

Nikko Asset Management Europe Ltd

## **PROXY VOTING POLICY UK ADDENDUM**

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## **Purpose and Scope**

The purpose of this Nikko Asset Management Group Proxy Voting Policy UK Addendum (the "Policy") is to supplement the [Group Proxy Voting Policy](#) as necessary to reflect its domestic application to employees of Nikko Asset Management Europe Ltd (we refer to ourselves in this policy as "NAME", "we" or "us") and to describe how NAME participates in shareholder meetings and applies the voting principles and guidelines, set out below, to companies under investment by NAME. The scope of this Policy applies to the portfolios managed by the Global Equities team as voting rights are mainly issued in equity shares.

## **Statement of Policy:**

NAME believes proxy voting is a key stewardship component in the ongoing dialogue with companies in which we invest and as such, is an important aspect of Future Quality Investing. We are committed to ensuring consistent exercise of voting rights and voting on all shares held, where it is in the best interest of our clients. Through implementation of our Proxy Voting Policy, we aim to enhance the long-term value of our shareholdings and to foster corporate governance best practices.

Further we believe that the long-term impact of environmental, social and governance ("ESG") issues can materially affect corporate valuations. By incorporating the consideration of ESG factors into our investment process and daily business, we aim to positively influence investor returns and corporate decision making, and thereby enable effective stewardship.

## **Main corporate governance principles that we expect from our investee companies:**

- Acting in the long-term interest of shareholders
- Protecting shareholder rights
- Maintaining high integrity standards in corporate behaviour
- Ensuring an independent and efficient board structure
- Aligning corporate incentive structures and remuneration with long-term interests of shareholders
- Disclosing accurate, timely and transparent financial and corporate governance information
- Ensuring strong environmental and social performance and disclosures

## **Proxy voting process:**

- We use the external provider Institutional Shareholder Services ("ISS") as an advisory research tool but, client permitting, final voting decisions are at the total discretion of the global equity team. Issues raised by external advisors, such as ISS, are considered but these guidelines will take precedence.

- We apply our voting principles with full consideration to a company's circumstances, following investigation of any concerns and in line with our Future Quality investment philosophy and voting guidelines. All votes are directly instructed by the investment team after reviewing relevant materials for the shareholder meeting.
- Votes are cast on all shares, where there are no legal, client or technical constraints. Since votes are cast with regard to the long-term interests of investors and with regard to the same Future Quality investment philosophy, we aim for voting to be consistent across all NAME's holdings. There is the possibility that legal or fiduciary reasons lead to an exception to this rule. In the event of exceptions, the voting records will accurately reflect these differences.
- Where our proxy voting principles or other general corporate governance best practice principles are not met, we would vote against a resolution and attempt to further engage with the investee firm.
- Specifically on climate change, our analysis considers the physical, liability and transition risks associated with the changing climate and our engagement will encourage effective climate disclosure where appropriate.

## Disclosures

- **Proxy voting records & client communications:** We publicly disclose a summary of our proxy voting activity on a quarterly basis, including disclosure where we have voted against management. Client specific records and voting rationales are available to clients on request.
- **Policies:** This voting policy, along our Group Proxy Voting policy, is available for all stakeholders on our website.
- **Nikko Asset Management Global Stewardship Report:** The report can be found on our website and provides further insight on our approach to proxy voting at firm-level, including relevant voting case studies.

## Voting principles & guidelines

The principles & guidelines set out below are the general framework for corporate governance and proxy voting matters. They apply to the management of all Global Equity investments unless otherwise specified by discrete mandates where client instructions have been received in relation to proxy voting and corporate governance matters.

The proxy voting principles underpin the above Statement of Policy which is in line with those applied by the wider Nikko Asset Management group.

### 1. Principles

For all Global equity mandates with client agreement, the Global Equity team particularly focuses on the following points when exercising voting rights in order to ensure monitoring of the governance of the company being invested in and to increase and prevent damage of shareholder value:

### **Principle 1: Shareholder Return**

With regard to the disposition of surplus, the Global Equity team places emphasis on ways to provide sufficient returns to shareholders over the medium to long-term and to provide adequate accountability to shareholders, taking into consideration not only total return ratio levels, such as shareholder dividends and stock purchase plan, but also extensive internal reserves and investment plans based on future business plans.

### **Principle 2: The responsibilities of the Board**

The separation of executive and supervisory functions at board level is necessary to realize effective corporate governance. The Board has a supervisory role, providing general oversight of a company and its management. For this reason, we would expect a majority of a board to be independent of management. A company's board of directors must be appropriate size and composition to ensure adequate discussions take place and appropriate decisions are made.

### **Principle 3: Executive Compensation System**

The Global Equity team positively assesses executive compensation systems that offer incentives and increase shareholder value, such as those linked to company performance. At the same time, appropriate levels of compensation in terms of company performance and profit distribution to shareholders should be required while the system itself should ensure sufficient accountability to shareholders.

### **Principle 4: Company Control and Takeover Defences**

The Global Equity Team is opposed to resolutions aimed at maintaining company control or that prevent corporate takeover. Acquisition proposals and/or defensive strategies may be assessed to the extent that the existence of such acquisition risks are clear and existing shareholder value would not be damaged.

### **Principle 5: Business Restructuring**

The Global Equity Team scrutinizes whether or not the restructuring of business through mergers and acquisitions is the best option for a company from the viewpoint of consistency with its management strategy and enhancement of shareholder value in the medium to long-term. In addition, the valuation of a company's acquisition price must be fair price which is calculated by a neutral third party.

### **Principle 6: Capital Policy**

Whether or not resolutions on the issuing of company stock are an appropriate capital policy should be determined cautiously, taking into account the company's

management strategy, financial standing and market environment. In particular, the Global Equity Team does not evaluate such capital increases positive if there is a possibility that it will significantly dilute the equity of existing shareholders and place them in an overall disadvantageous position.

### **Principle 7: Environmental & Social Commitments**

The Global Equity team believes a portfolio with a low carbon intensity and without major environmental, social or governance controversies represents a minimum safeguard for a portfolio of companies able to sustain high returns into the future. To achieve this, the Global Equity team encourages full disclosure of a company's carbon footprint, engage actively on ESG controversies and, where strategy allows, will vote against a management team that is not addressing these concerns. The team will also support resolutions on Environmental & Social matters that it believes will reinforce long term value creation and the Future Quality attributes of the underlying investment.

## **2. Guidelines**

The guidelines below are not intended to operate as a prescriptive set of rules for proxy voting. They have been designed to provide a general framework for clients and investee companies to understand our views on corporate governance matters and our likely response when asked to vote. Naturally, they will evolve as time passes and circumstances change.

Below are corporate governance matters which we consider on our investee companies:

### **2.1. Board of Directors**

The Board of Directors of Companies generally performs the following key functions on behalf of shareholders, inter alia:

- Approves and oversees corporate strategy
- Appoints and oversees the CEO / Managing Director
- Provides expertise in relevant fields
- Communicates financial performance to shareholders
- Sets executive and recommends own remuneration and incentive structures
- Designs and implements appropriate risk management procedures
- Supervises the audit function
- Prepares and plans for senior management succession.

It is therefore imperative that the Board of a company operates in a functional and productive fashion.

**Independence** - The majority of directors should be independent, *except in exceptional circumstances*. By 'independent', we mean independent of management. It is critical for board decisions to be made after discussion and thinking unconstrained by management. We are therefore unlikely to support relatively large numbers of executive directors on the Board. In most cases, the Chief Executive Officer and the Chief Financial Officer (or equivalent) will be sufficient. We recommend that the annual report disclose which directors qualify as independent directors and the principles supporting their independence.

**Competence** - Directors should be chosen for their expertise in a particular field relevant to the normal activities of the company. We encourage Boards to seek an independent performance assessment on the election and re-election of a director. Each director should be informed upon appointment of the reasons for his / her selection and the duties expected. These reasons should be disclosed to the market. Incompetent or consistently underperforming directors should be asked to resign as soon as possible.

**Diversity** - We support a diversity of views in the boardroom, provided it supports the best long-term economic interests of shareholders. We believe a balance of skills and experience is desirable. We expect that a director will bring an independent mind to bear when contributing to the board's decision-making process.

**Commitment** - We expect all directors to commit enough time to company affairs to soundly perform their duties. We believe that there is a limit to the number of directorships any one individual can accept due to time constraints. The limit must be considered in each set of circumstances.

**Board Size** - The size and complexity of the company will normally determine the appropriate size of the board. There should be a sufficient number of directors to ensure that all the major functions of the board and affairs of the company are addressed with maximum efficiency.

**Board Terms** - We do not support minimum terms for directors, unless we are able to independently assess the contribution of each. The onus of proof should be on the company. We are far more interested in the level of commitment and contribution than arbitrary terms of service.

**Communication with Shareholders** - One of the most important roles of the Board is to communicate with shareholders. We expect the board to be open and candid with shareholders about the current and likely performance of the company. This should extend to reasonable disclosure of financials and risk management policies. We strongly encourage directors to make themselves more accessible to shareholders. In cases where disclosure and communication have deteriorated during our time as shareholders of the company, we will generally inform the company of our dissatisfaction, as a first step. We reserve our right to vote against directors if we are unsatisfied with the Board's progress in this area.

**Share Ownership** - We believe that directors should hold meaningful equity in the company, subject to their personal circumstances. This aligns their interests with other

shareholders and exposes them to down-side risk in the event of poor performance. We also encourage directors to take a meaningful portion of their fees in the form of equity.

**Related Party Transactions** - Even though virtually all related party transactions are purported to be structured on an "arms-length" basis or on "normal commercial terms", we are not in favour of the practice of directors generating income from the company outside of directors' fees or equity dividends. We recommend that directors avoid the risk of actual or perceived conflicts of interest. If we perceive there is a conflict of interest, we will vote against the re-election of the relevant director.

**Performance Evaluation** - We expect the Board to adopt a formal performance assessment process. This should cover its own performance, including individual directors, as well as evaluate management and company performance. This should be carried out at regular intervals and be disclosed to shareholders in interim and annual reports. We recommend that independent directors meet as a group to review performance at regular intervals, in addition.

**Nomination Committee** - A nomination committee should be established to monitor the performance of the Board, assess competency requirements, and provide recommendations for the appointment and removal of directors. We expect the Nomination committee to be majority independent of management.

**Risk Management** - It is essential that the Board develops a detailed policy to manage risk and internal controls within the organisation. Key risks should be identified and material changes in the company's risk profile should be communicated to shareholders. The risk profile should be reviewed regularly.

**Code of Conduct** - A code of conduct should be adopted to guide the behaviour of directors and senior management. It is intended that a code will promote ethical and responsible behaviour. The code should not be limited to policies regarding trading in company securities.

**"Whistle-Blowing"** - The Board should adopt favourable policies for the encouragement and protection of "whistleblowers". This policy should also apply to directors of the company.

## 2.2. Remuneration

**General Policy** - Remuneration for senior executives should look to align with long-term shareholders' interest. A reasonable "base" should be paid for the services of the executive on a day-to-day basis, generally depending upon the size and complexity of the business involved. However, a material percentage of total remuneration should be "at-risk" and tied to clearly defined performance targets as part of incentive plans.

**Compensation Committee** - The Board's compensation committee should comprise a majority of independent directors. We encourage the Board to resist the temptation of relying wholly on compensation consultants to set remuneration rates. Common sense and reasonableness should be the guiding principles. Consultants should be



appointed independently of management. In case of any major concerns about pay practices, we may hold remuneration committee members accountable and vote against their re-election.

### **Incentive Plans**

**Long Term vs. Short Term** - Incentive plans - particularly long-term plans - should be linked to the equity of the company so that they align management with the best long-term economic interests of all shareholders. We are not against cash payments resulting from short-term incentive plans. As the reward is cash, these plans are vastly more transparent and easier to value. Rigid performance hurdles should apply to both short and long-term incentive plans, without exception. We expect that hurdles would have both "internal" and "external" components. The internal component should be related to the fundamentals of the company under the direct control of management. An external reference (e.g. peer group comparison) measures performance of management against their peers in related companies. All plans should be designed to reward superior, and not average, performance. The rewards available under any plan should be reasonable in all the circumstances. Material details of each incentive plan should be disclosed to the market.

**Favourable Loans to Executives** - We support the provision of company loans to executives for the purpose of buying equity, provided reasonable collateral is secured and the principal amount is not "forgiven" at some point in future. The quantum involved should not place any executive under financial stress or encourage management focus on short-term results at the expense of the long term economic interests of all shareholders. As these loans-for-equity expose executives to both upside and downside risk, we believe they are a superior mechanism to align management's interests with shareholders. They also display an increased level of personal financial commitment to the company, which we generally view positively. When a company offers interest rates that are lower than prevailing commercial rates, it should be disclosed to the market.

**Stock Options** - We are interested in rewarding executives for capably managing the invested capital base of the company. We recognise options as one element of management remuneration and if structured correctly can provide a powerful incentivisation. The award of options must be reasonable in the circumstances and reward superior performance only. We believe option grants should not be excessive and we will vote against any issuance greater than 10% of existing share capital unless there are exceptional circumstances. In addition, options should not be re-priced, except where the capital base has been adjusted (e.g. rights issues etc.).

### **2.3. Audit Function**

**Audit Committee** - Only independent directors should serve on the Audit Committee. The Audit Committee should include members with a mix of appropriate skills and experience to properly discharge their duties. The Audit Committee should ensure that the appointment of auditor is a transparent process. The Audit Committee should also have a formal charter and be sufficiently empowered to meet its obligations.

**External Auditors** - The external accounting firm that performs principal audit work should not perform any significant "non-audit" work, to preserve its independence. All companies should disclose the length of service provided by an accounting firm for external audit work. Prior services for "non-audit" work by the same firm should also be disclosed, including the quantum of fees paid.

#### **2.4. Takeover Protection**

We are opposed to proposals or transactions that seek to artificially entrench current management and / or thwart takeover offers.

#### **2.5. Shareholder Rights**

We are strong advocates for the protection of shareholder rights and believe we should see greater protection of shareholders, not less. The rights of shareholders are paramount. We generally do not support any proposal that removes or dilutes these rights. The burden of proof will always lie with the company. We recognise that there will always be competing interests between shareholder groups. We will endeavour to support a course of action that is in the best long-term interests of our clients, as shareholders.

#### **2.6 Appropriate Disclosure**

We are advocates that appropriate environmental & social disclosure is required for investors to understand the related risks and opportunities. We would favour increased disclosure if we believe that would enhance our understanding of the company's Future Quality characteristics.