

Appendix D

Active Ownership Guidelines on Corporate Governance

Good Corporate Governance Practices

As a long-term investor in equity and debt instruments, we are convinced that corporate governance is a critical element of companies' success. Good practices outlined below are based on generally accepted standards in relation to the central pillars of corporate governance including board & management, executive remuneration, risk control & reporting, and investors' rights. They provide a benchmark for assessing companies and exercising our active ownership duties throughout the life cycle of an investment, from pre-investment phase to engagement, proxy voting and right up to the point of exit.

Notwithstanding the aspirational nature of these good practices, we recognise that governance frameworks can be both complex and multi-dimensional. We take a holistic approach to analysing governance recognising that every entity is different and that changes to the equilibrium in one element of corporate governance may create unintended consequences in others.

Whilst mainly applicable to listed companies, these good practices can also be applied, where relevant, by bondholders to private companies.

1. Board & Management

The boards of the companies in which Pictet Wealth Management invests clients' monies should be focused on long-term value creation. This should include periodic assessments of strategic direction, leadership and management, risk management, stakeholder relationships, internal controls, and operating performance.

The board of directors is accountable to shareholders and bondholders, and it is our expectation that board members must at a minimum be competent and exhibit expertise relevant to the company, its industry and ongoing market developments. The suitability of a board member may be called into question where they have been explicitly involved in prior financial mismanagement and/or ESG controversies. Companies should therefore disclose enough biographical information about directors to enable investors to make a reasonable assessment of their track record and value add to the company.

Board members should have enough time to devote to the role so that they can effectively discharge their duties. We will assess time commitment on a case-by-case basis looking at the number of public, private and third sector roles that an individual is committed to. Every member of the board should stand for re-election by shareholders at regular intervals, preferably annually, but at a minimum no less than every three years.

Leadership: Our preference is for leadership of the board and leadership of the company to be separate. This reflects the important role the board plays in monitoring and challenging senior management. Where the chairman and CEO are not separate there should be a lead independent director identified to act as an effective conduit for investors to raise concerns.

Structure: Diversity and balance are critical factors when assessing boards. Pictet Wealth Management expects that the board should be balanced such that no one group should dominate the board. There should be independent non-executive representation on the board that can give investors a degree of protection and assurance by ensuring that no individual or non-independent grouping has unfettered powers or dominant authority. Typically, we require that a majority of board members be independent from management or significant shareholders. Individual independence is assessed on a case-by-case basis having regard for tenure, relationships with major shareholders and any previous connections to the company.

Family/Founder Companies: We define family/founder companies as those where one individual or party controls more than 30% of the economic or voting rights. For these companies, we typically apply a lower threshold of 33% for board independence to reflect the realities of their ownership structure. In case of family/founder companies, the extent of shareholders rights expectation is naturally reduced, and this particularity will be considered in the investment case. When we decide to invest in such companies, we will keep regular communication with the management.

Committees: Boards should establish relevant committees for audit, remuneration and nominations. Other committees, such as a sustainability committee or corporate social responsibility committee, may be created if they bring additional strategic value to the board. In all cases, we expect committees to have at least a majority of independent non-executive directors.

Diversity: We believe that board diversity can lead to improved corporate governance and strategic oversight. It can also lead to greater innovation, better risk management and stronger connections with customers, employees, and business partners. Companies and boards should be able to demonstrate that they are diverse organisations across gender, ethnicity and thought. At this time, gender diversity at board level is the most transparent measurement available to investors and we actively consider voting against individuals on boards that are not making progress on this area.

Succession: Boards should develop short-, medium- and long-term succession plans for senior management. The internal pipeline of talent should be monitored and benchmarked on a regular basis. Similarly, the board should ensure that it is also subject to rigorous succession planning and skills-based assessment. In managing a company for long-term success, boards need to consider the implications of strategy and determine the impact of decisions on timeframes beyond a single individual's tenure.

Assessment: Boards should undertake regular reviews of their performance. Such an exercise should seek to consider the performance of individuals and the whole board. It should also review the continued appropriateness of the skills in the boardroom given the long-term strategic direction of the company. Any issues identified should be resolved through operational and/or personnel changes.

2. Remuneration

When examining the pay arrangements of senior executives, Pictet Wealth Management considers foremost the structure of total compensation and the alignment of management incentives with investor interests. Within this, we recognise that, to attract and retain high quality management, it may be necessary for companies to pay at levels which allow them to compete in the global market for executive talent.

In setting a remuneration framework, remuneration committees should:

- i. Strike an appropriate balance between fixed and variable, short and long-term elements of pay, placing a premium on reward for genuine sustained performance.
- ii. Assess executive performance through clearly disclosed and robust financial metrics that result in the execution of the stated strategy. Without being prescriptive, we expect companies to be mindful that certain financial metrics (for example GAAP-reported EPS) may create an incentive to overfocus on delivery of those specific metrics at the expense of long-term performance. Increasingly, we recognise that there is also scope for the introduction of environmental and/or social targets. Where possible, these should be science-based or auditable. Such measures can foster alignment and generate value where they are essential to the long-term success of the business. For example, there is broad investor expectation that companies will align elements



of executive remuneration with greenhouse gas reduction targets and/or decarbonisation efforts within a given timeframe.

- iii. Where possible, satisfy long-term incentives through shares which have a performance period of at least three years with an additional holding period applied. Such “deferred” shares should be subject to malus/clawback rules.
- iv. Not re-price, adjust or amend “in-flight” stock options and awards.
- v. Encourage appropriate levels of long-term share ownership amongst the company leadership and, where possible, foster share ownership throughout all layers of the organisation.
- vi. Avoid arrangements that would encourage the destruction of long-term investor value or “one-off” incentive arrangements concerning specific ventures that may distort alignment with total corporate performance and returns. For example, transaction-based incentive arrangements.
- vii. Avoid creating arrangements that excessively dilute long-term investors’ interests and/or create excessive or unwarranted costs.

3. Risk Control & reporting

Reporting & Transparency: The annual report and accounts of companies should be properly prepared, in accordance with relevant accounting standards. Companies must communicate clearly with investors. This obligation extends to producing quality accounts and communicating timely and relevant information. Transparency, prudence, and integrity in the accounts of companies are factors which are highly valued by investors. We also expect companies to bring the same levels of transparency and integrity to their reporting on material environmental & social issues.

Auditor: Audits provide a valuable protection to investors and should prioritise the integrity of accounts. In order to provide objectivity and a robust assessment of the accounts, the auditors should be independent. Where independence is compromised or perceived as being compromised due to a conflict of interest, the auditor’s suitability will be called into question.

Auditor Tenure: The length of time both the audit company and the audit partner have served in their capacity with a given company will be factors in determining independence. Companies should consider rotating their auditor over time and we believe that companies should put their external audit contract out to competitive tender at least every ten years.

Audit Fees: Companies should be encouraged to distinguish clearly between audit and non-audit fees. Audit committees should keep under review the non-audit fees paid to the auditor, both in relation to the size of the total audit fee and in relation to the company’s total expenditure on consultancy services. The rationale for any payment of non-audit fees should be clearly disclosed to shareholders so that they may determine the appropriateness of such payments.

Corporate Taxes: Payment of taxes is a corporate responsibility, and we expect companies to pay the appropriate level of tax in the jurisdictions where they have operations and are subject to such liabilities.

4. Investor rights

Voting Rights: We favour a capital structure where one share equates to one vote. Boards should provide strong arguments to justify the introduction or maintenance of equity shares with special voting rights, golden shares, or other split capital structures.

Shareholders' Interests: We will oppose any proposal or action which materially reduces or damages shareholders' rights. As long-term investors, we expect to be given the opportunity to approve: (i) transactions with related parties and (ii) major corporate changes or transactions that materially dilute the equity or erode the economic interests of existing investors.

Capital Management: Pictet Wealth Management expects companies to run an efficient balance sheet that minimises the cost of capital. Boards must also maintain an appropriate level of gearing which recognises the risks attaching to debt across the cycle. Where companies cannot use excess capital efficiently, boards should consider returning this capital to shareholders either through dividends or a well-structure buy-back programme, whilst being mindful of the impacts such excess returns can have on the interests of bondholders. Capital should be used for value accretive acquisitions.

Companies should seek shareholder approval for, and fully justify, general authorities permitting unlimited or substantial capital authorisations or blank cheque preferred stock. The creation of different classes of equity share capital must also be fully justified. We recognise that in some instances it is appropriate for companies to have a degree of flexibility to issue shares for cash without offering them first to shareholders on a pre-emptive basis. Accordingly, such authorities to issue shares without pre-emption rights should not exceed recognised market guidelines. Issuances above these guidelines require a clear rationale as to why they would be in the best interests of existing shareholders.

Shareholder Resolutions: Increasingly, shareholder resolutions are being proposed to address corporate behaviour on material environmental and/or social issues. Such resolutions are evaluated based on their own merits and are supported where Pictet Wealth Management believes they would improve the company's long-term positioning at a reasonable cost.