

Voting Policy

PURPOSE AND SCOPE

The purpose of the Voting Policy (hereafter “**Policy**”) is to define the principles and strategies as to when and how Avaron Asset Management (hereafter “**Avaron**”) is to exercise shareholder voting rights attached to the financial instruments held by investment funds and professional investor portfolios managed by Avaron (hereinafter “**Investor Accounts**”). At Avaron 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 Avaron’s overall Responsible Investment Policy framework and takes guidance from ICGN Global Governance Principles and ISS International Proxy Voting Guidelines for EMEA and Russia. It has been adopted to ensure that we vote proxies in the best interest of our clients. The Policy applies to all portfolios managed by Avaron where we are entitled to exercise the voting rights.

MAIN PRINCIPLES

Avaron exercises all voting rights attached to securities held by Investor Accounts and for which it is responsible for proxy voting unless exercising these rights is not in the interest of the beneficial owner of the assets or is inconsistent with applicable laws, regulations, investment management agreement or respective prospectus. In case of disproportionate costs or impracticability, we may refrain from exercising voting rights. When voting against the management’s proposal we communicate the reasoning to the company. Our Investment Managers are ultimately responsible for all voting decisions. In case of Investor Accounts for which Avaron is not allowed to exercise ownership rights, we submit our voting recommendations to such clients for specific, mostly controversial agenda points.

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.
- ❖ **Board composition.** We prefer Board composition that reflects the shareholder structure, while combining the necessary experience and expertise with adequate independence and minority representation. We favour an independence ratio of more than 50%.

We consider non-executive director 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.

- ❖ **Board 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. In case of gender diversity we favour Boards with minimum 40% women representation.

- ❖ **Committees.** We look favourably upon the creation of specialized committees reporting to the Board, especially Audit, Nomination, Remuneration and Risk Committees. The committees should have at least 50% independence ratio and should not be chaired by the executive board members to allow an efficient oversight of the management.
- ❖ **Non-executive 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 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.

VOTING GUIDELINES

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 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, or the nominee adds to a sub-standard

composition compared to local best practices in terms of tenure, diversity, skills and external commitments. In cases where too little information is disclosed, abstain from voting.

7. Vote for the election of a director nominated by shareholders unless past performance of the nominee shows clear concerns or a more suitable nominee by management is available for election. In cases where too little information is disclosed, 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. 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.
9. Vote for the proposed compensation of non-executive directors 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.
10. 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.
11. 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.
12. Vote for proposals to convert to a "one share, one vote" capital structure.
13. Vote against issuance request of preferred stock with superior rights to common shares.
14. 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.
15. Vote for reduction of capital requests unless the terms are unfavourable to shareholders.
16. 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.
17. Vote against amendments to the articles of associations or company's charter that are not in the best interests of minority shareholders.
18. Vote for a fixed board size unless it allows for an excessive number of members.
19. Vote for declassification of the board.
20. Vote against a change of disclosure threshold of stock ownership other than 5%.
21. Vote against the introduction or renewal of all anti-takeover mechanisms.
22. Vote against approval of items proposed by management for which information has not been disclosed.
23. Vote against bundled resolutions if one or more of the items create(s) significant concern for shareholders.

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.

IMPLEMENTATION

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

In case of Avaron Estonia domiciled investment funds we do not have a securities lending program, while it may exist for managed accounts for which Avaron is responsible for exercising the voting rights. In these cases the ultimate decision whether to call back securities for voting if needed is at the discretion of the client.

GOVERNANCE AND DISCLOSURE

The actual voting record of Avaron is documented. Avaron is responsible for formalizing and storing the relevant documentation related to exercise of voting rights. We disclose our voting statistics once per year in our Sustainability Report and UN PRI Transparency Report.

General conflicts of interest situations are addressed within Avaron Internal Policy that determines the overarching principle to act in accordance with the best interests of the client, identifies a list of circumstances that may give rise to a conflict of interest situation and measures adopted to manage such situations. Measures adopted to avoid and manage the conflict of interests situations within the voting process are the following:

- ❖ Avaron does not trade listed equities and equity derivatives of companies belonging to Avaron investment universe, i.e. Emerging Europe region, on its own account.
- ❖ Policy of Personal Transactions prohibits all Avaron employees to trade with any listed equity instrument part of Avaron investment universe, i.e. Emerging Europe region. The policy also requires to promptly inform the Compliance Officer of any personal transaction.
- ❖ Prohibition on competition is applicable, i.e. Avaron employees are not allowed to be engaged in financial or investment services outside Avaron. All employees are required to annually submit declarations of economic interests.
- ❖ No Avaron employee or corporate officer holds a mandate within the governance bodies of an issuer within our investment universe.

This Policy is subject to an annual review by the Responsible Investment Committee that is made up of senior staff members and is chaired by Executive Board Member and co-CIO Valdur Jaht. The Committee and its Chair have ultimate responsibility to ensure efficiency, compliance and ownership of Responsible Investment practices in Avaron.

Valid from:	10 October 2011
Amended:	15 February 2019
Approved by:	Management Board of AS Avaron Asset Management