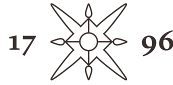

LOMBARD ODIER
INVESTMENT MANAGERS

Corporate Governance Principles and Proxy Voting Guidelines

Definition

These corporate governance principles state our corporate governance expectations for the companies we invest in. They have been articulated to pursue the three key objectives listed in our Stewardship Statement. Hence, they reflect our belief that sound and solid corporate governance structures, built to effectively manage social and environmental risks, create a framework within which a company can be run in the long-term interests of its shareholders and stakeholders.

Each of these principles is tied with corresponding proxy voting guiding principles. We cast our votes in the long-term interest of the company, and its shareholders and stakeholders. Our final votes take into account prior and current engagement, and company responsiveness but will always rely on the initial corporate governance principles.

We take into account different regional best practices as we accept the varying approach to optimal and unique corporate governance structures, which can be context-dependent. However, we still assert our views on the desired approach, aligned with international best practice and expectations of stakeholders. We rely on two main global governance standards: the G20/OECD Principles of Corporate Governance (2015) and the ICGN Corporate Governance Principles (2021).

We focus our effort on five major areas of Corporate Governance: leadership, transparency, remuneration, share capital and shareholder proposal. Each of these areas is analysed with the aim to reach our three key stewardship objectives. This approach allows us to use proxy voting to support a sustainable transition.

Leadership

Board of Directors' responsibilities

Expectations

The board of directors is responsible for the long-term sustainable success of the business. It is responsible for providing oversight to the executive strategy and its implementation.

It is accountable for identifying, managing, and disclosing all material issues that may affect the economic success of the business. As such, we hold boards as a whole and individual directors accountable for the commitment to profitable net-zero, nature positive and fair business models that ensure a timely sustainable transition pathway.

We expect boards to:

- Provide adequate oversight to the risk framework, accounting practices and audit matters;
- Behave with integrity;
- Promote and uphold strong corporate governance practices, as well as minority shareholders' rights.

We consider the board to be responsible for reporting on progress on the business' impact on the environment and society.

We believe the board plays a key role in creating, promoting and cascading down a culture that welcomes and fosters diversity and integrity inwardly – toward the board itself- and outwardly – towards all employees. As such, we expect boards to have in place diversity policies across the organisation and be an active leader in the promotion of the company's purpose and accompanying culture.

We are supportive of board evaluations and believe they should take place at least every three years, with results being communicated in the annual report.

The board's responsibilities can be assessed through the company's annual reporting documents, namely the introduction, the chair's letter, diversity policy and assessment of progress against it, nomination committee's discussion of its remit, employee engagement surveys, remuneration committee's chair letter and other related materials.

Vote Guidelines

We may vote against the chair of the board, or relevant directors, as well as report and accounts if, following engagement, we are not satisfied that the company – through the work of the board – is failing to promote the long-term sustainable success of the business.

Board of Directors' composition

Expectations

We support individual election of directors as often as possible, ideally on an annual basis. We see this a key mechanism to ensure ongoing and timely accountability to shareholders.

Non-executive directors should represent the interest of all shareholders and be independent, committed, capable, diverse, and appropriately experienced. Diversity of thought, skills, knowledge, gender, race, and age contribute to the discharge of the board's responsibilities.

Although board structures are context dependent and best practice varies across countries, we would generally expect and encourage boards to:

- Have an adequate minimum or even critical mass of directors with knowledge of sustainability themes. Ideally, boards should nominate (and clearly disclose) one specific director with knowledge and responsibility for sustainability themes who should also be available to engage with shareholders (similarly to the chair, or senior independent director, or remuneration committee chair). If the board has set up a sustainability committee, it should be chaired by the board-designated sustainability expert.

- Be sufficiently diverse (diversity of gender, passport, education, skills, knowledge, age and experience), to ensure constructive contribution to the board's debates and, most importantly, avoid group-think. Specifically, we prefer boards to:
  - Be gender balanced. Our preference is for boards to be diverse from a gender perspective and our minimum expectation is for boards to include one-third of women;
  - We expect companies to publicly disclose a gender diversity policy, which should include targets and progress against achieving them;
  - Be regularly refreshed and have in place succession plans.
- Be majority independent, to ensure the right balance between executive, independent, and non-independent insights.
- At controlled companies, we expect boards to be at least one-third independent.
- Include an independent non-executive chair. We believe the separation of the roles of chair and chief executive role is fundamental in protecting shareholder value. An independent chair avoids inherent conflict of self-oversight and helps ensure robust debate and diversity of thought in the boardroom.
- Have an adequate size (between 5 and 15) to ensure that it is not too unwieldly.

Vote guidelines

- Where legal requirements are such that directors are elected on a slate basis and/or for a mandate of several years, we may vote against the whole slate when a minimum of independence, sustainability, or diversity considerations are not met.
- We will vote against proposals that worsen annual/individual accountability and will support proposals seeking to declassify boards.
- We will also vote against proposals to introduce cumulative voting, as we believe this practice is detrimental to the overall strength of the board.

We may vote against the chair if:

- There is a combined role of chairman and CEO as we consider this to be a governance risk. However, in our voting decision, we will take into account local market practice, whether the appointment is on an interim basis, the duration of the joint role and the company's disclosures around conflicts of interest management, the presence of a senior independent director.
- There has been disregard for environmental and social impacts of the company's activities and/or, repeated and systemic governance failures (including lack of response to shareholder resolutions).
- There has been a sustained lack of response to requests to engage.
- Following engagement, and without appropriate justification, the company has not yet committed to decarbonising its business model in line with the Paris Agreement by setting appropriate (ideally Science-Based) scope 1, 2, and 3 targets.
- Following engagement and without appropriate justification, the company has not addressed/put in place policies, processes and reporting mechanisms that protect and harness natural capital. As a minimum, we would expect disclosures on how the company has considered the impacts of its operations across the whole supply chain.

Directors

Expectations

We expect the directors to:

- Attend at least 75% of board and committee meetings they were eligible to attend.
- In some instances, we would require a senior independent director to be appointed (for example, if the chair is not independent or if the role is very complex).
- Limit the number of additional roles they hold at other publicly listed companies. The role of directors is ever more demanding, and they must be able to commit an appropriate amount of time. It is key that a director retains flexibility for unforeseen events and crises.

There are some factors which are instrumental in establishing whether a director should be considered as independent:

- Founder status;
- Family links with senior executives or founder;
- Excessive tenure – more than 12 years on the board from the date of first appointment;
- Having served as an executive on the same board in the previous five years (cooling off period of five years);
- Holding cross-directorships;
- Owning more than 10% of the company's issued share capital;
- Representing a shareholder in the company that owns 15% or more of the company's issued share capital. We will consider shareholder representation agreements.

Vote guidelines

We may vote against the chair if:

- The chair is non-independent, considering the following mitigating features: presence of a senior/lead independent director, the overall level of board independence, company's roadmap for appointing an independent chair, and founder status.
- Served as former CEO and the company has not provided an appropriate explanation.

We may vote against the election or re-election of a director if:

- There are not enough disclosures on new member to be elected (cv, experience, additional mandates on other boads) to independently assess his/her skills, knowledge, and contribution of the director to overall diversity make-up and sustainability knowledge at board level.
- He/she serves as non-independent director, if the board is not majority independent (one-third for controlled companies) or it does not meet the local market requirements. We will take into account average tenure, and recent board refreshment. If voting against could further undermine the board's diversity composition and sustainability knowledge, we may vote against other more appropriate board members, including the chair of the board and/or the chair of the nomination committee.
- We have concerns in relation to board and company culture.
- The director has not attended at least 75% of all board and committee meetings he was eligible to attend since being elected, without an appropriate explanation by the company.
- Concerns exists about the number of other external roles in publicly listed companies. Although we take into consideration the market capitalisation of other companies, we expect a director's commitments to not be more than the following rules: maximum count of 'four', with one count for each non-executive director role, two for each chairman role and three for each executive director role. The following exceptions may apply: no vote against a director at the company where they serve as CEO; no vote against a director at the company where they serve as chair unless they are being elected for the first time.

Board Committees

Expectations

We expect and encourage boards to have strong governance structures, and where applicable, we expect companies to have at least the 3 specialised committees: audit, remuneration and nomination, all of which should exclusively include non-executive directors and be chaired by an independent director. We prefer the chairs of each of the committees to have served as a committee member for at least one year before becoming chair. Equally, we welcome the expertise that directors can bring by being board committee members at other publicly listed companies and encourage that committee chairs serve as members of other companies' committees. We also encourage companies to critically assess the need and potential setting up of sustainability committees, which should be chaired by the non-executive director identified as being responsible for sustainability.

Audit Committee

Expectations

We expect this committee to provide oversight of the financial reporting process, the audit process, the company's system of internal controls and compliance with laws and regulations. We would expect it to comprise independent non-executive directors only, and a minimum of three members. The chair of the board can be a committee member if he or she is independent. In line with our CLIC™ framework, in its role in overseeing the financial statements, the committee is also responsible for ensuring that relevant climate risks and opportunities are integrated into the assumptions underlying accounting estimates and disclosed appropriately in the notes of the financial statements. It should also include a mandate to oversee and ensure the integrity of identifying and reporting the financial effect of material climate risk, with the board as a whole being responsible for oversight of climate strategy, risk management, and performance against goals and targets. The audit committee is also responsible for including climate transition considerations in the retendering of the external audit.

Vote guidelines

We may vote against the chair if:

- The non-independent directors of this committee if it is not fully independent.
- The chair/members of the committee if we have concerns over the committee's proper oversight of the financial effects of climate-related risks.
- The chair/members of the committee if we have concerns over the independence of the external auditor, ongoing and unexplained high non-audit fees, and lack of regular audit tender.
  - More specifically, we may also vote against the (re)election of the external auditor if/when:
    - There are repeated misstatements in the annual accounts;
    - Non-audit fees exceed 70% of audit fees without an appropriate explanation;
    - The external auditor is engaged in the company's internal audit;
    - There is evidence that the external auditor has not considered climate change when identifying and assessing the risks of material misstatement to the financial statements;
    - The auditor has been in place for more than ten years or 20 years if a tender has taken place, even if companies are listed in markets where there are no such regulations.

Remuneration Committee

Expectations

We expect this committee to design remuneration policies that closely align pay with performance, whilst also considering in its decision-making sustainability criteria, the general workforce's pay structures, CEO pay ratio and gender pay gap considerations. We expect it to be fully independent and prefer the chair of this committee to serve/have recently served as a member of a remuneration committee at another public-listed company. If the company has established a sustainability committee, we would expect cross memberships between these two committees to facilitate the development of a strong and measurable link between the company's sustainability's strategic objectives and execution plans and their reflection in variable pay.

Vote guidelines

We may vote against the chair if:

- The non-independent directors of this committee if it is not fully independent;
- The chair of the committee if we have concerns over the remuneration policy (and report) of a company, including lack of sustainability-related metrics, and lack of alignment between pay and performance.

Nomination Committee

Expectations

We expect this committee to ensure that competent, diverse, and knowledgable candidates are available for executive and non-executive roles. We expect this committee to be majority independent and to ensure that succession planning for executives is in place, both for normal operations but also in the event of an unexpected crisis. The committee should also carry out board evaluations, ideally external ones, and report publicly on the outcomes of the review. We would also expect this committee to produce a board's skills matrix that highlights the skills needed, those present, where the gaps are, and how the committee intends to address them.

Vote guidelines

We may vote against the chair if:

- The non-independent directors of this committee when it is not majority independent;
- The chair of the nomination committee if we have concerns over:
    - the composition of the board, lack of policies regarding diversity, lack of assessment of progress against said policy;
    - nomination and refreshment process;
    - lack of adequate sustainability skills and knowledge on the board.

In addition, we may vote against the chair and/or members of the nomination committee (and eventually, the board chair) if:

- We have concerns on the company's direction and speed of travel regarding overall board diversity. We take a measured approach and emphasise direction of travel, but will generally expect companies across developed markets to have published a board diversity policy, with timebound targets and assessment of performance against targets;
- Having concerns on board independence, none of the non-independent directors are up for re-election;
- Following engagement, the company does not publish a board's skills matrix that highlights the key skills needed with regards to the key sustainability themes linked to its business model.

Transparency

Expectations

In line with best s practice, we expect companies to disclose all shareholder meeting relevant documents (annual report, sustainability report, financial statements, proxy form) to be made publicly available sufficiently in advance of the meeting date. This allows us to make an informed decision in a timely manner.

Sustainability disclosures should be aligned with international accepted standards, be balanced, material and relevant. We believe that sustainability factors can have key material risks on the long-term viability of companies' business models. As such, we expect companies to provide clear, timely and year-on-year comparable disclosures on the key risks they are exposed to from a sustainability perspective as well as the risk management system addressing them. We have a preference for boards to define and report against sustainability key performance indicators. For such disclosures to be comprehensive, we expect links to be established to the work of the board, management, the audit, remuneration, and nomination committees, as well as establish how sustainability-related efforts and strategy have been communicated and are part of overall culture and workforce's experience.

We expect companies to report transparently on the climate transition commitments and pathways. We encourage companies to report using the FSB Task Force on Climate-related Disclosures, as well as the Oxford Martin Principles for Climate Conscious Investors.

We expect companies, in an incremental way, to set transition plans aligned with the Paris Agreement, commit to gather the necessary data and report on the current greenhouse gas emissions under scopes 1, 2, and 3, commit to decreased emissions under scopes 1, 2, and 3, and set science-based targets taking the business strategy to a 1.5 degree climate scenario by 2050.

We expect companies to report on their commitment to the protection of biodiversity and restoration of natural capital and work towards establishing frameworks that monitor associated risks. Once science based targets for nature are developed, our preference is for companies to adopt them.

We also expect companies' disclosure to report issues associated with bribery and corruption, human rights, health and safety, modern day slavery, labour standards and their alignment and progress with the Sustainable Development Goals.

Vote guidelines

We may vote against the approval of the financial statements/report and accounts/re-election and/or discharge of directors if timely disclosures do not take place.

We may vote against the report and accounts, external auditor, audit committee, remuneration committee, nomination committee, directors, including the chairman, and remuneration resolutions, if we see no evidence of progress in developing climate transition plans and progress in the responsible use, preservation, and protection of natural resources.

Remuneration

Expectations

Remuneration policies and pay outcomes should be aligned with local market practice, regulatory requirements and not be overly complex. The most important link we look for is the alignment between pay and performance, account taken of two key drivers, a) policies should focus on incentivising sustainable long-term value; and b) incentives plans should not encourage excessive risk-taking. Pay should mirror shareholders' experience and disclosures need to be detailed enough for external assessments to take place. We expect policies to include an appropriate mix between fixed and variable pay and include a maximum cap for variable pay. This allows us to better understand the pay mix and earning potentials. We also expect the remuneration committee to discuss how it has taken into account workforce pay when setting executive pay, as well as a reference to any gender, CEO (when applicable) pay gap and steps the committee is taking to address gaps. If remuneration consultants are used, we expect disclosures on the name of the consultant, description of the work provided, and fees paid.

Inclusion of sustainability considerations in pay

We expect remuneration committees to identify the drivers that are material to the long-term sustainable value of the business. The focus should be on sustainability issues that are material to the business, including an explanation of how they have been defined, and whether these issues have been tracked for some time before being included into remuneration plans. We expect the remuneration committee to clearly articulate the extent to which the sustainability metrics selected are clearly under the direct influence of the executive to ensure proper accountability.

Disclosures

Disclosure should be transparent, accurate, and detailed. Pay disclosures should clearly state how the plans reflect strategy and incorporate long-term drivers of value. Aligned with our key objectives to support companies to engage on sustainable transition pathways, we believe variable compensation metrics should include KPIs related to climate transition/ and protection of natural capital.

Disclosures should include forward looking performance metrics and targets under annual bonus and long-term incentive plans, including level of remuneration to be awarded at threshold, target and maximum performance.

We expect targets across the range to be stretching and disclosures should include relative weighting and actual performance achieved. When forward looking disclosures are not made available for commercial sensitivity reasons, this should be justified and retrospective disclosure should be made available in the following remuneration report.

Metrics should include a justified mix and balance of financial and non-financial ones. However, we expect remuneration committees to provide quantitative targets for non-financial metrics as well.

Fixed pay

Remuneration committees should state what the right cost for the role is, considering business size, relevance, complexity, risk profile, and / or geography, as well as the candidate's previous experience.

Peer group comparisons should not be used as a justification for salary increases. In case of salary increases which are not in line with those awarded to the rest of the workforce, we expect the remuneration committee to provide a strong and clear rationale explaining the appropriateness and need for the increase.

Pensions

Pension contributions should be excluded from variable pay calculations.

We expect executives' pension contributions to be aligned with those of the workforce. We expect this alignment for all new contracts. For legacy pension contributions where this is not the case, we expect remuneration committees to chart a pathway allowing alignment.

Exceptional payments (recruitment, departure, one-offs)

We expect remuneration committees to exercise restrain around recruitment and departure packages. If buy-out awards are necessary, we would expect them to be like-for-like. These awards should be given on a performance-based basis and they should mirror the vesting schedule of the initial award.

For severance, unvested awards should always be pro-rated. This applies both for changes in executive roles following M&A activity, or forced departure of a good leaver. Severance payments should not be made for non-renewal of a mandate.

We expect the remuneration committee to provide clear and meaningful disclosures as to how the executive's performance has been evaluated against the metrics and targets for the relevant time served.

We strongly support the inclusion of malus and clawback provisions allowing for awards to be forfeited or requiring executives to repay awards in those circumstances where the awards would not be appropriate. These include gross misconduct, miss-statement of financial results (including climate-related risks), as well as bribery and corruption considerations. Malus and clawback should have a minimum period of application of two years after an award is made.

We are not supportive of one-off awards linked to transactions as they may encourage excessive risk-taking. Equally, we do not support retention awards, as in our experience, they do not achieve the intended retention effect.

Variable pay

We expect remuneration committees to clearly state variable pay as a percentage of salary, including the maximum ceiling for short and long-term incentive plans ('LTIPs').

Vesting of awards should be subject to performance conditions and geared towards the long term: we prefer LTIPs to have a minimum performance period of three years, with a preference for an additional two-year holding period. Performance metrics should be linked to the strategic objectives of the company. Short and long-term plans must include different performance metrics. Most metrics should be financial, and for the sustainability/ESG metrics, we expect as many quantitative metrics and disclosure against targets as possible.

Companies choosing to transition to restricted share schemes must provide a clear rationale for the need to do so. The discount to quantum should be at least 50% of the previous LTIP limit. We will take into consideration historical LTIP pay-out, the rational for the proposed change, the presence of a performance underpin, and engagement prior to the proposed change.

Vote guidelines

In our analysis of remuneration resolutions, lack of alignment with the expectations described above, lack of adequate explanation, and excessive discretion by the remuneration committee may trigger a vote against. In more detail, we may vote against remuneration policy and report resolutions, and escalate to voting against remuneration committee members if:

- Available disclosures do not allow us to make an assessment between pay and performance, including specific disclosures on the fixed and variable make -up of total compensation, as well as clear indications of pay potential at threshold, target and maximum, as well as a quantitative assessment of performance against targets;
- Proposed increased to variable pay without more stretching and challenging performance metrics;
- When pay is not aligned with performance;
- After engagement, performance metrics do not include climate transition and protection of natural capital KPIs;
- Salary increases for executive directors that are not appropriately justified nor aligned with increases awarded to the rest of the workforce;
- Salary increases in tandem with increases to variable pay maxima;
- Executives' pension contributions are not aligned with those of the workforce;
- Exceptional sign-on cash bonuses are awarded, including for M&A-related activity;
- Retention awards;
- Accelerated vesting of awards with no regard for time and performance takes place;
- Severance payments for bad leavers are awarded;
- Severance payments are not pro-rated for time and performance;
- Malus and clawback (including sustainability triggers) are not in place;
- The introduction of restricted share plans substituting LTIPs if discount to quantum is not at least 50%, no appropriate rationale for the change has been provided;
- The remuneration committee has used excessive/unexplained discretion and/or the rationale for the discretion is not considered to be sufficient;
- Non-executive directors receive performance-related pay when it is not market practice;
- Lack of meaningful executive shareholding requirements and post-departure shareholding requirements.

Share capital management

Expectations

The ability and authority of the board to raise capital and decide how to allocate income attributable to shareholders is included on a range of different resolutions. These are important votes, where we will seek to balance the needs of companies for flexibility whilst also fomenting prudent share capital management (preferring specific and well-motivated authorities, presented from time to time), minimise erosion of shareholder value (through the avoidance of excessive dilution) and sustainable long-term value.

Given the complexities and differences across different regions on share capital management, we generally will follow best-practice recommendations on a market-per-market basis, with the underlying principle being that we generally support companies issuing shares on a pre-emptive basis and will support issuances without pre-emptive rights, if they are aligned with local market practice.

Where relevant, we expect proceeds raised to be aligned projects promoting sustainable transition pathways.

Vote guidelines

We will generally vote against any issue of shares where the discount limit is higher than local market practice or where the issue of shares is pursuant to an option scheme which raises concerns in relation to our remuneration principles and vote guidelines.

Share issue authorities with pre-emptive rights

We will not generally support routine capital increases that represent more than 50% of the issued share capital, but we will align ourselves with local market practice when lower ceilings apply.

Share issue authorities without pre-emptive rights

We will not generally support routine capital increases without pre-emptive rights representing more than 10% of the issued share capital, except in jurisdictions where local practices recommend a higher threshold. If local practices recommend a lower threshold, we will apply this limit.

Share repurchase

We will not generally support share repurchases if they exceed 10% of the issued share capital. If the share repurchase could affect the company's investments over the long-term, we may vote against the request as well. The maximum duration should be five years, except a lower threshold if applicable by local regulation, law or best practice.

We will vote against a share repurchase authority where the company indicates its intention to use it during a takeover bid.

M&A

These will be considered on a case-by-case basis considering not only share capital considerations but also the promotion of long-term shareholder value and any ESG or sustainability impacts of the merger, acquisition, demerger, or restructuring project.

Employee share ownership

We will generally support the introduction of these plans as they foster the alignment between the interest of shareholder and employees over the long term.

Shareholder proposals

Expectations

Shareholder proposals are an important tool for investors to voice their views, escalate concerns and ultimately seek change at companies. Proposals seek to address environmental, social and governance matters. Within each category, the nature of shareholder proposals change every year. We expect shareholder proposals to be specific in their request by addressing a specific course of action/company policy and provide a detailed rationale for the change requested.

Shareholders proposals will be assessed on a case-by-case basis, given the wide variety of proposals that are submitted each year from an environmental, social and governance angle. We will evaluate the proposal against the context of the company's practices and disclosures. This will be placed against the general background of the relevant market best and regulatory practice.

We will generally support proposals that further our key objectives, 1) enhance and promote social and environmental considerations, in line with sustainable transition pathways; 2) enhance and promote best corporate governance practice, especially improving disclosure and transparency and 3) prevent and manage controversies.

We will not support proposals that hinder the company and its board, seek to micromanage or seek to duplicate efforts. We will also consider the timeframe allowed for the implementation of the shareholder proposal to avoid unrealistic scenarios.

Vote guidelines

Our final vote decision will be informed by the explanations we find (in the proxy and through engagement with both parties, if relevant) to following questions:

- Does the proposal address a material issue to the company?
- Does the company already address the issue? If so, why are the current standards, processes, and policies not sufficient to the proponent?
- Are shareholders rights improved by the resolution?
- Does the change proposed by the resolution support sustainable long-term value?
- Is the proposal seeking to micro-manage the company?
- Is the resolution aligned with our CLIC™ views?

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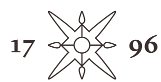

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