

Exercise of Voting Rights Report 2014



In compliance with Article 314-101 of the AMF's General Regulations, Mirova drafted the 'Voting Rights Report' document in order to disclose the exercise of voting rights associated with the securities held in the UCITS/AIF¹ that it manages.

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¹ UCITS: Undertakings for the Collective Investment of Transferable Securities
AIF: Alternative Investment Funds



Mirova's exercise of voting rights in 2014

1. 2014 Voting Scope

In line with the AMF regulations concerning the exercise of voting rights by asset managers, and in accordance with the principles defined in its voting policy, Mirova exercised the voting rights associated with the securities held in the UCITS and AIF that it manages and for which it has voting rights.

In 2014, the voting scope comprised **206** companies held in **11** UCITS and AIF managed by Mirova.

Within this voting scope, **228** general meetings (GM) were held in 2014. Mirova exercised its voting rights at **225** general meetings, for a participation rate of **99%**. Mirova did not exercise its voting rights at **3** general meetings due to technical problems.

Among the votes exercised at the **225** general meetings, **6** votes were not confirmed due to administrative formalities or market constraints. The number of general meetings at which votes were cast and confirmed in 2014 is **219**.

Geographical distribution of voting scope 2014

| | <i>Number of companies</i> | <i>By %</i> |
|-----------------------|----------------------------|-------------|
| Europe ² | 158 | 77% |
| Americas ³ | 43 | 21% |
| Asia ⁴ | 5 | 2% |
| Total | 206 | 100% |

2. 2014 Voting Review

Of the **219** general meetings at which votes were cast and confirmed, Mirova voted on **3216** resolutions. We voted:

- for **2439** resolutions, or **76%**
- against **734** resolutions, or **23%**
- abstained on **43** resolutions, or **1%**

² The European area consists of Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Jersey, the Netherlands, Spain, Switzerland, and Great Britain.

³ The American area consists of the United States, Canada, and Brazil.

⁴ The Asian area consists of Japan.

Mirova cast at least one vote 'against' at **177** general meetings, or **81%** of general meetings at which votes were cast.

Of the **3216** votes cast, **3167** resolutions were proposed and supported by management or the board of directors. Of these, Mirova voted against or abstained on **751** resolutions, or **24%**.

Of the **48** resolutions proposed by shareholders, Mirova supported **23** resolutions, or **48%**.

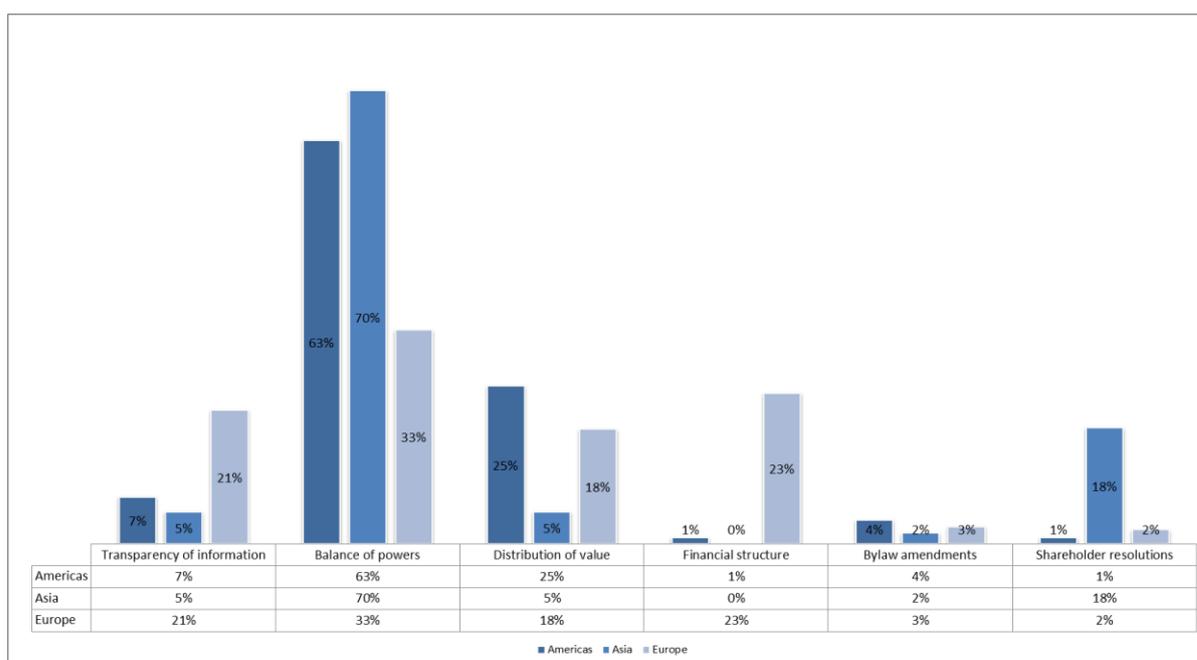
3. Analysis of 2014 Voting Results

The average opposition rate (votes against and abstentions) for 2014 is **24%**. However, this rate presents a marked heterogeneity with respect to different geographical areas and voting themes.

Distribution of votes cast by geographical area

| | Number of resolutions | | For | By % | Against | By % | Abstentions | By % |
|--------------|-----------------------|-------------|-------------|------------|------------|------------|-------------|-------------|
| Europe | 2723 | 85% | 2118 | 77.5% | 598 | 22% | 7 | 0.5% |
| Americas | 407 | 12% | 296 | 72% | 75 | 18% | 36 | 9% |
| Asia | 86 | 3% | 25 | 29% | 61 | 71% | 0 | 0% |
| Total | 3216 | 100% | 2439 | 76% | 734 | 23% | 43 | 1% |

Distribution of oppositions by theme and geographical area



Generally speaking, the balance of power remains the most important subject of contestation across the 3 geographical areas. This theme represents 70% and 63% of votes in opposition in Asia and the Americas respectively. This is explained by two essential factors:

1/ the importance of this subject for the agenda of the companies in these geographical areas,

2/ local practices that remain below international standards.

Japan presents the highest rate of opposition of the entire voting sphere with an average rate of opposition of 71%, of which 70% on questions of the balance of power. Indeed, the capital of Japanese companies has only very recently been opened up to international shareholding (and thus to international norms). The presence of independent directors on the boards of Japanese companies is no more than 8% on average, compared to the Netherlands (75%) or Great Britain (63%).

Thus while we adapted our voting principles to the particular nature of Japanese culture, certain requirements, such as the independence of boards or auditors, cannot be abandoned without running too significant a risk. Japan is currently in the process of revising its governance code to conform with international standards.

Another factor: shareholder resolutions. These represented close to a quarter of the resolutions voted on at the general meetings of Japanese companies. They were essentially concentrated in one company and dealt with various questions of governance.

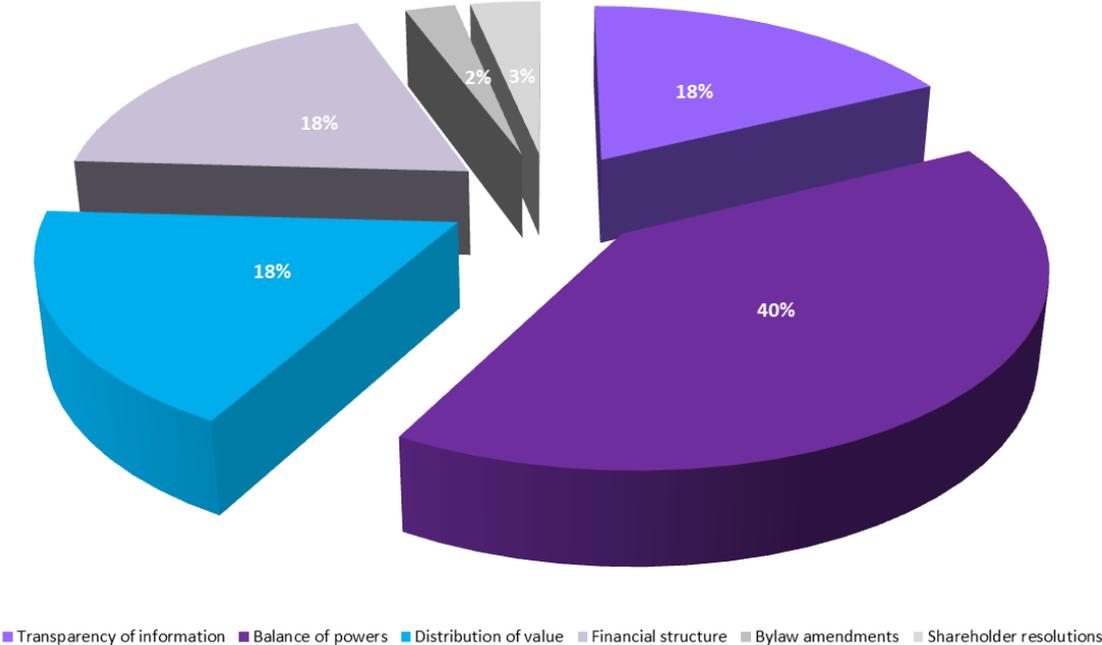
The American area, which notably includes the **United States** and **Canada**, has a rate of opposition of 27%, of which 64% concerned the appointment of directors and 26% the question of remuneration. The independence of boards remains an issue for American companies, notably due to the significant number of directors having commercial ties with or diverse interests in the company. On the question of remuneration, the absence of performance criteria for certain share-based compensation arrangements explains the vast majority of votes in opposition.

In **Europe**, the average opposition rate of 22.5% is unevenly distributed, with comparable ratios in France (17%) and Great Britain (19%) and a significantly higher rate in Germany (30%). The principle subjects of contestation are issues relative to the balance of power (appointment of directors), capital transactions that are dilutive or assimilated to anti-takeover measures, and remuneration. The grounds for opposition remain stable from one year to the next and principally concern the independence of boards and the availability of directors, the correlation between remuneration and performance, and the limitation of changes to the capital structure that represent a risk for the company.

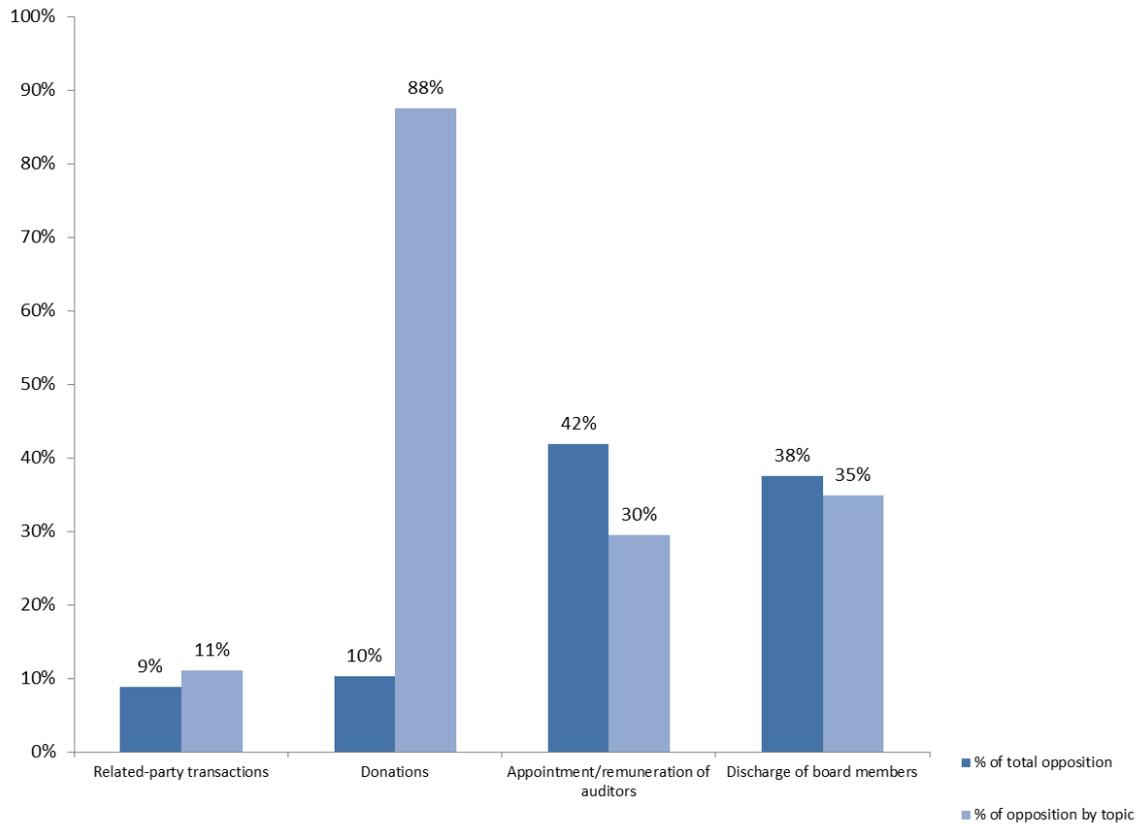
4. Focus on the principal issues of opposition

The distribution of votes in opposition breaks down as follows:

Distribution of opposition by theme



4.1. Transparency of financial and extra-financial information



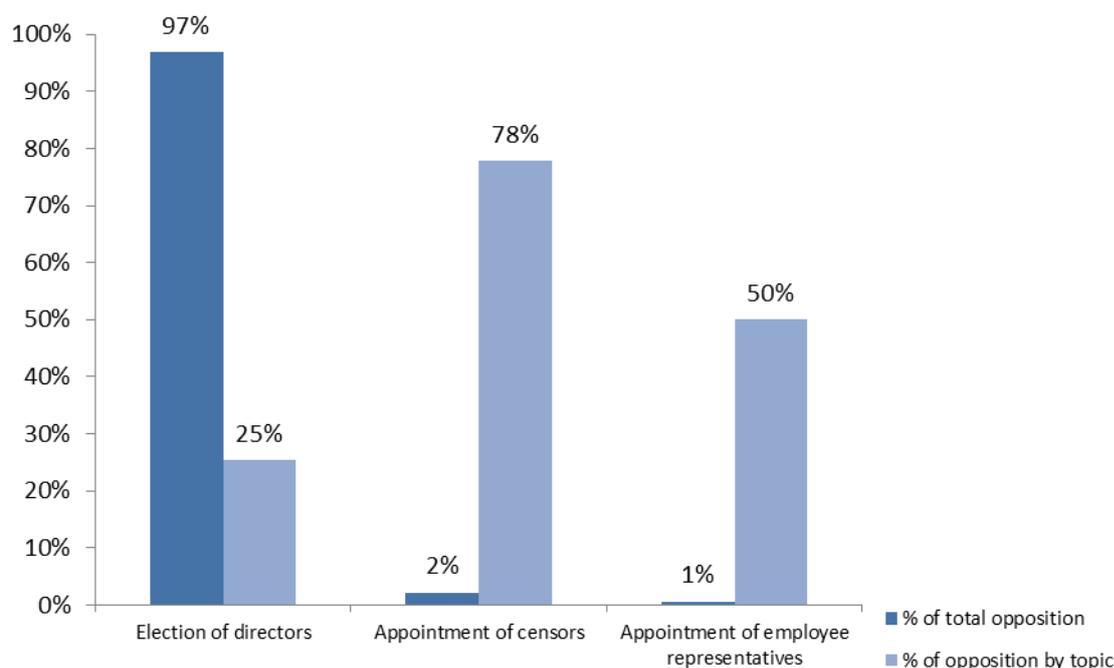
Issues concerning the **transparency of information** represent nearly **17.5%** of the votes in opposition.

In terms of the number of resolutions, the appointment/remuneration of auditors and discharges make up the majority of resolutions put to a vote related to the question of the transparency of information, which explains the weights of these two subjects in the total opposition for this theme (42% and 38% of the total opposition and approximately one third of resolutions contested).

On the question of discharge, our opposition stems from our position of principle to oppose such resolutions in cases where a country's regulations limit the capacity of shareholders to take subsequent legal action. In Europe, this is the case in 11 countries, which represents a significant number of cases. Concerning auditors, our opposition is primarily tied to cases where there is reason to question the independence of the auditors. This involves cases in which significant fees are received for projects not directly related to the audit, or in which Japanese companies propose the appointment of non-independent auditors.

The issue of donations represents only 10% of resolutions under the theme of transparency but we contested 88% of these. Indeed, the resolutions very often concern political donations that carry a risk of conflicts of interest.

4.2. Control structure and balance of power



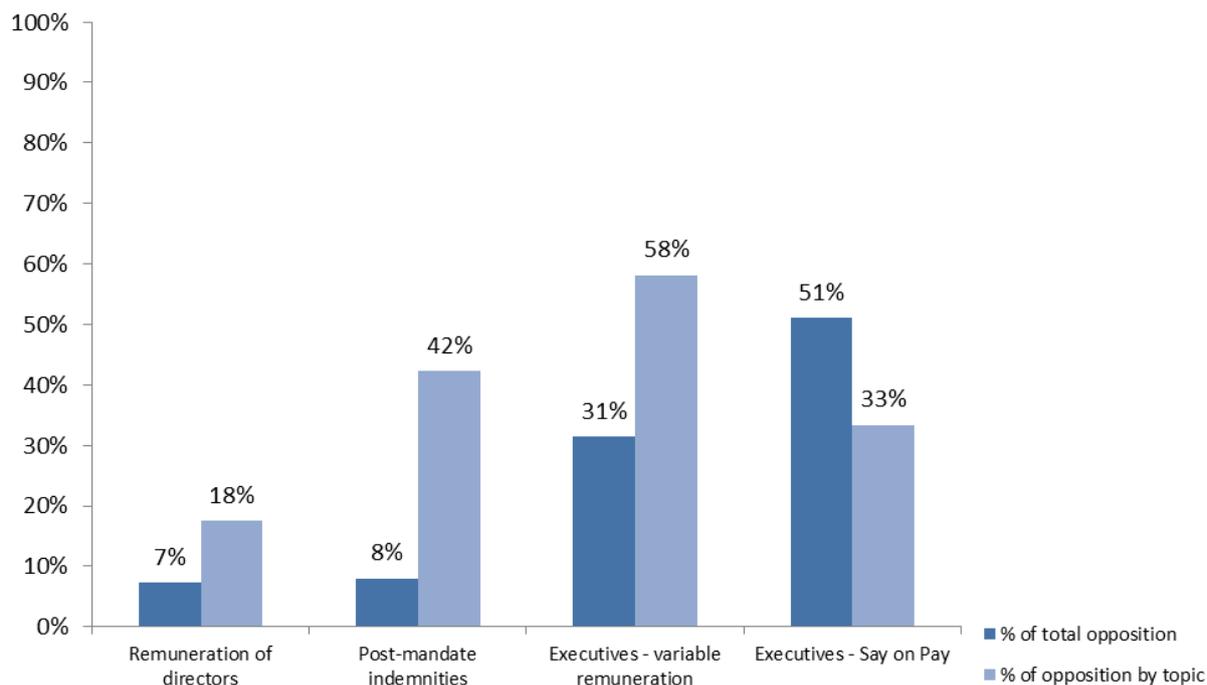
Resolutions relative to the **balance of power** represent 40% of the votes in opposition.

Resolutions concerning the election of directors make up almost all of the resolutions on this theme, which explains why 97% of total opposition relates to this pillar. However, the breakdown of opposition by subject yields a rate of opposition of almost a quarter for the election of directors. This opposition is essentially linked to inadequacies in board and committee composition: a lack of independence or of competence, disproportionate representation of certain shareholders, the risk of candidate non-availability (overboarding), etc.

Relative to the number of resolutions submitted on this theme, the appointment of censors received the highest percentage of votes against on our part (78%). This is partly explained by our stand against censors being on the board, except as a temporary, exceptional, and justified measure if the board's independence is otherwise sufficient with regard to our principles.

As for the appointment of employee representatives, this case concerns only two French general meetings during which two candidates were nominated for the same position on the board, which explains the opposition rate of 50%.

4.3. Distribution of value



Remuneration represents nearly **18%** of total votes in opposition. These were principally concentrated on two questions: executive variable remuneration and 'Say on Pay'.⁵

Votes in opposition concerning 'Say on Pay' (voting on remuneration policy and/or reporting) make up more than 50% of total votes in opposition on the theme of remuneration, and we opposed 33% of the resolutions on this issue. As for resolutions pertaining to executive variable remuneration (stock-option plans or bonus shares, annual bonuses), the rate of opposition on this issue is significant (58%). Though the focus of a smaller number of resolutions (and so are of less weight in total opposition), post-mandate indemnities (severance pay, retirement cap, etc.) likewise drew a large share of votes 'against' from us (more than 42% of the resolutions submitted). In other words, the companies' executive remuneration practices are, in close to half of cases, insufficiently aligned with our voting principles. Thus, while one can highlight the improvement in the transparency of companies concerning remuneration policies in the last few years, problems still persist with respect to:

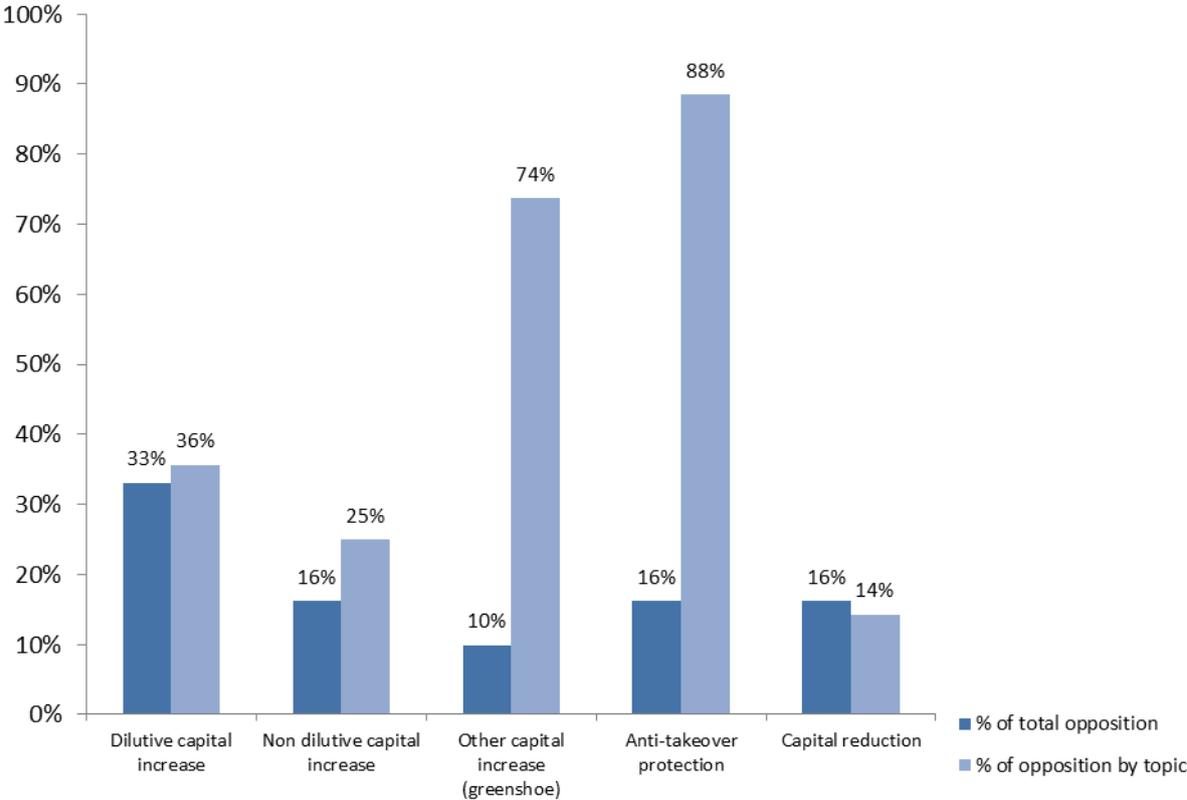
- linking remuneration to company strategy (ex-ante): lack of transparency on the proportion of objectives to be met for bonuses;
- evaluating the correlation between remuneration and the creation of real value for the company in the long term (ex-post);
- measuring the balance of the distribution of value among the different stakeholders;
- measuring the degree of integration of relevant issues of Corporate Social Responsibility (CSR) in remuneration policies.

On other matters of remuneration, the rate of opposition is more moderate. We voted against the remuneration of directors in only 18% of cases. The principal reasons were the

⁵ Say on Pay: voting on remuneration policies or reporting

unjustified increase in the amount of attendance fees or the rewarding of non-executive directors with variable elements linked to company performance. Indeed, in cases of the latter, we believe that shared interests between directors and executives presents a risk of conflicts of interest that can threaten the independence of the directors. Regarding employee savings plans, since Mirova is very much in favour of involving employees in the capital and the performance of the company, a vote in opposition would arise only in extreme cases in which employee savings are used by the company in order to control voting rights. The rate of opposition is therefore almost zero.

4.4. Financial structure



Resolutions pertaining to the **financial structure** of companies represent **18.5%** of total opposition.

Votes in opposition primarily concern dilutive or non-dilutive capital increases, financial authorisations that can be used as anti-takeover protection, but also resolutions on issued share transactions (buybacks, cancellations, capital reductions, etc.).

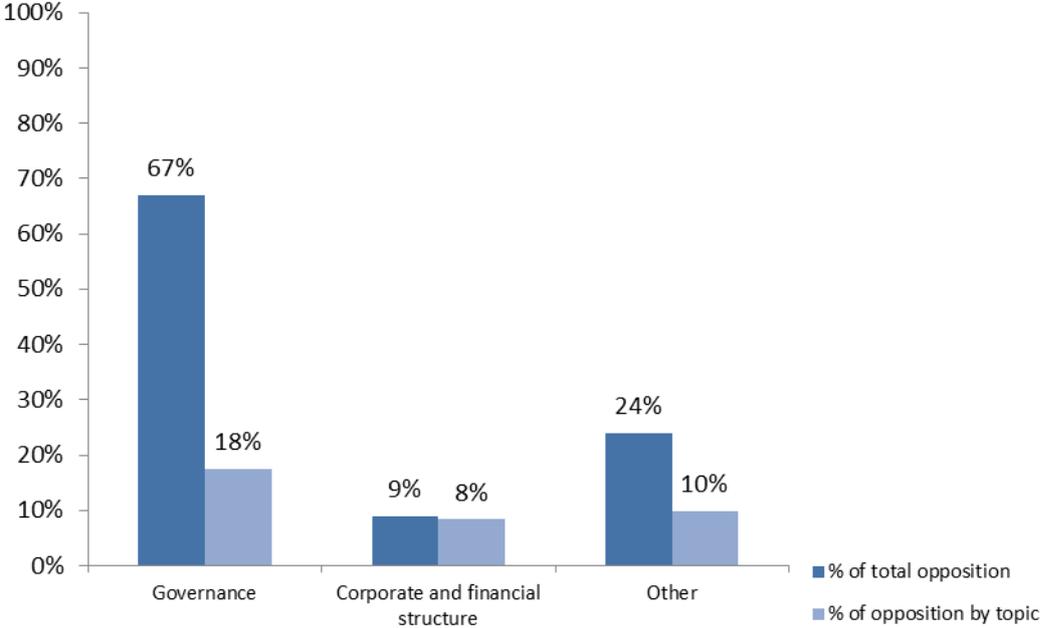
Relative to the amount of resolutions brought forward by subject, anti-takeover measures (financial authorisations that can be used during a takeover, private placements, etc.) are the sort of resolution we contested the most.

The opposition rate for resolutions on capital dilution is likewise high due to higher thresholds than those set by Mirova’s voting policy. This concerns authorisations for capital increases without preferential rights, greenshoe, ceilings for financial authorisations, issue price, etc.



Concerning the issuing of debt securities, we have voted in accordance with the opinion of our financial analysts when authorisation could pose a risk to the financial stability of the company.

4.5. Bylaw amendments



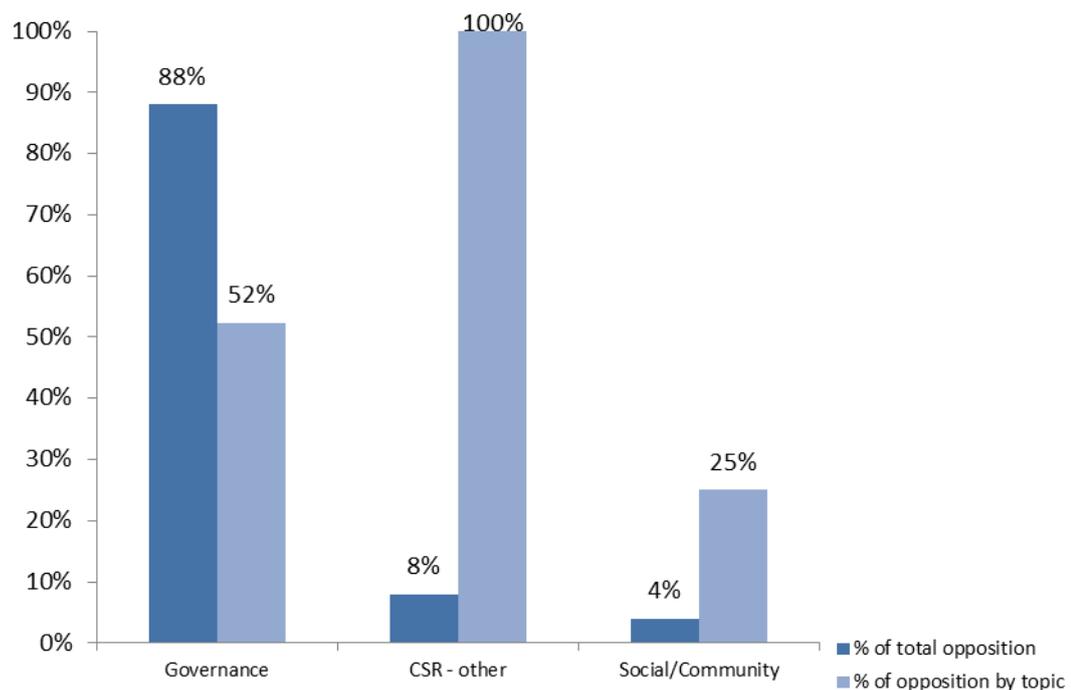
Bylaw amendments represent **2.5%** of oppositions, of which 67% pertain to questions of governance.

The votes in opposition primarily concern propositions that could affect the rights of stakeholders (e.g., raising the statutory threshold required for introducing a resolution) or risk weakening the governance structure (e.g., removing the requirement that directors hold shares in the company themselves). We furthermore opposed the resolutions aiming to reduce the timeframe for calling an extraordinary general meeting in the United Kingdom since this is a strategic question requiring ample time for analysis.

Additionally, we opposed those resolutions which propose board renewal by third parties for the boards of American companies, since this practice serves as an anti-takeover measure in a country where the law does not allow for the dismissal of directors without cause.



4.6. Shareholder resolutions



Shareholder resolutions represent **3%** of total oppositions and essentially concern questions of governance, representing 88% of shareholder resolutions introduced in 2014.

The rate of opposition for these resolutions is 52% since they were considered to run counter to the long-term interests of the company and its stakeholders. We therefore cast votes 'against' when the proposed modifications threatened to affect the quality of governance or the rights of minority shareholders and other stakeholders (e.g., nomination of a non-independent director, proposal of a new dividend). Likewise, we did not support proposals that were not suited to the specificity of the company, unjustified in terms of the quality of practices, or inadequate with respect to social issues.

We did support close to 48% of shareholder resolutions in cases where the environmental, social, or governance practices of the companies concerned could thereby be improved.

5. Instances in which Mirova would not have respected its voting policy

Mirova exercises its voting rights in the exclusive interest of unit-holders and respects in this context the principles set out in its voting policy.

6. Conflicts of interest

In compliance with its voting policy, Mirova exercises its voting rights in the exclusive interest of unit-holders and does not participate in the general meetings of entities of the BPCE Group the securities of which are traded on the market.

Upon the exercise of voting rights in 2014, no conflicts of interest were encountered.

Review of engagement in the exercise of voting rights

During its 2014 voting campaign, in keeping with its [engagement policy](#)⁶, Mirova led **182** engagement actions with **96** companies (or 47% of companies within the voting scope) in an effort to promote more responsible environmental, social, and governance practices.

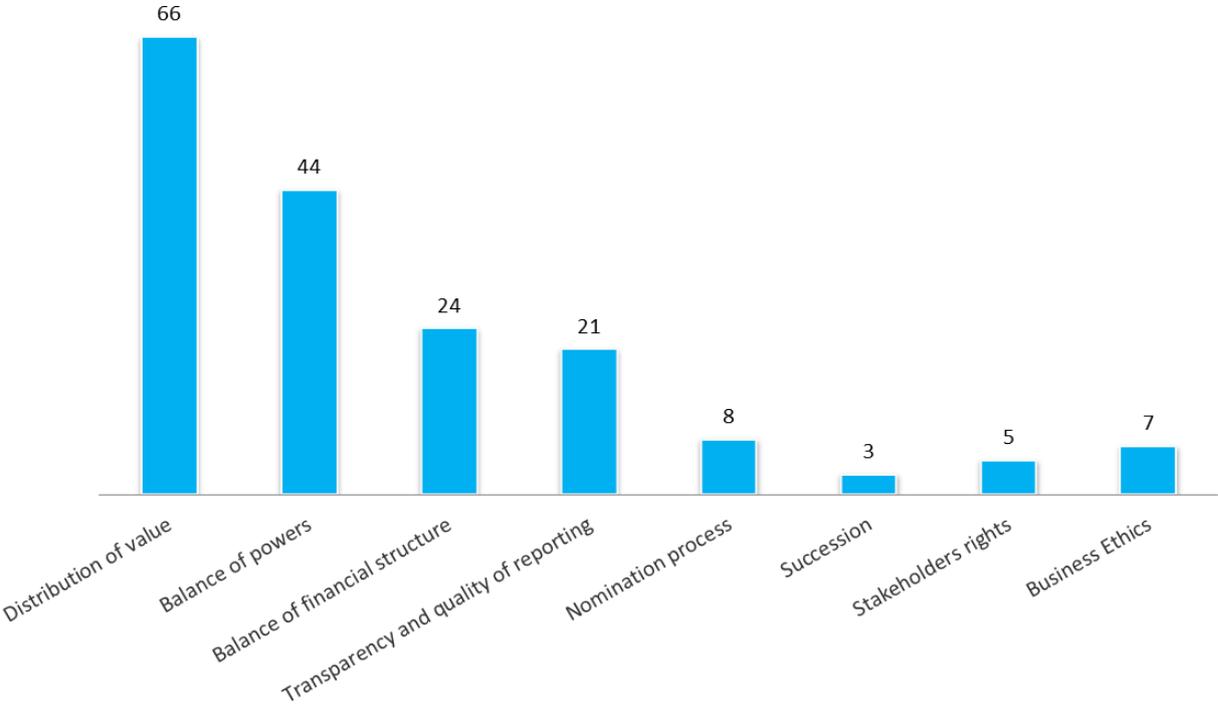
These actions were led by Mirova either in advance of the general meeting at the request of the companies, or during the analysis of resolutions at the request of Mirova. For all companies within the engagement scope, Mirova systematically sent emails to inform the companies of the way it would vote and to remind them of the principal areas of potential improvement on environmental, social, and governance issues.

Beyond the specific subjects pertaining to the agenda of the resolutions introduced at the general meetings and the traditional questions of governance treated in its voting policy, Mirova undertook **systematic engagements** with all target companies on two priority subjects:

- **the integration of environmental and social criteria in remuneration**
- **the establishment of integrated reporting**

The principal engagement themes in the context of the 2014 voting campaign are:

Principal engagement themes for 2014



⁶ Mirova’s engagement policy is available at: <http://urlz.fr/1JLg>



- **Distribution of value (36% of engagement actions):**

Our dialogue with companies on questions of remuneration focused in particular on:

- ✓ **Integration of environmental and social criteria in remuneration:** with the objective of supporting the alignment of executive interests with the long-term development of the company, we have encouraged the inclusion of extra-financial performance indicators in executive remuneration policies. These indicators should be adapted to the issues within the sector and target actual performance for the company and its peers.

Example of successful engagement:

After several years of discussions with the companies in our investment universe on the integration of CSR criteria in remuneration, we noted at the end of 2014 that more than 24 French companies had adopted this practice in accordance with our recommendations. Positive results were also observed for several European companies across various sectors.

- ✓ **Strengthening of the link between remuneration and long-term performance:** with the aim of understanding executive remuneration policy, Mirova dialogued with companies to assess the coherence of the composition (fixed-variable) of remuneration but also and above all the relevance of the performance criteria used for bonuses and long-term incentive plans. The principal issue was the correlation of remuneration with the creation of real economic value and with the strategic objectives outlined in advance.

Example of successful engagement:

In France, following a sustained dialogue with a company in the automotive industry on the vesting conditions of stock-option plans for executives, and in particular on the duration of the performance assessment period (limited to 2 years), the company decided to modify the vesting conditions of future plans to extend the duration to 3 years.

- **Balance of power (24% of engagement actions):**

Our dialogue with companies on questions of the balance of power focused in particular on:

- ✓ **Improvements in the composition of the board:** the principal areas of engagement concerned the improvement of independence, competence, and expertise, as well as the diversity and availability of directors. The transparency of the appointment process also remains a major area of engagement with companies to guarantee the independence of the candidates proposed.



Example of successful engagement:

In particular in Spain, where the qualification criteria for the independence of directors is more lax than international standards, two companies committed to complying with our criteria and reconsidering the composition of their boards to meet the required levels of independence.

- ✓ **Balance of power between executive and supervisory bodies:** notably through the appointment of an independent lead director in cases where the functions of chairman and CEO are not dissociated.

Example of successful engagement:

Following several intensive engagement campaigns for the appointment of lead directors to boards having combined the functions of chairman and CEO, more than 70% of CAC 40 companies have currently appointed such directors. While their role and missions remain loosely defined and very diverse depending on the company, a positive trend toward the institutionalisation of this status is developing.

- ✓ **Introduction of CSR committees on boards:** in order to better integrate questions of CSR in the board's strategic deliberations.

Example of successful engagement:

Following several years of dialogue with companies on the necessity of establishing CSR committees, we note that, as of the end of 2014, nearly 20 CAC 40 companies have introduced such committees.

The engagement actions undertaken in 2014 are part of a process of ongoing dialogue with companies on environmental, social, and governance issues. We were thus in a position to note, during this campaign, an improvement in company practices in the areas of engagement discussed in previous years. Beyond traditional issues such as the independence of boards, limitations on dilution thresholds for financial authorisations, or the improvement of transparency in remuneration, we notice a positive trend toward the integration of questions of CSR in governance through the progressive integration of CSR criteria in remuneration, and the introduction of CSR committees on boards.

These results are reassuring for our engagement process but above all encourage us to pursue our efforts since significant progress can still be made, notably on questions of CSR. Our engagement strategy for 2015 will therefore be focused on furthering the efforts undertaken on various subjects, but more particularly on the integration of CSR in governance, which is an essential condition for fostering the creation of long-term value for all stakeholders.

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