

MONTANARO VOTING POLICY

- We seek to exercise all of our voting rights.
- We make our own voting decisions.
- We do not choose to automatically support the Board or management of an investee company and instead apply our proprietary guidelines.
- We have and will abstain or vote against resolutions from time to time.
- We publish Voting Activity Summary Reports on our website

We exercise our voting rights

Voting is a vital part of our engagement with companies. This is why we attempt to vote at all Annual General Meetings for the holdings within our Funds. We also do this for segregated mandates where we have authority to do so. We do not engage in stock lending in the Montanaro Funds (although our segregated clients may have their own policies on this).

We make our own voting decisions

We receive independent third party corporate governance reports and voting recommendations from Institutional Investor Services (ISS) ahead of meetings, however we use these for advice only; our Analysts systematically review all resolutions ahead of shareholder meetings and we voice our concerns where required. We aim to discuss any issues with management prior to voting against or abstaining.

We apply the same voting decisions across all portfolios, unless a segregated mandate client has specified that a particular voting policy be applied. We keep a record of our voting rationale.

We publish Voting Activity Summary Reports on our website

We use ISS to process our proxy voting. All voting activity is recorded in our Proxy Voting Log, and can also be reviewed on the ISS portal. The Sustainability Committee reviews voting activity for the quarter at each meeting, and we publish a summary of our voting statistics [on our website](#). This includes the number of proposals where we voted either in favour, against or abstained on different subjects such as approving Remuneration policies, electing Directors, and approving capital increases.

A more detailed breakdown of how we voted on specific issues and our rationale for doing so is provided to clients on a case-by-case basis and is recorded in our reports to the FRC Stewardship Code as part of our responsibilities as signatories. We also report annual voting statistics to the UN in line with our responsibilities under the Principles for Responsible Investment.

MONTANARO VOTING GUIDELINES

The voting guidelines below indicate the parameters used to assess voting decisions. Decisions are taken on a case-by-case basis and a degree of flexibility is needed to accommodate the wide variety of circumstances we encounter when exercising our rights as shareholders. Nevertheless, we apply the points outlined in this document when reviewing the proposals put to us by companies. If for any reason we deviate from the voting suggestions listed, we must provide a clear rationale that is recorded in our Proxy Voting Log. This usually forms a catalyst for engagement and the topic is raised at our next meeting with the company.

Our principles focus on key topics, which cover the issues most commonly encountered when undertaking stewardship duties. This is by no means an exhaustive list and therefore any omission of an issue in the voting policy does not preclude a vote against at a company meeting should an unforeseen concern arise.

The Board: Composition and Responsibilities

1. The roles of Chairperson and CEO should be separate. There are some countries where the combination of these roles is common but the recommended practice is that these roles should be distinct to ensure a clear division of responsibilities between the leadership of the Board and the Executive leadership of the company's business. Where these roles are not separated we will generally vote against the election or re-election of the director whose presence causes the Board to fail to meet our guidelines. Where we opt to support directors who hold combined CEO and chairperson roles, we will usually contact the company to outline our views on this practice and encourage a change to mitigate governance risks.
2. The majority of the Board should be Non-Executive Directors (NEDs) who are deemed independent. Relevant experience and group dynamics should be taken into account, this ensures that the Board is not dominated by an individual or small group of individuals. Independent NEDs should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account. Where the lack of independence on the Board causes us concern over the appropriate functioning of the Board, we will generally vote against the election or re-election of the directors who are not considered independent.
3. There should be at least three independent Non-Executive Directors in order to have the necessary challenge and debate to promote a well-functioning and entrepreneurial boardroom culture.

4. There should be separate committees for the Audit and Remuneration functions. These committees should be made up entirely of independent NEDs that have recent, relevant experience to the committee they sit on (this is particularly important for the Audit committee). Where a Board does not have such committees in place, we may choose to vote against the chairperson for a failure to support best practice. Where these committees exist but composition is not in line with our guidelines we will generally vote against the election or re-election of individual directors whose presence skew the independence of a committee. However, we will of course consider factors such as the size of the company and its leadership team prior to making these decisions.
5. Where possible, there should also be a Nomination Committee comprising of a majority of independent Non-Executive Directors.
6. Directors should have sufficient time to meet their Board responsibilities. We will review any additional roles directors have outside their Board commitments. Where we feel a director is overcommitted we may vote against their re-election. We are likely to use attendance as evidence of a director's ability to meet their responsibilities. Directors should attend all Board and any relevant committee meetings. Directors that attend fewer than 75% of their meetings should have the resolution for re-election voted against.
7. The independent NEDs should be regularly refreshed, this ensures that the criteria for independence continue to be met. Should a Director have a long tenure (typically 10 years or more), we may consider voting against their re-election unless we believe that the Director continues to act independently from management and to add value to the Board.
8. When evaluating Board composition and effectiveness, we will consider cognitive diversity as well as that of gender, social and ethnic backgrounds and personal strengths. There should be a transparent diversity policy in place that should ideally go beyond gender reporting to encompass diversity in its broadest sense. We support reviews such as Hampton Alexander, McGregor-Smith and Parker, which set goals for the representation of women and people of colour in boardrooms, executive teams and senior management¹. Where we feel there is insufficient consideration, reporting and action on improving diversity on the Board, within management or employees, resolutions to reappoint members of the Nominations Committee may be voted against. We will engage with companies to improve diversity at Board level and throughout the organisation. Where companies operate in a sector with particularly

¹ The Hampton Alexander Review recommends a target of 33% female representation on boards. The McGregor-Smith review on racial representation suggests a point roadmap for success including: Gather Data; Take Accountability; Raise Awareness; Examine recruitment; Change processes; and Government support. The Parker review suggests companies have a target of at least one minority ethnic board member.

low levels of diversity and high female attrition rates, it is necessary for these companies to evidence that they are taking meaningful action to address the talent gap.

9. Some companies have a mentality of “one and done”, we do expect to see continued improvement to board diversity and will consider a voting against the Chairperson should progress stall.
10. In conjunction with the 2020 Update Report from the Parker Review, we would also like to note that “Meritocracy is not the opposite of diversity – both priorities should go hand in hand”. Where we note the emergence of this subtle bias indicating that the diversification of boards is associated with a lowering of the bar for merit, we will engage with investee companies to explain why we believe this is misguided.

Remuneration

1. Remuneration schemes should align executive and shareholder interests. Pay structures should be transparent and targets under incentive schemes should be disclosed on an annual basis unless a full justification can be provided. Where opaque remuneration policies and practices are implemented we may choose to vote against resolutions on the remuneration report. This could be escalated to a vote against the remuneration policy or the re-election of members of the Remuneration Committee if the issue persists without a valid explanation from the company.
2. Variable pay should be based on delivery of good long term performance and a variety of metrics should be used rather than a single performance target. The targets should be stretching and aligned with the strategy of the business. Targets should, where possible, relate to relevant environmental and social Key Performance Indicators (KPIs). If variable pay is not aligned with the long term business strategy we may choose to vote against resolutions on the remuneration report. This could be escalated to a vote against the remuneration policy or the re-election of members of the Remuneration Committee if the issue persists without a valid explanation from the company.
3. In industries with significant health and safety, environmental or social risks, we expect executive remuneration arrangements to include performance measures to manage these risks. We will vote against a remuneration report if there has been significant mismanagement of these risks during the period but no reduction to executive pay awards. This is particularly pertinent where a company is directly linked to a catastrophic incident.
4. There should be an adequate clawback policy in place that includes the circumstances in which the Remuneration Committee would consider recoupment. If such

arrangements are not outlined as part of the remuneration policy, we will consider voting against the policy.

5. Boards should have strong rationales for financial awards to management and if the justification for such awards is weak, e.g. in the event of a windfall scenario leading to unforeseen large pay-outs, the Remuneration Committee should use their discretion to make adjustments. We expect Remuneration Committees to exercise sensible judgement to ensure total awards remain appropriate. We will consider the effectiveness of the Remuneration Committee if we identify situations where the rationale for excessive awards is lacking.
6. We will also consider the following points when deciding whether to approve a remuneration report:
 - The pay ratio between executives and employees;
 - The ratio of base salary to variable remuneration;
 - Total level of pay;
 - Whether the company in question is a living wage employer and various other employment practices that ensure decent and stable work for their employees.

Audit

1. We will consider opposing the re-election of the Audit Committee and approval of the Annual Report and Accounts if there is no statement of responsibility for accounts, an auditors' reporting responsibility and a statement of going concern.
2. If the external auditor proffers an adverse / qualified opinion we may consider the positions of the Audit Committee members.
3. The Board's statement of internal controls should be appropriately detailed. Where necessary information has been omitted, we may consider voting against resolutions to approve the Report and Accounts.
4. External auditors should be fully independent and have no significant connection to the directors. External auditor positions should be re-tendered every ten years and the same auditor should not remain in post for more than 20 years in order to ensure this independence. We will consider voting against the re-appointment of the auditor where independence is called into question.
5. When inviting audit firms to tender for the position, there should be no "Big four only" restrictions implemented. Where smaller firms have the scope to audit, companies should resist the imposition of such requirements.
6. We prefer the appointed external auditor to not engage in additional non-audit work for investee companies. Where external auditors perform additional non-audit work for the company, payment for this non-audit work should not exceed 70% of audit

fees. This could lead to independence being compromised and therefore we may choose to vote against the re-appointment of the external auditor.

Shareholder Rights

1. We believe that, in order to uphold the rights of existing shareholders, pre-emption rights should only be dis-applied in limited circumstances. This protects investors from the erosion of value or control without approval.
2. The issue of new shares should not exceed a third of the issued ordinary share capital, or in the event of a rights issue, two thirds of issued ordinary share capital.
3. If there is an attempt to issue new shares without pre-emption rights the amount should not exceed 10% of issued ordinary share capital in one year. Any disapplication above 5% of issued ordinary share capital without pre-emption rights should only be in connection with an acquisition or specified capital investment.
4. Share buybacks should be fully justified. Where proposed repurchasing arrangements exceed 10% of the issued ordinary share capital without sufficient justification, we are likely to vote against the resolution.
5. Corporate restructuring resolutions will be considered on a case-by-case basis. We tend to consider factors such as:
 - The strategy of the business;
 - Transparency and management of the transaction;
 - Risk mitigation;
 - Alignment of directors with stakeholder interests.

In situations where we feel the proposal fails to meet our requirements, we will vote against the suggested restructuring arrangements.

6. Resolutions that seek to remove or reduce shareholder protections should be voted against.

Sustainability, ESG and Impact

1. We want our investee companies to effectively manage ESG risks and pursue opportunities for improved sustainability credentials. Any opportunities to encourage such behaviours through voting will be taken.
2. At a minimum, ESG practices should meet the standards of market regulations. Where this is not the case, we will first engage with the company to advocate for improvement on the relevant issue. The success of any resulting dialogue will influence future voting decisions.
3. We expect management teams to be aware of systemic and market-wide risks that

might impact their businesses, such as climate change, and take appropriate action to mitigate said risks.

4. We outline our Ethical & ESG policies in detail in our ESG Handbook. Voting is aligned with our policies in this area.

MONTANARO VOTING PROCESS

1. The first step in our voting process is that our Administration Team will be notified of a new ballot. The votable shares are then checked between our two systems (ISS and Charles River) to ensure that there is no discrepancy. The Team will also check whether there is any shareblocking in place for the company in question.
2. The Administration Team will then circulate the ISS research note on the upcoming meeting to the Investment Team and, in some circumstances, members of the Compliance Team in line with our Conflicts of Interest Policy.
3. The relevant Analyst for that company will review the ISS recommendations.
4. Then follows our discussion. This will take place between Analysts and the Sustainability Team and references:
 - a. the ISS research;
 - b. the MAM Voting Guidelines detailed above;
 - c. any previous engagement with the company;
 - d. the Analyst's knowledge of the business.
5. If an Analyst wishes to vote against management's recommendations, they will usually contact the company to discuss the matter and find out if there are any mitigating circumstances which explain the proposal of the resolution.
6. When a decision has been reached, the Sustainability Team will send the final voting decision to the Administration Team for implementation. They will also provide a rationale for each item.
7. Two logs are kept in conjunction with voting activity. One by the Administration Team to record that the steps have been undertaken correctly and one by the Sustainability Team to record voting rationale and engagement as a result of the decision-making process.
8. Where we have separate mandates and our clients have their own voting guidelines, we will review the voting suggestions for companies held within their portfolio in line with their policy. Where we disagree, we will present our rationale and alternative voting suggestions to the client. The final decision is then made by the client and submitted via their system.
9. The Sustainability Committee review voting activity on a quarterly basis.