



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 Stewardship Report

2. Policy

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

EdenTree has adopted a policy of voting in support of company management except where proposals do not appear to align with UK corporate governance best practice or are viewed as not being in the economic or stewardship interests of shareholders. As long-term investors, EdenTree believes a pragmatic approach best fulfils the objective of building shareholder value over time. EdenTree will seek to engage pro-actively with companies where possible, particularly 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.

For the purposes of efficient and timely execution, EdenTree has appointed Glass Lewis & Co. Inc. (Glass Lewis) to be its sole discretionary research and proxy execution provider, delegating to it the responsibility for the instruction and execution of UK proxy voting at all company meetings. EdenTree may override recommendations via Glass Lewis’s voting platform to reflect considerations arising from in-house research and any engagements with the relevant company.



3. Guiding Principles

EdenTree supports the Principles set out in the [UK Corporate Governance Code](#)¹ and [The UK Stewardship Code](#)².

EdenTree 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

EdenTree will generally support the routine adoption of the Annual Report and Accounts, except where the auditors provide a qualified audit statement, or in other specific case-by-case circumstances such as qualifying the company's status as a 'Going Concern'.

5. Composition of the Board

EdenTree supports the principle of the Chair being independent on first appointment and of the roles of Chair 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 Chair will not 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 should ideally comprise at least half of the Board. Membership of the Audit Committee in particular should normally be comprised entirely of independent, non-executive directors with relevant experience. EdenTree 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.

EdenTree 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 compromising independence. In general we would not support tenure in excess of 10 years.

Tenure up to and including 9 years	FOR
Tenure between 9 and 10 years	ABSTAIN
Tenure over 10 years	OPPOSE

Directors should be able to allocate sufficient time properly to discharge their responsibilities effectively therefore the number of appointments held *in total*, together with attendance levels will be taken into account when considering the re-election of directors.

Attendance of <75%; company explanation	FOR
Four or more appointments and/or <75% attendance	ABSTAIN
Four or more appointments and/or <50% attendance	OPPOSE

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. EdenTree 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. Where companies decline to move towards annual director elections following engagement, EdenTree may take action to oppose the Chair (or non-executive members) of the Board.

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. In particular the Audit Committee should have majority relevant finance, risk and audit competencies in order to discharge its functions.

6. Diversity

EdenTree 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 have worked towards meeting a minimum target of 33% women on boards³. 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 Chair (or Members) of the Nominations Committee.

EdenTree notes the recommendations of the Parker Review (Ethnic Diversity of UK Boards⁴) that there should be one director from a minority ethnic group on each FTSE 350 Board. We fully support improving the diversity of talent, background and skills in building high performing Boards and will look to companies to disclose how they are meeting these requirements as part of their search, recruitment and appointment processes. Where insufficient progress is being made, we may use discretion to abstain the re-election of the Chair or Members of the Nominations Committee.

7. Shareholder Capital Issues

EdenTree 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 Investment Association pre-emption and dilution limits.

Investment related proposals (scrip dividends, capital raising, merger & acquisition, re-structuring etc.) will be considered individually 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; bundled amendments to Articles where one or more sub-provisions potentially breach shareholder rights, may not be supported.

Pre-emption rights are a cornerstone of UK company law and provide investors with protection against excessive dilution from the issuance of new equity. Pre-emption rights may be 'dis-applied' by way of a special resolution of shareholders at a General Meeting. Best practice as advised by the Pre-emption Group proscribe any authority to dis-apply these rights above 24% of the issued capital; EIM subscribes to these guidelines. Where dilution is above these limits (Infrastructure Funds for instance), this requires specific approval by Fund Managers.

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. EdenTree supports the periodic tender and rotation of external auditors in accordance with EU Guidance and will look to exercise our shareholder rights to withhold support for the re-appointment of auditors where no such process has taken place for at least 15 years. In the event of a tender resulting in the re-appointment of a long-standing incumbent auditor, EdenTree will oppose their annual re-election.

EdenTree 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.

EU audit legislation introduces restrictions on the range of non-audit services that public interest entities can obtain from the statutory auditors. Permissible under the regulations is a maximum of 70% of the average of fees paid over three consecutive financial years 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 15 years	For	For
Audit tender over 15 years	Oppose	Oppose
Re-appointment of long-term incumbent⁵	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 ‘at least’ every three years, with an annual – advisory – vote on the Board Remuneration Report. EdenTree 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. EdenTree will take into account the individual circumstances of the company and the sector in which it operates.
- EdenTree 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 continuing 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. With the lifting of the UK bonus cap in the financial services sector, we expect banks to return to conventional models of variable pay.

- EdenTree 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. EdenTree 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 350% of salary per year will not be supported. Potential excessiveness may be offset by exceptionally challenging performance hurdles, unusually low base salaries, or where a company is in transition or turnaround.
- EdenTree will usually 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 Remuneration Report to vote. EdenTree subscribes to the view that all companies should seek shareholder approval for their remuneration arrangements in keeping with best practice and will seek to engage with companies to do so where such disclosure is absent.
- We support the introduction of ESG metrics as part of the variable pay structure, ideally within long term arrangements rather than short-term. These should be appropriate to the business, clearly disclosed and measurable. We would not expect to support ESG and/or personal metrics forming more than 30% of any aggregate award.

Factors that may determine how Remuneration Policy will be voted in practice include:

Support	Abstain	Oppose
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<p><i>Clear & full disclosure on all aspects of remuneration Policy to allow informed judgement</i></p>	<p><i>Good level of disclosure; but some transparency/ completeness issues; generally allows informed judgement</i></p>	<p><i>Poor or inadequate disclosure that prevents an informed judgement from being made</i></p>
<p><i>No evidence of excess (short term bonus and long-term incentives generally less than 350% salary pa)</i></p>	<p><i>Some potential for excess e.g. ratcheting of base salaries and/or bonus without clear explanation or justification.</i></p> <p><i>Awards in aggregate generally around 350% salary pa</i></p>	<p><i>Remuneration potentially excessive in aggregate – evidence of overpaying e.g. base salaries pitched above peer or index group; awards in aggregate generally more than 300% salary pa; high vesting at median</i></p>
<p><i>Clear alignment of shareholder and executive interests through robust remuneration structure</i></p>	<p><i>Alignment of shareholder and executive interests may not be clear or apparent</i></p>	<p><i>Little or no structural alignment between remuneration Policy and shareholder interests</i></p>
<p><i>Performance targets structured to incentivise and deliver superior out-performance; modest vesting at median. Broad vesting scale</i></p>	<p><i>Performance targets may reward unduly for median performance (over 20% of salary). Vesting scale is generally broad</i></p>	<p><i>Performance targets unchallenging and structured to reward excessively at median or changed mid-year to allow easier pay out; cliff vesting</i></p>
<p><i>Performance targets are structured to align with business strategy</i></p>	<p><i>Use of specific targets may lack clarity in context of business strategy</i></p>	<p><i>Performance targets are not structured to align with business strategy</i></p>
<p><i>Clear disclosure of pension policy; in line with the wider workforce</i></p>	<p><i>Contribution reducing over time but exceeds the wider workforce</i></p>	<p><i>Pension contributions exceed wider workforce and are not reducing</i></p>
<p><i>No evidence of over-paying or rewards for failure; service contracts one year or less; clawback, malus & mitigation applied</i></p>	<p><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></p>	<p><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></p>

<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 overpayment by the Board</i>

- In exceptional circumstances, where remuneration is judged to be particularly egregious, EdenTree may vote to oppose the Chair, 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 restatement of accounts.

EdenTree subscribes to the view that incentives should be genuine and tiered towards delivering superior 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.

Restricted Share Plans (RSPs) that reward without performance requirements attached, but at a lower quantum, will not generally be supported. We contend that variable pay should reward for extra or out-performance and RSPs *may* effectively reward for 'doing the job' and therefore represent a cost rather than a genuine incentive. RSP's will not be supported where the discount is less than 50% of the former scheme maximum.

Pension payments are a material part of overall pay and are often paid in cash. Pension contributions should align with the wider workforce; where pension is materially above this, we will oppose.

10. Non-Executive Remuneration

The policy for remunerating non-executive directors (including the Chair) should be clearly disclosed and should reflect the time commitment and responsibilities attached to the role without being excessive. EdenTree accepts that payment of a fee may be made in shares, but a performance related element is unlikely to be supported. Proposals to increase the aggregate level of non-executive fees should be reasonable and sufficient without providing unjustified headroom; these should not form part of a bundled resolution to amend the Articles of Association. Increases in aggregate fee levels will be supported where these appear reasonable, where reasonable generally means no more than a 20% increase in the aggregate level.

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 £100,000pa). EdenTree will oppose, without exception, political expenditure proposals that are in excess of £100,000pa.

12. Investment Companies

EdenTree applies these guiding principles and those issued by the Association of Investment Companies⁶ (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. EdenTree 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'. EdenTree will not support representatives of the Manager being appointed as Board Directors.

13. Shareholder and Climate Change Resolutions

EdenTree 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, EdenTree will apply a materiality approach in forming a vote decision. This might include engagement with the proponents and/or the Board prior to voting. 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 EdenTree's wider ESG aims and objectives (e.g. addressing climate risk).

As the number of companies seeking shareholder approval for their climate change strategies and targets grows, EdenTree will consider each proposal on its merits with a view to our supporting them where these are detailed, ambitious and clearly set out intermediate milestones and targets. We may oppose where they lack ambition or relevant milestones.

14. Engagement, Escalation & Reporting

We engage with company management on corporate governance issues, especially as part of the annual proxy voting cycle.

Where we have repeatedly engaged with a company, voting can act as a form of escalation, whereby issues are reflected in potential voting activity against items such as the re-election of directors or remuneration-related resolutions, and we therefore retain the right to execute votes at company meetings that signal our discontent at the lack of progress on key issues.

We strongly support voting accountability via informed and detailed public reporting. EdenTree publishes a quarterly report of its UK proxy voting activity in the Governance hub on our website at www.edentreeim.com. Annual statistics are published in the fourth quarter Global Corporate Governance Report and in the Annual Responsible Investment Activity Review.

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¹ The UK Corporate Governance Code (formerly the Combined Code on Corporate Governance), FRC, June 2010, as revised July 2018

² UK Stewardship Code, FRC July 2010 (revised 2019)

³ FTSE Women on Boards Hampton-Alexander Review November 2016

⁴ Parker Review 'A Report into the Ethnic Diversity of Boards 2017 https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2017-report-final.pdf

⁵ The re-appointment of an incumbent auditor will normally be opposed where that auditor has served in excess of 15 years

⁶ The AIC Code of Corporate Governance, AIC May 2007