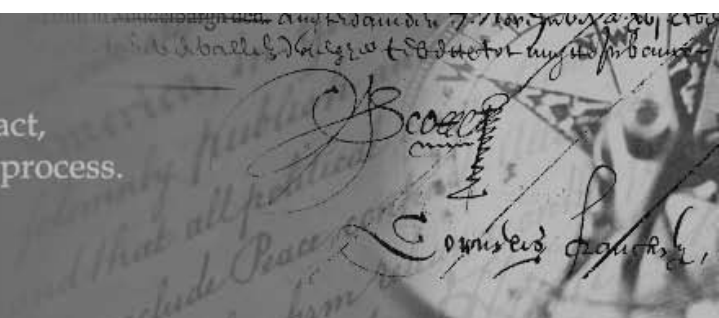


# The Governance Platform

*Newsletter n°2 - Second Quarter 2009*

The choice of a common stock is a single act,  
its ownership is a continuing process.








The background of the bottom section features a faded, grayscale image of a handwritten document. The text is cursive and includes phrases such as "primary Public", "and that all parties", "include Peace", and "him". A prominent signature, possibly "Boer", is visible in the center-right of the document.

## Activity Report 2008/2009

### Increase in the number of companies

In 2009, the Governance Platform is in dialogue with 19 blue chip organisations, of which 8

are listed on the AEX and 11 are companies established in a range of European countries.

	Aegon, Akzo Nobel, Fortis, KPN, Philips, Reed Elsevier, Shell, TNT, Unilever
	Alstom, Total
	Nestlé, Roche, UBS
	Bayer, Daimler, Siemens
	Enel
	British Sky Broadcasting
	Telefonica

### Extension of engagement from “G” to “ESG”

At the proposal of the Executive Board, the Governance Platform decided to broaden the scope of engagement from an exclusive focus on governance to a full ESG (Environment, Social & Governance) approach from 2008 onwards. After having drawn up an inventory of all relevant policy instruments, the Investor Circle resolved to make a start in 2008 with five selected companies: Alstom, Bayer, Daimler, Nestlé and Total.

This means that full attention is now systematically paid to all aspects of corporate social responsibility for each of these companies.

However, whenever justified or required by current developments, some of the E&S issues may also be raised in the dialogue with the other companies. This will take place either on the initiative of the Platform itself, or at the request of its members.

### Overview of involvement for the period between October 2008 en June 2009

The following overview shows the specific activities undertaken in connection with the Platform’s engagement with each company during the final quarter of 2008 and the first six months of 2009. For each listed company the Platform relied on an action plan including a certain number of objectives, which was regularly updated. With the majority of companies, engagement consisted of one or more discussions, generally at board and/or management level. In several cases, these personal visits were followed by an exchange of letters in which additional questions were asked, suggestions made or progress sought.

The E&S approach is based on a preliminary examination of publicly available information about the guidelines and policies displayed by the company in question in this connection (and is thus not confined to the information supplied by the company itself).

















The issues raised include violations of human rights, child labour, corruption, discrimination, damage to the environment, breaches of competition or anti-trust legislation, the impact of activities on local communities, etc.

The Platform starts by analysing the quality and quantity of the information (or the lack of it) provided by the company (in some cases in the form of an annual report such as a sustainability report).

The Platform then analyses the way in which corporate social responsibility is taken into account by the company in (1) its internal management structure (including reporting and monitoring), (2) its activities and/or investment decisions, and (3) relations with the different stakeholders (investors, suppliers, customers, partners in joint investments or projects, local authorities, etc.).

### Overview engagement October 2008 - June 2009

The following activity report relates to involvement up to and including 30 June 2009.

	Action plan Update	Discussion	Letter Other communication
Aegon			
Alstom			
Bayer			
BskyB			
Enel			
Heineken			
Nestlé			
Philips			
Roche			
Shell			
Telefonica			
TNT			
Total			
UBS			

## Issues covered as part of the Governance Platform engagement

The engagement agenda for each company is determined by the Investor Circle and reflects topical issues, recent developments

or areas requiring long-term attention. This agenda naturally differs from one company to the other. The following general themes were taken up with each company:

	Strategy Results Communication	Cash/debt management M&A policy	Board Composition Organisation	Chairman CEO	Shareholder rights	Remuneration	Dividend shares buybacks	Takeover Defences	Corporate social responsibility
Aegon	●		●			●	●		
Alstom	●	●	●						●
Bayer	●		●	●					●
BSkyB	●		●		●	●			
Enel	●	●	●		●	●			
Heineken	●								
Nestlé	●		●			●	●		●
Philips	●		●	●		●	●	●	
Roche						●			
Shell	●			●		●	●		
Telefonica	●	●	●	●		●	●		
TNT	●	●	●	●	●	●	●	●	
Total	●		●	●	●	●		●	●
UBS	●		●	●		●			



## Engagement results and achievements during the period between October 2008 and June 2009

While the Governance Platform publishes the list of companies with which it is in dialogue, it usually does not disclose the contents of the dialogue to third parties except when included in the action plan or communicated by the company itself.

Consequently, to a large extent, the following report generally does not refer to companies by name, with some limited exceptions.

### 1. Discussion about the remuneration policy at Shell

Since Shell's annual general meeting of shareholders in 2008 and the critical views expressed by a number of institutional investors, Shell's remuneration policy (like that of many other listed companies) has become an important issue requiring a constructive dialogue with this oil producer.

Even before the general meeting held on 19 May 2009, the Governance Platform had expressed its concerns regarding the remuneration policy and its implementation by the remuneration committee (REMCO) and the Board of Directors of Shell. The Platform not only criticised a number of aspects of the remuneration policy and report (especially the award of shares despite the underperformance relative to peers in terms of Total Shareholder Return), but also adopted a proactive and constructive attitude by making a number of suggestions aimed at improving the company's remuneration policy and its transparency.

After the general meeting and the rejection of the remuneration report by shareholders, the Governance Platform recommended that Shell should conduct a fundamental review of its policy on remuneration. The Platform

also invited Shell to engage in a constructive dialogue about the structure and details of its remuneration policy. Shell has since then indicated that it values this constructive stance and that the dialogue with the Platform will be continued with a view to adjusting its remuneration policy. Further contacts will take place during the autumn of 2009 and an initial appointment was already made for the summer.

### 2. Corporate Governance developments at UBS

The dialogue with UBS began in 2008, after the announcement of the financial difficulties at the Swiss bank. The Governance Platform had immediately insisted on a higher level of transparency regarding investments in mortgage loans (subprime) and similarly structured products. The Governance Platform had also identified a number of other shortcomings in the corporate governance structure at UBS, which had resulted in financial problems at the bank.

In the spring of 2008, UBS had already taken a number of measures, but the Governance Platform made it clear that the Board of Directors still had to take action on a number of other important aspects: the composition and chairmanship of the Board of Directors, the remuneration policy, more clarity on the company's strategy, etc.

The Governance Platform then continued its dialogue in the autumn of 2008 and kept raising these issues with UBS. The Platform also wanted to gain greater clarity about the Swiss government's rescue plan and its implications for shareholders. In the meantime, the difficult relationship with the US authorities, who were accusing UBS of collaborating with tax fraud by US customers, was also considered to be an important matter for attention to be raised in our dialogue.

The Board of Directors has now been almost totally replaced. This has also raised the level of

financial expertise within the Board. UBS has appointed a new Chairman of the Board (a former Swiss finance minister), as well as a new CEO (Mr. Grübel, formerly CEO of Crédit Suisse). The bank has also approved a new remuneration policy that is focused more on creating sustainable long-term value. However, there are still some points where improvements are possible and the Platform will keep on these priorities within the context of its constructive dialogue with UBS.

### **3. Dialogue with a privatised group controlled by the government: Enel**

Privatised companies that are still controlled by the government are often subject to special (exceptional) corporate governance rules and practices. Despite this, the Governance Platform believes that there is no reason why there cannot be constructive dialogue with the Board of Directors of such companies. However, it is important to first gain a proper understanding of the underlying motivation of such unusual rules and practices before launching an in-depth discussion.

After some exchange of thoughts, the Platform identified a number of (sometimes technical) aspects of corporate governance at Enel. The Platform also took the opportunity to make a number of suggestions to bring practices more into line with the “normal” rules of corporate governance. We also proposed some very practical and detailed improvements in the area of the remuneration policy. By doing so, the Platform is seeking to encourage a constructive discussion with the Board of Directors of Enel, without losing sight of the fact that the decision lies principally with the Italian government.

### **4. Engagement with other companies**

Current discussions about **management remuneration** and the interest taken in the matter both in the shareholder community and in the broader society have also had an impact on the dialogue between

the Governance Platform and listed companies.

The Platform believes that the effectiveness of this discussion requires first an effort to analyse and understand the underlying logic of a remuneration policy before any constructive – but also critical – discussion can take place about remuneration structures and actual amounts. This usually leads to highly technical discussions, but we strongly feel that listed companies value this kind of dialogue. Such an approach enables us to demonstrate that we have taken the time to examine their remuneration policy in depth, which can only reinforce the credibility of our position on the matter. To make such a discussion possible, it is vital for shareholders to have all the information they need. For this reason, full transparency on remuneration policy is and remains a basic prerequisite.

With all companies, the Governance Platform stresses that the remuneration policy must ensure that management is properly and reasonably motivated to create long-term, sustainable value for the company and its shareholders. The obligation to reinvest a percentage (or multiple) of annual cash remuneration in company shares (with a mandatory retention period) is a practical way of bringing and keeping management interests in line with the interests of shareholders.

The Governance Platform also continues to insist on the need to enable shareholders (insofar as this is legally possible) to express their views on the remuneration policy. This is often referred to as “say on pay” (binding or advisory vote on remuneration policy). This result has been achieved, for example, with the Swiss pharmaceuticals group Roche which for the first time added a vote on the remuneration policy (though non-binding) to the agenda of its annual general meeting of shareholders in March 2009. The Governance Platform had made this suggestion in a letter to the company’s Chairman and had insisted on it during its dialogue with the company.

The Governance Platform continues to take an increasingly close look at the **composition of boards of directors**. The Platform wishes to obtain guarantees that the Board of Directors is made up of members who have the required experience and expertise which are relevant to the company's business. The size of the Board is another point of interest. It should not be too small, but nor should it be so big that it becomes difficult for the Board to operate efficiently. In addition, the actual input and "added value" of each individual member needs to be assessed separately. As a result, the Governance Platform is proposing that each (re-)appointment of a director be justified by way of a recommendation from the Board of Directors or the remuneration committee in the documentation provided to shareholders before the general meeting.

In some companies, the **succession of the Chairman and/or CEO** is planned in the short or medium term (at least for those companies that have already issued statements on the matter). If such a succession is being considered or is expected, the Governance Platform always insists on a properly structured procedure so that the selection of the new Chairman/CEO can be prepared as effectively as possible, taking into account the company's long-term strategy. Save in exceptional cases (where the replacement of a Chairman/CEO becomes a matter of urgency or was unexpected, e.g. removal for lack of performance or other urgent or unexpected reasons) the succession process at the highest level of the company should not jeopardize the continuity of management (CEO) or supervision (Chairman). With this in mind, a number of principles and guidelines also need to be complied with: separation of the functions of CEO and Chairman in a "one-tier" structure, no automatic appointment of a previous CEO as Chairman, etc.

In the context of a financial crisis and its consequences on credit markets and the economy in general, **cash and debt management** is extremely important. Shareholders want to know whether the company has its debt situation

properly under control so that no urgent (and unexpected) calls need to be made to the capital markets or to banks. Such urgent measures usually take place on terms that are unfavourable for the company (high interest rates, strict financial terms and conditions and covenants, etc.) as well as its shareholders (dilution, etc.). If the company has a high net cash position, there is then the risk that its cash position is not used or managed efficiently, for instance if the company embarks on an acquisition that is (too) expensive. The Platform therefore wishes to obtain more clarity and guarantees about how the cash and debt position is managed, particularly when there is no legal obligation to consult shareholders before going ahead with a major transaction such as a debt issue or an acquisition.

As an extension of the focus on cash and debt management, the **dividend policy** and other forms of payouts such as **share buybacks** are also often discussed in the context of our dialogue. The Platform expects companies to apply a clear and stable dividend policy and to communicate about it unambiguously. A conservative dividend policy can always be combined with additional payments (on an ad hoc basis) in the form of share buybacks.

In its dialogue, the Governance Platform is taking increasing account of aspects that are closely linked to **corporate social responsibility** or CSR (environment, human rights, compliance, etc.). Issues to consider include: how to translate CSR priorities into investment decisions and the way projects are managed from a CSR point of view; how to integrate CSR structurally into the management structure; and whether the company applies CSR objectives in its business relationships with suppliers, customers, local authorities, etc. When there are specific cases or situations with CSR implications (controversial projects or investments, etc.), they are always discussed with the company in question. The Platform also often suggests that companies illustrate the implementation of their CSR principles using actual and concrete examples.

With all listed companies where a full ESG approach is used by the Governance Platform, the aim is always to ensure that the necessary information regarding CSR (sustainability report) is communicated to shareholders in due time. For example, the Platform argues that the sustainability report should be published in conjunction with the annual report so that shareholders can take it into account when they are invited to participate in and vote at the AGM. The Platform strongly believes that information about the environment, human rights, compliance, etc. forms an integral part of the evolution of the company's management.



## What is The Governance Platform?

Established in 2005, the Governance Platform is a collaborative initiative among a number of pension funds, asset managers and other professionals in the market for investment in listed securities, all of which are leaders in their segments, in terms of both size and professionalism. The members of The Governance Platform combine their strengths to provide listed companies with a recognisable, powerful and expert discussion partner. By participating in the Governance Platform, these institutional investors aim to pursue a structured, ongoing, high-quality, proactive investment policy promoting good corporate governance and social responsibility. They consider this a concrete and effective way of giving substance to the Tabaksblad Code (the Dutch corporate governance code) and ensuring good, caring stewardship in the broadest possible meaning of the word.

## Mission and operation of the Governance Platform

The Governance Platform has a clearly defined mission: promoting the quality of corporate governance through constructive, ongoing dialogue with listed companies. Social responsibility standards for business and investment are also increasingly taken into account, enabling Platform members to enhance the long-term risk/return ratio of their investments in these listed companies. After all, responsible investment is far more than voting at shareholder meetings. Regular exchanges with companies and early discussion of topical issues are likely to improve shareholder value and minimise risks. The Platform's face-to-face talks tackle such issues as strategy, dividend policy, shareholder communication, board composition, management remuneration, shareholder rights, takeover defences, environmental policy, social policy, sustainable development, etc. A dialogue does not just involve asking questions. The Governance Platform is a sounding board, offering advice and making concrete proposals. Every year, the members approve a list of companies. Before entering into a dialogue, the members approve an action plan with priorities based on in-depth research. The Investor Circle regularly discusses action plans, updates and meeting reports. The Investor Circle consists of all members. General governance policy and key dialogue priorities

are laid down by the Supervisory Board. Supervisory Board and Investor Circle activities are prepared by the Executive Board, which is also responsible for implementing action plans. The Governance Platform outsources management, organisation and dialogue to Deminor, a consultancy firm. The Executive Board is accordingly made up of Deminor managers (Michael Bruyn, Charles Demoulin and Bernard Thuysbaert).



## Members

- APG Investments
- Algemeen Pensioenfonds KLM
- Grafische Bedrijfsfondsen
- MN Services Vermogensbeheer
- Insinger de Beaufort (BNP Paribas Private Banking)
- Pensioenfonds KLM Cabinepersoneel
- Pensioenfonds KLM Vliegend Personeel
- Robeco
- SNS Asset Management
- TKP (on behalf of the pension funds / company pension funds of KPN and TNT)
- Pensioenfonds Vervoer

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