Proxy Voting Guidelines

Introduction

Hang Seng Investment Management ("HSVM"), acting as the investment manager of its client assets, places high priority in securing clients' interests through putting extensive care in conducting proxy voting. We believe exercising proxy votes is essential to enhance the corporate governance of the companies that we invest in. We believe companies with a high standard of corporate governance and a devotion to uplift this standard would create meaningful shareholder value over the long term. By exercising our proxy voting decisions with good care, we aim to make decisions that may, in turn, translate into better risk-adjusted returns. This document explains the general principles and guidelines that HSVM adopts in casting proxy votes and reflects the views of the investment team of HSVM.

General Principles

The companies that we invested in operate in environments with different governance jurisdictions, business culture and investor expectations. We understand those differences mean that companies may adopt different standards and practices in their corporate governance. Having said that, we do expect companies to apply reasonably good governance practice for their market of listing and, for larger companies, to meet globally-recognised good practice standards. Some of the general principles are discussed in the following paragraphs.

Shareholder rights

It is our expectation that companies should always provide sufficient, relevant and accurate information to shareholders, allowing shareholders to get a clear picture of the present status of the companies and their business directions. Companies should ensure shareholder's voting right is exercised on a fair and timely basis. Any arrangement that would empower certain shareholders' right and/or management control disproportionately should be disclosed clearly and promptly and should seek remaining shareholders' approval. In case of an anti-takeover, companies should secure and protect all shareholder interests equally as much as feasible.

Responsibilities of board and director

The board of directors has a few key, important roles to promote the interests of shareholders, including but not limited to, forming company visions and setting strategic objectives, establishing company culture and standards, evaluating the risks and performance of business operations, and selecting and appointing key executives to run the company. Every individual director is critical in driving the long term success of the company and safeguarding shareholder's interests. Each director should devote reasonable resources to fulfill this important role. The board should strive to contain an appropriate combination of non-executives and executives, female and male, independent and non-independent directors.

Transparency

Companies should disclose appropriate information publicly in a timely and accurate manner. Financial reports should be audited by a reputable independent auditor. Apart from financial data and analysis, companies should ensure appropriate disclosure of market analysis, business strategies, risk controls, remuneration policies and ESG performance. Background, level of independence and participation of directors should also be publicly available, so that shareholders can assess the suitability of directors and make their voting decisions.

The above general principles set our base case for proxy voting. We also aim to consider specific market practices and industry standards for each stock, if feasible, before we reach our decisions. We understand that business culture differs across markets, and level of development of corporate governance also varies in different countries. We try our best to take into account of these differences when we make our proxy voting decisions on a case-by-case basis.

General guidelines on specific voting issues

Guidelines related to board of directors

Structure of Board of Directors

We believe unitary board is better than a tiered board structure, but understand that choices vary according to legal traditions in different jurisdictions. Under a tiered board structure, the upper tier supervisory directors may not be efficiently supervising business operation while the lower tier directors may not be efficiently communicating with non-executive directors who possess outside experiences. We may vote AGAINST the establishment or continuation of a tiered board structure, unless the company operates in a market where we believe this practice is customary.

Separation of CEO and Chairperson role

A Chairperson plays a pivotal role in overseeing a company's operations. In general, we favour the separation of the roles of the Chairperson and Chief Executive. If these roles are combined, we expect a clear explanation and valid justification from the management that this arrangement is beneficial to shareholders. We may vote AGAINST the election or re-election of the Chairperson with dual roles if the combined role is not reasonably justified.

Election of Directors

We believe appointment of competent directors is essential to the operations of the company. We generally vote FOR the election of directors with appropriate background and excellent track record, for as much as we are aware of. We also expect directors to actively participate in company matters and devote reasonable amount of time to the company.

We believe an appropriate portion of independent directors is important to bring outsider's insights to management and safeguard shareholders' interest. The company should aim to include a reasonable number of independent directors on its board. We also expect the company's audit, nomination and remuneration committees have reasonable proportion of independent directors to oversee and safeguard shareholder's interest.

We believe the board should be formed with directors with various background, skills and experience. We may vote AGAINST the nomination of directors if we believe this is not the case.

Director’s Remuneration

We believe appropriate remuneration provides incentive to directors and executives to drive the development of the company. The remuneration should preferably include an element that links with business performance. We also expect the company to fully disclose individual and overall directors’ remuneration. The overall remuneration should not be excessive to comparable peers as well. In general, we vote FOR the remuneration policy and proposal if they are reasonably linked to short and long-term performance of the company.

Incentive Share Scheme

We generally vote FOR share-based incentives as they align the interests among management, staffs and shareholders. We prefer the incentive system to be awarded based on a clear set of performance indicators to promote long-term company growth rather than excessive short-term risk-taking. We also prefer an incentive share scheme that encompasses a suitable number of staffs instead of limiting to a few executives only.

Guidelines related to approval of reports

Annual and work report

We generally vote FOR the approval of audited annual reports or financial statements if those reports are audited by reputable independent audit firms, unless it comes to our attention that the annual reports or financial statements suffer from inadequate disclosures on corporate governance, remuneration, off-balance transactions or any other important information. We generally vote AGAINST the approval of a qualified report.

Depending on regulatory requirements or business culture in different regions, apart from audited annual report or financial statements, the company may also submit other types of work reports for shareholders’ approval. We believe those work reports improve the overall transparency of the company and thus, we generally vote FOR the approval of the reports.

Guidelines related to approval of auditor and audit fee

We believe a reputable independent audit firm is the gatekeeper for shareholders by revealing a true and fair picture on the financial healthiness of the company. We generally vote FOR the appointment of an auditor if the audit firm has a good reputation and track record. We may vote AGAINST the appointment of an auditor if we have doubts on its independence, such as the auditor having other meaningful non-audit-related businesses with the company. We also prefer the company to switch its auditor over a reasonable period of time, and in accordance with business practices in its relevant market. We generally vote FOR the approval of audit fee unless it comes to our attention that it is unreasonably excessive by industry standards.

Guidelines related to capital management

Issue of new shares

We believe companies need to strike a good balance between long-term growth prospects and short-term dilution effect from issuance of new shares. We understand the company needs to have the flexibility in raising capital to capture business opportunities in an ever-changing business environment. We would generally vote FOR pre-emptive mandate to issue less than 10% of new shares. We may vote FOR 10% or more of a pre-emptive mandate if we expect the company to have abundant acquisition potential or rapid expansion opportunities under its existing business environment. We may also vote FOR the pre-emptive mandate if the company can demonstrate excellent track record in deploying capital.

Issue of Debt

We generally vote FOR the issuance of debt and believe such practice may enhance long-term growth prospects of the company, unless such issuance would result in an unacceptable level of financial leverage. We also vote AGAINST on the intention to issue excessive debt to fight hostile takeovers. In addition, we generally vote FOR the issuance of convertible bonds as well but overall dilution should not exceed the level granted under the new shares issuance mandate.

Share repurchase

We generally vote FOR the share repurchase mandate as we believe one of the best ways for the company to deploy excess capital is to invest in its own company shares. We may vote AGAINST the share repurchase mandate during takeover period.

Dividend distribution

We generally vote FOR the distribution of dividend as we believe it is a corporate best practice to enhance shareholders' return. Stable and consistent dividend distribution history are also generally viewed as a positive indicator of financial healthiness. We may vote AGAINST dividend distribution if we believe the payout is too high, which may jeopardize the company's solvency conditions and long-term growth prospects.

Guidelines related to ESG issues

We believe companies are citizens of the society and should deploy reasonable financial and human resources to support and enhance the sustainability of our ecosystem. We welcome and generally vote FOR any proposal to promote and improve the company's ESG standards, including but not limited to, donations (except political donations), climate protection, green financing, product safety, ESG disclosures and other related measures.

Guidelines related to other issues

There are many other types of resolution that the company may bring up and seek shareholders' approval, including but not limited to various types of amendment to Articles or Memorandums of Association, connected party transactions, mergers and acquisitions, privatization plans and antitakeover proposals. We will assess those proposals on a case-by-case basis and vote according to the best interests of shareholders and company.

Voting process

We aim to vote upon all investments where we have voting authority, based on the best interest of our clients. Under certain circumstances, such as share blocking, local law restriction, overly burdensome power of attorney requirements, or high voting costs to be incurred, we may not be able to practically exercise our voting decision.

Our investment teams intend to study every resolution carefully and make voting decision according to the guidelines stated. For voting items that require a case-by-case study and analysis, our teams may obtain additional information from external parties or vendors and will put in best efforts to vote in accordance with our general principles and guidelines.