



EDENTREE INVESTMENT MANAGEMENT LTD. **UK CORPORATE GOVERNANCE POLICY**

1. Introduction

Corporate Governance is the system by which companies are directed and controlled for the long-term benefit of their shareholders. It concerns the arrangements for appointing and remunerating directors and auditors, and the controls in place to enable them to discharge their respective responsibilities with diligence and effect.

Good governance concerns the relationship between shareholders and the companies in which they invest so as to satisfy themselves of the appropriateness and strength of the governance regime in place. To that end, companies are encouraged to provide a transparent account of their governance arrangements in accordance with the accepted principle of “comply or explain”. Investors have a responsibility to engage (individually and collectively) with investee companies to help promote a sense of ownership to protect and enhance value creation over the long-term. Our UK and International Corporate Governance Policies should therefore be read in conjunction with our annual UK Stewardship Code Statement.

2. Policy

EdenTree Investment Management (EIM) supports the principle of considered voting believing that proxies have an economic and stewardship value, and that shareholders have a vital role to play in encouraging high standards of corporate governance from the perspective of being long-term investors. EIM will consequently endeavour to register and vote at all UK meetings in which it has a shareholding. In exceptional cases, EIM may elect to abstain from voting where companies have provided insufficient information for us to take a view.

EIM has adopted a policy of voting in support of company management except where proposals are considered to be in breach of UK corporate governance best practice, or are viewed as not being in the economic interests of shareholders. As long-term investors, EIM believes a pragmatic approach best fulfils the objective of building shareholder value over time. EIM will seek to engage pro-actively with companies where either existing corporate governance arrangements or management proposals cause concern. A decision either to abstain or oppose will be taken based on the guiding principles below, and where appropriate, on a case by case basis.

3. Guiding Principles

EIM supports the Principles set out in the UK Corporate Governance Code¹ and The UK Stewardship Code².

All UK proxy voting decisions (including Guernsey, Jersey and The Isle of Man) are processed and executed in-house, signed off by a Fund Manager; UK proxy voting decision making is not outsourced. We take IVIS (Institutional Voting Information Service) provided by the Investment Association to inform our thinking. EIM supports the principle of separate resolutions being proposed for each distinct issue; bundled resolutions e.g. for the re-election of directors should therefore be avoided.

4. Annual Report and Accounts

EIM will support the routine adoption of the Annual Report and Accounts, except where the auditors provide a qualified audit statement.

5. Composition of the Board

EIM supports the principle of the Chairman being independent on first appointment and of the roles of Chairman and Chief Executive being separate. Executive Chairs should be supported by a strong independent element at senior level. The elevation of a Chief executive to the role of Chairman will not normally be supported save in exceptional circumstances that are fully disclosed and justified by the company

Boards should comprise an appropriate mix of executive and non-executive members, where the independent element comprises (ideally) at least half of the Board. Membership of the Audit Committee in particular should normally be comprised entirely of independent, non-executive directors. EIM supports the annual election of directors, and expects the Board to explain any reasons for diverting from best practice as set out in the UK Corporate Governance Code. EIM views length of service to be a determinant of independence for any non-executive appointment, with continuous tenure in excess of nine years viewed as potentially 'non-independent'. Directors should be able to allocate sufficient time properly to discharge their responsibilities effectively therefore the number of appointments held in total will also be taken into account when considering the re-election of directors.

Smaller companies, those listed on AIM (the Alternative Investment Market) or those domiciled in the Channel Islands and The Isle of Man are not currently required by the listing authorities to re-elect directors on an annual basis, with directors instead retiring by rotation. EIM subscribes to the view that all companies should seek shareholder approval for the annual re-election of directors in keeping with best practice, and will seek to encourage companies to do so where such disclosure is absent.

We encourage companies to provide a full and transparent account of the effectiveness of the Board and support the appointment of an appropriate mix of non-executive skills and competencies.

6. Diversity

EIM supports the aspiration to improve Board diversity as set out in the Hampton-Alexander Review, '*FTSE Women Leaders*'. We look to FTSE350 companies to report progress on how they expect to meet a minimum target of 33% women on boards by 2020³. Where companies make 'boiler plate' statements, or do not appear to be making sufficient headway, we may use discretion to oppose or abstain the re-election of the Chairman (or Members) of the Nominations Committee.

7. Shareholder Capital Issues

EIM will support routine shareholder capital proposals (share issue authorities and purchase of company's own shares etc.) so long as shareholder rights are protected and are generally within IA (Investment Association) pre-emption and dilution limits.

Investment related proposals (scrip dividends, capital raising, merger & acquisition, re-structuring etc.) will be considered on the merits of the investment case. Amendment or adoption of company Articles of Association will be supported so long as shareholder rights are protected.

8. Auditors

The Board is expected to monitor and report on the independence and objectivity of the external auditor and to disclose its policy on the payment and provision of non-audit fees and services. EIM supports the periodic tender and rotation of external auditors in accordance with EU Guidance, and

will exercise our shareholder rights to withhold support for the re-appointment of auditors where no such process has taken place for at least ten years. EIM will normally vote to support the re-appointment of auditors where a company announces an intention to tender within ‘a reasonable time’. We expect the audit partner to be rotated at least every five years.

EIM notes EU Guidance on limiting the ratio of non-audit fees as not exceeding 70% of the statutory audit fee in any financial year, and we will be mindful of this ratio when deciding whether to support the re-appointment of auditors, as outlined below:

	Ratio less than 70%	Ratio more than 70%
Audit tender every 10 years or Less	For	Abstain
Audit tender over 10 years	Abstain	Oppose
No audit tender for at least 15 years	Oppose	Oppose

9. Executive Remuneration

Particular attention is given to executive remuneration policy and practice.

Since 1 October 2013, shareholders have had a *binding vote* on Remuneration Policy and an *advisory vote* on implementation (‘the Remuneration Report’). Shareholders are required to approve Policy on executive pay every three years, with an annual – advisory – vote on the Board Remuneration Report. EIM has developed these guidelines to provide for a *forward looking* vote on pay policy, and a *backward looking* vote on the previous year’s policy implementation.

- Remuneration should be sufficient to recruit, retain, and motivate so as to incentivise long-term superior out-performance without being excessive; it should not be designed to reward undue risk. EIM will take into account the individual circumstances of the company and the sector in which it operates.
- EIM supports the general principle of variable, long-term incentives as an appropriate means of aligning executive performance with shareholder interests, and the deferring of a proportion of short-term awards into shares for at least three, but preferably five, years. The award of role based pay or fixed allowances in the UK financial services sector will not be supported. Shareholder approval to award up to 200% salary in total variable pay in the financial services sector may be supported where role-based pay or fixed allowances have not been introduced.
- EIM will consider, as part of its decision making process, the quality of disclosure so as to allow an informed judgement to be made on the individual and aggregate elements of remuneration; whether performance hurdles are stretching and tiered towards delivering superior out-performance, and any potential for excess.
- The potential for excess is subjective. Companies should not overpay, but shareholders may be content to approve significant awards conditional upon the delivery of superior long-term out-performance. EIM subscribes to the view that excessive rewards should be avoided. Factors that may contribute towards potential excess include undemanding or below market consensus performance criteria; criteria linked wholly to share price appreciation; factors generally outside of a director’s control (such as commodity price movements); long-term incentive schemes that are tiered towards, and reward excessively for, threshold or median performance; a multiplicity of schemes in operation, (particularly deferred or matching bonus schemes); and excessive recruitment or severance awards. Uncapped bonus or long-term incentive schemes will not be supported save in exceptional circumstances.
- In general terms, annual and long-term awards that in *aggregate* exceed 300% of salary per year will trigger an ‘excess assessment’. Potential excessiveness may be offset by

exceptionally challenging performance hurdles, unusually low base salaries, or where a company is in transition or turnaround.

- EIM will support the advisory vote on implementation ('the Remuneration Report') where we have supported the binding vote on pay Policy, and where this has been applied without undue Committee discretion. The Remuneration Report will be considered in the context of our general principles on remuneration: the quality of disclosure allowing an informed judgement to be made; whether performance hurdles are stretching and tiered towards delivering superior out-performance, and any potential for excess.
- Smaller companies, those listed on AIM (the Alternative Investment Market) or those domiciled in the Channel Islands and The Isle of Man are not currently required by the listing authorities to put their remuneration policy or report to vote. EIM subscribes to the view that all companies should seek shareholder approval for their remuneration arrangements in keeping with best practice, and will seek to encourage companies to do so where such disclosure is absent.
- Factors that may determine how Remuneration Policy will be voted in practice include:

Support	Abstain	Oppose
<i>Clear & full disclosure on all aspects of remuneration Policy to allow informed judgement</i>	<i>Good level of disclosure; but some transparency/ completeness issues; generally allows informed judgement</i>	<i>Poor or inadequate disclosure that prevents an informed judgement from being made</i>
<i>No evidence of excess (short term bonus and long-term incentives generally less than 300% salary pa)</i>	<i>Some potential for excess e.g. ratcheting of base salaries and/or bonus without clear explanation or justification. Awards in aggregate generally around 300% salary pa</i>	<i>Remuneration potentially excessive in aggregate – evidence of over-paying e.g. base salaries pitched above peer or index group; awards in aggregate generally more than 300% salary pa; high vesting at median</i>
<i>Clear alignment of shareholder and executive interests through robust remuneration structure</i>	<i>Alignment of shareholder and executive interests may not be clear or apparent</i>	<i>Little or no structural alignment between remuneration Policy and shareholder interests</i>
<i>Performance targets structured to incentivise and deliver superior out-performance; modest vesting at median. Broad vesting scale</i>	<i>Performance targets may reward unduly for median performance (over 20% of salary). Vesting scale is generally broad</i>	<i>Performance targets unchallenging and structured to reward excessively at median or changed mid-year to allow easier pay out; cliff vesting</i>
<i>Performance targets are structured to align with business strategy</i>	<i>Use of specific targets may lack clarity in context of business strategy</i>	<i>Performance targets are not structured to align with business strategy</i>
<i>Clear disclosure of pension policy; 20% or less of salary contributed</i>	<i>Less clear disclosure; contribution over 20% of salary</i>	<i>Pension contributions over 30% salary</i>

<i>No evidence of over-paying or rewards for failure; service contracts one year or less; claw-back, malus & mitigation applied</i>	<i>Some evidence of over-paying e.g. on recruitment; service contracts two years or 18 months reducing; claw-back and mitigation may not apply</i>	<i>Transaction bonus; rewards for failure; service contracts more than one year; awards with no performance criteria; evidence of over-paying; no evidence of mitigation or claw-back</i>
<i>Recruitment or severance costs appear reasonable and appropriate; claw-back and mitigation in place</i>	<i>Recruitment or severance costs appear high with limited justification. Claw-back, malus and mitigation may not apply</i>	<i>Recruitment or severance costs appear excessive, with evidence the company has overpaid; poor justification; no claw-back</i>
<i>'Golden Hellos, Golden Parachutes' and the payment of 'compensation foregone' is largely avoided</i>	<i>'Golden Hellos, Golden Parachutes' and the payment of 'compensation foregone' is available at or below market rate</i>	<i>'Golden Hellos, Golden Parachutes' and the payment of 'compensation foregone' is paid at a level that is unwarranted and may reflect over-payment by the Board</i>

- In exceptional circumstances, where remuneration is judged to be particularly egregious, EIM may vote to oppose the Chairman, or other non-executive members of the Remuneration Committee. Companies are expected to have provisions in place that allow the forfeit of part of a bonus or long-term incentive award before it has vested and been paid (*'malus'*) or to recover sums already paid (*'clawback'*) in the event of material issues arising, such as the re-statement of accounts.

EIM subscribes to the view that incentives should be genuine and tiered towards delivering out-performance. To that end, long-term incentive schemes that allow 'substantial' vesting at median or threshold (where 'substantial' means more than 20% salary), will not normally be supported.

10. Non-Executive Remuneration

The policy for remunerating non-executive directors (including the Chairman) should be clearly disclosed, and should reflect the time commitment and responsibilities attached to the role without being excessive. EIM accepts that payment of a fee may be made in shares, but a performance related element will not be supported. Proposals to increase the aggregate level of non-executive fees should be reasonable and sufficient without providing unjustified headroom.

11. Political Donations and Political Expenditure

The direct payment of party political donations will not be supported. Precautionary mandates for legitimate political expenditure as defined by the Companies Act 2006 is deemed acceptable, subject to these appearing reasonable and not excessive (which is usually taken to mean a mandate of no more than £100,000 pa).

EIM will oppose, without exception, political expenditure requests in excess of £100,000pa.

12. Investment Companies

EIM applies these guiding principles and those issued by the Association of Investment Companies⁴ (AIC) to the governance arrangements of investment companies, accepting that the main function of the Board is to monitor the activities of the Fund Manager.

To that end, a majority of the Board should be independent of the manager to ensure objective scrutiny of investment strategy, performance and internal control. EIM views length of service to be a

determinant of independence for any non-executive appointment with continuous tenure in excess of nine years viewed as potentially 'non-independent'.

13. Shareholder Resolutions

EIM supports the principle of shareholder democracy as playing an important part in the governance regime of public companies. Given the diversity of issues that may inspire a shareholder resolution, EIM will seek to engage with the proponents and the Board before exercising a judgement on how to vote. Each proposal will be considered case by case with regard to its reasonableness, the materiality of any business risk, cost implications, and whether the proposal supports EIM's wider ESG aims and objectives. Decisions taken by EIM on shareholder resolutions will be disclosed in the quarterly proxy voting report.

14. Engagement

We routinely engage with company management on corporate governance issues especially as part of the annual proxy voting cycle. Where we have concerns, or require governance clarification, this is communicated, in the first instance, to the Company Secretary. EIM publishes a quarterly report of its UK proxy voting activity on the EdenTree website at www.edentreeim.com

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¹ The UK Corporate Governance Code (formerly the Combined Code on Corporate Governance), FRC, June 2010

² UK Stewardship Code, FRC July 2010

³ FTSE Women on Boards Hampton-Alexander Review November 2016

⁴ The AIC Code of Corporate Governance, AIC May 2007