPS figures but smaller executive payouts. Furthermore, one of the changes proposed in this year's compensation plan is to reduce the portion of variable pay dependent on TSR from 75% to 25%, which would exacerbate the disparity between executive pay and shareholder returns.

Over the past year, a series of discretionary one-off payments were made to several executives at McKesson. These payments fall outside of the usual compensation plan and range in value from 2.5 to 3 million USD. Although these payments were meant for retention purposes, their discretionary nature warrants concern because it is unclear how the quantum of these payments was calculated. In general, excessive discretionary payments can compromise the legitimacy of compensation plans approved by shareholders, worsening the imbalance between pay and performance.

Altogether, these issues prompted us to vote against the executive compensation plan at McKesson's 2019 AGM. Going forward, we will communicate our concerns to the company through engagement opportunities and await further improvements in executive compensation at next year's AGM.

Ralph Lauren Corp - 08/01/2019 - United States
Proposal: Election of Director

Ralph Lauren Corporation designs, markets, and distributes men's, women's and children's apparel, accessories, fragrances, and home furnishings. The Company's products are sold under a wide range of brands. Ralph Lauren's operations include wholesale, retail, and licensing.

Ownership structures comprised of share classes with unequal voting rights are still present among businesses controlled by dominating founders or family groups, which is the case at Ralph Lauren. At the shareholder meeting we voted against the re-appointment of the chairman of the remuneration committee given both our ongoing concerns around the compensation plan and the director's excessive number of external commitments.

Common minority shareholders invested in Ralph Lauren Corporation hold Class A stocks, which represent about 70% of the economic interest of the company but are only entitled to less than 17% of voting rights. The founder of the company, who is the executive chair of the board and chief creative officer, holds about 26% of economic interest of the company through both Class A and B stocks, yet he controls 83% of the firm's total voting power.

Although the re-election of all individual board members was included on the agenda of its 2019 AGM, free-float shareholders were only entitled to elect four directors out of fourteen. The company's founder retains the majority of voting rights by holding a separate share class, which entitles him to appoint the directors serving on the remaining ten board seats.

We have been skeptical regarding the company's executive compensation practices given the misalignment between pay and performance. Subsequently we have been voting against this agenda item already for three years in a row. Despite some recent improvement in the company's performance, we remain concerned with the company's ongoing pay for performance disconnect, due to the size of the awards granted.

Since the founder controls the large majority of voting rights, the company's resolution on executive compensation has been passing the required 50% threshold comfortably every year. However, over 30% of unaffiliated shareholders consistently vote against the resolution. We believe the remuneration committee has not properly addressed this shareholder discontent in the course of last fiscal year. The chairman of the remuneration committee bears responsibility for this failure.

In addition, this nominee is a CEO of another public company whilst serving on a total of three public company boards. We believe that the time commitment required by this number of board memberships, in addition to executive duties, may preclude this nominee from dedicating the time necessary to fulfill the responsibilities required of directors.

At the shareholder meeting his re-appointment to the board received support from 55.53% of shareholders. Taking into account that the founder is not entitled to vote on this agenda item, this showcases the wider level of shareholder concern regarding the director's ability to fulfill his responsibilities as a board member of the company.

Anadarko Petroleum Corp. - 08/08/2019 - United States
Proposal: Advisory Vote on Golden Parachutes

Anadarko Petroleum Corporation operates as an oil and gas exploration company. The Company acquires, explores, develops, produces, and markets oil and natural gas. Anadarko Petroleum serves customers globally.

In the US, it has become common practice to have a so called say-on-golden-parachute (SOGP) vote, which asks shareholders to approve merger-related severance payments that would become payable to executives when a change-in-control takes place. Typically, equity or stock incentives are subject to performance metrics or to continued employment for a minimum number of years before executives can receive this payout. But golden-parachutes accelerate the vesting of unearned equity awards following an M&A transaction, leading to sizeable payouts that are not linked to performance.

Such was the case for Anadarko Petroleum, who on 9 May 2019 announced that they had entered into a merger agreement with Occidental Petroleum valued at USD 38.5 billion. While the merger itself received overwhelming shareholder support, the ensuing golden parachutes for Anadarko executives were less endorsed.

Upon the completion of the company's sale to Occidental, the CEO of Anadarko, Alan Walker, received a payout of USD 98 mln. This payment was part of a larger payout made to executives that was comprised of cash, equity, and tax gross-ups, and amounted to nearly USD 300 mln. For the equity component, all outstanding performance units were paid out at maximum achievement without any consideration for actual performance. In our view, executives, like all employees, should bear the cost of any taxes associated with the bonuses and benefits they received. The accelerated vesting of unearned awards alongside the tax gross-ups warranted sufficient concern for us to vote against the advisory vote on SOGP at Anadarko's recent shareholder meeting.

Advisory votes on golden parachutes can be seemingly inconsequential, and one potential improvement is to make them binding. Since SOGP votes are cast before executives receive their severance payments, a binding vote could provide a more formal disciplinary tool to shareholders. Another avenue for improvement is to hold directors of the acquirer accountable for the severance payments made to executives of the acquired company. Nonetheless, the topic of golden parachutes is a mainstay in the ongoing debate around compensation.

Electronic Arts, Inc. - 08/08/2019 - United States
Proposal: Amendment to Certificate of Incorporation and Shareholder Proposal

Electronic Arts Inc. develops, publishes, and distributes branded interactive entertainment software worldwide for video game consoles, personal computers, handheld game players, and cellular handsets. The Company also provides online game-related services.

In the United States, shareholder proposals have become an indispensable element of the corporate governance landscape. As support levels rise with more investors engaging actively on ESG issues, thoughts inevitably turn to whether the precatory (or advisory) nature of shareholder proposals in the market acts as a hinderance to proper shareholder democracy in some cases. This argument could be made with respect to the AGM held by Electronic Arts (EA) in 2019.

The agenda featured two competing proposals, one put forth my management, one by shareholders. Both sought to put the wheels in motion on amending the Certificate of Incorporation to allow shareholders to call special meetings. The company proposed setting an ownership restriction on this right of 25% of outstanding common stock. Shareholders requested a lower threshold through a precatory proposal, which would allow shareholders owning just 15% of shares to call special meetings.

Minority shareholder rights are protected by being able to call special meetings, nominate directors, or act by written consent. As a result, we support proposals that seek to allow shareholders to make use of such provisions in company bylaws. Such shareholder freedoms have to be balanced, however, with the possibility of abuse by small groups with self-interested motivations, so setting certain ownership thresholds is a logical safeguard provision. We supported the shareholder proposal at EA as we considered it to be better aligned with minority shareholders' interests. Over half of shareholders agreed, as well, with 57% of votes being cast in favor. This sends a clear signal to the board that a majority of shareholders want to see a provision included in the bylaws allowing 15% of shareholders to call a special meeting. It does not, however, bind the board to implementing such a change.

The picture is further complicated by the board's own proposal for a threshold of 25% which received over 90% of votes in favor. In turn, the board implemented an amendment to its bylaws immediately after the AGM, enshrining the 25% requirement. We had voted against the management proposal to make our support for a lower threshold plainly clear. We were disappointed by the lack of resolve amongst other shareholders to push for corporate governance best practice by doing the same, instead settling for the 'safe bet' of the management proposal and voting for the shareholder proposal.

The overwhelming support rate for the management proposal has justified the board's decision to disregard the majority support for the shareholder resolution. We see this as a missed opportunity for EA to adopt best practice, and hope that shareholders continue to gain comfort around using shareholder proposals as a legitimate avenue of voicing preferences and concerns to management and boards. Further, this case illustrates the pitfalls of 'advisory-only' shareholder proposals, as in this case a binding shareholder submission would have forced investors to choose one of the options, rather than voting in favor of both, as many did. This diluted the impact of a well-justified shareholder proposal that received majority support, but ultimately was not implemented.

Naspers Ltd - 08/23/2019 - South Africa
Proposal: General Authority to Issue Shares

Naspers Limited is a holding company for a group of companies which operate in the technology industry. The Group invests in global internet companies across the world.

Granting boards the authority to issue shares is a routine agenda item at shareholder meetings. These requests from directors are commonly a formality, and often these authorities are left unused at the end of the fiscal year, awaiting a predictable renewal at the following AGM. We will usually support these authorizations should they be in line with market best practice and not excessively dilutive to shareholders. They provide companies with sufficient flexibility to raise new capital on short notice if required, without having to go through the cumbersome process of calling a special shareholder meeting expressly for this authority. That can be valuable if a time-constrained but attractive investment opportunity arises, for instance. However, at Naspers' 2019 AGM, we voted against the General Authority to Issue Shares.

Some guidelines must be followed by boards requesting share issuances. We expect a fair degree of transparency, at least making clear to shareholders how many shares are being requested under the authority, whether the shares would be offered on a pre-emptive basis or not, and when the authority would expire. With this information, we can assess whether the proposal is in our best interests as minority shareholders. The key question is whether the authorized issuance, if fully exercised, would excessively dilute investors' current holding. Pre-emptive rights ensure that existing shareholders are offered the issued securities first, allowing them to maintain their percentage interest in the company. As a result, we prefer to see pre-emptive issuance requests.

If pre-emptive rights are excluded, we generally set a maximum threshold of 10%-15% of total outstanding shares. Below this level, we consider minority interests to remain protected to some extent, while granting the board a reasonable level of flexibility.
At Naspers' 2019 AGM, the board requested a general authority to issue all authorized but unissued shares, which would expire at the 2020 AGM. Taking into account the company's dual-class share structure, this would entail 12% of outstanding "N" ordinary shares to be available for issuance, and 27% of "A" ordinary shares.

Furthermore, the proposal sought to exclude any pre-emptive rights on these issuances, failing to protect minority shareholders against potentially significant dilution. The share amounts are either close to or above our maximum acceptable threshold for non-pre-emptive issuances. In addition, the company did not provide a compelling explanation for the relatively high percent of outstanding shares encompassed by the proposal.

Finally, we took issue with the proposed significant increase in outstanding "A" ordinary shares, as they carry one thousand votes per share but only have limited economic participation in the company. Such dual-class share structures run contrary to international best practice, and serve to advance a limited group of shareholders' interests, potentially at the expense of minority investors. For the above reasons, we voted against the proposal.

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