Geneva, 30 November 2015

Proxy voting guidelines and corporate governance principles 2016

1. INTRODUCTION

As every year, the Ethos proxy voting guidelines and corporate governance principles (GLCG) are revised in light of the latest developments in corporate governance in Switzerland and abroad. The main amendments in the new edition 2016 as compares to the edition 2015 are presented below.

An electronic version of the edition 2016 of the GLCG is freely available on the website www.ethosfund.ch in French, German and English.

2. MAIN AMENDMENTS OF THE GUIDELINES

The main amendments in the following were taken into account in the edition 2016 as compares to the version 2015:

Chapter 1: Accounts, dividend and discharge

Point 1.2 foresees that the discharge may now also be refused if:

- There is a strong deterioration of the company's financial situation due to successive poor financial results, large impairments or significant new provisions for litigation costs (point g).
- There are well grounded accusations against the company for systematic violations of internationally recognised human rights in local communities and the company refuses the dialog with these communities (point j).
- The company refuses to recognise the negative impact of some of its products or its operations on humans or the natural environment. (point k).

Chapter 2: Board of directors

Points 2.1 and 2.2 foresee that the election of a member to the board of directors can be refused if the nominee was involved in a serious controversy in the past (point b).

Point 2.1 specifies (point h) that important shareholders must not control the board (irrespective of the size of their holding) so as to avoid that they control both the general meeting and the board. It was for that reason that the Sika board (in majority independent of the Burkard Family) was able to react to the announcement to sell the company and begin a plan of action.

Chapter 4: Remunerations

Point 4.5 now specifies that the total remuneration amount (fixed and variable) for the executive management can be refused if:

- The maximum amount that can be effectively paid out in case of overachievement of targets is significantly higher than the amount requested at the general meeting (point c).

Chapter 5: Capital structure and shareholder rights

Point 5.5 foresees that share buy backs will be refused if:

- The buy backs are selective (point c).
- The capacity of dividend payment is significantly hindered by the buy back (point g).

Under point 5.7 a capital reduction via cancellation of shares can be refused if it is not compatible with the long term interests of a majority of the stakeholders.

Three new points were added under 5.8, 5.9 and 5.10 to discuss the different inequalities in the treatment of shareholders. This pertains in particular to questions surrounding multiple classes of shares, limitation of voting rights or opting out/up clauses. Ethos is in principle for the suppression of these measures. It accepts their introduction only in exceptional cases, when the existence of the company is in danger or in order to protect the interests of a majority of the stakeholders.

Annex 1: Independence criteria for the members of the board of directors

A supplementary criterion for a member of the board to be considered independent was defined and introduced in the edition 2016. This being that the person concerned must not in his function as board member receive a remuneration the amount of which could compromise his independence in fact or in appearance (point k).

Annex 3: Transparency and structure requirements with regard to the remuneration system

In terms of the structure of remuneration plans an explication was added under point f on the conditions under which Ethos could accept an overstepping the limits stipulated under points c and d concerning the variable remuneration acceptable to Ethos:

- A significant part of the variable remuneration should depend on the attainment of performance objectives that are measured over a sufficiently long period (in principle, at least three years). Payments in excess of the values stipulated under points c and d above could be accepted under exceptional circumstances when the majority of the variable remuneration depends on the achievement of relative performance targets.

For Ethos, when companies want to pay remuneration amounts in excess of the maximum limits fixed by Ethos, they must justify this with an outstanding performance, not just in the long term but also in comparison with that achieved by the competitors.

3. MAIN AMENDMENTS TO THE CORPORATE GOVERNANCE PRINCIPLES

As concerns the corporate governance principles new explanations are supplied in an extensive manner in the two following chapters:

Chapter 3: Audit firm

After the implementation of the European Union directive concerning the rotation of the audit firm and limitation of the fees for mandates other than audit of the accounts paid to the auditor, an explanation of the new provisions was added. Ethos is in favor of these new European provisions which will be progressively applied beginning in June 2016, among which:

- Rotation of the audit firm at least every 20 years.
- The limitation on fees for mandates not tied to the audit of the accounts.

Chapter 5: Capital structure and shareholder rights

A new point 5.5 entitled « Protection measures » was added to explain the different measures that companies can put in place to reinforce control of the company by certain shareholders.

It concerns the emissions of privileged shares, limitations on transfer rights, registration and voting rights as well as the authorisation to forego the obligation to make an offer via inscription in the articles of association of an opting out/up clause. After the Sika affair a number of questions came up surround protection measures and Ethos' position was often solicited. The texts inserted in the corporate governance principles 2016 allow Ethos to lay out its position for all those interested.