



Active Ownership Policy

8 April 2020

TABLE OF CONTENT

1. PURPOSE AND SCOPE 1

2. ASSETS COVERED BY THE POLICY 1

3. ENGAGEMENT 1

4. VOTING 2

 4.1. VOTING PRINCIPLES 3

 4.2. VOTING GUIDELINES 4

 4.3. IMPLEMENTATION OF VOTING RIGHTS 5

5. GOVERNANCE AND DISCLOSURE 5

1. PURPOSE AND SCOPE

The purpose of the Active Ownership Policy (hereafter “Policy”) is to define the principles and strategies as to when and how InterCapital Asset Management (hereafter “ICAM”) is to engage with issuers and/or exercise shareholder voting rights attached to the financial instrument held within portfolios managed by ICAM.

At ICAM we believe that active ownership contributes to good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. The policy is part of ICAM’s overall Responsible Investment Policy framework.

The Policy is aligned with the amendments of the Croatian Companies Act (Official Gazette No 40/2019), which implements provisions of the Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

2. ASSETS COVERED BY THE POLICY

ICAM engages and exercises voting rights attached to securities held within portfolios managed by ICAM. In case of accounts for which ICAM is not allowed to exercise ownership rights, we submit our voting recommendations to clients for specific agenda points.

In certain cases, ICAM refrains from engagement or exercising voting rights. These include:

- Such action not being in the interest of the beneficial owner of the asset.
- Such action is inconsistent with applicable laws, regulations, investment management agreement or respective prospectus.
- Government securities. This mostly concerns fixed-income securities. The size of our holding is usually too small to give us excess to decision-makers, limiting our engagement options. However, ICAM may resort to collaborative engagement with other investors.
- Disproportionate costs or impracticability. This usually concerns companies incorporated outside of South-East Europe, which are part of our global portfolios.

3. ENGAGEMENT

For the purpose of this Policy, engagement includes the interaction with issuers on certain topics in order to understand the risk and opportunities of each specific investment case, and to use our influence as an investor to encourage them to improve their practice. We commit to engage with issuers in our investment universe driven by our belief that it leads to value creation for our clients.

Topics covered by our engagement practices range from company strategy, financial performance and ESG issues to anything else deemed material by our investment team.

We take an active approach in communicating our views to companies and seeking improvements where there are shortcomings in performance, a company has infringed appropriate standards, or to push for adequate disclosure.

ICAM’s Analysts and Investment Managers regularly follow and analyse macro indicators, companies’ quarterly and annual results, corporate actions, ESG disclosures etc. to ensure sufficient understanding of an issuer and detect potential topics for engagement. ESG issues are systematically covered and re-evaluated via our proprietary ESG-scoring model. As the model scores a range of ESG indicators, it allows us to efficiently detect areas with a need for improvement. For more details on our investment procedures and ESG scores, please refer to our Responsible Investment Policy.

Engagement may take several forms including:

- Direct dialogue with the executive management or IR teams.
- Formal correspondence with the Management board or Supervisory Board.
- Exercising shareholders' rights on the general assembly.

ICAM differs two types of engagements:

- Reactive engagements are company specific and are triggered by a negative event (e.g. ESG norm infringement).
- Proactive engagements are preventive in nature and target improvement of company practices. They can also be theme specific and undertaken across a group of companies.

If major deficiencies are discovered in an issuer's current or historical conduct, the Analyst covering the issuer in coordination with the respective Investment Manager is responsible for assessing the gravity of the issue, namely:

- Temporal proximity (when did the incident occur and how long will remain present).
- Size (e.g. financial costs, pollution etc. associated with the incident).
- Credibility (allegations, legal actions taken etc.).
- Repetitiveness (is the incident a one-off or is there evidence of systematic occurrences over a period).

Escalation and means of engagement activities are decided upon by Investment Managers and Chief Investment Officer, and depend on the specifics of the issue at hand and the issuer.

ICAM's engagement process comprises three main phases:

- Planning. The aim in this phase is to define the scope, timeline and types of actions that will be taken to achieve the desired outcome.
- Dialogue. In this phase our Analyst and/or Investment Manager reaches out to the targeted issuer, communicates the concerns and desired course of action, and monitors the developments within the set timeframe.
- Assessment. In this phase our Analyst and/or Investment Manager determines the outcome of the engagement and decides upon following actions.

Engagement results are reported to the Chief Investment Officer who shall, in communication with Investment Managers, decide upon exclusions from the investment universe or necessity for further engagement. All engagement activities undertaken by ICAM are tracked and recorded in the engagement database.

We recognize that in some instances joint action together with other stakeholders has the potential to be more effective than acting alone. Thus, in certain circumstances ICAM may consider participation in collaborative engagement initiatives.

4. VOTING

ICAM believes using voting rights in an informed way at company general meetings is a key part of being an active owner of listed equities. Taking into account limitations set under 2. ASSET COVERED BY THE POLICY, ICAM's voting activity includes, but is not limited to shareholders' resolutions on Board composition, profit distribution, ESG issues etc. When voting against the management's proposal we communicate the reasoning to the company.

Our Investment Managers are ultimately responsible for all voting decisions, but need to take into account the list of main principles and voting guidelines specified below.

4.1. VOTING PRINCIPLES

Our voting decisions are guided by the following main principles:

- **Corporate governance.** We expect companies to comply with generally accepted corporate governance norms such as the ICGN Global Corporate Governance Principles as well as with the corporate governance standards that are applicable in their country of domicile.
- **Governance structure.** We are impartial towards the type of the Board structure, one-tier or two-tier. In case of one-tier structure we favour the separation of Chairman and Chief Executive Officer (CEO) roles. Should that not be the case, then a majority of independent directors is seen an important measure to counterbalance the concentration of powers.
- **Supervisory / Board of Directors composition.** We prefer Board composition that reflects the shareholder structure, while combining the necessary experience and expertise with adequate independence and minority representation. We consider non-executive director (Supervisory Board member) an independent one if the person is or has not been an employee or corporate officer of the company within the last 5 years; is not an employee or corporate officer of a significant shareholder or a significant partner; has no family ties with a member of the executive management or director; has not been a statutory auditor of the company over the past 5 years; and has not served on the board for more than 8 years. The availability and engagement of non-executive directors is important to us. We are not in favour of non-executive nominees that hold more than 3 directorships or in case of reappointments directors that have had a low attendance rate with no justification provided.
- **Supervisory / Board of Directors diversity.** We believe that diversity contributes to the operating efficacy of the Board. Thus, we favour a board with a balance across nationality, generation and gender.
- **Committees.** We look favourably upon the creation of specialized committees reporting to the Board, especially Audit, Nomination, Remuneration and Risk Committees. The committees should be made mostly of independent parties and should not be chaired by the executive board members to allow an efficient oversight of the management.
- **Non-executive (or Supervisory board) compensation.** Remuneration of non-executive members and non-executive chair should be structured in a way, which ensures independence, objectivity and alignment with shareholders' interests but being also fair in relation to the market standards of the industry and country of domicile. Company performance-based remuneration should not be granted to non-executive directors and non-executive chairs.
- **Executive compensation.** Remuneration policy and report need to be sufficiently exhaustive to allow shareholders to make an informed decision. The company should disclose the amounts allocated, the qualitative and quantitative criteria used in determining the allocations, how different criteria are weighed within the allocation, the calculation methodology used and the ex-post target achievement rate. When it comes to executive pay, the interests of management should be aligned with the long-term interests of the company and its shareholders. Therefore, we are in favour of executive stock ownership and stock option schemes.
- **Equal treatment of shareholders.** All shareholders should be given the opportunity to participate effectively, and on an informed basis, in shareholder meetings. The exercise of ownership rights by all shareholders should be facilitated by giving timely and adequate notice of all matters proposed for a shareholder vote. We are in favour of one share – one vote – one dividend principle. We do not support share issuances without pre-emptive rights to existing shareholders and reserved for specific beneficiaries. Also, we are against anti-takeover measures as it should be the right of shareholders to make their decision on a case-by-case basis.
- **Focus on long-term value creation.** To ensure long-term performance for the shareholders, investee companies should act responsibly to all stakeholders. This includes recognition of the impact of business decisions on the environment and on social and human rights issues in the regions in which they do business. We in principle favour resolutions that encourage to improve environmental and social practices.

4.2. VOTING GUIDELINES

These voting guidelines provide a non-comprehensive framework on how our voting principles are implemented. Proposals not covered by the guidelines shall be voted on a case-by-case basis.

1. Vote for approval of financial statements, director reports and auditor reports unless there are concerns on reliability of accounts or followed procedures, or the company is unresponsive to shareholders' questions for information.
2. Vote for discharge of board and management unless there are clear concerns about the performance of board in the period under review or legal actions taken by other shareholders against the board.
3. Vote against indemnification of executive directors or auditors.
4. Vote for the appointment of auditors and associated compensation unless the auditor is changed suddenly and without good reason or when issues regarding the tenure, fees and independence of the audit are not in line with market best practice.
5. Vote for the special auditor's report on related-party agreements unless some of the related-party agreements can be considered going against the interests of the shareholders or information disclosed is insufficient and fails to confirm the former.
6. Vote for the election of a director (Supervisory Board member) nominated by management unless past performance of the nominee shows clear concerns such as criminal behaviour or breach of fiduciary responsibilities, the nominee is an insider or affiliate to the company and the board is not sufficiently independent, a more suitable nominee by shareholders is available for election, the board repeatedly shows unwillingness to implement good governance standards, the nominee adds to a sub-standard composition compared to local best practices in terms of tenure, diversity, skills and external commitments, or the nominee does not meet the conditions foreseen by the law. In cases where too little information is disclosed, we abstain from voting.
7. Vote for the election of a director (Supervisory Board member) nominated by shareholders unless past performance of the nominee shows clear concerns, the nominee does not meet the conditions foreseen by the law, or a more suitable nominee by management is available for election. In cases where too little information is disclosed, we abstain from voting.
8. Vote in favour for executive remuneration policy or its implementation unless the policy fails to align pay with performance, the remuneration structure places excessive focus on short term performance, disclosure on remuneration practices is insufficient and there are concerns of board accountability or remuneration is deemed excessive and bears a significant cost for shareholders.
9. Vote against the executive remuneration policy or its implementation if performance targets are changed retrospectively, substantial one-off payments are made without performance criteria, in case of golden handshakes or parachutes, or bonus payments are made when company has made no profits in last 3 years.
10. Vote for the proposed compensation of non-executive directors (Supervisory Board members) unless the amount of compensation is excessive by country or industry standards, the proposal includes retirement benefits or remuneration includes inappropriate incentives that might compromise the independent judgment of the independent directors.
11. Vote for the proposed allocation of income unless the pay-out is not reflective of the company's financial position, there is a concern that the return policy is not in the interest of shareholders or the company has a history of poor capital management.
12. Vote for mergers and acquisitions unless insufficient information is available and/or provided to make an informed decision, voting rights, earnings distribution or any other shareholder rights would be altered disproportionately, the structure following the merger or acquisition would not represent good governance or the deal appears not to be in the best interest of the shareholders.
13. Vote for proposals to convert to a "one share, one vote" capital structure.
14. Vote against issuance request of preferred stock with superior rights to common shares.
15. Vote for share repurchase and re-issuance plans unless the plan contains no safeguard against selective buybacks or re-issuance, there are concerns of abuse of repurchase and (selective) re-issuance plans or transactions are carried out under unfavourable conditions for shareholders.

16. Vote for reduction of capital requests unless the terms are unfavourable to shareholders.
17. Vote for debt issuance proposals unless the issuance is excessive given the company's financial position or the issuance bears superior rights to common shares when converted.
18. Vote against amendments to the articles of associations or company's charter that are not in the best interests of minority shareholders.
19. Vote against the introduction or renewal of all anti-takeover mechanisms.
20. Vote against approval of items proposed by management for which information has not been disclosed.
21. Vote against bundled resolutions if one or more of the items create(s) significant concern for shareholders.

4.3. IMPLEMENTATION OF VOTING RIGHTS

Monitoring of the corporate events connected to financial instruments in our funds and portfolios is ensured by constant consultation of the notices via our custodian banks. Our investment team is responsible for analysing the shareholder meeting agendas and making proposal to Investment Managers. The final decision regarding participation in a shareholders' meeting and the exercise of voting rights is made by Investment Managers who determine the vote to be cast. Ordinary procedure for exercising voting rights entails correspondence voting, using systems available by custodian banks and direct participation in the meetings.

5. GOVERNANCE AND DISCLOSURE

ICAM documents and publishes voting records on our company website prior and after the general meeting. Engagement activities are tracked and recorded in the engagement database. Engagement details are not made public, unless decided otherwise by the CIO or requested by the regulator. Engagement and voting statistics are disclosed once a year in the UNPRI Transparency Report.

Conflict of interest situations and dealing with inside information is covered in our Conflict of Interest Policy, publicly available on our website.

* * *