



BEST PRACTICES FOR ENGAGED SHARE-OWNERSHIP

INTENDED FOR EUMEDION PARTICIPANTS

ADOPTED ON 30 JUNE 2011

1.0 Preamble

1.1 Eumedion participants believe that responsible use of the rights attached to shares strengthens the checks and balances within listed companies, which is key to creating long term value for the company and all its stakeholders, including shareholders. Responsible behaviour not only means that Eumedion participants cast 'informed'¹ votes at shareholder meetings, but also includes the monitoring of investee companies' activities. Maintaining an ongoing dialogue with company boards may also fall under monitoring. Included in this monitoring as well are important aspects relating to corporate governance, including environmental and social (ES) aspects in the field of risk management, disclosure and remuneration policy, supporting the company in respect of good governance and consulting other shareholders and stakeholders where appropriate. Furthermore, responsible behaviour requires high standards of transparency, probity and care on the part of institutional investors themselves. Eumedion has drafted this series of best practices as guidance for its participants – which include pension funds and the asset managers of these pension funds – in fulfilling their essential role in the governance of listed companies.

¹ An 'informed' vote means that the voting right is exercised in accordance with the participant's own voting policy and, in the event that the participant makes use of voting advice from third parties, that it forms its own opinion on the voting recommendations made by this adviser.

1.2 The minimum standards for Eumedion participants are set out in the applicable legislation and regulations and in the Dutch corporate governance code. Section IV.4 of the Dutch corporate governance code contains two principles and six best practice provisions for institutional investors. Dutch pension funds, life insurers and investment firms have a statutory obligation to report on their compliance with these principles and best practice provisions, in accordance with the “apply or explain” rule. The statement on the degree of compliance must be shown in the annual report or placed on the website of the institutional investor. The best practices set out below apply to Eumedion participants in addition to the Dutch corporate governance code to promote responsible and engaged share-ownership.

1.3 Many institutional investors have an international share portfolio and shareholder rights and corporate governance models differ from country to country. The transparent use of these best practices means that ultimate beneficiaries and clients, as well as the Dutch listed companies will be able to discern the lines along which Dutch and non-Dutch Eumedion participants interpret their current shareholder rights. Furthermore, these best practices aim to improve the understanding and communication between Dutch listed companies and Eumedion participants. The best practices are not binding in the way that Dutch legislation and the Eumedion articles of association are binding, but they are not free of obligation either. Eumedion participants endeavour to implement the best practice provisions as well as possible. It is also expected of the Eumedion participants that they observe the "apply or explain" rule, just as they do with the Dutch corporate governance code. In reporting terms, this entails providing a statement on the institutional investor's website or in its annual report containing:

- a description of how the best practices have been applied;
- disclosure of the information listed under best practices 2, 5, 6 and 8; or
- an explanation, if these elements have not been applied.

Most of the best practices set out below are accompanied by guidance. This guidance provides a further explanation of the best practice in question, sometimes by giving examples, but contains no additional norms.

1.4 The best practices are closely in keeping with Eumedion's objective, but they do not only serve an internal goal. By applying the best practices, Eumedion participants also demonstrate that they are conscious of the greater responsibility that society expects of both Dutch and non-Dutch institutional investors, because they hold the majority of the shares in the largest Dutch listed companies and manage other people's money. The best practices are also in line to the greatest possible extent with international guidelines on the behaviour required of institutional investors, such as the *UK Stewardship Code*, the *Statement of Principles on Institutional Shareholder Responsibilities* from the International Corporate Governance Network (ICGN), the *United Nations Principles for Responsible Investment* (UNPRI) and the *Code for External Governance* of the European Fund and Asset Management Association (EFAMA). A

large degree of similarity between these different sets of best practices is also desirable, because more than 70% of the shares in the largest Dutch listed companies are held by non-Dutch parties and conversely, many Dutch Eumedion participants also hold shares in non-Dutch listed companies.

1.5 Eumedion acknowledges that some participants do not have the human resources to become directly involved in a dialogue and other engagement activities. This could also be the case when the invested capital is (largely) managed by an external asset manager. Eumedion would like to urge these participants to mandate their asset managers to do dialogue and other engagement activities on their behalf as the occasion arises and to carefully scrutinize the reports from these managers with regard to the dialogue and other engagement activities. In addition, Eumedion also acknowledges that asset managers must act in accordance with the wishes of their clients. External asset managers who are Eumedion participants are expected, however, to urge their institutional clients who are not Eumedion participants to apply the best practices set out below, or to mandate their external asset managers to apply the best practices on their behalf. A number of participants invest solely in (institutional) investment funds and not directly, therefore, in shares in Dutch listed companies, which means that these participants are themselves unable to exercise the voting rights on these shares. The participants concerned will be considered to be in compliance with the best practices when the manager of the (institutional) investment funds applies the best practices or other (international) codes or guidelines with similar objectives, and the same applies to participants who have their invested capital managed by a specific pension fund manager. There are also participants that have issued so-called passive mandates to asset managers. These participants are expected to have taken the policies on dialogue, engagement and voting pursued by the asset manager in question into consideration when choosing that asset manager.

1.6 Some Eumedion participants have to apply the *UK Stewardship Code* or follow other national or international standards that have similar objectives to the best practices set out below. These participants should not feel that application of the best practices set out below doubles or confuses their responsibilities. Disclosures made in respect of other (inter)national standards can demonstrate the extent to which participants have implemented the best practices set out below. It may be justified to follow an alternative guideline in specific cases and under particular circumstances, if the same behaviour can be achieved by applying other standards or a participant's own standards of the same nature.

1.7 Eumedion participants are encouraged to enter into a dialogue with Dutch listed companies and to do so collectively where appropriate. When entering into dialogue with companies, institutional investors obviously respect the relevant statutory rules and guidelines from regulatory authorities, such as those

intended to prevent the use of insider information². Some best practices are intended to stimulate cooperation and consultation between institutional investors. Such forms of consultation are generally not based on an agreement to pursue a *sustained* joint voting policy and therefore do not qualify as 'acting in concert'. As regards *acting in concert* in relation to the submission of a (collective) notification of a substantial holding when cooperating with other investors, the Netherlands Authority for the Financial Markets (AFM) has issued some guidelines. Institutional investors are encouraged to take note of these guidelines³.

1.8 Although the best practices are addressed to Eumedion participants alone, institutional investors that are not Eumedion participants yet, including non-Dutch institutional investors, are encouraged to consider participation in the near future and to commit to the best practices. This can help in building a critical mass of institutional investors committed to transparency and a high quality dialogue with Dutch listed companies. This contributes to helping improve the governance and performance of companies and, consequently, the long-term returns for shareholders and other stakeholders.

1.9 The best practices facilitate a high standard of engaged share-ownership. They comprise general guidelines on policy, structure and processes, thus providing Eumedion participants with the scope to anticipate the widely diverging situations in which the best practices will be applied. Eumedion participants, therefore, have the scope within the framework of the best practices to decide for themselves how they should act. The Eumedion secretariat will annually monitor the compliance of Eumedion participants with the best practices on the basis of information including the published reports on the application of the best practices referred to in paragraph 1.3. The results will be reported to the General Board of Eumedion and Eumedion participants will receive a progress report every year, which will also contain examples of best practices. A summary of the progress report will be made public.

² See Chapter 5.4 of the Act on Financial Supervision: <http://english.minfin.nl/dsresource?objectid=76287&type=org>. See also the guidance regarding one-on-ones: <http://www.afm.nl/nl/professionals/diensten/veelgestelde-vragen/marktmisbruik/one-on-ones.aspx?perpage=10>

³ http://financiebijsluit.com/layouts/afm/default.aspx~/media/files/brochures/2009/acting_in_concert_eng.ashx

BEST PRACTICES

Best practice 1

Eumedion participants monitor their Dutch investee companies.

Guidance

The monitoring of the investee companies is important when entering into any dialogue with a company, or developing other engagement activities. Monitoring is also important in relation to holding or selling the shares in the company in question.

The monitoring process is considered to comprise, but not exclusively, careful scrutiny of the environmental and social policies and the governance structure of the company by Eumedion participants. In this context, Eumedion participants make a thorough assessment of the reasons provided by the company for any non-compliance with the best practice provisions of the Dutch corporate governance code.

Best practice 2

Eumedion participants have clear policies with regard to the exercise of their shareholders' rights, which may include entering into dialogue with Dutch investee companies and other engagement activities. They report at least once per year on the implementation of their policies.

Best practice 3

Eumedion participants have clear policies for dealing with situations in which it does not prove possible to convince the board of the Dutch investee company of their stances and differences of opinion between the board of the investee company in question and the shareholders remain unsolved.

Guidance

Elements for a policy of this kind may include:

- Writing a letter to the management and/or supervisory board in which the matters of concern are explained;
- Holding additional meetings with the management and/or supervisory board, specifically to discuss matters of concern;
- Holding meetings with other stakeholders, such as other shareholders, banks, creditors, the works council and non-governmental organisations (NGOs);
- Expressing concerns in a shareholders' meeting;
- Issuing a public statement;
- Intervening jointly with other institutional investors on specific issues;

- Requesting that certain subjects be placed on the agenda for the shareholders' meeting or asking that an extraordinary shareholders' meeting be convened;
- Submitting one or more nominations for the appointment of a member of the management board and/or supervisory director as appropriate;
- Taking legal action, when appropriate, such as initiating inquiry proceedings at the Enterprise Chamber of the Amsterdam Court of Appeal;
- Selling the shares.

Best practice 4

Eumedion participants are willing to deal collectively with other Eumedion participants and other investors where appropriate.

Best practice 5

Institutional investors may have other business relations with Dutch investee companies apart from the shareholder relationship alone. Eumedion participants take steps to mitigate conflicts of interest arising from these different roles. Eumedion participants have clear and robust procedures in place for the action to be taken in the event that divergent or conflicting interests arise. The procedures are publicly disclosed. Material conflicts of interest will be disclosed to the institutional clients affected.

Guidance

It is advisable in certain situations for clients to be aware of the possible existence of other interests involving the institutional investor and the company, apart from the shareholder's interest alone. This can occur, for example, in the situation in which the investor in question also offers financial products (such as insurance contracts) to the enterprise, or when a member of the management board or the supervisory board of the institutional investor is also a member of the management board or supervisory board of the company in question. It is also possible for an institutional investor that invests for a pension fund to hold shares in a company that sponsors the pension fund concerned, or for an institutional investor to be affiliated in some way with a company for whose shares a public bid has been launched.

When participating in collective dialogue or other engagement, participants would be wise to take their policies on conflicts of interest and insider information into account in advance of the dialogue.

Best practice 6

Eumedion participants have a clear policy on voting and publicly disclose this policy. Eumedion participants report at least once per year on the implementation of their voting policy⁴.

⁴ This best practice corresponds with best practice provisions IV.4.1 and IV.4.2 of the Dutch corporate governance code.

Best practice 7

Eumedion participants cast informed votes⁵ on all the shares they hold in Dutch companies at the general meeting of these investee companies. In the event that the Eumedion participant casts a withhold or against vote on a management proposal, the Eumedion participant will explain the reasons for this voting behaviour to the company management, either voluntarily or on the request of the company in question.

Guidance

The Dutch corporate governance code states that institutional investors should publish their voting policies, the implementation of these policies (on an annual basis) and how they have voted (on a quarterly basis). Best practice 7 requests Eumedion participants to use their voting rights in a well considered manner and in line with their voting policies.

Eumedion participants who participate in an asset pool or in an (institutional) investment fund ensure that they feel able to endorse the voting policy of the manager of the asset pool or of the investment fund, that they monitor the actual voting behaviour of this manager and can withdraw from the pool or the fund, where feasible, if they do not agree with the voting policy and/or its implementation.

Best practice 8

Eumedion participants publicly disclose at least once in a quarter how they voted the shares in Dutch investee companies⁶.

Guidance

Preferably at individual company level, Eumedion participants publish for each item on the agenda whether they voted in favour of or against, or abstained.

Best practice 9

Eumedion participants take aspects relating to environmental and social policy and to governance into account in their policies on the exercise of their shareholder rights, which may include entering into dialogue with listed companies and other engagement activities.

Best practice 10

Eumedion participants do not borrow shares solely for the purpose of exercising voting rights on these shares. They consider recalling their lent shares before the voting registration date for the relevant general meeting of the relevant Dutch investee company, if the agenda for this general meeting contains one or more controversial subjects.

⁵ See footnote 1 for a definition of "informed votes".

⁶ This best practice corresponds with best practice provision IV.4.3 of the Dutch corporate governance code.

Guidance

The above best practice is included in the policy on securities lending around the voting record date for the general meeting.

In the event that an institutional investor is engaged in a dialogue with the investee company on certain issues, outside the context of a shareholders' meeting, it is advisable that the institutional investor's position (the extent of its legal and economic interest) is made completely clear to the company on its request.