

# CORPORATE GOVERNANCE AND VOTING PRINCIPLES

Group Policy  
July 2023



## Purpose and Scope

Voting is a fundamental part of active asset management. The Corporate Governance and Voting Principles (the Principles) outlines our corporate governance expectations for companies, our approach on key voting issues and our procedures.

The purpose of our Principles is to promote value creation through corporate best practice and mitigate corporate governance-related risks in our investee companies.

We have a fiduciary duty to our clients to act in their best interests, to protect and enhance their economic and financial wellbeing. We regard stewardship and the exercise of proxy voting rights as an essential component of this duty.

We support global standards of good governance, including the International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the G20/OECD Principles of Corporate Governance.

Our principles apply to all regulated subsidiaries within GAM Holding AG that manage portfolios and/or funds. In practice, these principles are primarily applied to our Investment Management business.

In our Fund Management Services ('FMS') business GAM acts as a third-party fund management company or as an alternative investment fund manager of FMS. In most cases, we have delegated functions to the investment managers of FMS, which may impact obligations including voting, engagement, transparency and reporting requirements. In these cases, the framework and principles set out in this document do not apply.

Please refer to <https://gam.plfundnet.com/> which provides relevant information and mandatory disclosures for FMS funds.

## Our Approach

Our approach to corporate governance derives from our belief that companies that conduct their business responsibly with good corporate governance, high standards of integrity and a sustainable business model deliver better long-term results to stakeholders, including shareholders.

We take a principles-based approach to our voting. We recognise that corporate governance codes and practices differ between jurisdictions, and we therefore take what we consider to be an appropriate approach within the broader context.

We implement the guidance from the Principles while accounting for both global and market-specific corporate governance best practices and regulatory and statutory norms and standards, national and international laws, treaties, codes, and policies, in coming to our voting decisions.

Due to differences in corporate governance standards and practices globally, we have developed broad geographic and regional guidelines to account for market-specific corporate governance standards. We also recognise that appropriate corporate governance practices can differ according to the company structure, size and nature of operations. We maintain a pragmatic approach in the application of these standards and best practice.

## Voting principles

### 1. Board role and leadership

We consider the Board of Directors (the Board) and executive management team central to a company's success. We place a high premium on the skills, attributes and integrity of Board members and executive teams and an even higher premium on the culture, values and principles they instil.

We expect the Board and executive management to be independently minded and sufficiently diverse to promote a strong and sustainable corporate culture and ensure effective governance practices throughout the organisation.

**Purpose, values and culture** – a strong and sustainable corporate culture mitigates the risks to the long-term success and reputation by creating an environment of accountability, recognition, support and reward. We expect the Board to set an appropriate tone from the top.

We expect companies to set and adhere to high values and conduct standards through relevant policies and processes, including enforcing best-practice anti-corruption and anti-bribery policies and procedures. The Board should monitor these policies and procedures, with robust action taken where there are issues. Together with clear cultural expectations and organisational measures, these safeguards provide the best possible defence against corruption and other unethical behaviour.

We will consider voting against the re-election of relevant Board members where material culture or conduct issues arise and shareholder concerns are not properly addressed.

### 2. Board composition and effectiveness

**Independence** – we expect a strong core of independent directors, including an appointed lead independent director, to ensure that all stakeholder interests are protected, to exercise objective judgement and, if necessary, to act as agents for change. Independent directors play an essential role in guiding the Boards' decision-making and the recruitment of directors.

Ensuring sufficient independence is particularly important for founder-led companies, those with executive Chairs or significant shareholder representatives on the Board (which we believe can be useful and justified, provided minority shareholder interests are protected), or strong management representation. We expect at least half of the Board directors to be independent in companies with a dispersed ownership structure and at least one third to be independent in controlled companies. Companies should clearly state which directors they consider to be independent and the criteria for determining this in their disclosures.

When the Board is less than 50% independent, we will consider voting against non-independent directors, in particular non-executive directors.

**Independent Chair** – the role of the Chair is to oversee the Board which provides direction to the management and to protect shareholders' long-term interests. The CEO should be focused on the day-to-day management and operation of the company. Our view is that the Board's effectiveness is enhanced when a fully independent, senior non-executive director leads it. We prefer the Board Chair and CEO roles to be separate from each other. When the Chair is not independent, we expect a senior independent non-executive director to be in place.

We will consider voting against the Chair and CEO if these two roles are combined and there is no senior independent director appointed.

**Board committees** – committees provide a platform for directors to deal with specific issues such as audit oversight, remuneration and Board nomination. Committees allow directors with relevant expertise and knowledge to address these matters, generally independent of management. Having dedicated committees improves the efficiency of the Board by giving directors the appropriate time required to research various issues and permits broader participation by all Board directors.

We consider as best practice, for the Audit and Remuneration Committees to be fully independent of management as they address matters directly related to management operations and decisions. As a minimum requirement, we expect all Board committees to be at least 50% independent from management. Any conflict of interest between management and the committee compromises the efficiency of these committees.

We will generally vote against the (re-)election of committee members which are not independent of management, especially if the committee is not majority independent.

**Board diversity** – we consider diverse and inclusive Boards to lead to better decision-making, and an important step in developing diverse talent throughout the business. We encourage companies, where possible and practical to do so, to consider differences in gender, ethnicity, race, personal and professional background, work skills and experience, and culture as positive factors in their recruitment practices at the Board level and in developing senior talent. As a minimum requirement, we expect Boards to have at least one female director appointed or have a compelling rationale for non-compliance with this expectation.

We will generally not support the appointment of the Nomination Committee Chairman when there are no women on the Board. When the Chair is not standing for election, we will consider applying this Principle when voting on the re-election of other members of the Nomination committee or the Chair of the Board. If no directors are standing for election, we will look to vote against the Annual report and Accounts.

We will also consider voting against the (re-)election of the Chair of the Nomination Committee where less than one quarter of the Board is female and/or where there is no strategy to improve broader diversity and there no is evidence of meaningful efforts to improve diversity.

**Succession planning** – succession planning is important to safeguard the long-term performance and sustainability of the company. We encourage Boards to ensure the necessary arrangements are in place to manage Board and senior management succession.

This should include contingency planning for the sudden loss of key personnel and planning for foreseeable change such as impending retirement. It should include a consideration of the diversity of skills, experience and other attributes required at the Board and senior management level.

We will consider voting against the Chair of the Nomination Committee where there is no clear or an inadequate succession plan in place.

**Director attendance** – attendance by directors at Board meetings is essential to fulfil their responsibilities and provide efficient oversight for the company and its stakeholders. We are highly critical of directors repeatedly missing Board meetings.

We will consider voting against the re-election of directors with attendance rates below 90% unless compelling reasons for their absence is provided.

**Over-boarding** – to carry out their responsibilities effectively, directors should limit the number of significant directorships held. We expect Board directors to devote enough time to fulfil their duties.

Whether a director may be over-committed depends on a range of factors beyond the number of other roles they hold, including the company's size and complexity and additional responsibilities, such as being a committee Chair.

We will generally not support the (re)election of directors that hold more than four directorships. Similarly, we would not expect one individual to have two Chair positions.

A non-executive director with a current full-time Executive position in another company is expected not to hold any other external roles.

**Board evaluation** – we believe regular Board reviews and assessments are important in maintaining and improving the effectiveness of Boards. The Board should conduct external evaluations at least every three years and the outcomes provided to shareholders.

We will consider voting against the Chair of the Board where there is no evidence of regular Board evaluations.

**Annual re-election** – director election standards vary across markets. We prefer all directors to be proposed for annual re-election. The appointment of a director to the Board should also require the approval from at least the majority of shareholders. Bundled election of directors is also a concern as this does not facilitate accountability for individual directors.

We will consider voting against director re-election where: their term is longer than three years, their election does not require to be approved by a majority of shareholders and/or the proposals to appoint Board members are bundled.

### 3. Audit, transparency and risk oversight

**Completeness and timeliness of reporting** – companies should provide accurate and timely report and accounts that enable all stakeholders to make informed decisions, and effectively engage with companies on substantive matters that impact the company's long-term sustainability. These disclosures should cover all material risks, including environmental, social or governance (ESG) risks, and be available sufficiently ahead of the voting deadlines for the Shareholder Meeting to allow for timely decision-making.

We will consider withholding support for the approval of the annual report and accounts or equivalent resolutions where we consider reporting to be insufficient or unacceptably delayed.

**Accounting practices** – we expect companies to avoid aggressive accounting practices. We expect companies to recognise liabilities in a timely fashion and only realise profits where there is a very high degree of confidence in their quality. We also expect a clear indication of the quality of any unrealised profits found in the company's income statement.

We will consider withholding support for the approval of the annual report and accounts or members of the Audit committee, or the Audit firm where there is evidence of questionable accounting and auditing oversight which can harm shareholders' interests.

**Audit Committee and reports** – the Board's Audit Committee is responsible for recommending the appointment of auditors. The auditors are responsible for assuring a company's financial statements presented by executive directors are an accurate, true, and fair reflection of the business's underlying health. We take note of cases involving significant financial restatements or ad hoc notifications of

material financial weakness. We will hold the Audit Committee members or equivalent responsible for overseeing the management of the audit function.

We will consider voting against the Chair of the Audit Committee where we have concerns regarding the quality of the accounting or audit practices.

**Audit rotation** – we believe it is important that auditors are independent. Audit committees should also have in place a procedure for assuring the independence of the auditor annually. Independence and audit quality are at risk when a company employs the same assurance provider for too long. In line with the EU Audit Regulation and related Audit Directive, we consider audit firms retendering for business at ten years and mandatory rotation after twenty years to be best practice to maintain auditor independence.

We will generally not support the auditor re-election with tenure above 20 years, or if we have other concerns regarding auditor independence.

**Non-audit fees** – we believe that consistent excessive non-audit fees compromise the integrity and independence of the auditor. As a guideline, we do not expect non-audit fees to exceed 70% of audit fees in any given year. If this occurs, there should be a clear explanation of why the auditor needed to provide these services. Additionally, an explanation of how audit independence and objectivity was assured and maintained is also necessary.

We will generally vote against the auditor re-election when non-audit fees exceed 70% of audit fees over the last three years, excluding fees for specific one-off capital structure event.

In some markets, auditor election is not a regular standing voting item for shareholders to vote on. In the absence of separate resolution on auditor election, and where we identify concerns over the external auditor (e.g. excessive tenure or non-audit fees), we will consider voting against audit committee members or the Reports and Accounts.

**Risk oversight and Internal controls** – we expect companies to identify and disclose business-specific risk-related disclosures that cover all material risks, including regulatory, ESG, data protection, cybersecurity, tax, and reputational risk, amongst others. The design of these risk-related disclosures should enable all stakeholders to understand the company's material risks and control issues. The disclosures must explain the steps taken to mitigate and manage risk and outline the risk control framework. We also take into consideration the accuracy and timeliness of reporting.

Companies must have an effective system that account for new and emerging risks that will affect their business objectives. Companies should set out their risk appetite and actions they have taken to identify and mitigate material risks. For example, companies must establish robust internal controls, such as a whistleblowing policy for employees. We expect regular reviews of these controls, with outcomes explained.

We will consider voting against relevant directors where we consider there are material failings in risk oversight of environmental and social issues, including climate change.

#### 4. Sustainability

**Say-on-Climate resolutions** – investors are increasingly asking for transparency and accountability regarding companies' climate commitments. As a result, a growing number of companies are putting forward their climate or transition plans for shareholder approval. These resolutions are reviewed on a case-by-case basis. Not all plans are fit for purpose; they should be challenged by investors when put to shareholder approval.

In line with our commitment to the Net Zero Asset Managers Initiative, we expect companies seeking shareholder support on their climate strategy to have evidence of clear and credible commitment to net zero. Timeliness of plan and adequacy of targets are critical to our assessment. We also take into consideration additional factors such as the extent to which the company's climate related disclosures are in line with Taskforce on Climate-related Disclosure (TCFD) recommendations, and the company's lobbying activities.

Net zero pathways for many sectors are still evolving. Given the complexity and uncertainty regarding relevant policy, technology and competitive landscape for many companies, we may consider abstaining on climate-related resolutions when, based on the assessment on the relevant risks and opportunities, it is not sufficiently clear that the strength of the plan and targets are in the best interests of shareholders.

We will support Say-On-Climate resolutions on a case-by-case basis when we consider the company's climate plan to adequately align to delivering on a net zero target.

**Climate change** – we support the 2015 Paris Agreement's goal of limiting global warming to well below two degrees Celsius, with the ultimate goal of limiting warming to one and a half degrees Celsius. We look to companies to have appropriate governance, strategy, risk management and disclosure relating to GHG emissions and impacts along a company's value chain. We support the TCFD recommendations as an effective framework for climate-related disclosure.

We will consider voting against the Board Chair or other responsible directors of companies in high impact sectors that do not take proactive measures to address and disclose climate-related risks.

**Sustainability-related risks and impacts** – we integrate material sustainability factors into our investment and voting decisions. This may include systemic risks such as climate change or biodiversity, as well as stock specific factors associated with ESG issues. In addition to climate change and biodiversity, environmental factors may include those relating to the use and availability of natural resources, including water, in the manufacture, use and disposal of products and services. Social factors include health and safety, human rights and labour standards within direct operations, the supply chain and in products and services offered. Governance issues may include those associated with poor corporate culture or bribery and corruption issues. When assessing corporate governance, we will increasingly consider director expertise and training on sustainability risks. We may not support specific directors' (re)elections due to failure to adequately manage or mitigate ESG risks; or lack of sustainability reporting in conjunction with a failure to adequately manage or mitigate ESG risks. In line with our commitment on deforestation pledge, we are particularly focused on resolutions addressing deforestation and nature loss.

We will consider voting against the report and accounts or the re-election of accountable directors where we have concerns in relation to the disclosure, management or risk oversight of material sustainability risks or impacts.

**Shareholder resolutions** – independent shareholder resolutions are increasingly being employed to improve standards and disclosure on sustainability and ESG topics. We take a case-by-case approach to voting on shareholder proposals, considering the materiality of the ESG issue, the content and intent of the proposal, the binding nature and prescriptiveness of the proposal and importantly whether we consider the adoption of such a proposal would promote long-term shareholder value. We also review company actions and responsiveness to the proposal and any engagement on the issue.

Where we consider the shareholder proposal to be in the long-term interest of shareholders, we are minded to support resolutions that encourage greater transparency and governance oversight of critical sustainability issues.

We are generally supportive of shareholder resolutions encouraging:

- Greater disclosure of corporate environmental policies including those relating to climate change, biodiversity or damaging emissions.
- Greater transparency of social policies such as those concerning workplace discrimination and diversity, human rights, and compliance with human/labour rights norms/codes of conduct.

Greater disclosure on sustainable business practices relevant to a company's industry, including recycling, wood procurement, water use, operations in sensitive or protected areas, energy efficiency/renewable energy.

## 5. Remuneration

Remuneration is an important consideration in attracting and retaining key employees. A poorly designed remuneration policy may lead to negative outcomes such as short-termism, misalignment of management with shareholders objectives or reputational damage. We consider that remuneration arrangements should aim to incentivise appropriate long-term behaviour from management and discourage excessive risk taking. The assessment of remuneration practices in our investee companies are generally on a case-by-case basis as these will vary highly depending on market practices, the industry in which they operate and our understanding of their operations. We follow four key principles when reviewing compensation arrangements: Transparency, Excessiveness, Alignment and Remuneration Committee activity.

**Transparency** – clear and transparent disclosure of the executive directors' remuneration is a pre-requisite to be able to assess the appropriateness of their compensation arrangements. We expect a comprehensive disclosure of remuneration policies and practices from companies we invest in. Remuneration reporting should clearly describe all elements of compensation for executive directors and how it has been determined.

We will consider voting against remuneration proposals in the following circumstances:

- Lack of breakdown in executive directors pay structure.
- Insufficient disclosure of amounts rewarded during the year to executive directors.
- Absence of clear limits on variable pay elements.
- Lack of information about variable pay metrics and targets for incentive plans.
- Inadequate explanation when discretion is used by the Remuneration Committee.

**Excessiveness** – compensation arrangements, especially when it comes to quantum, can be a very controversial topic. Levels of remuneration should be enough to attract, retain and motivate management. Executive pay levels should not be disproportionate compared to the rest of the company workforce, its sector, or the country it operates in.



We will consider voting against remuneration proposals when:

- The remuneration paid to executive directors is not explicitly linked to performance and/or considered disproportionate to the company performance.
- Changes to fixed or variable pay are considered excessive and unjustified.
- The recruitment or termination arrangements go beyond a normal and expected level of award under the company's remuneration policy.
- The variable pay of executive directors is not subject to malus or clawback provisions.
- The Remuneration Committee uses its discretion excessively to, for example, award additional one-off awards, reprice 'underwater' options or makes incentive performance targets easier to achieve.

**Alignment** – we consider alignment to be multifaceted. Executive compensation should be aligned with the company's strategic objectives, including sustainability objectives, shareholders' interests and reflect the impact on broader stakeholders.

Compensation should motivate executives to achieve the strategic objectives while ensuring that executive rewards reflect returns to long-term shareholders. There should be a clear link between the objectives of an incentive plan and the company's strategy. Performance targets should align with company strategy, future direction, and performance without promoting or rewarding disproportionate risk-taking. We support the incorporation of sustainability-related performance metrics into executive compensation where appropriate.

Long-term share awards and other shareholding mechanisms are important tools to align executives and shareholders. We generally view favourably remuneration policies which contain such mechanisms: deferral of part of the annual bonus, post vesting holding period for long-term share awards, Executive mandatory shareholding guidelines or post-employment shareholding requirements.

When setting executive pay, the Remuneration Committee and Board should consider pay and employment conditions for the general workforce. We do not generally support remuneration arrangements for senior executives that are out of line with the pay conditions proposed for the general workforce.

We will consider voting against remuneration proposals when:

- The remuneration policy and practices do not contain relevant shareholding mechanisms to align pay with long-term shareholders' interests.
- Performance metrics for variable remuneration do not align with the company's strategic objectives, including ESG and sustainability-related objectives.
- Pay arrangements for executive directors, in particular salary increases or pension benefits, are not aligned with the rest of the workforce.

**Complexity** – we believe simpler pay schemes aligned to long-term success and the organisation's desired culture, emphasising long-term share ownership, are preferable for compensating executives. We do not believe there to be a global standard compensation model. However, remuneration can often be overly complex, and we question its effectiveness in motivating management. We encourage companies to adopt simpler remuneration structures and refrain from introducing new share award schemes on top of existing plans.

We will consider voting against remuneration proposals when:

- The company adds unnecessary complexity to the remuneration arrangement – for example by introducing additional incentive plans or using various types of share-based awards.
- The remuneration metrics and are too complex and/or lacking clarity.

**Remuneration Committee** – the Remuneration Committee is responsible for setting up a company's remuneration policy and practices and making sure these are aligned with the Company's strategy and long-term objectives. As such, it is also accountable for making sure pay arrangements follow the principles outlined above. We support giving remuneration committees the flexibility to choose an appropriate pay structure for the company's strategy and business needs.

We will consider voting against the Remuneration Committee Chair and/or members when:

- The discretion used by the committee during the year is considered inappropriate.
- There are major concerns about general pay arrangements.

## 6. Shareholder rights

**Capital management and share issue authorities** – the company's capital structure is critical to its shareholders. It impacts the value of their investment and the priority of their interest in the company relative to other equity or debt investors. Pre-emption rights are a vital protection for shareholders against the dilution of their interests.

We will generally vote against non-specific authorities to issue shares:

- without pre-emptive rights above 10% of existing issued share capital.
- with pre-emptive rights above one third of existing issued share capital.

**Share buybacks** – while share buybacks may be a sensible strategy, we are also aware that such a use of capital could be detrimental to businesses' longer-term prospects. As such, we expect clear disclosure around the rationale for share buybacks.

We will generally vote against general authorities to repurchase shares exceeding 10% of outstanding issued share capital.

**Voting rights** – one of our core beliefs is that shareholders should have voting rights in proportion to their economic interest in the company. Companies are expected to follow the concept of 'one share, one vote'. This is critical to making sure minority shareholders can express their voice and influence a company's governance and direction.

We will generally vote against proposals that will not treat shareholders equally such as resolutions to create or issue shares with different voting rights.

**Mergers and Acquisitions** – in assessing mergers, asset sales or other special transactions, our primary consideration is shareholders' long-term economic interests. Boards proposing a transaction need to clearly explain the financial, economic and strategic rationale. We consider several factors including consistency with strategy, risks and opportunities, conflicts of interest and price. We prefer that proposed transactions have the Board's unanimous support, and the deal's negotiation has been at arm's length. We may seek reassurance from the Board that executive and/or Board members' financial interests in each transaction have not affected their ability to place shareholders' interests before their own. If the deal involves related parties, we expect the recommendation to come from the independent directors and prefer only non-conflicted shareholders to vote on the proposal.

We may not support a corporate transaction if:

- It is not considered to be in the long-term interests of our clients.
- Offers preferential treatment to majority shareholders to the detriment of our clients.

**Anti-takeover defences** – we believe that shareholders have a right to dispose of company shares in the open market without unnecessary restriction and should have the ultimate say on any offer for the company's outstanding shares.

We will generally vote against all anti-takeover proposals, unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

**Bond holder meetings** – for fixed income assets, we will actively vote at any bondholder meetings where we have the rights to vote. These are often extraordinary meetings, where we are asked to grant consent for changes that can impact our holding in a given company. Our approach to these resolutions does not differ to that of the equity assets outlined above.

We review all resolutions on a case-by-case basis, always keeping the best interest of our clients in mind when making a voting decision. This includes the resolutions relating to:

- seeking amendments to terms and conditions in indentures or contracts;
- seeking access to information provided in trust deeds;
- impairment rights; and
- reviewing prospectus and transaction documents.

## Our process

**Oversight** – our Principles and voting activity is reviewed at least annually within our Responsible Investment Committee and ultimately at Board level. Primary responsibility lies with our Global Head of Sustainable and Impact Investment, Global Head of Discretionary Investment and Global Head of GAM Systematic.

**Proxy advisors** – we retain the services of a proxy advisor (Institutional Shareholder Services (ISS)) to assist in implementing and administering proxy voting. ISS provides written analysis for each company resolution based on our Principles, but the ultimate voting decision is made by GAM.

**Voting decisions and escalation** – we aim to vote all shares for which we have voting authority. The Governance and Responsible Investment (GRI) team is responsible for making our voting recommendations and, for our active holdings, these recommendations are reviewed by the relevant investment manager. If necessary, a decision may be escalated to the Global Head of Investments and Global Head of Sustainable and Impact Investment. Our general policy is not to split votes. However, we can facilitate this in exceptional circumstances.

**Conflicts of interest** – GAM's principal objective when considering how to vote is to ensure that we fulfil our fiduciary duty by acting in our clients' interests. We have implemented processes to address potential conflicts of interest to prevent them from influencing our proxy voting decisions. Further details are outlined in our Conflicts of Interest Policy.

**Disclosure** – we make voting decisions for all our funds publicly available on a monthly rolling basis on our [website](#).

**Securities lending** – GAM has a securities lending programme in place for several funds. When shares are on loan, GAM is contractually unable to exercise voting rights for these shares. Our current policy is only to recall stock for voting in exceptional circumstances if we consider our vote is absolutely critical to safeguard shareholders' interests. GAM undertakes relatively limited stock lending.

## Important information

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