GLOBAL CORPORATE GOVERNANCE PRINCIPLES

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Introduction

As responsible stewards of our customers' capital, the fundamental tenet of our Global Corporate Governance Principles is to protect and enhance the economic interests of our clients. These principles are focused around corporate governance and the role of board directors in promoting corporate success, thereby creating sustainable value for shareholders while having regard to other stakeholders, both internal and external.

We believe that Sustainability or Environmental, Social and Governance (ESG) factors create risks and opportunities for companies and that these should be managed appropriately. In particular, we believe that good governance of the companies in which we invest is an essential part of creating shareholder value and delivering investment performance for our clients.

We have adopted the International Corporate Governance Network (ICGN) Global Governance Principles, which set out a primary standard for well-governed companies that is widely applicable, irrespective of national legislative frameworks or listing rules. We also reference the Principles of Corporate Governance developed by the Organisation for Economic Co-operation and Development (OECD) which are intended to help policymakers evaluate and improve the international frameworks for corporate governance. Differences in national market regulation mean that a single set of detailed guidelines is unlikely to be appropriate for all the countries in which we invest. Where overseas corporate governance codes are consistent with our overall principles we will adopt these. At a minimum we would expect companies to comply with the accepted corporate governance standard in their domestic market or to explain why doing so is not in the interest of (minority) shareholders.

"Sustainability implies that the company must manage effectively the governance, social and environmental aspects of its activities as well as its financial operations. In doing so, companies should aspire to meet the cost of capital invested and generate a return over and above such capital. This is achievable sustainably only if the focus on economic returns and strategic planning includes the effective management of company relationships with stakeholders such as employees, suppliers, customers, local communities and the environment as a whole." ICGN Global Governance Principles, 2017.

We believe the ICGN principles provide a strong and concise framework for determining the minimum corporate governance standards we should expect from the companies in which we invest.

We recognise that the circumstances under which companies operate vary considerably and as such we take into account the specific circumstances of each company when assessing how to approach corporate governance. However, we will actively question and challenge companies when we believe that their governance policies fall short of the standards we expect and/or may affect our clients' interests and long-term returns.

Our principles – an overview

These are the guiding principles from which we have formulated our corporate governance principles and are based on the ICGN Global Governance Principles:

Principle 1: Board role and responsibilities

The board should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors.

Principle 2: Leadership and independence

Board leadership calls for clarity and balance in board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole.

Principle 3: Composition and appointment

There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

Principle 4: Corporate culture

The board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company’s strategy and operations, including risk management systems and remuneration structures.

Principle 5: Risk oversight

The board should proactively oversee, review and approve the approach to risk management regularly or, with any significant business change and satisfy itself that the approach is functioning effectively.

Principle 6: Remuneration

Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.

Principle 7: Reporting and audit

Boards should oversee timely and high quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance, and material environmental and social factors. A robust audit practice is critical for necessary quality standards.

Principle 8: Shareholder rights

Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that shareholder voting rights are directly linked to the shareholder’s economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

The full ICGN Global Governance Principles can be found here: ICGN Global Governance Principles

Our expectations

We summarise below what we regard as best practice for the companies in which we invest. These determine how we engage and interact with investee companies and inform how we will cast votes on behalf of our clients.

Leadership

- Every company should be led by an effective board, which is collectively responsible for the long-term success of the company.
- There should be a clear division of responsibilities between the board and executive responsibility for running the company's business. No one individual should have unfettered powers of decision or influence.
- The Chairman is responsible for board leadership and ensuring its effectiveness in all aspects of its role.
- The board should appoint a Lead Independent Director (sometimes referred to as Senior Independent Director), even when the company chair is independent. The responsibilities and authority of this role should be clearly defined.
- The board should explain the reasons why its leadership structure is in the best interests of the company in the annual report and keep the structure under review.
- As part of their role as members of a board, non-executive directors should constructively challenge and help develop proposals on strategy.

Effectiveness

- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a formal, rigorous and transparent procedure for the appointment of new and reappointment of existing board directors.
- The board should take account of diversity in its broadest sense when considering candidates for the board and other senior positions. The board should disclose the company's policy on diversity (including gender, ethnicity, cognitive and social) in relation to its senior management and board (both executive and non-executive).
- The board of a widely-held company should comprise a majority of independent non-executive directors. Controlled companies should have a majority of independent non-executive directors, and at least three (or one-third) independent directors, on the board.
- The board should identify in the annual report the names of the directors considered by the board to be independent and who are able to exercise independent judgement free from any external influence. Considerations should include tenure and relationship with the company (e.g. shareholdings or previous employment/business relations) and companies should be guided by local norms.
- Non-executive directors should serve for an appropriate length of time to ensure they bring an objective perspective to the board without compromising the independence of the board. The length of tenure of each director should be reviewed regularly by the nomination committee to allow for board refreshment and diversity and retention of corporate knowledge.

- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively. The number, and nature, of board appointments an individual director holds should be carefully considered and reviewed on a regular basis and the degree to which each individual director has the capacity to undertake multiple directorships should be clearly disclosed.
- All directors should receive an appropriate induction on joining the board and should regularly update and refresh their skills and knowledge.
- The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- Our preference is for non-classified/non-staggered board and annual re-elections of directors. However, all directors should be submitted for re-election at regular intervals, no less frequently than three years, subject to continued satisfactory performance.
- While it is often justified and useful for major shareholders to be represented on the board, there should be a strong core of independent directors to ensure that the interests of minority shareholders are protected.

Accountability

- The board should present a fair, balanced and understandable assessment of the company's position and prospects.
- The board should disclose relevant and material information on a timely basis so as to allow shareholders to take into account information which assists in identifying risks and sources of wealth creation.
- The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- Companies should manage effectively environmental, social and ethical factors that are relevant to their business, with a view to enhancing long-term sustainability. Board and senior management responsibilities for environmental, social and ethical issues should be clearly defined.
- The board should establish formal and transparent arrangements for considering how they should apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor. This should include consideration of an integrated report.
- The board should report on how capital has been allocated and what has been taken into consideration in making these decisions.
- The board should establish an audit committee comprised entirely of independent non-executive directors. At least one member of the audit committee should have recent and relevant financial expertise.
- The board should publish the external auditor's report which should provide an independent and objective opinion whether the accounts give a true and fair view of the financial position and performance of the company.

- The company should publish its policy on audit firm rotation. The engagement partner should be named in the audit report and audit rotation should be promoted at appropriate intervals both at the audit partner and firm level. If the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded should be provided. The board, particularly non-executive directors, should make available communication channels for meaningful dialogue on governance matters with shareholders, creditors and other stakeholders as appropriate.
- The board should ensure that management has implemented appropriately stringent policies and procedures to mitigate the risk of bribery, corruption or other malfeasance and take appropriate and decisive corrective action where necessary.
- The board should ensure that the company has in place an independent, confidential mechanism whereby an employee, supplier or other stakeholder can (without fear of retribution) raise issues of particular concern with regard to potential or suspected breaches of a company's code of ethics or local law.

Risk Oversight

- The board should adopt a comprehensive approach to the oversight of risk which includes material financial, strategic, operational, environmental, and social risks (including political and legal ramifications of such risks), as well as any reputational consequences.
- The board should also disclose to shareholders on a regular basis how they identify and manage the relevant risks and provide evidence that these structures are effective and that environmental, social and ethical factors are embedded in their corporate culture.
- The board should lead by example and foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions.

Remuneration

- Remuneration should be aligned to long-term success and the desired corporate culture of the organisation.
- Remuneration schemes for both executives and non-executives should ensure that rewards reflect long-term returns to shareholders.
- Disclosure associated with remuneration polices should be timely, clear and understandable for both investors and executives.
- Remuneration levels should not be higher than is necessary to attract and retain the individuals required to achieve the business strategy.
- Executive management and non-executive directors should make a material long-term investment in shares of the business they manage or oversee. Safeguards should be put in place to ensure alignment of interest with shareholders.
- The remuneration committee should, ideally, comprise entirely independent non-executive directors or supervisory board members.
- The remuneration committee should use the discretion provided to it by shareholders to ensure that awards properly reflect business performance.
- Non-Executive Director remuneration should consist solely of a cash retainer and equity-based remuneration subject to adequate safeguards being in place.

Shareholder rights and relations with shareholders

- Ordinary or common shares should feature one vote for each share. Divergence from a 'one-share, one-vote' standard, which gives certain shareholders power or control disproportionate to their economic interests, should be avoided. In the event of the existence of such classes, they should be disclosed and explained and sunset mechanisms should be put into place.
- The board should ensure that shareholders have the right to vote on major decisions which may change the nature of the company in which they have invested. This includes but is not limited to: appointment or removal of a director, with or without cause, by a majority of votes cast; amendments to governing documents of the company such as articles or by-laws; company share repurchases (buybacks); issuance of additional shares, noting the board should be mindful of dilution of existing shareholders and provide full explanations where pre-emption rights are not offered; significant M&A; shareholder rights plans ('poison pills') or other structures that act as anti-takeover mechanisms.
- The board should ensure that shareholders of the same series or class are treated equally and afforded protection against misuse or misappropriation of the capital they provide due to conduct by the company's board, its management or controlling shareholder, including market manipulation, false or misleading information, material omissions and insider trading.
- The board should ensure that shareholders are able to nominate candidates for board appointment, subject to an appropriate threshold of share ownership.
- The board should disclose the process for approving, reviewing and monitoring related party transactions (RPTs) and any inherent conflicts of interest which, for significant transactions, includes establishing a committee of independent directors.
- Shareholders should have the right to approve significant RPTs above an appropriate materiality threshold, and this should be based on the approval of a majority of disinterested shareholders.
- The board should ensure that shareholders have the right to place items on the agenda of general meetings, and to propose resolutions subject to reasonable limitations.
- There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.
- The board should use the Annual General Meeting (AGM) to communicate with investors and to encourage dialogue.
- Where there is a significant vote against management there should be a clear response or plan to address issues raised.