

Engagement & Voting Policy

Principles of Erste Asset Management for
Responsible Investment

ERSTE
Asset Management

www.erste-am.com



Engagement & Voting Policy Overview

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Erste Asset Management Engagement & Voting Policy

1. General

1.1. Objective

Erste Asset Management GmbH (in the following abbreviated with "Erste AM") is an active shareholder, which is reflected by the way we exercise our voting rights at Annual General Meetings and how we engage with companies. In order to ensure the consistency and transparency of its engagement and voting and to ensure compliance with the legal requirements of the Austrian investment Fund Law 2011 (§ 26 Investmentfondsgesetz 2011) and Austrian Stock Exchange Act (in particular §§ 185 and 187 Börsegesetz 2018), Erste AM developed the Erste AM engagement & voting policy that defines our procedure.

1.2. Motivation

Proxy voting is a key element of active ownership responsibilities and a long-term driver of good investment performance. Institutional investors use proxy voting amongst others to communicate with the companies which they are invested in. As a result they are able to influence the company's policy. The exercise of voting rights promotes long-term shareholder value creation and mitigates risk within portfolio holdings through the support of responsible global corporate governance practices.

Engagement, i. e. formal or informal dialogue with companies is one of the overarching tools in Erste AM's investment approach. The positive changes that are catalysed by this dialogue may create new investment opportunities for sustainable investors or can mitigate risk for existing investments.

1.3 Scope

The Erste AM's engagement & voting policy generally describes our engagement behaviour as well as our voting behaviour for management or shareholder proposals at Annual General Meetings but makes no claim to be complete. Individual country regulations will be considered and under special circumstances there could be exemptions from the general voting behaviour. Contents for our voting are aligned to the

ISS International Sustainability Proxy Voting Guidelines

with some customized specifics: <https://www.issgovernance.com/file/policy/active/specialty/Sustainability-International-Voting-Guidelines.pdf>

On matters of ESG import, recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labour practices, non-discrimination, and the protection of human rights, will be supported. The frame of reference are internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), CERES Principles, Global Sullivan Principles, MacBride Principles, and environmental and social European Union Directives.

1.4 Parameters

Erste AM will exercise its voting rights, if our funds hold at least EUR 2mn of equity in the company or more than 5% worth of its outstanding shares.

If one of these conditions is met the following subjects will be considered:

- Operational Items
- Board of Directors
- Capital Structure
- Social and Environmental proposals
- Other items

Additionally Erste AM will exercise its voting rights exclusively for assets held in mutual funds as we believe that we should represent a uniform voting behaviour. In certain cases we will exercise voting rights also for partners.



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2. Engagement guidelines

Engagement is the use of informal dialogue with company management with the goal to shift companies towards a more sustainable business model and operational setup.

By contrast to voting, which is only possible according to the shares that we hold in a company, in the case of engagement, Erste AM also enters into a dialogue with companies in which we do not hold any shares. Bond owners (i. e. securities which, unlike shares, do not carry voting rights) may also achieve significant results. Erste AM pursues four engagement approaches in order to drive improvements in ESG risk management.

Thematic engagement

Erste AM frequently addresses issues that are relevant from an ESG perspective and analyses them on the basis of the data provided by our research partners. This involves interviewing up to ten companies on their approach and future strategy and is closely linked to Erste Responsible Return – The ESG Letter, in which we publish the results of our themed engagement.

Austrian engagement

As market leader in Austria, Erste AM regards domestic companies as one of its focal areas. Its market position and reputation allows Erste AM to maintain an efficient dialogue with companies. The engagement process is launched as soon as our regular research efforts indicate that engagement would make sense. This automatically ensures a focus on relevant issues.

External engagement partners

This strategy involves the services of Sustainalytics' specialised engagement team, as our external partner. The agency pools the capital of different investors, thereby increasing the chance that companies will engage with them at eye-level. Sustainalytics contacts companies (especially in emerging markets) as soon as it becomes clear that they are violating sustainability criteria. Issues such as human rights, environmental and sustainability management, health and safety measures, workers' rights and corporate ethics are addressed.

Engagement cooperation

Investors who invest in sustainable products can strengthen their influence on companies by pooling their demands. Sustainability networks are therefore suited to being used as platforms for aggregating such shared interests. Erste AM believes this approach facilitates focused action with a high chance of success. Erste AM often acts as engagement leader, meaning Erste AM proposes themes and co-leads group engagement projects. The selection of themes and companies is coordinated with the relevant network.

3. Voting guidelines

3.1 Operational Items

Operational Items cover financial results, director and auditor reports, appointments of auditor and auditor fees, allocation of income, amendments to articles of association etc.

In general Erste AM votes FOR the approval of financial statements and director and auditor reports unless there are, for example, concerns about the accounts presented or the audit procedures.

Auditors are reelected or auditor fees are fixed unless, for example, there is a reason to believe that the auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position, auditors are being changed without explanation, external auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company etc.

Allocation of income, in general is approved, unless the payout is excessive given the company's financial position or the dividend payout ratio has been consistently below 30% without adequate explanation.

3.2 Board of Directors

The composition of the board of directors covers the election or reelection of executive or non-executive director nominees.

In general Erste AM will vote FOR management nominees unless

- Adequate disclosure has not been provided in a timely manner
- There are clear concerns over questionable finances or restatements
- There have been questionable transactions with conflicts of interest
- There are any records of abuses against minority shareholder interests or
- The board fails to meet minimum corporate governance standards, including board independence standards.

If absences of board meetings have not been explained (in countries where this information is disclosed) we will vote **AGAINST** management nominees.

We will also vote **AGAINST** or **WITHHOLD** from directors individually, a committee or potentially the entire board in following cases:

- Material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate environmental, social and governance (ESG) risks
- Failure to replace management as appropriate
- Egregious actions related to the director(s)' service on the boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

There will be a distinction between widely-held and non-widely held as well as controlled and not-controlled companies.

For widely-held, non-controlled companies Erste AM will vote **AGAINST** any non-independent directors (excluding the CEO) if fewer than 50% of the board members elected by shareholders – excluding, where relevant, employee shareholder



representatives would be independent or fewer than one-third of all board members, would be independent.

For widely-held controlled companies and non-widely held companies we will vote AGAINST any non-independent directors (excluding the CEO) if less than one-third of the board members are independent.

The "classification of directors" in terms of independency can be found in Annex 10.1.

Erste AM will vote AGAINST the election or reelection of any and all director nominees when the names of the nominees are not available at the time the proxy analysis is being written.

We will vote AGAINST the (re)election of combined chair/CEOs at widely held European companies. When the company provides assurance that the chair/CEO would only serve in the combined role on an interim basis (no more than two years), the vote would be made on a case-by-case basis.

In defined european countries at widely held companies, we will vote AGAINST a candidate when he/she holds an excessive number of board appointments, as referenced by the more stringent of the provisions prescribed in local law or best practice governance codes, or the following guidelines:

Any person who holds more than five mandates at listed companies will be classified as overboarded. For the purposes of calculating this limit, a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.

Also, any person who holds the position of executive director (or a comparable role) at one company and a nonexecutive chairman at a different company will be classified as overboarded.

In cases where a director holds more than one board seat on a single board and the corresponding votes, manifested as one seat as a physical person plus an additional seat(s) as a representative of a legal entity, we will vote AGAINST the election/ reelection of such legal entities and in favor of the physical person.



3.3 Capital Structure

Capital Structure issues concern share issuance requests, preferred stock, debt issuance requests, share repurchase plans etc.

In general share-issuance requests will be evaluated on a case-by-case basis taking into account market-specific guidelines.

For European markets, Erste AM will vote FOR issuance authorities with pre-emptive rights to a maximum of 100 percent over currently issued capital and as long as the share issuance authorities' periods are clearly disclosed and in line with market-specific practices and/or recommended guidelines.

Starting in Feb 2019, the maximum will be 50 percent. We will vote FOR issuance authorities without pre-emptive rights to a maximum of 20 percent (or a lower limit if local market best practice recommendations provide) of currently issued capital as long as the share issuance authorities' periods are clearly disclosed and in line with market-specific practices and/or recommended guidelines. Starting in Feb 2019, the maximum will be 10 percent.

Erste AM will vote FOR non-specific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding and vote FOR proposals to reduce capital for routine accounting purposes unless the terms are unfavourable to shareholders.

Furthermore we will vote AGAINST requests for the creation or continuation of dual-class capital structures or the creation of new or additional super voting shares.

We will also vote

- FOR the creation of a new class of preferred stock or FOR issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote FOR the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets the guidelines on equity issuance requests.
- Vote AGAINST the creation of a new class of preference shares that would carry superior voting rights to the common shares.

- Vote AGAINST the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid and
- Vote proposals to increase blank check preferred authorizations on a case-by-case basis.

In terms of debt issuance we will vote non-convertible debt issuance requests on a case-by-case basis, with or without pre-emptive rights, vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets the guidelines on equity issuance requests and vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Erste AM will also generally vote FOR market repurchase authorities (share repurchase programs) if the terms comply with the following criteria:

- A repurchase limit of up to 10 percent of outstanding issued share capital
- A holding limit of up to 10 percent of a company's issued share capital in treasury ("on the shelf"); and
- Duration of no more than 5 years, or such lower threshold as may be set by applicable law, regulation, or code of governance best practice.



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3.4 Compensation

Compensation-related proposals concern long-term and short-term variable compensation, pensions and post-mandate exercise of equity-based awards, employee compensation etc.

The implemented approach follows the “Sustainability Global Principles on Executive and Director Compensation”:

- Provide shareholders with clear, comprehensive compensation disclosures
- Maintain appropriate pay structure with emphasis on long-term shareholder value
- Avoid arrangements that risk “pay for failure”
- Maintain an independent and effective compensation committee
- Avoid inappropriate pay to non-executive directors.

These principles take into account global corporate governance best practice and underlie market-specific policies in all markets.

In line with European Commission Recommendation 2004/913/EC seeking annual shareholder approval for a company’s compensation policy is a positive corporate governance provision.

For Europe, Erste AM will generally vote AGAINST a company’s compensation-related proposal if such proposal fails to comply with one or a combination of several of the global principles and their corresponding rules which are, for example, that shareholders must be provided with clear and comprehensive compensation disclosure, the structure of the company’s long-term and short-term incentives are appropriate, the balance between long-term and short-term variable compensation is appropriate, the board demonstrates good stewardship of investor’s interests regarding executive compensation practices, arrangements with a company executive regarding pensions and post-mandate exercise of equity-based awards must not result in an adverse impact on shareholders’ interests or be misaligned with good market practices etc.

We will vote FOR equity based compensation proposals for employees if the plan(s) are in line with long-term shareholder interests and align the award with shareholder value. Factors which are considered are for example that shares reserved for all share plans may not exceed 5 percent of a company’s issued share capital, except in the case of high-growth companies or particularly well-designed plans, in which case dilution of between 5 and 10 percent will be allowed or the plan(s) must be sufficiently long-term in nature/structure: the minimum vesting period must be no less than three years from date of grant.

3.5 Other Items

Other items contain, for example, situations of Reorganization/ Restructuring, Mergers & Acquisitions, Related Party Transactions or Antitakeover Mechanisms.

In cases of Reorganization/ Restructuring Erste AM will vote on a case-by-case basis as well as in cases of Mergers & Acquisitions where also following is taken into account:

- Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, the sustainable approach places emphasis on the offer premium, market reaction, and strategic rationale.
- How has the market responded to the proposed deal? A negative market reaction will cause to scrutinize a deal more closely.
- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favourable track record of successful integration of historical acquisitions.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? It will be considered whether any special interests may have influenced these directors and officers to support or recommend the merger.
- etc.

When evaluating Related-Party Transactions the parties on either side of the transaction are considered as well as the nature of the asset to be transferred/ service to be provided, the pricing of the transaction etc.

Concerning Antitakeover Proposals, Erste AM will vote AGAINST them unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

3.6 Social and Environmental proposals

Erste AM generally supports standards-based ESG shareholder proposals that enhance long-term shareholder and stakeholder value while aligning the interests of the company with those of society at large. In particular, we will focus on resolutions seeking greater transparency and/or adherence to internationally recognized standards and principles.

Social and environmental proposals that seek to promote good corporate citizenship while enhancing long-term shareholder and stakeholder value will be supported by Erste AM. In determining votes on shareholder social and environmental proposals, the following factors are considered:

- is the proposal itself well framed and reasonable
- would the adoption of the proposal have either a positive or negative impact on the company's short-term or long-term share value
- the percentage of sales, assets and earnings affected
- has the company already responded in some appropriate manner to the request embodied in a proposal
- is the company's analysis and voting recommendation to shareholders persuasive
- what have other companies done in response to the issue
- would the implementation of the proposal achieve the objectives sought in the proposal.

3.6.1 Climate Change

Erste AM will vote FOR shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change- on its operations and investments, or on how the company identifies, measures, and manages such risks.

We will also vote FOR shareholder proposals calling for the reduction of GHG emission as well as FOR shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and FOR disclosure of research that aided in setting company policies around climate change. Shareholder proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products are also supported.

3.7 Conflict of Interest

By exercising voting rights on general meetings of companies conflict of interest might occur in certain cases. Following situations were identified:

- AGM (Annual General Meeting) of Erste Group Bank AG which is the parent company of Erste Asset Management GmbH
- Constellations in which Erste Group Bank AG
 - is a shareholder of a listed company, owns more than 10% and identifies conflict of interest,
 - is owned by a listed company by more than 5% and identifies conflict of interest or
 - has a strategic partnership with a listed company and identifies conflict of interest.

3.7.1 Affected Companies

Regarding the mentioned criteria following companies were identified by Erste Asset Management GmbH as affected:

Erste Group Bank AG	(ISIN: AT0000652011)
Vienna Insurance Group AG ¹	(ISIN: AT0000908504)
CaixaBank, S.A. ²	(ISIN: ES0140609019)

For these companies Erste Asset Management will abstain from exercising voting rights to avoid conflict of interest. The list of affected companies will be reviewed annually, in advance of the main season.

3.8 Share blocking

In certain cases shares might be blocked in a period around the meeting. This would be of a topic especially in the markets Argentina, Curacao (form Neth. Antilles), Egypt, Iceland, Kazakhstan, Lebanon, Luxembourg, Mauritius, Morocco, Norway and Switzerland. In such a case Erste AM will also abstain from voting.



4. Collaboration with other shareholders

Erste AM actively collaborates with other investors to leverage the impact achieved through its active ownership activities. This is particularly the case in the space of engagement, but may potentially also include the co-filing of shareholder resolutions.

Such partnerships are typically channelled via internationally recognised investor bodies like the Principles for Responsible Investment (PRI). Collaboration within regional bodies like CRIIC and ad-hoc engagement partnerships are also options to be used on an opportunistic base.

¹ Erste Group Bank AG and Vienna Insurance Group AG agree to extend cooperation agreement - longterm partnership extended to 2033 (<https://www.erstegroup.com/en/news-media/press-releases/2018/05/18/erste-vig-cooperation-agreement-alias>)

² CaixaBank, S.A. owns 9,9% of Erste Group Bank AG (Erste Group Bank AG Annual Report 2018)

5. Annex

Erste AM's Classification of Directors is aligned to the "2018 ISS Classification of Directors – International policy" but has some customized specifics.

Executive Director

- Employee or executive of the company or a wholly-owned subsidiary of the company.
- Any director who is classified as a non-executive, but receives salary, fees, bonus, and/or other benefits that are in line with the highest-paid executives of the company.

Non-Independent Non-Executive Director (NED)

- Any director who is attested by the board to be a non-independent NED.
- Any director specifically designated as a representative of a shareholder of the company.
- Any director who is also an employee or executive of a significant shareholder of the company.
- Any director who is also an employee or executive of a subsidiary, associate, joint venture, or company that is affiliated with a significant [1] shareholder of the company.
- Any director who is nominated by a dissenting significant shareholder unless there is a clear lack of material [2] connection with the dissident, either currently or historically.
- Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family that beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances).
- Government representative
- Currently provides or has provided (or a relative [3] provides) professional services [4] to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of USD 10,000 per year.
- Represents customer, supplier, creditor, banker, or other entity with which the company maintains or has maintained within the last year a transactional/commercial relationship (unless the company discloses information to apply a materiality test [5]).
- Any director who has a conflicting relationship with the company, including but not limited to crossdirectorships with executive directors or the chairman of the company.
- Relative [3] of a current or former executive of the company or its affiliates
- A new appointee elected other than by a formal process through the general meeting (such as a contractual appointment by a substantial shareholder).
- Former executive or employee (five-year cooling off period). [7]
- Years of service is generally not a determining factor unless it is recommended best practice in a market and/or in extreme circumstances, in which case it may be considered. [6]
- Any additional relationship or principle considered to compromise independence under local corporate governance best practice guidance. [8]

Independent NED

- No material [2] connection, either direct or indirect, to the company (other than a board seat) or to a significant shareholder.

Employee Representative

- Represents employees or employee shareholders of the company (classified as "employee representative" and considered a non-independent NED).

Footnotes:

[1] At least 10 percent of the company's stock, unless market best practice dictates a lower ownership and/or disclosure threshold.

[2] For purposes of Sustainability Advisory Services' director independence classification, "material" will be defined as a standard of relationship financial, personal, or otherwise that a reasonable person might conclude could potentially influence one's objectivity in the boardroom in a manner that would have a meaningful impact on an individual's ability to satisfy requisite fiduciary standards on behalf of shareholders.

[3] "Relative" follows the definition of "immediate family members" which covers spouses, parents, children, stepparents, stepchildren, siblings, in-laws, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, executive officer, or significant shareholder of the company.

[4] Professional services can be characterized as advisory in nature and generally include the following: investment banking/financial advisory services; commercial banking (beyond deposit services); investment services; insurance services; accounting/audit services; consulting services; marketing services; and legal services. The case of participation in a banking syndicate by a non-lead bank should be considered a transaction (and hence subject to the associated materiality test) rather than a professional relationship.

[5] A business relationship may be material if the transaction value (of all outstanding transactions) entered into between the company and the company or organization with which the director is associated is equivalent to either 1 percent of the company's turnover or 1 percent of the turnover of the company or organization with which the director is associated; or a business relationship may be material if the transaction value (of all outstanding financing operations) entered into between the company and the company or organization with which the director is associated is more than 10 percent of the company's shareholder equity or the transaction value (of all outstanding financing operations) compared to the company's total assets is more than 5 percent.

[6] For example, in continental Europe, directors with a tenure exceeding 12 years will be considered non-independent. In the United Kingdom, Ireland, Hong Kong and Singapore, directors with a tenure exceeding nine years will be considered non independent, unless the company provides sufficient and clear justification that the director is independent despite his long tenure.

[7] For purposes of independence classification of directors incorporated in the Middle East and Africa region, this criterion will be taken into account in accordance with market best practice and disclosure standards and availability.

[8] For MEA markets, directors' past services as statutory auditor/partner of the statutory audit firm will be taken into account, with cooling-off periods in accordance with local market best practice.

Disclaimer

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The prospectus for UCITS (including any amendments) is published in Amtsblatt zur Wiener Zeitung in accordance with the provisions of the InvFG 2011 in the currently amended version. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in connection with the InvFG 2011. The fund prospectus, Information for Investors pursuant to § 21 AIFMG, and the key investor document/KID can be viewed in their latest versions at the web site www.erste-am.com or obtained in their latest versions free of charge from the domicile of the management company and the domicile of the custodian bank. The exact date of the most recent publication of the fund prospectus, the languages in which the key investor document is available, and any additional locations where the documents can be obtained can be viewed on the web site www.erste-am.com.

This document serves as additional information for our investors and is based on the knowledge of the staff responsible for preparing it at the time of preparation. Our analyses and conclusions are general in nature and do not take into account the individual needs of our investors in terms of earnings, taxation, and risk appetite. Past performance is not a reliable indicator of the future performance of a fund.

Company description

Erste Asset Management GmbH (www.erste-am.com) coordinates and is responsible for the asset management activities (asset management based on investment funds and portfolio solutions) within Erste Group Bank AG. At locations in Austria, Croatia, Czech Republic, Germany, Hungary, Romania and Slovakia, it manages assets of about EUR 57.77bn (12/31/2018).

Contact & References

Erste Asset Management, Communications & PR
1100 Vienna, Am Belvedere 1, Telefax: 0043 (0) 50 100 DW 17102

Paul Severin, Tel. +43 (0)50 100 19982, e-mail: paul.severin@erste-am.com
Dieter Kerschbaum, Tel. +43 (0)50 100 19858, e-mail: dieter.kerschbaum@erste-am.com

Erste Asset Management GmbH
Vienna, Commercial Register Number: FN 102018b,
Registration court: Commercial Court Vienna