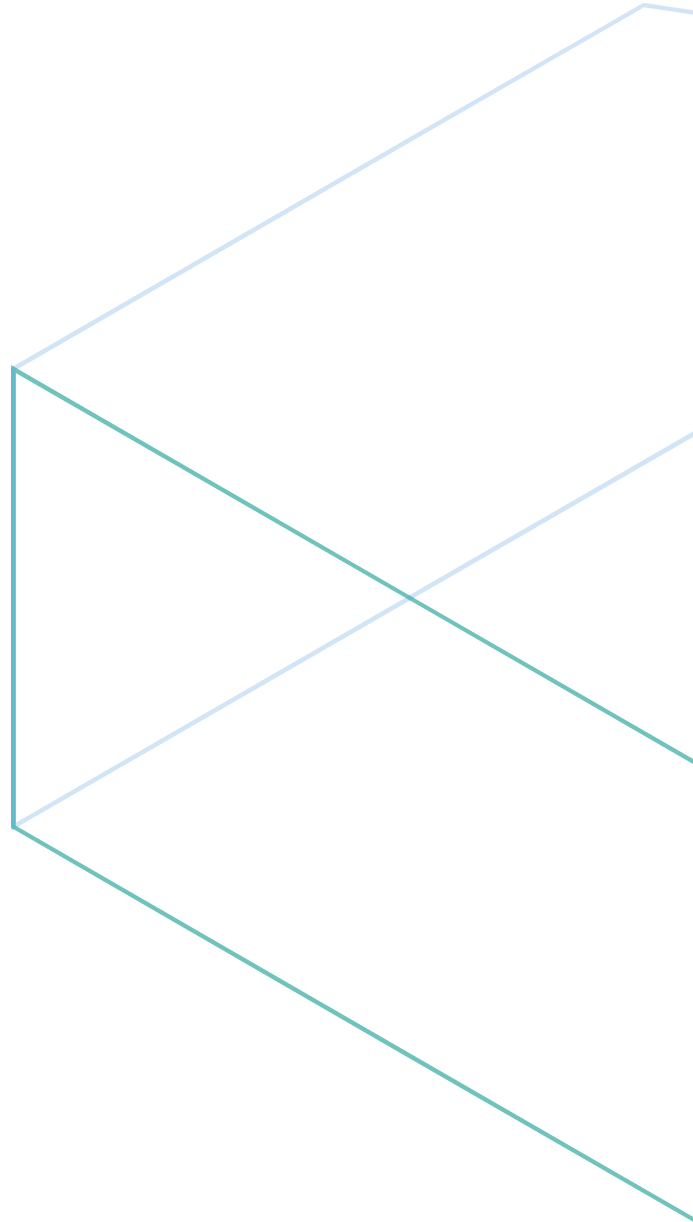




**GSI**

# Global ESG Proxy Voting Guidelines





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### Stewardship

#### Introduction

Global Systematic Investors LLP (“**GSI**”) is an investment management firm authorised in the United Kingdom by the Financial Conduct Authority with permission to provide certain regulated products and services. We may provide investment services and products to a variety of clients. In doing so, we will endeavour to treat all clients fairly, including when voting proxies on behalf of clients.

Currently, given the additional costs associated with voting proxies, we believe that it is not in the best economic interests of our clients to vote all proxies. Instead, we select a subset of the funds’ holdings that we believe warrant voting. Where proxies are voted, the following procedures apply.

#### Proxy Voting Procedures

Our Investment Committee (the “**Committee**”) is responsible for overseeing the proxy voting process. The Committee may delegate responsibility to oversee specific areas of compliance with these procedures to one or more of its members. In addition, the Committee may authorise other individuals, including those working for firms outside GSI, to vote proxies on behalf of our clients.

#### Conflict of Interest

There may be occasions where voting proxies presents a conflict of interest between GSI, our employees, and one or more of our clients. In the event of a conflict we are required to put the interests of our clients first. However, most proxy votes will be cast in accordance with predefined procedures and guidelines that minimise the potential for any conflict of interest.

If such a conflict is identified, it will be reported to the our Compliance Officer and recorded in the Conflicts Register. The Compliance Officer will determine whether the conflict needs to be referred to the Committee. If so, the Committee will determine the appropriate course of action to manage the conflict in the best interests of our clients.

#### Proxy Voting

We exercise our voting right to promote good corporate governance in investee companies. We use the services of Minerva Analytics to provide information, highlight controversial items, and a platform to execute our proxy votes.

Our global ESG proxy voting guidelines (the “**Guidelines**”) assist us in casting votes that are in the best interest of our clients. However, there may be occasions when we determine that the best interests of our clients are best served by voting on certain issues contrary to the Guidelines. When the Guidelines do not cover potential voting issues, we will endeavour to vote in a manner that is consistent with the spirit of the Guidelines and in the best interests of our clients.

We will maintain records of all proxies voted. If we have voted over a period, a summary of votes cast for that period will be published on our website, which will be published at least annually.

### General Principles

We have developed and implemented policies and procedures to ensure that the fiduciary obligation to vote proxies in the best interest of our clients is fulfilled.

We actively exercise our rights as a shareholder to promote responsible and sustainable practices in companies which our funds invest.

Based on that fiduciary obligation, we have produced the Guidelines described in this document. The Guidelines consider global best practice guidelines such as the [ICGN Global Corporate Governance Principles](#) and the [G20/OECD Principles of Corporate Governance](#).

In addition, we incorporate how companies disclose and manage their environmental, social and governance (“**ESG**”) responsibilities in our voting decisions. As such, the Guidelines consider internationally recognised sustainability-related initiatives such as the [UN Guiding Principles on Business and Human Rights](#), the [UN Global Compact](#) and [UN Sustainable Development Goals \(SDGs\)](#).

The Guidelines provide a general framework for our proxy voting analysis, and they apply globally; however, they permit the discretion to reflect local laws or standards where applicable.

## Voting Guidelines

### 1. Section 1 - Audit and Reporting

#### 1.1. Report and Accounts

Financial statements and auditor reports are valuable documents not only to evaluate a company's annual performance but also to understand each company's governance, business model and long-term outlook.

We see the robustness of financial controls and integrity of financial statements as the basis for the healthy functioning of investee companies. We expect companies to provide their report and accounts signed off as complete by an independent, competent, and qualified auditor sufficiently ahead of the Annual General Meeting ("AGM") in accordance with high-quality auditing standards. Such audit reports provide an external and objective assurance to shareholders that the financial statements fairly represent the financial position and prospects of the company.

Where we have concerns regarding financial reporting and/or the quality of internal control and audit processes, we will vote against the resolution seeking to approve the annual report and accounts.

#### 1.2. External Auditor

Shareholders rely on the information present in a company's annual report and accounts to make informed investment and voting decisions. We therefore place high importance on the independence of the external auditor.

We believe that high non-audit fees can undermine auditor independence and can affect the quality of audit. We expect companies to provide a clear breakdown of the fees paid for audit and non-audit services. We may oppose the (re-)election of the external auditor in instances where the aggregate non-audit fees exceed the fees paid for audit-related services in the year under review, or 70% over a 3-year period.

We expect the role of the external auditor to be out to tender on a regular basis, at least every 10 years, and for the external audit firm to be rotated after 20 years' service, or after 24 years in the event of a joint auditor.

We will oppose the re-appointment of an auditor that has failed to reasonably identify and address issues that lead to a material restatement of the financial accounts, or if the lead audit partner has been linked with a significant auditing controversy.

### 2. Section 2 – Board

#### 2.1. Composition

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

We believe that the board should include an appropriate combination of executives and non-executive directors. As such, we consider at least 50% of the board should be comprised of demonstrably independent directors.

We believe increasing diversity and the range of perspectives on the board can enhance board effectiveness and decision-making. Consequently, we expect companies to adopt and disclose a policy on board diversity. We encourage companies to adopt measurable objectives for increasing gender diversity on boards and to regularly report on the progress towards achievement over a defined timeframe.

We have different expectations depending on market and company size, but we generally expect at least 20% of the board to comprise women. Companies listed in the UK are expected to comply with the Financial Conduct Authority diversity targets concerning at least 40% of the board to be comprised of women directors, at least one of the senior board

positions (Chair, CEO, CFO or Senior Independent Director) and to have at least one director from an underrepresented racial or ethnic community.

### 2.2. Effectiveness and Evaluation

We expect boards to regularly assess their own effectiveness to ensure they are operating optimally and possess the right mix of backgrounds and competencies. We expect boards to undertake an internal evaluation annually and encourage the engagement of external assistance at least every three years. The board should disclose the outcome of the evaluation, and if applicable, any steps taken as a result.

### 2.3. Director Elections

We support the re-election of directors at regular intervals to ensure the effectiveness of the board and accountability to shareholders. Directors should be elected to the board preferably on an annual basis or stand for election at least once every three years. We consider it good practice for directors to stand for election individually, rather than by slate.

Directors in uncontested elections should be elected by a majority of the votes cast. In contested elections, plurality voting should apply. An election is contested when there are more director candidates than there are available board seats.

We consider it essential for companies to provide detailed biographical information on each director candidate before the vote at the meeting. We will vote against the election of a director where we have insufficient information to make an informed voting judgement.

### 2.4. Attendance and Commitment

All directors should be able to allocate sufficient time and attention to the company to discharge their duties alongside their other commitments. Overcommitment is considered a material governance risk as it could potentially compromise the quality of the

board and, where directors hold full-time executive director positions, it can impact the discharge of their executive responsibilities.

We generally consider a director should not hold more than three other directorships in listed companies outside of the group. If the director also chairs a board or serves as an executive director, we consider the director should not hold more than two other listed roles.

The number of meetings attended by each director should be disclosed in the annual report. We will generally vote against a director whose attendance rate is less than 75% of board and committee meetings, unless we receive an appropriate explanation from the company.

### 2.5. Leadership

We believe the Chair of the Board should be independent on appointment. We believe that combining the roles of the Chair and CEO can concentrate power, upset board balance, and should be discouraged. We will generally oppose such combinations unless there is assurance that the roles will only be combined on an interim basis (such as to allow for recruitment process). We expect a Lead Independent Director to be appointed in such circumstances.

### 2.6. Board Committees

We encourage boards to set up specialised committees to support the full board in performing its functions, including an audit committee, a nomination committee, and a remuneration committee.

We expect the audit committee to be comprised entirely of independent directors and to have relevant accounting or financial expertise. We also expect the remuneration committee to be wholly independent and for the nomination committee to be at least half-comprised of independent directors.

Where we have concerns with a committee's composition or with the fulfilment of a

committee's oversight functions, we will consider opposing the chair and/or members of the committee.

### 3. Section 3 – Capital

#### 3.1. Capital Allocation

Companies should have clear dividend policies that set out a sustainable approach to distributing dividends and returning capital to shareholders. We will generally support companies distributing a dividend to shareholders. Where a scrip dividend is to be implemented, we believe shareholders should be offered a cash alternative.

#### 3.2. Share Issue Authorities

We believe that pre-emption is an important shareholder right that should not be eroded. We will only support reasonable share issuance authorities, and, to this end, we will assess the impact of the authority on shareholder value in the long term and the dilutive effect of the issuance.

We will generally support share issuance authority requests provided:

- The authority does not exceed 66% of the issued share capital on an aggregate basis in the UK, or 50% on a global basis.
- The dis-application of pre-emption rights does not exceed 20% of the issued share capital.
- The term of the authority does not exceed three years.

#### 3.3. Share Buyback Authorities

We will generally support a company proposal to implement a share buyback scheme up to a limit of 20%. We believe that buybacks at a significant premium to market price can be to the detriment of shareholders' interests and we will not support premiums above 10% of the market price.

When the company specifies its intention to use the authorisation during a takeover bid, we believe that the share buyback becomes an

anti-takeover measure and will generally oppose the authority request.

### 4. Section 4 – Corporate Actions

#### 4.1. Investment Decisions

We will consider investment decisions, including mergers & acquisitions and related party transactions, on a case-by-case basis, with reference to the long-term economic interest of the company and shareholders.

### 5. Section 5 – Remuneration

#### 5.1. General Principles

We believe remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

We expect companies to disclose the compensation paid to directors on an individual basis and with a level of detail which will permit shareholders to conduct a fair assessment of company practices.

We support annual votes on executive compensation as they provide shareholders with a regular communication channel to express their concerns regarding the company's executive compensation practices.

#### 5.2. Remuneration Policy

We are supportive of remuneration policies that are well-structured, fair, understandable, and with safeguards to avoid excessive or inappropriate payments.

We expect executive remuneration systems to contain an appropriate balance between fixed and variable pay. We expect companies to disclose an individual limit for incentive plans and consider increases in salary should be aligned with what is offered to the wider workforce. We will not support changes in

salary for the lead executive by more than 20% without a clear and compelling explanation.

When looking at the remuneration arrangements, we consider the level of linkage between the performance measures used in the incentive pay elements and the key performance indicators (“KPIs”) defined by the company. We believe incentive pay should consider both financial and non-financial considerations and are therefore supportive of the introduction of Environmental, Social and Governance (“ESG”) issues when setting performance targets.

ESG performance metrics should be of high quality, measurable, specific, aligned with the company’s strategy, and appropriately weighted. Companies that operate in high climate impact sectors should link executive incentives with the company’s climate transition plan and emissions reduction aligned with a 1.5°C net-zero goal.

We expect remuneration policies to include robust malus and clawback provisions for all incentive compensation elements of remuneration. In addition, we believe companies should require executives to build up a shareholding in the company in order to better align their interest with the interests of shareholders.

### 5.3. Remuneration Report

We expect companies to disclose the performance conditions used for incentive pay along with the targets set and the performance achieved against the targets for the year under review.

We believe that remuneration committees should use discretion to ensure pay outcomes reflect business performance and the wider stakeholder experience. Where discretion has been used, we expect it to be clearly disclosed with an explanation on how and why the discretion was applied.

We are generally opposed to additional one-off payments outside of the short-term and long-term incentive plans, such as retention awards

and transaction bonuses, and will generally oppose the remuneration report if such awards are granted. When recruiting executive directors, companies should pay no more than is necessary and should fully justify payments to shareholders.

### 5.4. Long-Term Incentive Schemes

We expect companies to provide an acceptable level of disclosure on long-term incentive plans. We support long-term incentives where:

- There is a minimum performance and vesting period of at least three years.
- No vesting is provided for relative performance below median.
- The vesting scale is designed to encourage a high level of performance.
- Retesting of performance targets is not allowed.
- There is a limit on award size and no overly-diluting impact on shareholders.
- Clawback provisions are in place.
- There is no preferential treatment of outstanding share awards on a change of control.

### 5.5. Non-Executive Fees

We believe that compensation for non-executive directors should be structured in a way that aligns their interests with the long-term interests of shareholders and does not compromise their independence. To this end, we are not in favour of non-executive directors receiving performance-based compensation, retirement benefits or excessive perks.

### 5.6. Contracts and Severance Pay

We believe that severance payments to executive officers should be set at a reasonable level. Generally, we will not support severance payments higher than 2x fixed pay.

We consider double-trigger change in control arrangements, which require both a change of control and termination, to be good practice. Vesting of equity awards on a change of control should be on a pro-rata basis that



considers the time elapsed and attainment of any performance targets between the grant date and the transaction.

## 6. Section 6 – Shareholder Rights

### 6.1. Voting Rights

We support the principle of “one-share, one-vote.” We will vote against the introduction of multiple-class capital structures or the creation of shares with voting rights disparity. Where a share structure deviates from a one-share-one-vote, we expect boards to review such share structures regularly and adopt a reasonable sunset provision to phase out the structure (ideally, seven years or less from the date of the IPO).

### 6.2. Anti-takeover Provisions

Shareholders should be consulted in takeover situations and should not have their rights curtailed. The board should not attempt to counter a takeover bid by making decisions which prevent the shareholders from deciding on the takeover bid themselves, without first gaining the acceptance of the shareholders.

Anti-takeover devices should not be used to shield management and the board from accountability. We will generally vote against the introduction of anti-takeover provisions.

### 6.3. Article Amendments

It is common for management to put forward a resolution seeking shareholder approval to amend and/or update the articles of association. We will generally support article amendments provided the proposed changes are clearly outlined and disclosed in the meeting materials, and the amendments do not diverge from good practice or diminish shareholder rights.

### 6.4. Virtual Meetings

We view the AGM as an important forum at which the board is publicly accountable to its institutional and retail shareholders. Whilst we believe an online AGM should not be held

without also offering a physical AGM where the company’s board and shareholders attend in person (known as a ‘hybrid meeting’), we recognise that in exceptional circumstances a physical AGM may not always be possible and in such circumstances, a virtual-only AGM may be supported on a temporary basis.

### 6.5. Voting at Meetings

Meeting materials (including the notice of meeting, proxy card and annual report) should be published sufficiently ahead of the meeting to enable shareholders to vote in an informed manner.

Each substantive resolution should be voteable in its own right; therefore, the bundling of two or more matters for consideration under one resolution is strongly discouraged.

We are unsupportive of mechanisms that limit shareholder ability to exercise voting rights and/or diminish shareholder rights, such as supermajority voting provisions.

## 7. Section 7 – Shareholder Proposals

### 7.1. General Principles

Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around ESG or sustainability practices.

We value the right of shareholders to submit proposals to company general meetings. While we recognise different jurisdictions have different rules in place for the filing of shareholder proposals, we are generally supportive of initiatives that seek to introduce and/or enhance the ability to submit proposals.

We follow a framework for voting on shareholder proposals developed by Minerva Analytics, our proxy voting agency. The framework enables votes in favour of resolutions that promote good corporate citizenship while enhancing long-term

shareholder value, and against resolutions that are misaligned with good governance and shareholder value.

Case-by-case considerations will be taken for proposals that are considered investment decisions or are non-routine items.

## 8. Section 8 – Sustainability

### 8.1. Transparency and Reporting

We believe that it is in the long-term interests of both shareholders and society in general for companies to consider environmental, social and governance issues as part of their business strategy. We are therefore more supportive of companies with board-level responsibility for reviewing ESG risks and where a specific director or committee has been charged with responsibility for this area.

We expect companies to disclose information on their exposure to, and management of, ESG risks and opportunities. The disclosure should be aligned to material sector, industry, and company-specific indicators.

To support consistency and comparability in the sustainability disclosure, we encourage companies to adopt an internationally recognised sustainability reporting standard and to implement independent verification procedures of their sustainability disclosures.

We may vote against the report and accounts where we have concerns about a company's disclosure on sustainability issues.

### 8.2. Climate Change

Climate change presents material financial risks and opportunities for businesses and investors. We expect investee companies to work towards mitigating climate change by making efforts to reduce carbon emissions and transition to a low-carbon economy.

Consistent with our membership of the International Investor Group on Climate Change (IIGCC), we expect investee companies to provide disclosure on climate-

related issues, including on governance, strategy, risk management, and metrics and targets. In particular, we encourage companies to provide reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

We encourage companies to develop a climate transition plan that discloses the strategy and actions the company intends it take to transition to net-zero greenhouse gas emissions by 2050 or sooner. When assessing a company's transition plan, we encourage disclosure on:

**Net-zero Commitment:** Companies should disclose a comprehensive commitment to reducing emissions to net zero by 2050 or sooner.

**Aligned Targets:** Short, medium and long-term science-based targets aligned with 1.5 degrees.

**Emissions Performance:** GHG emissions specifying scopes 1, 2 and 3 (breaking out material Scope 3 categories) over time.

**Climate Governance:** Board-level oversight of climate-related risks and opportunities as well as incorporation of climate metrics in executive remuneration to incentivise delivery of the plan.

**Climate Lobbying:** A commitment to aligning lobbying with the goals of the Paris Agreement. Companies should disclose their membership in trade associations and establish an annual monitoring and review process to ensure that direct and indirect lobbying activities are consistent with the goal of restricting global temperature rise to 1.5 degrees Celsius.

**Social impact:** Companies should consider the impacts of transitioning to a lower-carbon business model on their workers and communities and commit to decarbonising in line with the ILO's '[Guidelines for a Just Transition](#)'.

Where a company puts forward a resolution seeking shareholder approval of its climate transition plan, we will consider voting against the plan if it is deemed to be insufficiently aligned with our disclosure expectations and

the goals of the Paris Agreement to keep global warming to 1.5°C.

### 8.3. Nature

The world's natural capital, which includes forests, soil, air, water and all living organisms, provides essential goods and ecosystem services that underpin our economy and make human life possible. Depleting natural capital creates significant operational, regulatory, litigation, and reputational risk for investors and businesses alike, and negative economic repercussions globally.

We encourage companies, particularly those with high exposure to natural capital risks, to provide disclosure on nature-related dependencies, impacts, risks and opportunities at the operational level and throughout value chains as well as disclosure on the governance structures and processes, strategy, engagement, and metrics and targets deployed to manage nature-based risks and opportunities. Company reporting should be aligned with good practice frameworks such as the Taskforce on Nature-related Financial Disclosure (TNFD).

Deforestation is the purposeful clearing of forested land and has material implications for biodiversity and habitat loss and contribution to global warming. We expect companies with high exposure to deforestation risk commodities (palm, oil, soy, beef, timber, paper and pulp) to have a disclosed policy on deforestation detailing how the company seeks to address risks within their operations and supply chain. We will monitor company performance against our expectations on deforestation through publicly available

resources such as Global Canopy's Forest 500 Index.

### 8.4. Responsible Tax

It is considered good practice for a company's board to have a published tax policy indicating the company's approach to planning and negotiating tax matters, and to allow shareholders to monitor its handling of financial, regulatory and reputational risks in this area. We encourage country-by-country reporting in line with the GRI 207 tax reporting standard.

### 8.5. Political Donations

We do not support the use of shareholder funds for political donations. We expect companies to provide full disclosure and justification for substantial political expenditures. We will consider voting against the report and accounts where shareholders' funds have been used to make political donations without shareholder approval. Where an authority to incur political expenditure is sought, we will not support an authority that will allow donations to political parties or political candidates.

### 8.6. UN Sustainable Development Goals (SDGs)

We make use of the SDGs to identify ESG-risks and opportunities. We encourage companies to assess the relevance of the UN Sustainable Development Goals to their business and to incorporate material goals into their strategies and to report on how they are responding to the SDGs. We recognise that the SDGs are an articulation of the world's most pressing sustainability issues and, as such, function as a globally agreed sustainability framework.

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