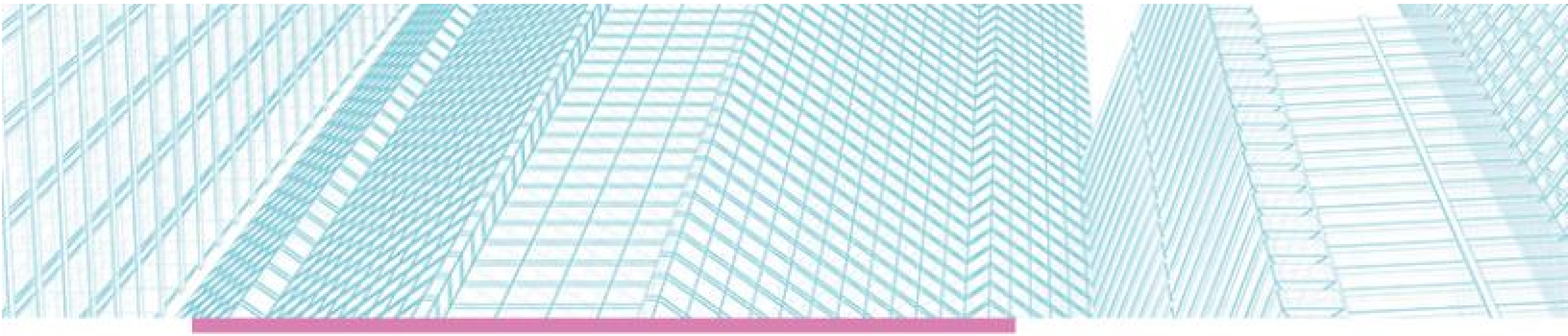

# Proxy Voting Report

Period: October 01, 2023 - December 31, 2023

| Votes Cast | 293 | Number of meetings | 29 |
|---|---|---|---|
| For | 240 | With management | 242 |
| Withhold | 4 | Against management | 51 |
| Abstain | 0 | | |
| Against | 41 | | |
| Other | 8 | | |
| **Total** | **293** | **Total** | **293** |

In 19 (66%) out of 29 meetings we have cast one or more votes against management recommendation.

# General Highlights

**Unlocking value: Corporate governance in state-owned enterprises**
Working to improve corporate governance at state-owned enterprises

Many people think that corporate governance is an abstract concept and that its impact on our everyday lives is difficult to grasp. Think again. Only a few months ago, in March 2023, financial stability was tested by a crisis attributed to a large extent to poor corporate governance at US private sector banks. And the crucial importance of good governance becomes even more apparent when we look at State-Owned Enterprises (SOEs).

SOEs are amongst the largest corporations in many countries and account for a growing share of the corporate landscape. The OECD reports a staggering statistic – the ratio of SOEs in the list of top 500 global companies has tripled over the last two decades. The public sector held almost 11% of the listed companies' global market capitalization at the end of 2022. On top of that, in many countries, SOEs are the sole or main providers of essential services such as water or electricity.

Given their size and positioning in high-impact sectors, SOEs play a significant role in achieving the Sustainable Development Goals (SDGs). The consequences of poor corporate governance in SOEs will therefore extend far beyond the boardroom. The figures speak for themselves – the International Monetary Fund highlighted in a 2020 publication that the maximum annual support provided by governments to financial and nonfinancial SOEs reached 18% and 16% of GDP, respectively, with the debt of SOEs exceeding 20% in some countries.

Far from a simple matter

Good governance in SOEs is, however, far from being a simple matter. If an SOE is run well and sufficient checks and balance are in place, state control can provide stability. If not, political involvement may also have downsides. State ownership adds to the known corporate governance challenges faced by listed firms for a number of reasons. For one, as noted by the OECD, "the accountability for an SOE's performance is often dispersed across the public administration and among different state bodies with inherently different policy interests". Secondly, SOEs have the hard task of walking a fine line when balancing different – and sometimes conflicting – objectives.

Listed SOEs have the advantage of being subject to the much stricter requirements applicable to publicly listed firms, as well as monitoring from external investors. However, minority shareholders often have limited rights and therefore little power to hold management to account. Governance challenges are very present – and some argue, even exacerbated – in these firms.
Recent scandals stand testament to this. Telecoms giant Telia, which is partly-owned by the Swedish state, agreed to pay nearly USD 1 billion in 2017 to settle allegations that it paid major bribes in Uzbekistan in a case labeled as "one of the largest criminal corporate bribery and corruption resolutions ever" at the time.

Brazilian oil giant Petrobras was embroiled in the major 'lava jato' (car wash) scandal that triggered an SOE reform in the country. While Petrobras rolled out significant corporate governance improvements following the scandal, the company has recently come under intense scrutiny over proposed bylaw changes that are perceived to increase the risk of undue government interference.

OECD guidelines can help

The growing awareness of the importance of SOEs to our economies and the governance challenges that they face have prompted many countries around the world to roll out reforms. These initiatives point out the fact that there is no one-size-fits-all recipe for reform. Nonetheless, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which are currently undergoing a review expected to be completed in 2024, are widely regarded as the golden standard for SOE reform.

The guidelines provide a multitude of tailored recommendations for SOEs, from encouraging governments to evaluate and disclose the policy rationale that motivates state ownership, to clearly identifying which part of the public administration is responsible for exercising the state ownership function. That said, the guidelines also say that:

"The state should strive toward full implementation of the OECD Principles of Corporate Governance when it is not the sole owner of SOEs, and of all relevant sections when it is the sole owner of SOEs."

Concerning shareholder protection this includes:
1. The state and SOEs should ensure that all shareholders are treated equally;
2. SOEs should observe a high degree of transparency, including as a general rule, equal and simultaneous disclosure of information towards all shareholders;
3. SOEs should develop an active policy of communication and consultation with all shareholders;
4. The participation of minority shareholders in shareholder meetings should be facilitated so they can take part in fundamental corporate decisions such as board elections;
5. Transactions between the state and SOEs, and between SOEs themselves, should take place on market-consistent terms.

As an investor, we use our voting rights to push for these companies to adopt good governance and sustainable corporate practices. Our votes are guided by a robust policy which sets out our approach to a wide variety of issues ranging from director elections and remuneration to capital management and shareholder rights.

We expect SOEs to have proper safeguards in place, such as the establishment of committees comprising independent members to oversee conflicts of interest, super-majorities or 'majority of minority' voting provisions, and a transparent process for board nominations. If we see that insufficient safeguards are in place, we will hold companies accountable. For example, we vote against article amendments that would lead to a negative impact on minority shareholder rights or to a deterioration in the process for director nominations. Similarly, we vote against related party transactions that are not subject to an adequate oversight process that ensures minority shareholder rights are protected. Where we conclude that a company has not ensured adequate minority shareholder protections, we will consider escalation via a vote against the most accountable board member or via engagement. Because poor corporate governance does make a difference – even in our day-to-day lives.

# Market Highlights

**New remuneration requirements for Australian financial institutions**

In August 2021, the Australian Prudential Regulation Authority (APRA) released its final iteration of the Prudential Standard CPS 511 Remuneration (the Standard), which came into effect on January 1 2023. The Standard aims to ensure that APRA-regulated entities, such as banking, insurance, and superannuation funds/schemes, maintain appropriate remuneration incentives. The new regulation represents an important milestone in APRA's objective of improving industry practices in governance, risk culture, remuneration, and accountability.

CPS 511 was also intended to address the findings of the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Commission), which was initiated following a series of scandals involving several Australian financial institutions. One of the conclusions from the report was that "remuneration incentives which overemphasize short-term financial performance can drive poor customer and beneficiary outcomes and jeopardize financial soundness". The Standard addresses these findings through the implementation of three main elements, including increased oversight, balanced incentives, and appropriate consequences. Below, we highlight some of the most relevant requirements that have been introduced.

Increased oversight

CPS 511 sets out principles governing the role of the Board in overseeing an entity's remuneration incentives. More specifically, the Standard states that the Board is responsible for the remuneration framework and its effective application, consistent with the size, business mix and complexity of the entity. It also requires the establishment of a separate remuneration committee, composed solely of non-executive directors and tasked with the design, operation, and monitoring of the remuneration framework. The Board must regularly review and report on the compliance of its remuneration practices against the Standard, at least once a year.

Balanced incentives

CPS 511 requires APRA-regulated entities to maintain a remuneration framework that promotes the effective management of financial and non-financial risks. As such, the Standard requires that each component of a person's variable remuneration assigns "material weight" to non-financial measures. This is meant to replace the previously-implemented 50% cap on the use of financial performance measures, and represents the biggest change from current practices. Furthermore, entities are expected to incorporate appropriate compensation outcome adjustment tools with clearly identified triggers and the potential to reduce variable compensation to nil, depending on the severity of risk and conduct outcomes.

Appropriate consequences

The Standard states that compensation levels must be aligned with performance and risk outcomes. To achieve this, entities must incorporate clawback and malus provisions in their remuneration arrangements, and CPS 511 sets out five minimum criteria for the application of variable remuneration adjustment tools, including misconduct and significant adverse outcomes for stakeholders, among others. In addition, the Standard sets out deferral requirements for key management personnel (KMPs), to ensure that short-term rewards will not be earned at the cost of long-term outcomes. For CEOs, a minimum of 60% of the total variable remuneration must be deferred over at least six years, while for the remaining KMPs, a minimum of 40% of the total variable remuneration must be deferred over at least five years. For both groups, vesting can only start after four years.

We view the principles outlined above positively, and we believe that they are well aligned with international best practices. Additionally, several requirements go beyond current global standards, such as those surrounding variable compensation deferral and remuneration outcome adjustment provisions. Nevertheless, we also note that the "material weight" requirement for non-financial metrics can be ambiguous, as no guidance is provided on how to determine an appropriate threshold. We will monitor the implementation of this principle by corporates, to determine whether it sufficiently incentivizes the consideration of non-financial measures in performance-based compensation outcomes. We expect companies to implement material ESG metrics in their remuneration programs, and these metrics should be aligned with the company's strategic objectives, have clear targets and disclosures, and amount to a minimum weight of 10% of the relevant variable compensation plan.

During 2023, in response to the implementation of CPS 511, we saw Australian financial institutions improve their executive remuneration programs by, for example, increasing vesting periods and rebalancing the remuneration mix of executives through placing a higher emphasis on long-term incentives. However, in previous years, we already voted in favor of a high proportion of remuneration proposals at the shareholder meetings of these companies, as we determined that most of them had sound and appropriate compensation arrangements in place. Nevertheless, we welcome the improvements introduced by CPS 511, and we expect Australian financial institutions to continue putting together high-quality remuneration plans, which protect the best interests of companies' stakeholders.

# Voting Highlights

**Procter & Gamble Co. - 10/10/2023 - United States**
Proposals: Shareholder Proposal Regarding Civil Rights Audit, Shareholder Proposal Regarding Report on Business with China & Shareholder Proposal Regarding Shareholder Approval of Advance Notice Provisions.

The Procter & Gamble Company provides branded consumer packaged goods worldwide. It operates through five segments: Beauty; Grooming; Health Care; Fabric & Home Care; and Baby, Feminine & Family Care.

The 2023 Annual General Meeting (AGM) of Procter & Gamble included several pertinent shareholder proposals. The first one requested the company to commission an audit to assess the impact of its policies on non-BIPOC and non-Latinx/a/o/e communities. In this case, the proponent mentioned in their supporting statement that the company appears to privilege select groups it considers diverse. After analyzing the merit of the proposal, we determined that the company provides significant disclosure on its community efforts to promote racial and gender equity, as well as on its workforce demographics, commitments, and internal initiatives to promote equity and diversity inside the Company. As a result, we believe that the proponent's objective was to hinder the company's ESG efforts, and therefore we did not support the proposal.

Another proposal, filed by the same proponent, requested that the Company report on the extent to which corporate operations involve or depend on China. While we recognize the inherent risks surrounding the company's operations in China, we decided to not support the proposal for two main reasons. Firstly, because of the language used in the text of the resolution, which we deemed inappropriate and excessively hostile. Secondly, and more importantly, because we determined that the existing disclosures provided by the company on the potential political risks and adverse human rights impacts were satisfactory.

A final shareholder resolution requested that the company require shareholder approval of advance notice provisions. After the SEC adopted rules requiring the use of universal proxy cards in contested director elections, many companies updated their bylaws to ensure compliance with the new rules. However, some companies adopted additional advance notice requirements for nominating shareholders that we consider egregious, such as notice requirements of 120 days before the AGM. The objective of the shareholder proposal is to prevent the company from adopting such requirements without shareholder approval. As we believe shareholders should approve provisions that could potentially limit their rights, we supported the resolution. None of the three shareholder resolutions were adopted during the AGM.

**BHP Group Limited - 11/01/2023 - Australia**
Proposals: Remuneration Report & Equity Grant to CEO.

BHP Group Limited operates as a resources company in Australia and internationally. The company operates through Copper, Iron Ore, and Coal segments.

At BHP's 2023 AGM, shareholders voted on routine management proposals, including the election of directors, remuneration-related proposals, and the renewal of potential termination benefits. Amidst these proposals, the remuneration report and the associated equity grant to the company's CEO were of particular relevance.

While analyzing the company's remuneration report, we identified concerns regarding their treatment of unvested equity awards in case a change in control occurs. The company's current remuneration program grants executives two types of equity awards, which include deferred shares awarded through their Short-Term Incentive (STI) plan, and performance shares awarded through their Long-Term Incentive (LTI) plan. This is a practice that is common in the Australian market, and we are supportive of it, as we believe that it promotes long-term decision-making by executives. Nevertheless, the two types of equity awards are subject to different change in control (CIC) provisions, which determine the conditions and proportions in which unvested equity awards will vest (or not) whenever a change in ownership of the company takes place. The CIC provisions applicable to the vesting of equity awards from the LTI plan are close to best practice, as they will either be pro-rated based on performance outcomes measured at the time of vesting, or they will be forfeited in case an acceptable alternative equity program is provided. On the other hand, the CIC provisions applicable to the STI equity awards grant the Board of Directors full discretion to determine vesting outcomes. This raises concerns, as there is no indication of the conditions or proportions in which these awards will vest. We consider this a critical matter, because inappropriate CIC provisions can become harmful incentives for executives to pursue change in control transactions that are not in the best interests of shareholders. Furthermore, the proportion of equity awards made under the STI plan represented a significant portion (ca. 28%) of the CEO's total compensation for FY2023, which aggravated our concerns.

Given these issues, and despite observing that the company's executive compensation plan featured good structural elements and disclosures, we decided to vote Against the approval of the remuneration report and the equity grant proposal for the CEO.

**Cardinal Health, Inc. - 11/15/2023 - United States**
Proposals: Shareholder Proposal Regarding Retention of Shares & Shareholder Proposal Regarding Severance Approval Policy.

Cardinal Health, Inc. operates as a healthcare services and products company in the United States, Canada, Europe, Asia, and internationally.

On the 15th of November shareholders gathered for the Annual General Meeting (AGM) of Cardinal Health. The agenda consisted of standard items and two shareholder proposals that focused on the remuneration practices of the company.

The first shareholder proposal requested that the Company adopt a policy requiring executives to retain 33% of stock acquired through equity pay programs until retirement. While we strongly acknowledge the need for aligning the incentives of executives with those of shareholders, we believe this is a task more appropriately exercised by the board, than shareholders. Besides that, the company already has certain elements in place that create alignment, such as the share ownership guideline of six times base salary for the CEO. Moreover, we believe that severely restricting executives' ability to exercise such a significant portion of equity awards until retirement may hinder the ability of the compensation committee to attract and retain executive talent. As a result, we did not support this shareholder proposal.

We voted For a second shareholder proposal asking the company to instate a policy to seek shareholder approval of any senior severance packages that exceed a value of 2.99 times the employee's base salary and target annual bonus opportunity. Though the company had put in place a policy limiting cash severance payments to this level, it did not set a strict cap on severance payments in the form of equity.

**Oracle Corp. - 11/15/2023 - United States**
Proposals: Election of Directors & Advisory Vote on Executive Compensation.

Oracle Corporation offers products and services that address enterprise information technology environments worldwide.

As in previous years, Oracle's 2023 AGM elicited anticipation from shareholders, particularly surrounding their Say on Pay proposal. The company's remuneration practices have been subject to significant scrutiny in recent years, and the company has faced high dissent from shareholders at their general meetings. Last year, not only did the executive compensation proposal receive approximately 33% of votes Against, but the proposals on the re-election of the remuneration committee members were also met with approximately 27% to 30% of votes Against.

This year, we saw a small improvement, as the company expanded their clawback policy to cover equity awards and cases where certain employees are found to have engaged in, or have been aware of or willfully blind to, significant misconduct. Nevertheless, Oracle's remuneration practices continue to raise significant concerns, and we voted Against the Say on Pay proposal again. More specifically, we continue to hold concerns regarding the fully discretionary nature of the Long-Term Incentive (LTI) awards for certain executives, the poor alignment between pay and performance, and the continued impact of the modification of the performance-based stock option (PSO) awards for the company's CEO and CTO, which were valued at over USD 138 million for both executives in 2022. Finally, despite the small improvement that was noted earlier, we believe that the company continues to fail to sufficiently address the sustained high levels of shareholder dissent in an appropriate manner.

In light of the above, we once again escalated our concerns by voting Against the re-election of all remuneration committee members, who this year received between 20% and 24% of votes Against from shareholders. The executive remuneration proposal saw approximately 27% of votes cast Against.

**Cisco Systems, Inc. - 12/06/2023 - United States**
Proposals: Advisory Vote on Executive Compensation & Shareholder Proposal Regarding Tax Transparency.

Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol based networking and other products related to the communications and information technology industry in the Americas, Europe, the Middle East, Africa, the Asia Pacific, Japan, and China.

The 2023 Annual General Meeting of Cisco Systems had a similar agenda to the company's 2022 AGM. Besides standard management proposals on board elections, ratification of the auditor and remuneration, there was a repeat of a shareholder proposal requesting the company to publish a tax transparency report in line with the Global Reporting Initiative's (GRI) Tax Standard.

We recognize the disclosures on this matter that the company already provided. However, as the issue of tax avoidance can be highly controversial and is receiving increasing attention from authorities and the wider public, we believe it is the company's responsibility to provide shareholders with complete, correct, and comprehensive information regarding its tax practices. Especially after the scrutiny on the global tax basis of the company. Moreover, given recent legislation in Europe, the company will be required to disclose most of the information requested by the proposal, meaning it's demands do not represent a significant additional burden to the company. For these reasons, and in line with our vote last year, we supported the shareholder proposal.

Our second and final vote Against management recommendations regarded the advisory vote on executive compensation. Besides concerns regarding overall quantum and the short performance period under the long-term incentive plan, the remuneration report for 2022 evidenced significant one-off awards. We are generally wary of awards granted outside of the standard incentive schemes, as such awards have the potential to undermine the integrity of a company's regular incentive plans, the link between pay and performance or both. As a result, we voted Against the company's executive compensation report.

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