HQ Asset Management GmbH

Voting Rights

A. Introduction

HQ Asset Management GmbH (HQAM) is currently providing portfolio management, investment advisory and contract brokering services to institutional investors. Portfolios are managed via insourcing of portfolio management from an investment company (KVG).

The investor has the sole discretion as to which party (e.g. the KVG, portfolio manager, external service provider) is given the power to exercise voting rights. When HQAM is commissioned with voting and creditor rights, the guidelines outlined in the following paragraphs, along with the respective mandate specific agreements, will apply. To reinforce the service we offer, we implement selected services from external service providers.

The stock selection process of HQAM is based on a suffisticated quantitative algorithm. In addition, HQAM follows strict rules with regards to our buy and sell decisions. During the entire systematic investment process, we aim to exclude emotions and do not speak with the management of potential buy candidates. Consequently, HQAM has since inception not been an activist investor on corporate governance issues.

HQAM exercises voting rights independently, acting exclusively in the best interests of our investors or the respective mandate. Our organizational setup ensures all precautions neces-sary are taken to avoid conflicts of interest that may arise during the voting process.

Upon the request of the investor, HQAM exercises regular influence on management and operating policies of public companies via participation in general meetings. Any supportive measures taken will aim to foster long-term value creation within the company.

HQAM observes the following guidelines in the exercise of voting rights

B. Proxy Voting Guidelines

Shareholder rights

HQAM votes against preferential voting rights (golden shares) and will vote against any proposals raised during general meetings deemed not to be in the best interest of investors, where appropriate.

The shareholder has the right to information and participation (for example, in the selection and appointment of board and supervisory board members).

A majority shareholder should have the right to request extraordinary general meetings. No action should be taken that could be proven to harm the interests of minority shareholders.

Supervisory board

The supervisory board should be independent. It advises and monitors the management board and is responsible for the control and assessment of management's remuneration.

In selecting the management board, the supervisory board should ensure adequate diversity.

A supervisory board member is only considered independent when he is devoid of professional or personal relationships with the organisation which may lead to a conflict of interest. If the supervisory board member receives remuneration from the company which is not in line of their supervisory board duties, it is interpreted as an existing bias. Supervisory board members are also not regarded as independent if they have been in their appointed position for more than ten years, if they represent a shareholder whose stake equates to more than 10 per cent of the voting rights or if they were previously a member of the company's management board.

Supervisory board/management board member formation

Responsibilities should be clearly separated and defined for each of the governing bodies (management board, supervisory board, committees).

Individual members should not exert undue power and authority and should be suitably controlled. Supervisory board and management board members should be adequately competent and devoid of conflicts of interest.

The supervisory board should consist of at least 50 per cent of independant members.

Employee representatives are classified as independent; however they do not count during the assessment as to whether a supervisory board's members consist of a majority of unbiased members.

In the case of significant doubt regarding the competence and impartiality of the supervisory board, HQAM will vote against the suggested candidates even when they are proven to be unbiased.

A supervisory board should not consist of more than two former management board members. In the event that multiple former management board members are newly nominated, HQAM will vote in favor of retaining existing supervisory board members.

HQAM takes into account candidates' existing external supervisory board positions when assessing the suitability of supervisory board members. The number of existing external supervisory board positions should not exceed five. In the instance that a person is a supervisory board member of an exchange traded company, the number of external extant supervisory board positions should not total more than two (only one in the case of the chair of the management board), with chairmanship of a supervisory board being counted as equivalent to two seats. HQAM is critical of potential candidates whose external supervisory board positions exceed this standard.

The qualifications of the supervisory board and management board candidates must be released in the agenda of the general meeting at the latest. Details required to be covered are for example, previous term of office, qualifications, age, nationality, curriculum vitae and other current obligations. Supervisory board members should not be over the age of 75 at the time their term of office ends. The equivalent age limit for management board members is 65.

Dismissal of individual supervisory board and management board members should be permissible. When the dismissal of individual members of a board is not allowed,

HQAM will vote against discharging all supervisory or management board members in the circumstance that an individual must be dismissed due to their unsatisfactory fulfillment of essential job criteria. The supervisory board should examine its efficiency annually. Every three years, it should have its efficiency reviewed by an external body and report openly on this review.

The organization should provide reports on the attendance of supervisory board members on a pro rata basis. A critical view is taken of members whose attendance rate is less than 75 percent of meetings, unless there is good reason for the absences.

Chairman of the supervisory board

HQAM rejects any application whereby acceptance of the potential candidate would result in one person fulfilling both the role of Chairman of the management board and the Chairman of the supervisory board. HQAM also rejects internal changes of members of the management and supervisory board of a company, if the prerequisite two-year cooling off period is not fulfilled.

A Chief Executive Officer shall not act as Chairman of a supervisory board for an external company concurrent to his term.

Boards/Committees

HQAM accounts for the composition of the entire committee when assessing the suitability of supervisory board candidates. The supervisory board shall be composed of competent members with sufficient expertise in all required fields. Management positions within committees shall be held by unbiased and qualified individuals who appropriately address the interests of investors. HQAM consistently advocates that a board consists of a majority of unbiased members. HQAM views committees consisting of a minority of independent members critically.

The nomination committee shall only be filled with shareholder representatives. Additionally, former board members shall not be appointed to positions within supervisory boards within the two-year cooling off period as previously stipulated.

Remuneration

Board members' remuneration shall be transparent and performance-related. Meeting this requirement entails rewarding managers for contributing to the long-term success and development of a company. The remuneration structure for members of management and supervisory boards shall be structured so as to support the sustainable development of the company. It is impermissible to structure remuneration in such a way that would encourage decision-making which could potentially affect the company's long-term success.

The criterion by which remuneration is awarded, as well as the total compensation, is to be decided by a committee and then fully communicated to shareholders.

During its evaluation, HQAM considers market conditions, industry standards and usual practice, (corporate governance codes, best practice standards etc.) and market specific remuneration criteria.

HQAM expects the variable component of remuneration to fulfil the following quality characteristics, with adjustments made for normal and accepted market/industry practices (e.g. appropriate level of personal investment, ambitious total and relative profitability target)

Substantial changes to the remuneration structure of management and supervisory boards shall be included in the agenda of a general meeting and decided upon by a consensus vote. The remuneration scheme should be presented at the general meeting in regular intervals, at least once every four years. If a remuneration scheme is approved by fewer than 75 per cent of the voting rights, it should be improved and then submitted againat the next general meeting.

Specific limits should be set for total remuneration and disclosure should be based on the remuneration tables specified by the German Corporate Governance Code.

Severance packages and other additional contractual obligations between managers and the company shall be viewed with criticism and thoroughly assessed. It is unacceptable for a manager to be discharged for mismanagement and then rewarded for their incompetence.

An itemised breakdown of total compensation (including names of the assessed) should be provided and detailed in full in the remuneration report of the corporate governance report.

In addition to their fixed compensation, supervisory board members should also receive a performance-based salary. It should be structured in a way which best facilitates the achievement of the company's long-term success and goals. Long-term goals should be explicitly published.

Regarding the conclusion of management contracts, care shall be taken to ensure that in the case of early termination, compensation awarded at the point of termination does not exceed two years' salary (severance payment cap), or the remaining worth of compensation as specified in the contract. Terminations arising within twelve months of an extension of the original contract shall be viewed critically and duly evaluated.

Any subsequent change in existing stock options or performance parameters which enhance the achievement of goals shall reflect badly upon the redundant manager.

Liabilities, responsibilities and indemnity

Should ongoing legal proceedings concerning responsibility within the company or a case of gross misconduct arise, HQAM will not approve the action of the board.

HQAM rejects any proposal for full indemnity of the management board.

If the company has acquired manager liability insurance for the management board (D&O insurance) an appropriate amount of damages which arise (at least 10%), should be paid by the offending manager personally.

Corporate actions

Capital increases are only considered to be in the interest of shareholders when potential returns counter the cost of capital. Under this condition, HQAM makes no distinction as to whether increases are initiated under the definitions of conditional or authorised capital.

HQAM generally disapproves extensive capital increases or capital increases without subscription rights. Capital increases which exceed 20% of the existing capital will be rejected barring exceptional circumstances. Additionally, applications for capital increases exceeding more than 10% of the existing capital without subscription rights will also be generally rejected.

In the case of capital increases, the amount of the reserve capital and its percentage share of capital stock must always be specified. Subscription rights should be exchange-traded regularly.

A company shall only choose attractive investment opportunities which can adequately compensate the cost of capital required to implement them. Should the company not be able to find such a suitable investment, HQAM favours the implementation of dividends over share buybacks. Principally, HQAM will not support share buyback programs or related initiatives.

HQAM requires as a prerequisite that any request pertaining to capital increases or share buybacks be reconciled within company's long-term strategy.

Conduct during acquisitions

HQAM only accepts acquisitions which provide a reasonable takeover premium. HQAM generally accepts acquisitions provided the purchase price is equal to the fair value of the firm and a more attractive price is not expected to be achieved for the shareholders.

The board shall not take any action ("poison pill") to endanger the success of a takeover bid, unless permission has been obtained from shareholders (general meeting) or the supervisory board.

Financial auditors

An auditor’s term should not exceed five years. The lead auditor’s name should be mentioned explicitly in the annual report.

Auditors should not accept any unreasonable large-scale consulting mandates within the companies under audit. In the case that consulting service fees for audit work are disproportionately high, HQAM will reject the appointment of such auditors.

Communication, disclosure and transparency

In the event that company reports or disclosure standards do not meet the standards HQAM deems appropriate, HQAM will abstain from voting at the appropriate time during the general meeting. In particularly blatant cases, HQAM will refuse consent.

Existing sustainability reports should always include meaningful and verifiable content. This includes in particular content which can be numerically evaluated.

HQAM evaluates a lack of information about the attendance of supervisory boards in board meetings negatively.

Social, ethical and environmental responsibility

HQAM expects corporate management to focus not only on purely economic targets, but to also take into account social, ethical and environmental aspects of company management. Targets which also promote the long-term interests of shareholders and thus the long-term value of the company are particularly favoured by HQAM. The non-financial declaration should be informative and, as a minimum, should be subject to a 'limited assurance' audit conducted by an external auditor.

HQAM is critical of violations of international humanitarian standards and norms such as the Oslo Convention on Cluster Munitions or similar agreements. Under the PRI (Principles for Responsible Investment). HQAM encourages companies to support initiatives which increase transparency.

Due to the increased relevance of carbon dioxide emissions for the valuation of a company, companies with a high market capitalisation (e.g. DAX30) as well as companies with a business model that is highly influenced by climate change should join the Carbon Disclosure Project and provide transparency of their emissions. Companies should provide transparent and comprehensive reports on integrating sustainable aspects of corporate strategy, especially if the business model is exposed to specific risks. For German companies, the German Sustainability Code should be used as a guide.

Record Keeping

Proxy voting records will be maintained for at least five years.

At a minimum, the following records will be retained by HQAM:

- A copy of the Proxy Voting Polices and Guidelines and amendments thatwere in effect for the past five years;
- Electronic or paper copies of each proxy statement received by HQAM with respect to securities in client accounts;
- Records of each vote cast for each cient;
- Written reports to clients on proxy voting and of all client requests for information and HQAM's response.

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