ENGAGING ON DIRECTOR NOMINATIONS

AN INVESTOR GUIDE

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

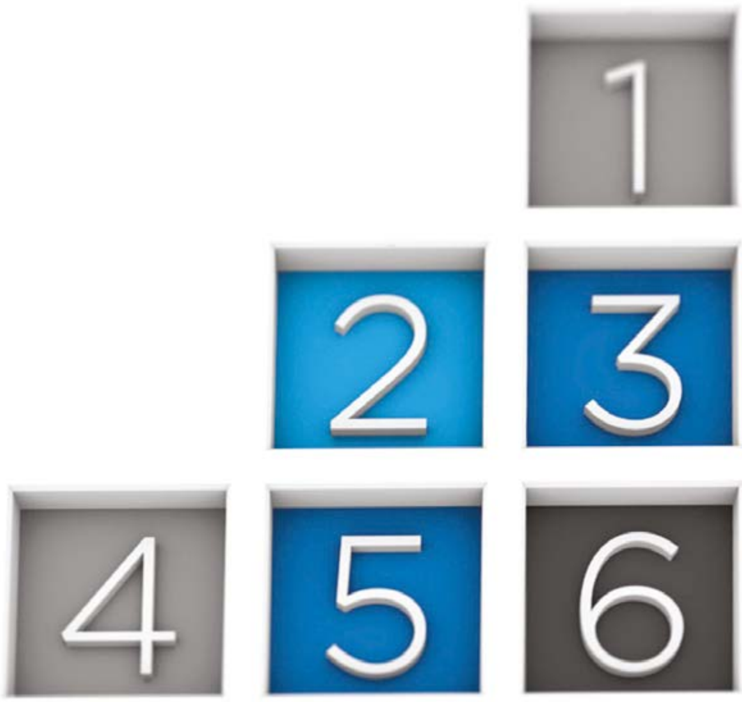
2 **We will be active owners and incorporate ESG issues into our ownership policies and practices.**

3 **We will seek appropriate disclosure on ESG issues by the entities in which we invest.**

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 **We will work together to enhance our effectiveness in implementing the Principles.**

6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

ACKNOWLEDGEMENTS

The PRI is grateful to the PRI engagement group involved with this project for their contributions to the engagement and guidance.

We would like to warmly thank the team at ISS for their liaison, data and analysis that have contributed to the guidance: Jean-Nicolas Caprasse (previously with ISS), Jocelyn Brown, Patrick McGurn and colleagues.

This document is produced by the PRI and does not necessarily represent the views of any individual members who have contributed.

CONTENTS

WHY ENGAGE ON DIRECTOR NOMINATIONS?

Director nominations and elections represent some of the most fundamental ownership rights for shareholders – namely the right to appoint and remove members of a company board to represent their interests in promoting long-term value creation. Shareholders can – and should – become involved not only in voting for director candidates at Annual General Meetings (AGMs), but also in engaging with companies to ensure that nominees are best-suited to guide the long-term success of the company.

An ineffective nominations process brings with it major risks, including ineffective board members or whole boards that are not fit for purpose.[1]

To have a clearer understanding about how companies are managing this process, investors should engage them on:

- the role of the nominating panel;
- existing board composition and processes to review directors' performance;
- succession planning;
- the skills, experience and qualifications of nominees.

A lack of disclosure and engagement offers little indication about whether the company follows a robust process to place candidates or how nominees can best serve the company.[2] This demonstrates the case for active investor involvement in the director nomination processes.

This document shares the lessons learnt and best practices seen from engagement dialogue between companies and investors on the nominations process in the US and France. It also provides an overview of these two markets including, challenges and suggestions to improve the quality of and reporting on companies' nominations for the board.[3]

1 For instance, the Volkswagen diesel-emissions scandal has been tied to pre-existing conflicts of interest on the board and a lack of independent board members who promote sound decision making https://www.ft.com/content/47f233f0-816b-11e5-a01c-8650859a4767

2 s172-174 of the Companies Act 2006 obligates the board of directors to act in the best interests of the company as a whole and exercise reasonable care, skills and diligence. Arguably, where the appointees do not have the necessary skills and experience, they will be unable to perform in line with their legal obligations www.legislation.gov.uk/ukpga/2006/46/section/174

3 Observations presented here come from how companies were scored in a commissioned research by the service provider Institutional Shareholder Services (ISS) as well as the feedback from investors that led the work of this group. The information below does not claim that any progress made by companies is the sole product of the efforts of the PRI coordinated engagement. Nevertheless, this work flags key issues to be aware of and provides suggestions on the direction of future work.

BACKGROUND ON PRI-COORDINATED ENGAGEMENT

After consulting with signatories and acknowledging the critical importance of the nominations process to long-term investor returns, the PRI coordinated a collaborative engagement on the issue.[4]

Between November 2014 and June 2016, 17 investors with a collective US$2.3bn in AUM commenced dialogue with 24 companies in the US and France.

RESEARCH AND METHODOLOGY

As a basis for engagement, the PRI commissioned research based on public disclosure about nomination practices at all 100 companies in the S&P100 and 36 companies in the CAC40, capturing over 70 data points for each company covering:[5]

- shareholder rights;
- board performance and reviews;
- succession planning and the nominations process for the chair, CEOs and NEDs;
- disclosure on candidates;
- board and committee composition.

SCORES AND FLAGS METHODOLOGY:

Together ISS and a PRI advisory committee generated a scores and flag system to benchmark companies' approaches across these data points, relative to their market peers:

- Negative scores and red flags were awarded when a company was not adopting a standard deemed as good and common market practice (i.e. for 70% or more of companies researched). **Progress was defined by fewer negative scores and red flags**.
- Positive scores and green flags were awarded where a company had adopted standards related to their nominations process deemed as good but uncommon market practice. **Progress was defined by more positive scores and green flags**.

This analysis was used to better understand market practice in the two countries. It also served to identify a list of 75 companies performing relatively poorly for investors to select from for engagement. Investors selected questions to raise with companies from the 70 data points based on their areas of interest, previous dialogue and company and market standards.[6] At the end of the collaborative engagement, ISS undertook the same analysis on the initial universe of companies and provided a basis to identify market trends and results of dialogue.

MARKET OVERVIEW

Looking at trends across the full 136 companies in the research dataset, ISS highlights:

US

In the US, changes in shareholders' voting policies over the past two years with respect to board refreshment led to more engagement with directors on the topic and some meaningful changes seen in both boardroom appointments and disclosure practices. However, while directors at many US companies are clearly motivated to signal these enhanced efforts to the marketplace, some critical boardroom processes — for example, on director evaluation – remain largely hidden from shareholder view. Despite vocal encouragement from many investors and also from market regulators, US boards have also failed to make significant progress in boosting gender diversity.

FRANCE

In France, changes in company law and codes of market best practices were the primary drivers of change. CAC40 firms are among those that have most women on boards in the world, as companies worked to meet a deadline to meet a 40 percent quota for women on boards by 1 January 2017. All CAC40 companies now align with local best-practice codes with respect to a maximum four-year term for directors' mandates. In line with AFEP-Medef Code[7] recommendations, a majority of the study companies now hold "executive sessions" of their boards at least once per year, in which the non-executive directors meet without the executives present to review executive performance. While combining the CEO and chair titles remains common in France, more boards (including now all large-cap banks) have moved to separate these roles. French boards also made strides over the past four years to provide more details about their boardroom and top executive succession processes.[8]

4 The PRI consultation processes undertaken through questionnaires, email and the PRI collaboration platform to gather feedback on key ESG issues for coordinated engagement by the PRI.

5 See Appendix 1 for a full list of indicators.

6 See Appendix 2 for more

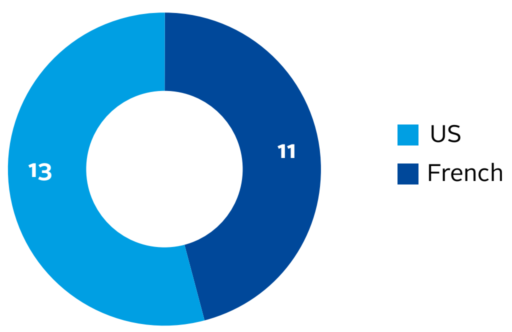
7 AFEP- MEDEF code is the reference code for listed French companies and include recommendations to improve the functioning and management of companies http://www.afep.com/uploads/medias/documents/Corporate_Governance_Code_of_listed_corporations_November_2016.pdf

8 ISS report, *PRI Co-ordinated Engagement on the Director Nominations Process 2015-2016 Update*, pp 1-2.

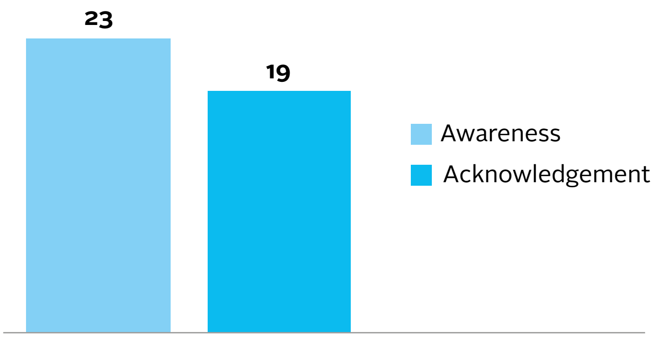
ENGAGEMENT RESULTS OVERVIEW

All companies demonstrated awareness of investors' concerns by responding to a request for dialogue. Nineteen companies acknowledged the importance of the issue under discussion through calls or meetings or by providing written responses to the questions raised.[9]

Companies engaged



Company responses



Results demonstrate that market forces, peer pressure and engagement are driving better standards in relation to nominations processes

Aggregate results from the engagement demonstrate that market forces and peer pressure, aided by engagement, are working to drive better standards of corporate governance in relation to the nominations process.[10]

Engagement meetings were mostly held with the company secretary in the US and investor relations in France, closely followed by company secretaries. While the group did speak with one company CEO during the course of the engagement, not having meetings with board members of many companies was one of the perceived limitations of this engagement effort, as directors are able to offer unique insight on board nominations – for example, on board skill gaps, succession planning and results of board performance reviews. Access to the board, or at least investor perception that there is a representation of shareholder views in board discussion, remains an area for improvement in dialogue between companies and investors on this issue.

Greater disclosure from companies can assist investors in assessing the quality of corporate governance structures

Greater disclosure from companies on their nominations process can assist investors in assessing the quality of corporate governance structures in place. More detail on what the investor group learned about market practices in the US and France respectively is shared on the following pages.

9 Awareness is defined as receipt of contact from the company to the investor. Acknowledgement is defined as a response to the investor group via a call, meeting or in writing that addresses points raised.

10 See Appendix 3

THE US

The 13 US companies investors selected for engagement in 2014 ranked in the lower 50% of all S&P100 company performance on nominations processes when assessed against indicators included in the commissioned research. After engagement with investors, five of these companies had moved out of the lower 50%.

The most commonly raised questions by investors were related to:

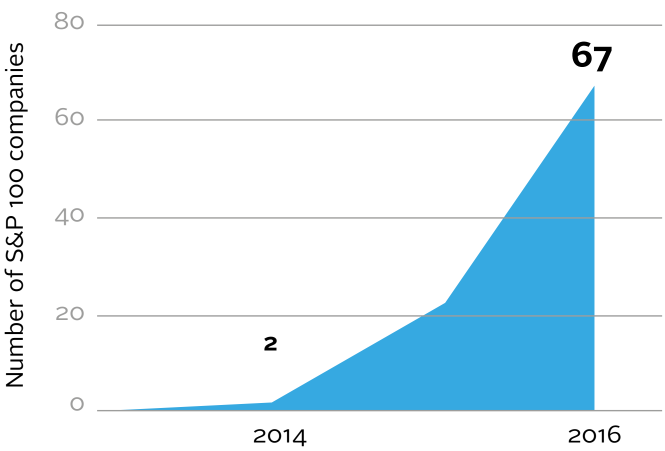
- proxy access, closely followed by;
- disclosure of board performance evaluations' results.

PROXY ACCESS

Nine of 12 companies targeted by the group adopted proxy access during the period of engagement. This was owing to much broader momentum in the US focussed on the issue. ISS data shows 67 of 100 companies adopted proxy access (compared with two companies in the 2014 study), demonstrating the extent to which shareholder engagement can affect corporate governance norms in a whole market.

There is huge scope for shareholder engagement to affect corporate governance norms

Proxy access for eligible shareholder nominations of director candidates



ABOUT PROXY ACCESS

Proxy access may be written into company bylaws to allow shareholders to suggest nominees for board election via the company proxy card.

The general market approach has been to allow long-term investors or investor groups of up to 20 holders owning stocks for at least three years, to suggest nominations for 20-25% of the board, if they own in aggregate more than 3% of the company's shares.

The thresholds applied to proxy access may vary across companies, and some of them have adopted proxy access bylaws that require 5% or higher ownership threshold. However, this has been argued as unviable for shareholders, given that few investors would be able to surpass this hurdle. Some companies have also been more restrictive on the number of board members who may be nominated, have set limitations on aggregation of shareowners and restricted re-nominations when a nominee fails to be voted in. The Council of Institutional Investors (CII) best practice guide on proxy access favours a less restrictive approach in order to ensure that the provisions do not limit or impair the ability to use proxy access once implemented.[11]

In 2017, some shareholders may look to amend specific features of adopted bylaws that they believe limit the ability of shareholders to use proxy access effectively.

PROXY ACCESS IN PRACTICE

Shareholder proposals on proxy access saw an unprecedented increase during the study period. Particularly noteworthy here is the Board Accountability Project[12] launched by the New York City Comptroller Scott Stringer and the New York Pension Funds in November 2014, which actively progressed dialogue on this issue.[13]

Investors' approaches and the extent to which they exercise the right to proxy access will vary, but for the most part, they have not exercised proxy access rights written into company bylaws.[14] Even though they may not choose to use it, proxy access provides meaningful ways of protection for shareholders, and improves board accountability. It is hoped that this will also prompt companies to better articulate their position on board composition, skills and diversity, and to provide a well-considered view of how a nominee will contribute to the mix of skills and qualifications needed to deliver their business strategy.

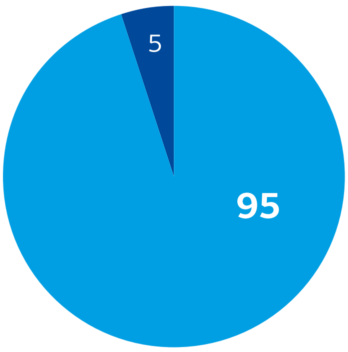
11 http://www.cii.org/files/publications/misc/08_05_15_Best%20Practices%20-%20Proxy%20Access.pdf
12 https://comptroller.nyc.gov/services/financial-matters/boardroom-accountability-project/overview/
13 For more information on the project see PRI podcast: http://pripodcasts.libsyn.com/proxy-access-in-the-usa
14 https://corpgov.law.harvard.edu/2016/11/15/gamcos-first-use-of-proxy-access-and-fix-it-proposals/

BOARD PERFORMANCE EVALUATIONS

Disclosure of board performance evaluations provides a critical assurance that the skills and effectiveness of the board are monitored.

Four of seven US companies engaged by the PRI group and questioned about this began to disclose the results of their assessment after dialogue with investors. This shows that only after flagging the importance of this disclosure for investors do companies move towards sharing this information. This reflects ISS broader market analysis that 95 companies in the S&P100 do not publicly offer the results of periodic board performance evaluations in annual reports or proxy statements.[15]

Companies that disclose board evaluations



Disclosure by one of the companies investors spoke to in the PRI engagement, Bank of America, offers a positive example for investors seeking disclosure from other companies on board evaluation.

Companies engaged tended to undertake self-evaluation, mirroring trends in the S&P100 universe where only 11 companies used an external firm to do so, according to the ISS research. Only one company in the S&P100, General Electric, disclosed information on results of the board's evaluation and stated that an external firm may undertake the review of the board's performance.

BANK OF AMERICA

In 2014, our board commissioned research into the characteristics of effective and efficient boards. Using that research, our Corporate Governance Committee developed the 2014 self-evaluation to solicit director feedback on the five key areas where the research suggested high-functioning boards and committees excelled: board and committee composition; board culture; board and committee focus; board process; and information and resources. For the 2015 self-assessment, our Corporate Governance Committee solicited director views on actions taken in response to the prior year's feedback, and sought additional input on our board composition, our committee composition and structure, and our board's implementation of the Federal Reserve Board's new Enhanced Prudential Standards related to risk management.

GENERAL ELECTRIC

In response to feedback received from our directors in 2015 (as well as feedback from our investors), the board determined to adopt a term limit policy for independent directors, which will work in tandem with our age limit policy to help achieve a balanced mix of tenures and ages on the board.

From time to time, we engage an independent, third-party governance expert to conduct the interviews. For more information on this evaluation process, see the board's Governance Principles and the Governance Committee's Key Practices. On a periodic basis, the governance and public affairs committee may engage an independent governance expert to facilitate the evaluation process.

Overall, there has been increased engagement in the US and some meaningful changes seen in both boardroom appointments and disclosure practices. Despite this, reviews of board composition are still lagging for US companies. Investors should continue to push for further disclosure on this issue.

15 ISS data, June 2016.

SKILLS

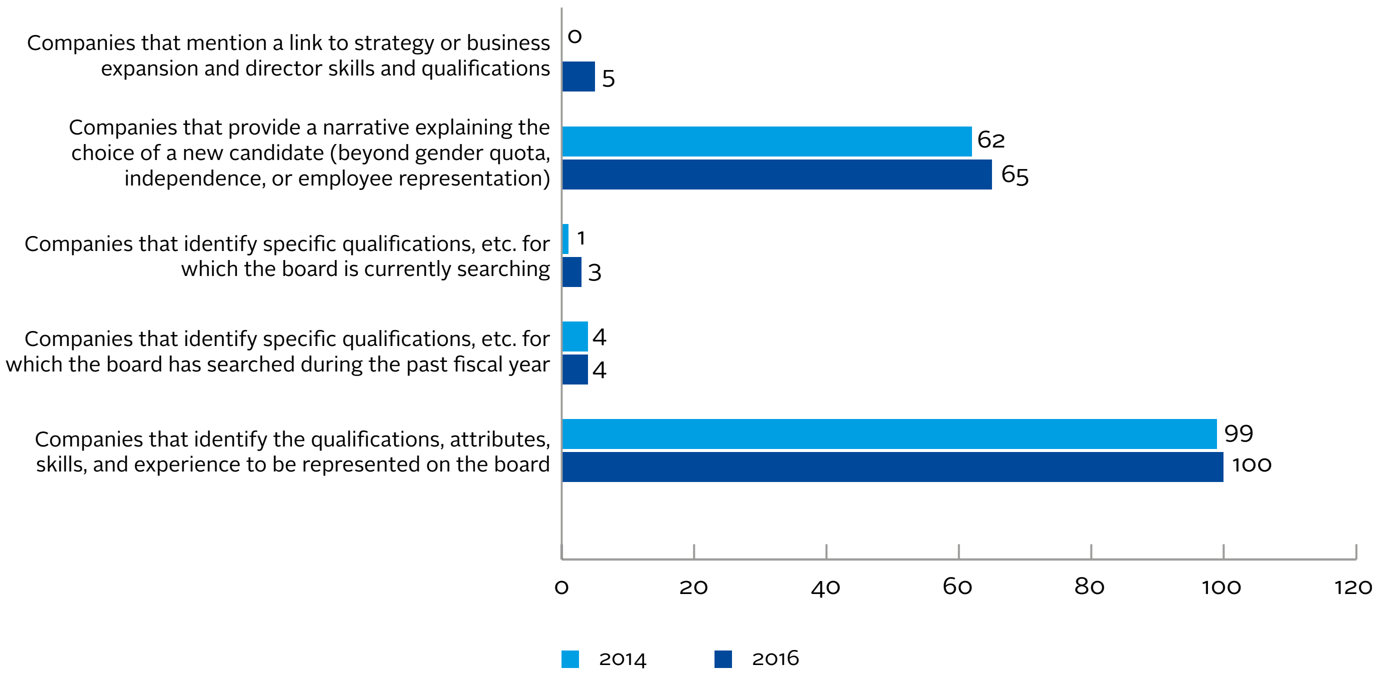
Companies that elaborate on board skills provide valuable insight for investors on the spread of expertise and how they can be supplemented through board renewals. While nearly all companies complied with US disclosure rules by referencing the specific experience, qualifications, attributes and skills for their new nominees, some boards exceeded their regulatory mandate by explaining why they chose particular candidates for directorships in their public disclosures, with reference to specific desired skills, experience and the level of independence that they bring.

Companies involved in the PRI-coordinated engagement demonstrated a clear vision of skills and experience that they were seeking from candidates, in line with this broader trend. One of the companies, in giving precedence to skills over experience, appointed two new board members with no previous board experience. They did, however, have cyber security and supply chain expertise. A couple of companies made clear that lack of previous board experience was not a barrier to appointment. Engagement dialogue was particularly constructive in drawing out boards' careful thought processes around the need to balance these factors, something that investors may find valuable to explore in future engagements.

That said, very few companies in the S&P100 disclose the skills that they desire in board candidates. Only 4% of companies identified specific skills and attributes they have looked for retrospectively when appointing directors in the past year, and only 3% of companies elaborated on the specific skills and qualifications for which the board is currently searching in future appointments.

Similarly, companies trail in demonstrating how board capabilities can assist in the implementation of their business strategy. Last year, however, five companies in the S&P100 dataset demonstrated best practice in establishing the link between their business strategy and their director appointments, something not seen in the US market before.

Board skills, qualifications and attributes



Disclosure about why a candidate is chosen and how they could add value to the board can provide greater clarity for investors

More specific disclosure about why a particular candidate is chosen and how they will add most value to the board and business strategy can provide more clarity for investors on board effectiveness and ensure better informed voting decisions.

Good examples of more detailed disclosure on the appointment of directors and the skills they bring to the board are offered below:

ANADARKO PETROLEUM

"As a highly successful executive and entrepreneur in the technology sector, Dr. Gourley brings a unique and valuable perspective to the board. His leadership in big data, algorithmic technologies, information technology and software pertaining to artificial intelligence and strategic decision making adds new skillsets to the board that can be beneficially applied and leveraged across the company's global operations. His expertise complements and enhances the company's ability to leverage technology as a competitive advantage."

MCDONALD'S CORPORATION

"In addition to their extensive experience in the retail industry, new directors Margaret Georgiadis and John Mulligan add to the board's qualifications on matters related to technology and the use of digital initiatives to drive operational growth. Lloyd Dean and John Mulligan also supplement the board's skills regarding capital structure strategy and resource allocation priorities. They also filled a gap of "audit committee financial experts," created when two directors with those qualifications retired in 2015. Their participation allowed for a smooth transition of financial reporting and accounting oversight as well as additional expertise in the area of cyber security risk oversight."

BOARD DIVERSITY

While nearly every company engaged mentioned the need to consider diversity in the director selection process, none of them publicly disclosed a diversity policymaking reference to specific goals and targets. During the PRI-coordinated engagement, some investors encouraged companies to make this disclosure, stating that they encourage high-level statements in proxy materials to be substantiated more concretely through a policy.

Although companies have begun to report on representation of women across career levels, including an indication of their commitment to gender diversity, they do not disclose voluntary targets at the board level.

Unlike in countries such as France, Spain and Norway, there are no quotas for female board representation in the US. However, the investor community has mobilised support to remedy the lack of diversity in company boardrooms. For instance, the 30 Percent Coalition has filed shareholder resolutions and engaged with public companies with no women on their board.[16]

These engagement efforts appear to have been met with some success. Nineteen of the S&P100 boards had at least 30%of their seats filled by women directors in 2016 compared to 14 in the 2014 study. Progress beyond this 30 percent threshold was glacial, however, as the number of boards where women occupied more than one third of the seats rose by just one—from six boards in 2014 to seven in 2016—and the number of boards where women held at least one third of the directorships remained stuck at ten over the study period.

On a more optimistic note, the following case studies illustrate good examples of policies and diversity targets for hiring across the workforce, a nod towards some positive developments in company reporting on this issue.[17]

16 http://www.30percentcoalition.org/who-we-are
17 http://www.intel.com/content/www/us/en/diversity/diversity-in-technology-annual-report.html;

INTEL

Intel has established targets more broadly across the workforce and reported on improvements in diversity in their hiring pool. They report in their annual diversity progress report:

"We exceeded our annual hiring goal, achieving 43.1% diverse hiring against a goal of 40%—up 1.8x hires over 2014. We increased hiring of underrepresented minorities by 31% to a total of 11.8% in 2015. We increased our hiring of women by nearly 43% to a total of 35% in 2015. We narrowed the gap in female representation, ending the year with a workforce that is 24.8% women, a 5.4% increase over 2014"

CITI

Citi has a dedicated policy which indicates the governance structure from board level; how diversity is managed throughout the organisation; their strategic objectives; and their implementation plan. They then follow that up with yearly reporting on progress. Their approach to diversity is detailed in their diversity factsheet[18].

"We want all Citi employees to thrive as members of a diverse, inclusive workplace. We want them to feel confident about their opportunities for growth and development throughout their time with our company and be an employer of choice for top talent. Our approach helps us accomplish these goals in the more than 100 countries where we operate.

Our Global Diversity Office sets our policies, practices and priorities. Our Diversity Operating Committee, made up of senior diversity human resources leaders, ensures our programs and policies advance our culture and inclusion goals. Diversity councils and senior executive champions communicate and live our diversity values and standards across the company. Our Board of Directors reviews our progress and priorities annually".

18 http://www.citigroup.com/citi/about/citizenship/download/2015/global/2015-citi-global-citizenship-factsheet-diversity-en.pdf

FRANCE

As with the US, investors chose to engage with 11 French companies ranked in the lower 50% of all CAC40 company performance based on their nominations process. After engagement, four of these companies had moved out of the lower 50%.

They were most commonly asked:

- whether they had appointed a lead independent director (LID)/*administrateur référent;*
- whether they report that a review of board composition had been undertaken in the past fiscal year;
- whether they have a policy that the nomination committee is to make recommendations on CEO succession planning.

LEAD INDEPENDENT DIRECTORSHIP

Although the role of the LID continues to evolve, investors generally consider it a position that promises balance of power on the board, and may serve as a crucial conduit for shareholders' views.[19]

Looking at 2014 proxy disclosures, seven French companies engaged by the PRI group did not appear to have appointed an LID (this was in line with common market practice – only 14% of companies that had a combined chair/CEO have appointed an LID in that year[20]). Then during engagement dialogue, only two of those seven companies decided to newly appoint an LID. These appointments were welcomed by the investors. However, the companies were not able to say whether the independent director would be available to engage with shareholders on governance matters. In fact, data shows that LIDs may convene board meetings and/or input to the meeting agenda, but there is scant mention of their role engaging or acting as a crucial conduit of investors' views to the board.

While the other five companies were open to discuss independence and appoint an LID, they generally responded with several different reasons as to why this was not deemed best for the company. Feedback collected by investors in the group indicate that there does not appear to be any prevailing rationale behind not appointing an LID by these companies.

Companies said "We are not seeking to appoint an LID because..."

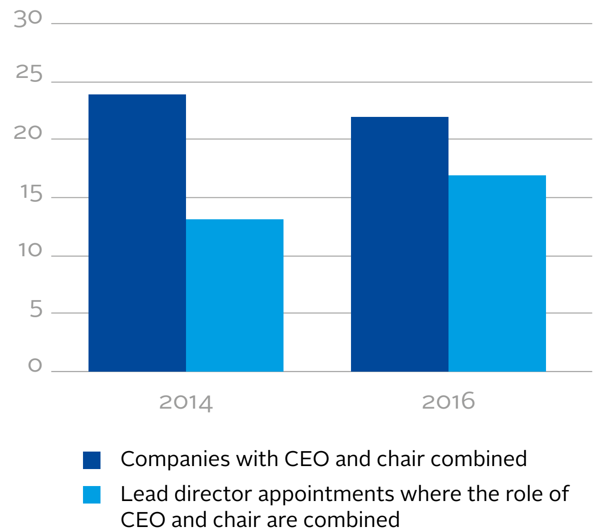
- "We equally value all independent directors' views."
- "There are sufficiently strong personalities on the board to challenge the chair/CEO's view."
- "Investor relations function adequately as a main contact point for investors."

Investors are encouraged to ask companies about the presence of an LID where CEO and chair roles are combined, and may choose to challenge companies to further explain their rationale beyond any responses received similar to the above. This could happen in particular when the company performs poorly compared to other market standards.

Even where an LID has been appointed, investors may also want to ask more about what the board understands their role to be in relation to offering the shareholders' perspective in the boardroom.

More generally, French companies in the CAC40 universe moved away from allocating executive functions to the chair. While this was a common practice in 2014, it was no longer the case in 2016. There was also a small increase in the number of companies that designated LIDs. However, 63% of the CAC40 companies continued to have a chair who was also a CEO.

Combined chair and CEO



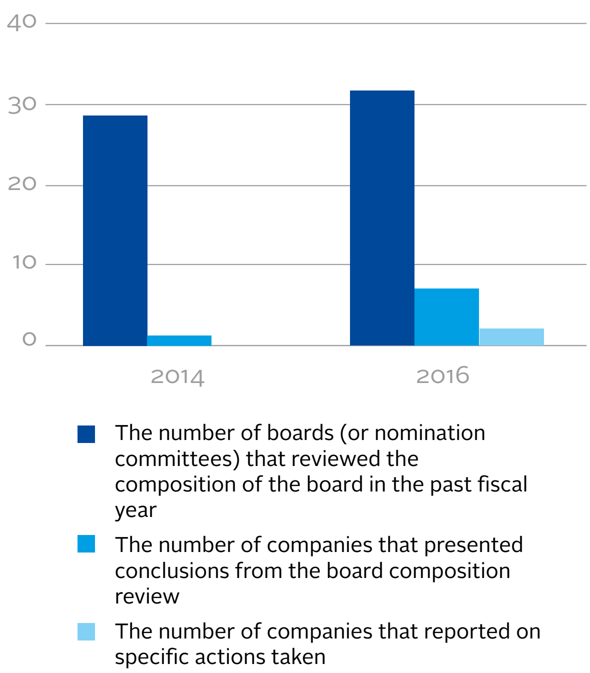
19 http://www.ecgi.org/codes/documents/icgn_global_corporate_governance_principles_revised_2009.pdf
20 ISS data, June 2014.

Investors in this market should still question companies on the rationale behind the dual roles for the chair and evaluate the merit of any arguments put forward.

BOARD COMPOSITION REVIEW

Five companies engaged by the PRI group disclose that they reviewed the composition of their boards within the last fiscal year, making comparisons with composition at the beginning of the dialogue.[21] This appears in line with broader market data. In 2016 77% of companies, compared to 61% in 2014, disclosed they review board composition on at least an annual basis. This shows that during engagement, a trend has emerged of annual board composition reviews becoming the market norm, to be reasonably expected by investors.

Board composition review



Compagnie de Saint Gobain shows a positive examples of disclosure on the matter.

COMPAGNIE DE SAINT GOBAIN

Directors believe that the recommendations formulated upon completion of the 2014 assessment, concerning the strengthening of corporate social responsibility and the board's concentration on analysing strategic issues were appropriately taken into account in 2015. In order to move forward, the board selected the following proposals resulting from the assessment of November 2015:

- continuing to reflect on changes in the board's composition (size, diversity) in connection with the group's strategic and geographic guidelines;
- continuing to consolidate the year of work carried out in relation to corporate social responsibility matters;
- continuing to improve the board's monitoring of the implementation of decisions;
- continuing to explore in-depth (while continuing the improvement begun in 2015) strategic matters, value creation, innovation, digital transformation and geographic development.

SKILLS

When compared to 2014, companies in the CAC40 have improved public reporting on skills, qualifications and attributes in 2016 compared to 2014. ISS found that in 2016 there were five additional French companies that started to disclose the skills and experience they generally seek for their board that didn't in 2014.

Two of the companies that were engaged also improved their scoring. For instance, one company that had only indicated that they had 'an appropriate balance in terms of skills and profiles on the board' began to publicly disclose further information in the following year, ensuing investor engagement.

The company reported, "The board of directors benefits from the presence of "directors" from diverse backgrounds with complementary experience (including retail, financial, industrial, economic and commercial expertise), some of whom have in-depth experience and knowledge of the business, the sector and its environment both in France and abroad".

21 The ISS-PRI methodology credits companies for specifically highlighting that the board composition review was completed in the last fiscal year rather than a general statement that composition is reviewed 'each year'. While four companies explicitly stated that they had completed a review in the previous year, one company indicated that they do so 'each year'.

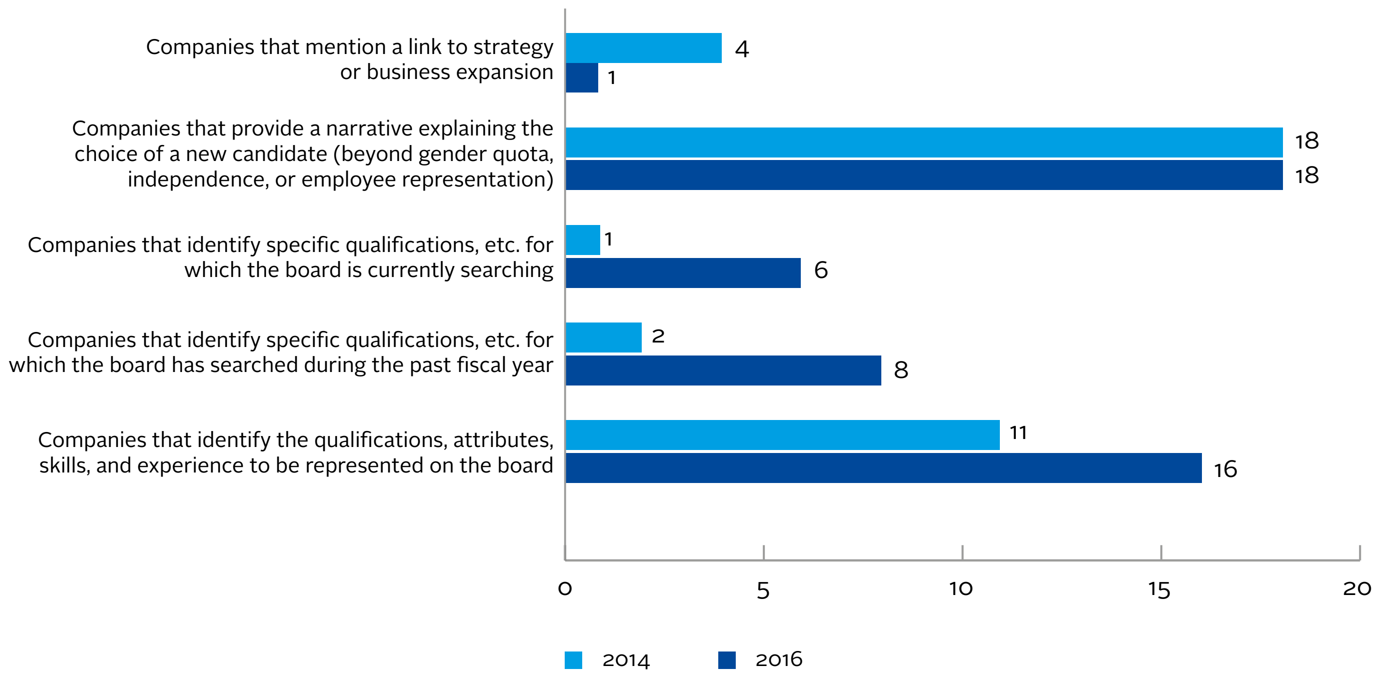
Another company also improved its score by identifying specific skills and qualifications that they were currently searching for, stating, "Directors noted their desire to continue to reduce the number of directors as their terms expire, while aiming to achieve diversity in the board's composition with regard to female members, age, nationality, profile and skills".

As expected, company boards were keen to maintain the level of sectoral experience. For instance, one company in the financial sector indicated that it would give priority to people with banking and financial expertise.

Another company in the utilities sector indicated in their engagement dialogue that they had recently appointed a member with international experience as well as knowledge of big data. Overall, diversity and international experience featured most prominently as prerequisites in board searches. Entrepreneurial skills and digitisation were also considered important by some companies.

Interestingly, two of the engaged companies indicated that their board appointments were informed by recommendations they had received through board evaluations on the skills mix. Arguably, companies that take this approach will be better-placed to clearly articulate, in an objective manner, the strengths in the current board structure and how existing gaps in skills or expertise is being remedied. Such an approach also reassures investors that company boards have adequately considered the balance and effective integration of skills and experience on the board, rather than solely focusing on individual qualifications, however outstanding they may be.

Board skills, qualifications and attributes



BOARD GENDER DIVERSITY

In contrast to the US market, during engagement French companies communicated their priority to bolster diversity[22] as well as international experience of director candidates. These shifts serve to demonstrate the impact of regulation, and places even greater emphasis on the need for engagement to further examine the suitability of candidates and appointments for an effective board. Gender diversity levels at boards of French CAC40 firms are now among the highest found anywhere around the globe.[23]

THE ADEP-MEDEF CODE, CLAUSE 6.4:
"With regard to the representation of men and women, the objective is that each Board shall reach and maintain a percentage of at least 20% of women within a period of three years and at least 40% of women within a period of six years from the shareholders' meeting of 2013 or from the date of the listing of the company's shares on a regulated market, whichever is later."

http://www.ecgi.org/codes/documents/afep_medef_code_revision_jun2013_en.pdf

22 Gender diversity in particular, in line with regulatory quotas of 40% representation by 2017, see http://www.reuters.com/article/us-france-equality-idUSTRE70C5ZA20110113

23 ISS report, PRI Co-ordinated Engagement on the Director Nominations Process 2015-2016 Update, p1.

RECOMMENDATIONS FOR FURTHER ENGAGEMENT

As a result of the analysis presented in this document, investors are encouraged to continue discussions with their investee companies on director nominations. The following areas are particularly crucial to advance the US and French markets towards more robust processes and more effective boards.

PROXY ACCESS (IN US ONLY)

The scale of change in the adoption of proxy access has been phenomenal over the last couple of years – nearly two thirds of S&P100 companies now have a proxy access bylaw in place, as opposed to two companies in 2014. This is an illustration of what consistent investor pressure can bring. That said, despite the surge, more than 30% of the index is yet to follow suit.

Engagement question: “Is there proxy access for eligible shareholder nominations of director candidates?”

BOARD PERFORMANCE EVALUATIONS

Companies continue to be reluctant to disclose the results of the performance evaluations or publicly share specific actions that they seek to undertake following the review, and there is significant scope for more disclosure by companies that investors can ask for in this regard.

Engagement questions:

- “Can you disclose the results of your board performance evaluations in your annual report and/or proxy statement?”
- “How frequently does your company undertake board performance evaluations?”
- “Does your company use external firms to undertake some of these evaluations?”

DIVERSITY

Dwindling growth in gender diversity in the US calls for improved and coordinated efforts from investors. French companies have improved female representation on boards in line with regulatory requirements. However, their US counterparts have failed to record similar progress, leaving room for skepticism about investor interest in the issue.

Engagement questions:

- “What is the percentage of women who sit on the board?”
- “Does your company have a diversity policy (disclosed)?”

DUAL CHAIR/CEO AND LIDS

Investors are recommended to discuss company approaches to the separation of CEO and chair roles, particularly where governance practices in general appear to be weak. In the French market, there is increasingly a separation of CEO and chair roles, signaling a shift from previous common practice. Investors can also raise questions on whether the company has appointed an LID where the independence of the chair can be questioned because of his/her executive duties. This could enhance confidence in the independent decision-making process of the board.

Engagement questions:

- “Why are the positions of CEO and chair combined?”
- “Does your company have any plan to separate the roles in the future?”
- “Has a lead director been appointed? If not, why?”

SKILLS

Investors are recommended to ask companies to disclose more specifically how candidates’ skills are supporting the long-term business strategy. ISS research points at improvements in baseline disclosures as well as specific disclosures (for example, on links between skills and business strategy) in both markets, but detailed reporting on this issue is still limited.

Engagement questions:

- “What are the qualifications, attributes, skills, and experience to be represented on the board and related to company strategy?”
- ”What kind of candidates and skills have the company searched for in the past fiscal year/ what kind is it currently looking for?”

APPENDIX

FRENCH COMPANIES:

Question	Impact
Are directors elected for terms exceeding four years?	No impact
Have shareholders (excluding employee shareholders) nominated any directors at a general meeting?	No impact
Is the meeting notice available in English?	No impact
Is the annual report available in English ahead of the general meeting?	No impact
Was a director elected at the last AGM without having been announced in advance?	No impact
Is a description of the nomination committee's duties publicly available (i.e. is the nomination committee or board's charter disclosed)?	Lagging indicator
Does the disclosed policy require at least one executive session per year?	No impact
What are the reported frequency/terms of board performance evaluations?	Lagging indicator
Does the company disclose the results of the periodic board performance evaluations in its annual report and/or proxy statement?	Lagging indicator
Does the disclosed policy refer to the use of external firms to review board performance?	Lagging indicator
If yes, has a specific firm been identified?	Leading indicator
Is any information on independence of the firm disclosed?	Leading indicator
Does the company report that the board (or nomination committee) reviewed the composition of the board in the past fiscal year?	Lagging indicator
If yes, does the company present conclusions?	Lagging indicator
If yes, does the company report on specific actions taken?	No impact
Does the company report that the board (or nomination committee) reviewed the composition of the board committees in the past fiscal year?	No impact
If yes, does the company present conclusions?	Leading indicator
If yes, does the company report on specific actions taken?	Leading indicator
Does the company disclose its succession planning process for non-executive directors?	Leading indicator
Does the disclosed policy provide for NED succession planning to be reviewed at least once a year by the board (or nomination committee)?	No impact
Does the company identify the qualifications, attributes, skills, and experience to be represented on the board?	Leading indicator
Does the company identify specific qualifications, etc. for which the board has searched during the past fiscal year?	Leading indicator
Does the company identify specific qualifications, etc. for which the board is currently searching?	Leading indicator
Does the disclosed policy provide for the nomination committee to make recommendations on potential non-executive nominees?	Lagging indicator

Does the disclosed policy specify the key factors to review before proposing a change in board composition?	No impact
Does the disclosed policy mention the use of shortlists in the pre-selection process?	Leading indicator
Does the disclosed policy specify the role of the CEO in the process (or absence thereof)?	Leading indicator
Does the company report on the role the CEO played by the CEO in the process of selecting potential candidates in the past fiscal year?	Leading indicator
Does the company disclose a consultation with shareholders regarding potential candidates in the past fiscal year?	No impact
Does the disclosed policy refer to the use of external firms to identify potential NED candidates?	No impact
If yes, has a specific firm been identified?	No impact
Is any information on independence of the firm disclosed?	Leading indicator
Does the company disclose a summary of work by the nomination committee in the past fiscal year?	Lagging indicator
If yes, does the summary of work contain more information than the number of meetings and/or candidates it recommended to join the board?	Lagging indicator
Do the company articles of association provide an absolute age limit for the non-executive chair?	No impact
Number of years before the current non-executive chair reaches the statutory age limit	No impact
Do the company articles of association provide an absolute age limit for directors?	No impact
Statutory age limit minus overall average age of current board members	No impact
Average tenure of current board members	No impact
Is there at least one shareholder with 10% of capital or more?	No impact
What is the combined economic interest of shareholders with 10% of capital or more?	No impact
What is the combined voting power of shareholders with 10% of capital or more?	No impact
Does the company disclose its succession planning process for named executive officers?	No impact
Does the disclosed policy provide for the nomination committee to make recommendations on CEO succession planning?	Lagging indicator
Does the disclosed policy provide for CEO succession planning to be reviewed at least once a year by the board or nomination committee?	Leading indicator
Does the disclosed policy refer to the use of external firms to identify potential executive candidates?	No impact
If yes, has a specific firm been identified?	No impact
Is any information on independence of the firm disclosed?	Leading indicator
Does the company report that a review of CEO succession planning took place in the past fiscal year?	No impact
If yes, does the reported review identify specific qualifications, etc. for which the board sought/is currently seeking to fill?	No impact
Do the company articles of association provide an absolute age limit for the CEO?	No impact

Number of years before the current CEO reaches the statutory age limit	No impact
Does the proxy statement/notice of meeting include each incumbent director candidate's specific qualifications?	Leading indicator
Does the proxy statement/notice of meeting include the company's rationale/narrative for the election of each incumbent director?	Leading indicator
Is the number of shares held by incumbent directors disclosed?	No impact
Is the CV available in meeting notice (avis/brochure de convocation) for each new candidate?	Lagging indicator
Are other directorships for new candidates disclosed in the same format as for incumbent directors?	Lagging indicator
Is the independence classification of new candidates explicitly disclosed?	Lagging indicator
Is the number of shares held by new candidates disclosed?	Leading indicator
Is there any narrative explaining the choice of a new candidate (beyond gender quota, independence, or employee representation)?	No impact
If yes, is there any mention of a link to strategy or business expansion?	Leading indicator
Does the company disclose that a candidate is expected to sit on a board committee?	Leading indicator
If yes, does the company explain why that director is suitable for that role?	Leading indicator
Are the positions of CEO and chair combined?	No impact
If yes, has a lead director/*administrateur référent* been appointed?	Lagging indicator
Total number of board members (as of the AGM, assuming all board-endorsed nominees are elected)	No impact
% of foreign directors on the board	No impact
% of women on the board	No impact
Average number of outside mandates of directors (directorships in listed companies)	No impact
% of CEOs of other listed companies on the board	No impact
% of overboarded directors (ISS definition)	Lagging indicator
% of independence of nomination committee members (ISS definition)	Lagging indicator
Is the nomination committee separated from the remuneration committee?	No impact
If yes, number of committee meetings in last full year	No impact
If no, number of committee meetings in last full year	No impact

US COMPANIES:

Question	Impact
Are there annual elections of all directors?	Lagging indicator
Does the company have a "majority vote standard" for the election of directors?	Lagging indicator
If yes, is there a plurality carve-out in contested elections?	Lagging indicator
Does the company have a "director resignation policy" for nominees who do not receive a majority of affirmative votes cast?	Lagging indicator
If yes, is the board required to accept the resignation?	Leading indicator
If yes, what is the timeframe for board action?	No impact
Does the company have a policy whereby shareholders may nominate candidates to the board?	No impact
Is there proxy access for eligible shareholder nominations of director candidates?	Leading indicator
Have shareholder proposal(s) on the issue of director nominations or board election issues been received by the company?	No impact
If yes, did the company disclose its plan to address the issue?	No impact
Have shareholders (excluding employee shareholders) nominated any directors at a general meeting?	No impact
Is a description of the nomination committee's duties publicly available (i.e. is the nomination committee or board's charter disclosed)?	Lagging indicator
Does the disclosed policy require at least one executive session per year?	Lagging indicator
What are the reported frequency/terms of board performance evaluations?	Lagging indicator
Does the company disclose the results of the periodic board performance evaluations in its annual report and/or proxy statement?	Leading indicator
Does the disclosed policy refer to the use of external firms to review board performance?	Leading indicator
If yes, has a specific firm been identified?	No impact
Is any information on independence of the firm disclosed?	Leading indicator
Does the company report that the board (or nomination committee) reviewed the composition of the board in the past fiscal year?	Leading indicator
If yes, does the company present conclusions?	Leading indicator
If yes, does the company report on specific actions taken?	Leading indicator
Does the company report that the board (or nomination committee) reviewed the composition of the board committees in the past fiscal year?	Leading indicator
If yes, does the company present conclusions?	Leading indicator
If yes, does the company report on specific actions taken?	No impact
Does the company disclose its succession planning process for non-executive directors?	Lagging indicator
Does the disclosed policy provide for NED succession planning to be reviewed at least once a year by the board (or nomination committee)?	No impact

Does the company identify the qualifications, attributes, skills, and experience to be represented on the board?	Lagging indicator
Does the company identify specific qualifications, etc. for which the board has searched during the past fiscal year?	Leading indicator
Does the company identify specific qualifications, etc. for which the board is currently searching?	Leading indicator
Does the disclosed policy provide for the nomination committee to make recommendations on potential non-executive nominees?	No impact
Does the disclosed policy specify the key factors to review before proposing a change in board composition?	Lagging indicator
Does the disclosed policy mention the use of shortlists in the pre-selection process?	Leading indicator
Does the disclosed policy specify the role of the CEO in the process (or absence thereof)?	Leading indicator
Does the company report on the role played by the CEO in the process of selecting potential candidates in the past fiscal year?	No impact
Does the company disclose a consultation with shareholders regarding potential candidates in the past fiscal year?	No impact
Does the disclosed policy refer to the use of external firms to identify potential NED candidates?	Lagging indicator
If yes, has a specific firm been identified?	Leading indicator
Is any information on the independence of the firm disclosed?	Leading indicator
Does the company disclose a summary of work by the nomination committee in the past fiscal year?	Leading indicator
If yes, does the summary of work contain more information than number of meetings and/or candidates it recommended to join the board?	Leading indicator
Do the company articles of association provide an absolute age limit for the non-executive chair?	No impact
Number of years before the current non-executive chair reaches the statutory age limit	No impact
Do the company articles of association provide an absolute age limit for directors?	No impact
Statutory age limit minus overall average age of current board members	No impact
Average tenure of current board members	No impact
Is diversity mentioned in the director selection process?	Lagging indicator
Is there a board diversity policy (defined as specific standards/goals for diversity)?	No impact
Substantial shareholder (10% or more)?	No impact
What is the combined economic interest of shareholders with 10% of capital or more?	No impact
What is the combined voting power of shareholders with 10% of capital or more?	No impact
Does the company disclose its succession planning process for named executive officers?	No impact
Does the disclosed policy provide for the nomination committee to make recommendations on CEO succession planning?	No impact
Does the disclosed policy provide for CEO succession planning to be reviewed at least once a year by the board or nomination committee?	No impact

Does the disclosed policy refer to the use of external firms to identify potential executive candidates?	Leading indicator
If yes, has a specific firm been identified?	No impact
Is any information on the independence of the firm disclosed?	No impact
Does the company report that a review of CEO succession planning took place in the past fiscal year?	Leading indicator
If yes, does the reported review identify specific qualifications, etc. which the board sought/is currently seeking to fill?	No impact
Do the company articles of association provide an absolute age limit for the CEO?	No impact
Number of years before the current CEO reaches the statutory age limit	No impact
Does the proxy statement/notice of meeting include each incumbent director candidate's specific qualifications?	No impact
Does the proxy statement/notice of meeting include the company's rationale/narrative for the election of each incumbent director?	No impact
Is the number of shares held by incumbent directors disclosed?	No impact
Is the independence classification of new candidates explicitly disclosed?	No impact
Is the number of shares held by new candidates disclosed?	No impact
Is there any narrative explaining the choice of a new candidate (beyond gender quota, independence, or employee representation)?	No impact
If yes, is there any mention of a link to strategy or business expansion?	No impact
Does the company disclose that a candidate is expected to sit on a board committee?	Lagging indicator
If yes, does the company explain why that director is suitable for that role?	No impact
Are the positions of CEO and chair combined?	No impact
If yes, has a lead director/administrateur référent been appointed?	Lagging indicator
Total number of board members (as of AGM, assuming all board-endorsed nominees are elected)	No impact
% of women on the board	Leading indicator
Average number of outside mandates of directors (directorships in listed companies)	No impact
% of CEOs of other listed companies on the board	No impact
% of overboarded directors (ISS definition)	Lagging indicator
% of independence of nomination committee members (ISS definition)	No impact
Is the nomination committee separated from the remuneration committee?	No impact
If yes, number of committee meetings in last full year	No impact
If no, number of committee meetings in last full year	No impact

CREDITS

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UNEP FINANCE INITIATIVE

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

United Nations Global Compact