

GLOBAL CORPORATE GOVERNANCE PRINCIPLES

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MARTIN CURRIE

Introduction

As responsible stewards of our clients' capital, the fundamental tenet of our Global Corporate Governance Principles is to protect and enhance the economic interests of our clients, promote effective standards of corporate governance to advance efficient markets and sustainable economies. 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.

"The sustainable success and value creation of the company itself which involves meeting legitimate shareholder needs for returns on capital while maintaining positive relations with key stakeholders, including the workforce, customers, suppliers, communities, and civil society more broadly. This infers the need for both investors and companies to focus not only preserving and building a company's financial capital, but also its human and natural capital." ICGN Global Governance Principles 2021.

We believe the ICGN principles provide a strong and concise framework for determining the corporate governance standards we should expect from the companies in which we invest and include disclosure of a clear vision, mission, purpose and values to guide the company's approach to the development of strategy, operations and innovation.

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 promote the long-term best interests of the company by acting on an informed basis with good faith, care and loyalty, for the benefit of shareholders, while having regard to relevant stakeholders.

Principle 2: Leadership and independence

Board leadership requires clarity and balance in board and executive roles and an integrity of independent process to protect the interests of shareholders and relevant stakeholders in promoting the long-term success of the company.

Principle 3: Composition and appointment

The board should comprise 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 in alignment with the company's purpose, long-term strategy and relevant stakeholders.

Principle 4: Corporate culture

The board should instill and demonstrate a culture of high standards of business ethics and integrity aligned with the company's purpose and values at board level and throughout the workforce.

Principle 5: Remuneration

Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation. Aggregate remuneration should be appropriately balanced with the payment of dividends to shareholders and retention of capital for future investment and the level of quantum should be defensible relative to social considerations relating to inequality.

Principle 6: Risk oversight

The board should proactively oversee the assessment and disclosure of the company's key risks and approve the approach to risk management and internal controls regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

Principle 7: Corporate reporting

Boards should oversee timely and reliable company disclosures for shareholders and relevant stakeholders relating to the company's financial position, approach to sustainability, performance, business model, strategy, and long-term prospects.

Principle 8: Internal and external audit

The board should establish rigorous, independent and effective internal and external audit procedures, to ensure the quality and integrity of corporate reporting.

Principle 9: Shareholder rights

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

Principle 10: Shareholder meetings

Boards should ensure that meetings with shareholders are efficiently, democratically, and securely facilitated to enable constructive interactivity and accountability for the company's long-term strategy, performance, and approach to sustainable value creation upon which voting decisions may be influenced.

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.
- Directors have a fiduciary duty to act in good faith with due care and loyalty to promote the long-term success of the company for sustainable value creation. Implicit in this concept is the need to generate economic risk-adjusted returns on capital for shareholders, while having regard to wider stakeholder interests in overseeing strategic risks and opportunities which impact economic prosperity, social welfare and the natural environment.
- Companies should publicly disclose a clear purpose to guide management's approach to strategy, innovation and risk and engage constructively with shareholders on governance, sustainability and performance aligned with the company's purpose and strategy.
- 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 Chair 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 ensure that it is not dominated by one gender and is at least one-third (gender) diverse.
- 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).
- Boards should disclose clear gender diversity goals and regularly report progress towards achievement over a defined timeframe.
- 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 including access to advice from a company secretary (or general counsel) and/ or independent advice as appropriate.
- 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 board should have accountability for the governance of sustainability ensuring the integration of human capital (particularly the workforce) and natural capital management in strategy, innovation and risk.
- 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 should be enterprise-wide and include threats to the company's business model, cyber-security, supply chain resilience, performance, solvency, liquidity and reputation. Risk oversight should extend beyond financial capital to include human capital and natural capital and in particular, systemic risks identified in the United Nations Sustainable Development Goals, where these are relevant to the company's business model and strategy.
- The board should annually disclose to shareholders 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. This should include the potential probability and impacts of such risks, and any mitigating actions and procedures.
- The board should lead by example and foster an effective risk culture that encourages openness and constructive challenge of judgements and assumptions.
- The board should ensure that risk is appropriately reflected in the company's strategy and capital allocation. Risk should be managed in a rational, appropriately independent, dynamic and forward-looking way.

Remuneration

- Remuneration should be designed to equitably and effectively align the interests of the CEO, executive officers and workforce with a company's strategy and purpose to help ensure long-term sustainable value preservation and creation.
- Executive remuneration should be structured in a simple manner that is aligned with the company's purpose and long-term strategy.
- Remuneration schemes for both executives and non-executives should ensure that rewards reflect long-term returns to shareholders. Metrics should be rigorous and measured over timescales, and with methodologies, which help ensure that performance pay is directly correlated with sustained value creation and preservation.
- Disclosure associated with remuneration policies 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.

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