DEEP RESEARCH FUND

DEEP RESERACH FUND – INSIGHT

Voting Policy

Active ownership is a key component of our investment strategy. In this insight, we would like to explain how we think about exercising our voting rights and present a short summary of our internal voting guidelines. While by no means exhaustive, this insight also aims to shed light on the challenges arising from unique voting proposals and how we approach them.

Introduction

Purpose
We see ourselves as owners of the companies that are part of our portfolio. As we only invest in publicly traded companies, we therefore hold shares with voting rights. This gives us the privilege to express our opinion on management by exercising our voting rights. As we are a signatory of the UN Principles for Responsible Investing, we also have a duty to vote. We exercise our voting rights in an active and orderly fashion, following the voting policy of Deep Research Fund. The purpose of this insight is to provide transparency on how we make our voting decisions.

Time horizon
As a long-term investor, Deep Research Fund approaches voting considering the company's for at least the next five years. Our votes aim to support the investee company's sustainability efforts, strong governance and long-term strategy. We always prioritize long-term creation of shareholder value over short-term gains.

Abstention and Disagreements
There are many different ways a vote can be structured. Sometimes, if a shareholder does not vote, it is considered as voting against a proposal, and sometimes it is considered just as a vote-not-cast. We avoid abstentions as a means to indicate our preferences in order to avoid misinterpretation. Instead, we vote actively and follow up through investor relations wherever we have material disagreements.

However, voting rights need to be exercised on an informed basis. If sufficient information for a well-informed decision is not available, we deem abstention to be appropriate combined with a proactive request for more transparency and information from the company.

We try to be constructive about our expression of disagreement with the company's proposals. For example, our disagreement with remuneration packages results in voting against the incentive structure, rather than voting against the remuneration committee members' reelection. Additionally, we follow up by proactively seeking dialog with the company. Similarly, disagreements with the composition of the board of directors results in voting against the reelection or election of specific board members, rather than voting against the nomination committee members collectively. Again, we follow up with the company directly about our views on the board composition. We see voting against an entire committee as potentially detrimental to our efforts of building a competent and well-diversified board of directors.

Conflicting preferences
Sometimes, we may find that our preferences are at odds with each other. For instance, a new member of the board of directors may lower diversity while adding the needed accounting knowhow to the audit committee. We reserve the right for a judgement call as a team on whether the sequential improvement in one area outweighs the sequential deterioration in another area. Subsequently, we would seek a dialog with the company to express our concerns and work on finding a better solution.

Operational Matters

1. Approval of Financial Statements

Principle
We base our assessment of company's potential on the company's own reporting; we do not use third party data. Therefore, we require sufficiently detailed and transparent reporting in order to evaluate the operational performance, risk profile and current course of business of the company.

Guidance
- The company must report in sufficient detail and transparency for us to be able to form a well-informed opinion on the current status of the company, its progress towards its long-term strategy and vision, and the risks to which the business is exposed.
- Reporting needs to be timely and in a language in which our analysts are proficient.
- The company must respond in due course to general inquiries and requests for further clarification.

2. Election of Auditor

Principle
Independent auditors play a key role as they ensure that the company's reporting is reliable and trustworthy. The elected auditor must be competent and perform its duties independently.

Guidance
- The audit must be conducted by a certified public accountant firm.
- The auditor shall not receive any fees during any fiscal period that conflict with the auditor's ability to independently assess the company's reporting.

3. Allocation of Earnings

Principle
As a long-term investor, we care about the company's long-term future, which we define as at least five years. The allocation of earnings must be in line with the company's long-term strategy and keep the company conservatively capitalized.

Guidance
- The first priority to allocate earnings should be reduction of debt to a long-term sustainable level.
- Acquisitions should only be made in line with the long-term strategy and be pursued with the intent of strengthening the company rather than the pursuit of growth.
- Dividend and share buyback policies should be evaluated in light of tax implications, current company valuation, current and target capital structure, and should in general remain flexible.

4. Remuneration

Principle
Similarly, we want the company management to deliver on the long-term view rather than be rewarded for short term stock price increase. In our opinion, management should be incentivized in line with the company's long-term strategy and sustainability initiatives. Short-term risk taking should not be encouraged.

Guidance
- The variable compensation should not lure management into taking excessive risks.
- The size of the total compensation should be reasonable.
- The performance targets and payout structure should be aligned with the long-term strategy.
- The achievement of the performance targets should be within management's control.
- A significant portion of the compensation should motivate the management to focus on the company's performance rather than the stock price.

Board of Directors

1. Board composition – Skillset

Principle
The board of directors plays an important role as the supervisory body of the company's management. We want the board of directors of our portfolio companies to collectively possess sufficient knowledge and experience to execute this supervisory role. The composition must be chosen in a way that keeps the board functional and knowledgeable.

Guidance
- The board must have a sufficient understanding of the company and industry to articulate a smart long-term vision and strategy.
- The board must exhibit proper risk management ability as reflected in the capital structure, strategy, and choice of incentive structure.
- Audit committee members collectively must be familiar with relevant accounting principles and reporting standards, while possessing the relevant education and professional background.
- The number of directors on the board shall allow for accumulating sufficient knowhow while keeping individual contribution and responsibility meaningful.

2. Board composition – Diversity

Principle
We are firmly convinced that diversity leads to better risk management, better discourse, better leadership, and reduces the risk of group-think and conservatism. There should also be no concentration of power.

Guidance
- The board should be diverse in gender, age, and company relevant cultural backgrounds.
- Board members should have diverse background related to education and profession to cover industry knowledge, finance knowledge, and other relevant knowhow (e.g. marketing, logistics, politics and regulation, etc.)
- The board must consist of a healthy mix of fresh eyes and members with knowledge of the company's history.
- There should be a power balance between key positions such as CEO, Chairman, founder, or a major shareholder.

Other

1. Shareholder Proposals

Principle
In addition to the standard company proposals on which the shareholders vote, shareholders themselves can present their own proposals that would require the company and/or its board of directors to take certain action. Due to the unique nature of each shareholder proposal, they need to be reviewed carefully on a case-by-case basis. The below guidance should help determine whether we support a given proposal.

Guidance
We support shareholder proposals that…
- aid or improve the company's ability to execute against its long-term strategic goals.
- improve the sustainability standards and goals of the company or further expand such goals.
- aim to increase transparency without revealing competition sensitive information.
- improve shareholder rights and equal treatment of all shareholders.

2. Unique Situations

Principle
There are a variety of potential other voting matters such as change in company fiscal term, change in reporting currency, amendments to the articles of association, etc. For each unique situation, the following overarching principles provide guidance on how to vote.

Guidance
- The matter at hand must be proposed with the best interest of shareholders, employees, and other stakeholders in mind.
- The matter at hand cannot be detrimental to the company's ability to execute its long-term strategy and sustainability efforts.
- The matter at hand should not decrease the company's transparency and sustainability standards.
- The matter at hand should not lead the company to take on more risk.

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