Voting Policy

18 December 2023

Voting Policy

As investors in publicly listed companies, we can vote on proposals brought to annual and special meetings. We choose to exercise these voting rights to participate in the corporate governance process, as we believe that solid governance leads to strong long-term returns, which are of benefit to our investors.

At times, investors can vote on the strategic direction of a company and influence its long-term value for shareholders and impact. We will always vote in such a way that maximises shareholder value but also supports the responsible investment ethics to which we are aligned, such as supporting proposals aligned with sustainability initiatives. While we aim to be an active participant, we reserve the right to abstain from voting on proposals that we deem irrelevant to these central concerns.

HOW WE VOTE

We vote in accordance with the Voting Policy outlined in this document. We do our research and make our voting decisions independently. If we oppose a successful proposal that we consider material in nature to the operations of the company, we reserve the right to exit our position subsequently.

AUDITOR RATIFICATION

ELMRI will generally vote FOR proposals to ratify auditors, unless:

– An auditor has a financial interest in the company and is therefore not independent.
– Poor accounting practices are identified that rise to a serious level of concern.
– Fees for non-audit services are excessive (over 25% of audit fees).
– The same audit firm has been in place for an extended period of time.

ELMRI will vote on a CASE-BY-CASE basis for shareholder proposals asking companies to prohibit or limit their auditors from engaging in non-audit services or asking for audit firm rotation.

BOARD OF DIRECTORS

ELMRI believes that an engaged, passionate and committed board of directors is important and a balance of independent and executive directors is required.

ELMRI will generally vote FOR proposals to elect individual board members unless:

– The member has attended less than 75% of prior board meetings without a valid excuse.
– There are concerns about the individual or the company, such as criminal wrongdoing, sanctions from government, violations of laws and authority, etc.
– Any member up for re-election who received more than 50% withhold/against votes at the previous election and the company has failed to address the underlying issues.
– An inside director or affiliated outside director is serving on the audit, compensation or nominating committees.

All other proposals in relation to the Board of Directors will be voted on a CASE-BY-CASE basis, where the matters at hand will be discussed based on materiality and relevance to ELMRI's investment objectives.

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EXECUTIVE COMPENSATION

ELMRI's overriding goal in voting on executive remuneration is to provide incentives for executives in a manner that truly aligns the long-term interests of executives with those of shareholders.

In voting on executive remuneration proposals:

- We look for a coherent remuneration framework that exhibits a balance between fixed remuneration (including retirement benefits) and incentive-based remuneration, and a balance between short-term (usually cash-based) incentives and long-term incentives. The more senior the executive, the greater the proportion of remuneration we expect to see incentive-based.
- We seek transparency in all aspects of executive remuneration including details regarding:
  a. base/fixed salary;
  b. short-term incentives; and
  c. long-term equity-based incentives.
  d. We are unlikely to vote in favour of incentives if there is insufficient information regarding (a), (b) or (c) or in favour of options or performance rights if their vesting is at the future discretion of directors.
- As regards the incentive component, we have a preference for equity-based incentives rather than cash.
- We assess the reasonableness of the quantum of both fixed remuneration and incentive remuneration by reference to the norm for roles of comparable complexity and size.

We recognise that short-term incentives (STI) need to be customised to individual managers' circumstances. However, subject to that constraint, we expect the description of hurdles and KPIs to be as specific as possible especially as regards to the senior leadership team even if this requires separate and specific discussion.

We are alert to the scope for STI targets (e.g. budgets) to be influenced by management; so look for a balance between those that can be directly influenced and those that are harder to influence.

STI targets should complement rather than replicate those embedded in LTI plans.

While recognising that STI measurement periods are by definition of short duration (overwhelmingly a one-year period), rather than all cash, we prefer to see a meaningful portion (at least 25%) paid out as escrowed equity.

ELMRI's believes long-term incentives (LTI) should be equity-based, which may be shares, performance rights, or options and as follows:

- LTIs should be linked to value creation.
- LTIs must have long-term performance hurdles i.e. measured over preferably 5 to 7 years, but a minimum of 3 years. We seek sustainable increases in performance.
- Performance hurdles should be based on:
  a. meeting of properly measured Economic Value Added ("EVA") targets over the long term; or
  b. a composite set of hurdles that act as a proxy for EVA e.g. return on capital accompanied by reinvestment at more than the cost of capital; or
  c. Total Shareholder Return ("TSR") relative to a peer group of companies (on the basis that over the long-term, Market Value Added should reflect Economic Value Added).
- TSR should be measured against a relevant grouping of comparator companies.
- EPS hurdles are a generally inappropriate measure of performance as EPS can be significantly influenced by the level of gearing, accounting policy changes, the impact and classification of non-recurring items, etc. However, if EPS hurdles equate to EVA creation by our calculation, we will consider supporting them, particularly if they are proposed for only a portion of the LTIs.
- Prima facie, we will not support any equity incentive scheme that results in LTIs' vesting at or below median performance, e.g. the common practice of vesting of 50% of an executive's options for TSR at the 50th percentile within a peer group. Ideally, equity rights should start vesting at the 51st percentile and vest in 2% increments for every percentile to the 100th.
- LTI performance hurdles should avoid "make or break" targets. We look for a "gateway" or the low end of a target range that is within reach (but not soft), shading in as a higher level of performance is achieved, with reasonable "stretch" (i.e. without undue compression of the performance range which sets the minimum and maximum vesting).
- Stock options, performance rights and other forms of incentive equity should not only be contingent on the achievement of the performance hurdles measured over 3 to 7 years, but also be heavily escrowed and/or, vest over a period of similar duration, including years beyond the end of the testing period and the executive's tenure, income tax law permitting.
- Risks should be symmetrical; that is, increased remuneration when the company displays long-term outperformance relative to its peers and less reward in periods of poor performance. This requires a high level of discipline from Boards when implementing incentive schemes.

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PROXY CONTESTS

ELMRI will vote CASE-BY-CASE on the election of directors of operating and holding companies in contested elections, considering the following factors:

- Long-term financial performance of the target company relative to its industry.
- Management's track record.
- Background of the nomination in cases with a shareholder nomination.
- Qualifications of director nominee(s).
- Strategic plan related to the nomination and quality of critique against management.
- Number of boards on which the director nominee already serves.
- Likelihood that the board will be productive as a result.

SHAREHOLDER RIGHTS AND DEFENCES

ELMRI will generally vote FOR proposals that uphold shareholder rights and act in the best interest of shareholders. Such proposals include but are not limited to:

- Repealing classified boards.
- Permitting shareholders to remove and elect directors.
- Permitting cumulative voting.
- Permitting shareholders to call a special meeting.
- Permitting shareholders to act by written consent.
- Requests to companies to submit takeover defence strategies for shareholder ratification.
- Fair price proposals, as long as the shareholder vote requirement is no more than a majority of disinterested shares.
- Adoption of anti-greenmail charters or by-law amendments.

Instances, where ELMRI may vote AGAINST proposals regarding tender offers, include but are not limited to:

- Dual class share exchange offers or recapitalisations.
- Management proposals to require a supermajority shareholder vote to approve a charter and by-law amendments.
- Management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.
- Management efforts to change the company's capital structure to delay or divert a potential takeover of a company.

MERGERS AND ACQUISITIONS AND CORPORATE RESTRUCTURINGS

Mergers and acquisitions and corporate restructurings have the potential to impact all stakeholders profoundly. Therefore, we take these proposals very seriously and consider their long-term impacts. ELMRI will consider the Impact on shareholders and all other stakeholders when voting on mergers and acquisitions and corporate restructurings considering a range of publicly available information, including (but not limited to) the following:

- Valuation.
- Market reaction.
- Strategic rationale.
- Management's track record of successful integration of historical acquisitions.
- Presence of conflicts of interest.
- Governance profile of the combined company.
- Expected effect on environmental/sustainability policy and initiatives.

If the corporate transaction or restructuring does not align with ELMRI's long-term investment objective or sustainability goals, we may vote AGAINST the proposal or SELL the position.

REINCORPORATION PROPOSALS

ELMRI will vote on a CASE-BY-CASE basis on management proposals to reincorporate.

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CAPITAL STRUCTURE

If equity issuances are excessive and not supported by solid strategic rationale, ELMRI may vote AGAINST the proposal or SELL the position.

ELMRI will typically vote FOR proposals expected to increase investor and stakeholder value. Stock splits can potentially increase liquidity and benefit investors; therefore, we will typically vote FOR such proposals. However, this will be weighed against the cost, which, if excessive, we may vote AGAINST.

ELMRI tends to invest in innovative and impactful companies with significant investment opportunities. If all the investment opportunities are exhausted, we believe excess capital and income should be distributed to shareholders. Therefore, we will generally vote FOR the return of capital. However, if we believe that higher returning opportunities are available to the company, we may vote AGAINST the proposal.

Any other proposals that look to alter a company's capital structure will be voted on a CASE-BY-CASE basis with key consideration towards whether the proposal is aligned with ELMRI's investment and sustainability objectives.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ELMRI will generally vote FOR proposals requiring the company to report on their environmental sustainability policies and initiatives.

ELMRI will generally vote FOR proposals requiring the company to establish or increase emission reduction targets. While we will consider whether these targets are realistically achievable for the business, we believe our role as an impactful investor includes agitating for an increasing rate of change in this area.

ELMRI believes that companies should have clear and public diversity policies, and improvements in these initiatives are welcomed. It will generally be the case that ELMRI votes FOR proposals seeking to amend a company's diversity policy, given the changes put forward are progressive and further prohibit discrimination based on sexual orientation, gender identity, race, religion or other.

ELMRI will generally vote FOR proposals requiring reporting on the company's (or company's supplier's) labour and/or human rights standards. ELMRI will always vote FOR proposals requiring reporting on the company's impact on society.

elm
RESPONSIBLE
INVESTMENTS

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