HARDING LOEVNER

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HARDING LOEVNER

Harding Loevner Proxy Vote Guidelines

As active stewards, Harding Loevner seeks to enhance the economic value of the companies in which we invest our clients' funds. Through our engagements with companies and our proxy voting, we provide feedback to companies and seek to promote high standards of corporate behavior. These guidelines outline our views on many common issues that we address in proxy voting and other company engagements.

Central to our stewardship and our search to enhance the economic value of the companies in which we invest our clients' funds, is our belief that there are fundamental rights and responsibilities attached to share ownership. Specifically, shareholders must have the ability to hold companies and their boards accountable via appropriate checks and balances. Shareholders must have the ability to vote on matters that are material to the value of their investment. To allow shareholders to exercise these responsibilities, there are two core overarching principles that companies must follow.

First is timely and accurate disclosure of all financial and operating information. Without sufficient disclosure, we find it impossible to make informed, rational investment decisions, especially since we assess voting matters on a case-by-case basis and pay special attention to the specific circumstances of an investee company.

Secondly, we believe that shareholders are entitled to voting rights in proportion to their economic interest in the company. All shareholders should have the power to speak and the opportunity to hold companies accountable and affect change. Without equal voting rights, corporate governance can become the sole concern of a small group of shareholders who may act without regard for other who also have a stake in the company.

As we engage with companies, we believe that the analyst covering that company is best positioned to determine how to vote on proposals. Analysts are encouraged to formally seek feedback from the research team, including the CIO and other resources in our firm, when considering complex or controversial issues. We also employ Glass Lewis to advise on proxy voting but exercise our own judgment as to whether to accept its advice. We may occasionally engage with Glass Lewis to better understand the decision-making process behind a particular recommendation.

As a general matter, we do not seek to acquire securities in an issuer with a purpose to change or influence control of the issuer. Whenever we vote against management on any material item, we require the analyst to write a letter to the company after the fact, explaining the rationale for our vote. Analysts generally address such correspondence to the Chairperson or another appropriate representative of the Board.

Additional engagement may follow this written engagement. Analysts may also choose to have a dialogue with a company prior to a proxy vote to gain additional information or to express our view on a proposal. All letters to company management are retained for internal record keeping purposes. Records of company engagements are stored in HL's centralized research management system, where the information is accessible to our entire firm, including all investment professionals.

The following guidelines outline how our views about our search to enhance the economic value of the companies in which we invest our clients' funds might be reflected in an analyst's voting decisions. They are meant to illustrate how we approach proxy voting and related engagement on behalf of our clients, but we recognize that standards of corporate governance and regulatory frameworks differ between markets, so we assess voting matters on a case-by-case basis, considering the specifics of the proposal and general circumstances of the company. The guidelines are not intended to limit the way we vote and are applied with discretion, considering the full range of expert knowledge our analysts develop.

Board of Directors

Director Independence

A board of directors is most effective in protecting shareholders' interests when a majority of the directors are independent, preferably comprising at least 2/3 of the board. The independence of directors, or lack thereof, is ultimately demonstrated by their track record of independent and objective decisions, although we may look to their financial, familial, and other relationships with the company for insight on their independence.

Requiring majority independence may not be feasible for certain companies, including companies operating in countries where levels of independence are generally lower. In those cases, we may use a lower independence threshold while also advocating for improvement in board independence.

Committee Independence

Only independent directors should serve on a company's audit, nomination, compensation, or governance committees.

Separation of Chairman and CEO Roles

Separating the roles of CEO and Chairman can promote independent leadership of the board. In deciding whether to support a combined CEO/Chairman position, analysts consider board independence and the board's track record of challenging and adequately overseeing management. If the company opts for a combined CEO/Chairman model, we believe that independence can be enhanced by designating a lead independent director with the authority to provide formal input into board meeting agendas and to call meetings of the independent directors.

CFO on the Board

Generally, we believe that the CFO should report to the board rather than serve as a director. However, analysts will consider local norms when determining whether to endorse CFO nomination to the board.

Oversight

Harding Loevner expects the board of directors to exercise appropriate oversight over the management and business activities of the company. Our approach to holding the board accountable is to focus on individual directors' responsibilities. We will consider voting against a director if they don't meet our oversight expectations, including the following:

- **Auditing**: If the board has failed to implement quality independent auditing, we may vote against the current audit committee chair or any other members of the board who may be responsible. We will generally vote against the committee chair in cases where audit committee is not headed by a financial expert.

- **Compensation**: When executive compensation appears excessive relative to the performance of the company or peer standards, we may vote against the current compensation committee or any other members of the board who may be responsible.
- **Independence**: If the board is not composed of an adequate number of independent directors, we may vote against the current nominating or governance committee or any other members of the board who may be responsible.
- **Attendance:** When a director has an attendance record at board and committee meetings of less than 75%, we may vote against them lacking sufficient justification for the poor engagement.
- **Commitments:** If a director serves on an excess number of boards, we may vote against the nominee. Generally, directorship on more than two boards for an executive director or on more than five boards for a non-executive director warrants further examination. Factors considered in that examination include the size and complexity of the companies on whose boards a director sits, company locations, whether the companies are in the same or related industries, and whether director has prior industry experience. Roles that require greater time commitment, such as serving as board Chair or serving on multiple committees, should be considered in determining the level of commitments.

Director's Pay

Harding Loevner recognizes that compensation for non-employee directors should be adequate to attract and retain talent, but that excessive fees (relative to an appropriate peer group), along with variable pay, may compromise board independence. Hence, analysts may vote against such compensation arrangements. On the other hand, we generally favor efforts to encourage directors to align their interests with the long-term interests of minority shareholders by acquiring and owning shares in the company they oversee.

Board Composition

A board of directors is most effective in protecting shareholders' interests if it consists of at least five, and no more than twenty, members. While we trust the directors are in the best position to assess the optimal board size, we feel that five members are necessary to ensure sufficient diversity in viewpoints and to enable the formation of key board committees with independent directors. Conversely, we believe that boards with more than twenty members will encounter difficulties reaching consensus and making timely decisions.

We believe that cognitively diverse boards (which we define as boards comprised of directors with a range of experiences, perspectives, and backgrounds) make better decisions, due to the broader range of pertinent skills, and experience of their directors. We encourage companies to disclose sufficient information about board composition to allow stakeholders to assess the range of perspectives, backgrounds, and experiences represented. We also encourage companies to disclose board director qualifications, board composition considerations and other practices that apply to the candidate selection process. Lastly, we expect companies to adequately plan for pending regulations concerning board composition and qualification requirements that may apply in certain jurisdictions.

Director Elections

Shareholders' interests are best served when directors are elected annually and on an individual basis—this allows shareholders to promptly evaluate a board's performance and address specific issues. Without a voting mechanism to address concerns about a specific director in a timely manner we may vote against or abstain from voting on the slate of available directors.

"No confidence" Directors

We generally believe that directors who receive less than 50% of the votes cast by shareholders should not remain on the board. We will, therefore, generally support proposals like the majority vote standard or a resignation policy for directors that don't receive majority support.

Responsiveness to Shareholders

Harding Loevner expects a company's board to be responsive to its shareholders. Where we believe a board has not substantially addressed material shareholder concerns, we may vote against relevant individual directors or committee members. In assessing management's response to material shareholder concerns raised during proxy voting, 25% or greater shareholder opposition to management can be considered significant.

Executive Compensation and Benefits

"Say on Pay" Proposals

Say on Pay proposals provide shareholders with an opportunity to express their views about the level and structure of executive compensation. These proposals may be either non-binding or binding, depending on the jurisdiction.

Harding Loevner will generally support holding annual votes on executive compensation.

Harding Loevner will vote Say on Pay proposals on a case-by-case basis, informed by our assessment of the company's compensation practices, including alignment with long-term shareholder value creation, the level and structure of compensation, and the transparency of disclosure.

If the company fails to adequately address valid shareholder concerns regarding compensation, we may vote against members of the committee responsible for overseeing executive remuneration (see Responsiveness to Shareholders).

Executive Compensation

Harding Loevner expects a company's board to implement a compensation structure that incentivizes and rewards executives appropriately and is aligned with shareholder interests. As financial and operating metrics vary depending on the industry and company, we generally believe that the compensation committee is in the best position to design a pay structure consistent with corporate strategy and market practice. Generally, we believe that fixed pay should be benchmarked against an appropriate peer group and reflect market norms. Variable pay should rely on clear link to company performance, and vesting timeframes should incentivize a focus on long-term value creation.

Short-Term Incentives

Short-term incentive plans for executives should be demonstrably tied to relative performance and, when possible, incorporate a mix of corporate and individual performance measures. We expect the target and potential maximum awards to be clearly disclosed along with an explanation of the conditions on which these bonuses hinge. As some performance measures may include commercially confidential information, we believe it's reasonable to exclude such information as long as the company provides a sufficient justification.

Long-Term Incentives

Equity-based incentive programs, which often constitute the primary long-term incentive for executives, can serve to align management's interests with those of shareholders. As with short-term incentives, we expect the performance conditions and award amounts to be clearly disclosed along with an underlying justification of the metrics used. When confidential information is involved, we believe it reasonable to exclude such information provided the company offers sufficient rationale for doing so.

One-Off Awards

Harding Loevner believes one-off or special bonuses unrelated to company or individual performance are not in the best interests of shareholders, as such incentives do not directly foster the sustainable achievement of long-term results.

Recoupment Provisions

It's prudent for boards to adopt stringent bonus recoupment policies to prevent executives from retaining performance-based awards that resulted from inaccurate financial or operating results. Such recoupment provisions protect the interests of shareholders when financial results are restated and should be subject to limited discretion by the board to ensure the integrity of the policy.

Linking Incentives to Environmental and Social Sustainability Considerations

Increasingly, some boards have considered including sustainability metrics in incentive plans. We evaluate such plans on case-by-case basis to ensure that the issues are material to a company's long-term value creation and consistent with our search to enhance the economic value of our investments. The best plans align with company strategy, use well-defined metrics, and have targets that are adequately challenging.

Capital Structure and Transactions

Anti-Takeover Measures

The board is generally best positioned to determine a company's capital structure and should have wide latitude in directing business activities. However, we generally oppose the implementation of poison pill plans as they can reduce management accountability by substantially limiting opportunities for corporate takeovers. Rights plans can thus prevent shareholders from receiving a buy-out premium for their invested interests. Analysts may support certain poison pills, such as those limited to a particular takeover attempt.

Related Party Transactions

Shareholders are best served when a company's transactions are conducted between non-related parties. We view related party transactions as a potential source of conflict, as board members or executives may be forced to weigh their personal interests against shareholder interests when making decisions. In addition, the company's judgment regarding the best products and services may be compromised when doing business with a related party.

Transaction of Other Business

Harding Loevner believes it is not in the best interest of shareholders to grant companies our proxy to vote on business items that may come before an annual or special meeting. Granting unfettered discretion is unwise as shareholders do not have the opportunity to review and understand new measures and carry out an appropriate level of oversight.

Issuance of Share Capital

The board is generally in the best position to assess the capital needs of the company and access to adequate shares allows management to effectively operate a business. As a result, position is to support the board in the issuance of share capital as long as shareholders are provided a detailed plan for use of the proposed shares. We expect additional shares to not be overly dilutive and generally require equity issuance without pre-emptive rights not to exceed 10% of the company's issued share capital.

Approval of Dividend Policy

The covering analyst is best positioned to determine whether a company's dividend policy is appropriate. We have generally been supportive of companies' dividend policy decisions. However, we engage with boards on dividend policies we deem inappropriate, and might, in extreme cases, vote against one.

Environmental and Social Issues

Sustainability Disclosure

We generally believe that in order for us to assess investment risks, companies should discuss key material sustainability risks and mitigation efforts and should provide regular reporting on relevant related metrics in financial reports or in supplementary reports. We generally support climate risk-related disclosure aligned with the framework established by the Task Force on Climate-Related Financial Disclosures (TCFD). Proposals aimed at increasing sustainability disclosure are evaluated on case-by-case basis, consistent with our search to enhance economic value. Among the factors that influence our voting decisions are the adequacy of existing disclosures, peer and country practices, materiality, and past controversies.

"Say on Climate" Proposals

We strongly believe that the board should not delegate responsibility for strategy or oversight to shareholders. We generally see Say on Climate proposals as a tool for a company to seek shareholder feedback on the company's climate risk and energy transition efforts with an understanding that these plans may evolve overtime. A vote for a company's climate transition plan does not indicate approval of company's long-term strategy and does not preclude Harding Loevner from opposing management decisions or from additional engagement on the topic.

Accordingly, we consider Say on Climate proposals on a case-by-case basis. Lack of pertinent information may lead us to abstain or vote against company climate transition proposals.

- We look for assurance that the board retains responsibility for climate transition strategy, oversight, and risk control.
- We expect a discussion of the alignment of company's initiatives with company strategy.
- We look for an appropriate mix of short, medium, and long-term targets.
- We look for a balanced assessment of risks and opportunities along with an estimate of potential costs associated with various initiatives, when possible.

Political Activities

Political and lobbying activities present a potential risk, particularly when a company does not have policies and procedures to align political activities with its stated positions and lacks sufficient oversight. Proposals advocating for increased disclosure of political activities are evaluated on case-by-case basis with considerations including existing controls and reporting, level of political spending, record of past controversies, and peer practices.

General Corporate Governance Matters

Shareholder Rights

Harding Loevner believes shareholders should have the right to vote on key corporate governance matters, including on changes to governance mechanisms and amendments to the charter, articles, or by-laws of a company. These rights include, but are not limited to the following:

- **Shareholder Right to Call Meetings:** In exceptional circumstances--and with sufficiently broad support--shareholders should have the opportunity to raise issues without having to wait for management to schedule a meeting. We believe shareholders should have the right to call a special meeting in cases where a reasonable number of shareholders (typically a minimum of 10% but no more than 25%) agree to such a meeting. This allows for shareholder input in situations that merit such action, yet provides the company with adequate protection from frequent, unwarranted, and costly calls to special meetings. While analysts consider individual company circumstances, such as ownership concentration, we generally support shareholder proposals to reduce the threshold as long as it remains at or above 10%.
- **Proxy Access Nominee:** Significant long-term shareholders should have the opportunity, when necessary and under reasonable conditions, to nominate directors for election by shareholders. The ability to nominate directors without engaging in a control contest can enhance shareholders' ability to play a meaningful role in the director election process and stimulate board attention.

Voting

- **Simple Majority Voting:** A simple majority voting mechanism is in the best long-term interest of shareholders as a supermajority vote requirement can enable a small group of shareholders to overrule the will of the majority of shareholders.
- **Bundled Proposals:** Shareholders should have the opportunity to review substantial governance changes individually, without having to accept bundled proposals. Where several measures are grouped into one proposal, we may reject positive changes that are linked with provisions that might impede the rights and economic interests of shareholders.

- **Vote Results Disclosure:** We support disclosure of shareholder vote results within a reasonable period after the end of the meeting at which the vote was held, regardless of whether disclosure is required by the country regulator.

Auditing

- **Disclosure of Independent Auditor:** An independent auditor is crucial to ensure the integrity and transparency of the financial information necessary to protect shareholder interests. Without accurate representation of a company's financial position, we find it impossible to make rational investment decisions.
- **Disclosure of Auditing Fees:** Shareholders are best served by an independent auditor without any material non-audit-related relationship with the company. As such, if non-audit-related fees exceed those paid for audit-related services, the significant financial relationship unrelated to auditing may compromise the objectivity or integrity of the auditors.