

PROXY VOTING REPORT

YEAR 2016

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BNP PARIBAS
INVESTMENT PARTNERS

The asset manager
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world

1. GOVERNANCE AND VOTING PRINCIPLES

BNP Paribas Asset Management (“BNPP AM”) believes that promoting good corporate governance standards is an essential part of its ownership responsibilities. Corporate governance refers to the system by which a corporation is directed and controlled. It relates to the functioning of the managing board, supervision and control mechanisms, their inter relationships and their relations with stakeholders. Good corporate governance creates the framework ensuring that a corporation is managed in the long-term interest of shareholders. Therefore BNPP AM expects all corporations in which we invest to comply with high corporate governance standards.

Voting at assembly general meetings is a key component of the ongoing dialogue with companies in which we invest on behalf of our clients and forms an integral part of BNPP AM’s investment process. We are committed to ensure consistent exercise of voting rights associated with shares held in Undertakings for the Collective Investment of Transferable Securities (UCITS), Alternative Investment Funds (AIF), foreign investment funds and investment mandates, where proxy voting has been delegated to us.

A document “Governance and voting policy” explains what we expect of public companies and how we carry out our ownership responsibilities.

The policy outlines our key governance and voting principles, describes our proxy voting process, and set guidelines that highlight, for each item, best practices and issues that may trigger an “oppose” or “abstain” vote.

In applying our voting guidelines, we take into account specific circumstances as they relate to individual companies. Our policy and guidelines are reviewed annually in order to reflect the evolution of corporate governance codes and market practices.

This document is available on our website (www.bnpparibas-ip.com).

2. MAIN MODIFICATION OF OUR VOTING POLICY IN 2016

Our policy and guidelines are reviewed annually in order to reflect the evolution of corporate governance codes and market practices.

The main modifications of our policy for 2016 were:

- An abstention vote on financial statements resolution if there is a lack of transparency on the company’s carbon footprint.
- Details of our approach to engagement, with the possibility to file shareholders proposals
- Adding the concept of board access with a dialogue between independent board members and investors.
- Clarifying our compensation expectations

3. PROXY VOTING PERIMETER FOR YEAR 2016

In 2016, we have voted on more than 400 UCITS representing more than € 35 billion of assets under management.

Our voting scope is made of companies for which aggregated holding positions meet at least one of the three following conditions:

- Represent 90% of accrued total of our stock positions
- Consist in 1% or more of the company market capitalization.
- Ad hoc demand

This voting scope represents nearly 40% of companies held in all our UCITS.

The choices of the shares for which we exercise the voting rights aim at both concentrating our efforts on positions held in a wide proportion in our assets under management, and participating to shareholders' meetings of companies in which our collective investment schemes hold a significant part of the capital.

4. PROXY VOTING FACTS FOR 2016

4.1 GEOGRAPHIC BREAKDOWN

Under our voting scope, we voted for **1,504 general meetings** with a vote mainly in Europe and North America which represented slightly more than 73% of our votes.

Geographic breakdown of our votes	Number of meetings voted	Geographic breakdown
Europe	658	43.8 %
North America	441	29.3 %
Japan	117	7.8 %
Others	288	19.1 %
Total	1,504	100 %

4.2 VOTING RESULTS

Under our voting scope, out of 1,504 general meetings voted,

- Out for 476 general meetings we voted in favor of all items.
- Out for 1,028 general meetings we voted against or abstain for at least one item, i.e. 68.4%.

On 19,366 resolutions voted, 18,808 resolutions were submitted by companies and 558 by shareholders.

Among the resolutions submitted by companies (excluding shareholder proposals):

- We voted in favor of 15,489 resolutions (82.4% of our vote).
- We voted « abstain » or « against » on 3,319 resolutions (**17.6% of our vote in 2016, compare to 19.0% in 2015**).

In our opposition, we have voted « abstain » on 1,065 items (5.7% of our vote), and voted against on 2,254 items (12.0% of our votes)

Geographic zone	Resolutions voted	Vote for	Vote against	Vote abstain	Percentage of abstain or against
Europe	9,615	7,954	1,446	387	18.1 %
North America	4,950	4,682	298	301	9.8%
Japan	1,529	1,006	153	385	34.3%
Others	2,714	2,178	470	106	21.0%
Total	18,808	15,820	2,367	1,179	17.6%

Our level of opposition is high in **Japan** due to a weakness of the corporate governance with really low level of independence on the board of directors, even though improvements were observed.

On the opposite, our level of opposition is weaker in **North America** due to good level of independence on the board of directors, and an absolute vote that concern mainly board election. Nevertheless, our opposition is stronger in this area on executive pay.

Finally, in **Europe**, the opposition mainly concerns the resolutions related to financial operations and those related to executives' compensation.

5. FOCUS ON AGAINST AND ABSTAIN VOTE

5.1 MANAGEMENT PROPOSALS

The table below outlines percentages of votes « against » or « abstention » per category.

	Resolutions voted	Vote for	Vote against or abstain	Percentage of opposition
Executive pay	1,907	1,079	828	43.4%
Financial operations	2,138	1,304	834	39.0%
Board election	8,636	7,438	1,198	13.9%
Amend bylaws	745	685	60	8.1%
Election and remuneration of auditors	1,571	1,451	120	7.6%
Reports and accounts	2,441	2,328	113	4.6%
Others items	1,370	1,204	166	12.1%
Total	18,808	15,489	3,319	17.6%

Our opposition is mainly concentrated on 3 topics: financial operations, executive pay and board election. See below the main reason of our opposition.

5.1.1 EXECUTIVE PAY

It is mainly stock-option, restricted stock plan or severance payments and also “say on pay” vote:

- Either there is a lack of transparency on the remuneration policy (volume, nature of the performance criteria, targets...).
- Or the practices of remuneration are not in line with stakeholders interests with excessive or disproportionate amounts in line with the company’s performances.
- Or a pay for failure approach is in place with non-challenging performance criteria.
- Or finally, remuneration is not oriented toward the long-term.



5.1.2 FINANCIAL OPERATIONS

It is mainly share capital increase:

- Either the global volume is considered too important when all the authorizations exceed 50% of the share capital.
- Or it is a share capital authorization without pre-emptive rights and without a specific object that leads to an excessive dilution for current shareholders (More than 5% of share capital).

We also vote systematically against all anti-takeover devices.

5.1.3 BOARD ELECTION

It is mainly board election with weak corporate governance and an issue regarding the balance of power:

- Either non-independent directors with a lack of independence of the board (less than 50% for non-controlled companies, less than 33% for controlled companies).
- Or directors with weak availability

5.2 SHAREHOLDERS PROPOSALS

5.2.1 SHAREHOLDERS PROPOSALS VOTED

Shareholders proposals are mainly concentrated in North America and are usually not supported by the management. Therefore, a vote in favor of the proposal is a vote against the management recommendation. We have voted in favor of the shareholders proposals when the item was in line with the long term interests of the company and that it was coherent given the practices of the company. However, we abstained when the proposal, although relevant in absolute, was not coherent for the considered company or if it already applied in practice.

The vote in favor of shareholders' proposals is constant compared to 2015 (59% in 2016, 61% in 2015) with a strong support on climate change proposals (81%).

	Resolutions voted	Vote against	Vote abstain	Vote for	Percentage of abstain or vote for
Shareholders proposals	558	113	114	331	59.3%

5.2.2 FILLING SHAREHOLDERS PROPOSALS

In 2016, we co-filed 3 shareholder resolutions with others shareholders in the framework of the “Aiming for A” initiative in the mining sector: at Rio Tinto, Anglo American and Glencore.

The resolution seeks deeper disclosure on five issues of climate change risk: ongoing operational emissions management, asset portfolio resilience to post-2035 scenarios, low carbon energy R&D and investment strategies, strategic KPIs and executive incentives, public policy interventions.

All resolutions were largely approved by general meetings.

6. COMPANY DIALOGUE AND PROMOTION OF MORE ENVIRONMENTAL AND SOCIAL DISCLOSURE

6.1 DIALOGUE WITH ISSUERS

Engagement with issuers aims at enhancing the long-term value of our shareholdings and at fostering corporate governance best practices, social responsibility and environmental stewardship.

The process of dialogue with companies can be engaged on our own initiative or on the request of the issuer and is concentrated on our main holdings.

The goal of our engagement is:

- To communicate our voting policy to promote good corporate governance and to prepare the next general meeting of the issuer.
- To obtain additional information on voting proposal.
- To express our concerns about specific resolutions that are in contradiction with our voting policy.

In 2016, we engaged a dialogue with 98 issuers, an important increase compare to 2015 (74).

6.2 EVALUATION OF OUR DIALOGUE

We consider that the engagement is successful if:

- The company withdraws the proposal
- We change our vote in favor of the proposal after a modification of the resolution from the issuer, or if we obtain additional information

In 2016, we had 25 successful engagements (25.5% of the engagements). This percentage is higher compared to 2015 (23%).

Some examples of successful engagement:

- Change or Communication of the performance criteria that will be used for stock-options and restricted share plan.
- Set-up of a long-term plan for the executive pay with performance conditions measured over 3 years.

However, we consider that the evaluation of the dialogue shouldn't be limited through our votes:

- A dialogue before the agenda of the general meeting can lead issuers to align their resolution to our voting policy.
- Some companies modify their practices the following years.



6.3 PROMOTION OF MORE ENVIRONMENTAL AND SOCIAL DISCLOSURE

BNPP AM believes that promoting good corporate governance standards and encouraging businesses to improve social and environmental practices is an essential part of its ownership responsibilities. Good environmental, social and governance (ESG) practices provide an excellent framework to ensure that a company is managed in the best long-term interest of stakeholders.

According to our voting policy, we voted abstain on the financial statement when the company's disclosure on environmental and social practices, or on carbon footprint was insufficient. We have voted abstain on 11 cases in 2016.

We have communicated this decision to each company in order to enhance ESG disclosure, especially on climate change. This type of engagement can be successful in the long term; if companies increase their disclosure on environmental and social aspects.

6.4 ENGAGEMENT AS PART OF COLLECTIVE ENGAGEMENT

We are participating actively to two collective initiative related to governance:

- The PRI¹ initiative on board nomination

This initiative, focus on US and French markets, has the objective to encourage companies to foster board nomination process and board composition.

- The French SIF² initiative and CorDial³ on the distribution of value-added

The objective of this engagement is to establish a constructive dialogue on the question of the distribution of value added between executive, employees and shareholders, including the pay-ratio debate.

¹ The Principle for responsible investment

² The French Social Investment Forum is a multipartisan association devoted to promoting socially responsible investment (SRI).

³ CorDial for « Corporate Dialogue » is a platform of dialogue with companies on sustainable development and social responsibility questions.

6.5 OTHER ASPECTS OF SHAREHOLDER ENGAGEMENT

Other actions are complementary to our dialogue with issuers to improve practices:

- Contributed as an active member to the works of the « Corporate Governance » committee of the French association of asset managers (AFG).
- Contributed as an active member of the International Corporate Governance Network (ICGN) and of the “Shareholder rights” committee.
- Active participation in the debate regarding the project of amendment of the shareholder rights directive.
- Collaborated with the proxy advisors in order to improve and update their voting guidelines.
- The indirect dialogue with issuers through « proxy solicitors »
- Physical attendance at 14 general meetings in 2016 (9 in France, and 5 abroad).
- Other forms of engagement in the framework of the responsible investment policy of BNP Paribas Investment Partners (including the United Nation global compact principles and BNP Paribas sectorial policies).