Ownership Matters' Voting Guidelines: November 2024

The guiding principle behind all of Ownership Matters' (OM) voting guidelines and vote recommendations is the best interests of shareowners: That is, achieving the outcome that will best serve the interests of shareowners.[1]

Director elections

In assessing candidates for election or re-election to the board of directors, and resolutions to remove directors, OM considers:

- The performance of the incumbent board;
- The record of the candidate at the company in question and at other companies, especially their record on creating value for shareowners and respecting and promoting the rights of shareowners;
- The composition of the board and its key committees and the capacity of the board and its key committees to oversee the company on behalf of all shareowners taking into account the recommendations & guidelines of bodies such as the ASX Corporate Governance Council and the Australian Council of Super Investors;
- The relationship between the candidate, company management, major investors and material service providers to the company, especially the company's auditor.
- The capacity of the individual, given other commitments and attendance at board and committee meetings, to adequately discharge their duties as a director.

The Corporations Act now requires a board of directors to seek shareowner approval to declare that there to be 'no vacancy' on the board in response to the nomination of an external candidate. OM, absent a compelling commercial reason, will generally oppose any such resolution seeking to declare 'no vacancy'.

DIRECTOR INDEPENDENCE

In classifying non-executive directors or candidates for election as independent or affiliated, OM will be guided by the independence criteria originally established in the former "Blue Book" of the Financial Services Council, specifically:

- Is the individual is a substantial shareowner, or associated with a substantial shareowner (with a substantial shareowner defined as a 5 percent interest or more)?
- Has the individual been an executive of the company within the past three years, or retired from an executive role with the company and become a non-executive director without an absence from the company for a period of at least three years?
- Has the individual, within the past three years, been associated with a material

[1] These guidelines refer to "shareowners" and "companies", these references also include references to "securityowners" and "entities" for those entities listed on the ASX that are not companies.

professional service provider to the company? A material adviser is classified as average billings of more than $750,000 per annum for large advisory firms (averaged over the past two years) and $100,000 per annum, also averaged over the past two years, for smaller advisory firms.

- Is the individual an employee of or associated with a material supplier or customer of the company? Individuals who are simply a non-executive director of a material supplier or customer with no other connection are not considered to be affiliated.
- Does the individual, or the individual's family, have material contractual relationships with the company, or any other association with the company and its management, other than as a director? Materiality will generally be assessed using a threshold of $100,000 per annum.

OM will also take into account the level and type of remuneration received from the company by a director and the tenure of a particular director in considering their independence. OM will generally consider a director who has served for more than 20 years to no longer be independent.

Executive and director pay

REMUNERATION REPORT RESOLUTIONS

In deciding how to recommend on remuneration reports, OM will take into account issues including but not limited to:

- The link between executive pay and corporate performance at the company over time;
- The quantum of director and executive pay;
- The amount of executive pay which is delivered in cash, thereby insulating the executive from the ongoing risks borne by shareowners;
- The structure of incentives, whether delivered in equity and/or cash;
- The extent to which the performance criteria for incentives are sufficiently demanding, are aligned with shareowner interests and are disclosed in a clear and meaningful way;
- The correlation between disclosed termination entitlements of executives and directors and termination payments actually made during the most recent financial year;
- The structure of non-executive director pay such that it promotes non-executive director independence;
- Whether the company has sought the approval of shareowners for equity granted to directors.

MATTERS CONCERNING 'TWO STRIKES'

In deciding how to recommend on remuneration report resolutions at companies which have already incurred a 'first strike' under the Corporations Act (ie. which received a vote against their most recent remuneration report resolution of 25% or more), OM will generally assess the resolution using the criteria outlined above.

OM will assess a board spill resolution – which will be put to shareholders only if the remuneration report at the same meeting has received a vote against of 2% – independently of remuneration matters. In deciding how to recommend on a board spill resolution OM will consider, among other issues:

- The performance of the company under the incumbent board;
- Any plans for board renewal; and
- The potential consequences for shareowners of a board spill meeting being convened.

EQUITY GRANTS

In deciding how to recommend on resolutions seeking approval for specific grants of equity to executives, OM will consider:

- The period over which the equity will vest and performance be assessed;
- The performance criteria which must be satisfied in order for equity to vest and the extent to which these criteria are sufficiently demanding, are aligned with shareowners' interests, are transparent, and capable of manipulation;
- Whether the grant represents a deferred component of pay already accrued;
- The overall pay practices of the company.

OM will, in the absence of compelling commercial reasons, oppose equity grants to non-executive directors that incorporate formal or informal performance hurdles on the grounds such arrangements may impair non-executive director independence.

EQUITY PLANS

In deciding how to recommend on resolutions seeking approval for equity plans (other than for the purposes of termination payment approval), OM will consider:

- Participation in the plan. OM will generally be less concerned with performance and vesting criteria for plans intended for employees generally;
- The performance and vesting criteria (on the same basis as 'Equity grants' above);
- The level of dilution permitted under the plan and the number of equity incentives on issue under all equity plans.

TERMINATION PAYMENTS

The Corporations Act now requires prior shareowner approval for any benefit on termination outside of accrued statutory entitlements to a senior executive in excess of 12 months' base salary. In deciding how to recommend on resolutions seeking to exclude termination payments from the statutory cap, OM will consider what potential benefit – if any – shareowners will receive from making such payments.

In deciding how to recommend on resolutions seeking to exclude benefits to executives under an equity plan on termination OM will consider, in deciding whether such a resolution is in shareowners' interests:

- The period of time for which the exclusion from the statutory cap is sought;
- The proposed treatment of equity incentives on termination;
- The past practices of the company and its directors in awarding executive termination payments.

DIRECTOR FEE CAPS

In assessing proposals to increase the fee cap for non-executive directors, OM will consider:

- The rationale provided by the company for increasing the fee cap;
- The quantum of director fees relative to other comparable listed companies; and
- Performance of the company under the incumbent board together with any plans for board renewal.

Issues of securities without preemptive rights

Under the ASX Listing Rules, listed companies are able to issue up to 15% of their shares on issue over a rolling 12 month period without preemptive rights or prior shareowner approval (with issues to related parties requiring specific prior approval). In evaluating proposals to exclude a particular proposed or past issue from the cap, OM will consider:

- The rationale provided for issuing equity without preemptive rights;
- Any disclosure as to how the securities were priced and the price of the issue relative to the market price at the time of issue and at the time of the meeting;
- The participation of existing investors and insiders;
- The financial circumstances of the company; and
- The company's record in respecting shareowners' preemptive rights.

Constitutional amendments

Proposals to amend an existing constitution or adopt a new constitution will be evaluated on the basis of the collective impact of the changes on shareowners' existing rights with particular regard paid to changes that alter the size of the board, election or nomination of directors and other ownership rights.

Auditor resolutions

Under Australian law companies are only required to seek approval for an auditor from shareowners when an auditor is newly appointed. Some listed companies on ASX are, however, domiciled in jurisdictions requiring annual approval of auditors and/or their remuneration. In considering resolutions relating to auditors, OM will consider:

- The quality of the particular listed company's financial reporting and the circumstances of the departure of the former auditor;
- The history of the audit firm; and
- Any relationships outside of the audit relationship between the company and the audit firm including other professional services provided by the audit firm.

Investment related transactions

Investment transactions on which shareowners are required to vote include mergers by way of a scheme of arrangement, capital returns, related party transactions and issues of shares to fund the acquisition of assets. Recommendations on resolutions involving investment considerations will be based on an analysis of:

- The benefits to shareowners under the transaction assessed against the likely consequences of the transaction being rejected;
- The risks associated with the transaction;
- Disclosure provided concerning the transaction;
- The process followed to arrive at the transaction including consideration of alternative transactions;
- Benefits under the transaction accruing to related parties and whether all shareowners benefit equally from the transaction;
- Any other issue relevant to the particular transaction.