




Voting Policy

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Voting Policy

Background and motivation

Credicorp Capital Asset Management is committed to generating superior returns for its clients in the short and long-term. To achieve this, we incorporate a responsible and sustainable investment approach based on the analysis of environmental, social, and governance (ESG) factors that allows us to better assess risks and opportunities in our investments. In our responsible investment strategy, active ownership is fundamental to fulfill our fiduciary duty as a responsible asset manager. We believe that investors can have a positive impact on the companies' performance and prospects by sharing their views and expectations related to financial and ESG issues. As a result, we can generate sustainable long-term value for our investors and society.

Exercising our clients' voting rights in the representation of their best interests is at the core of our active ownership practices. Credicorp Capital Asset Management will combine engagement and voting activities to seek a constructive dialogue with the companies in which it invests. Voting may serve as a tool to escalate the concerns related to financial and ESG performance that have not been addressed successfully through engagement with our investees. With these efforts, we seek to improve good corporate governance since it is fundamental to ensure higher returns for investors and the development of capital markets, especially in emerging economies. To guide our voting activity, we rely on best corporate governance international codes and guidelines, including the G20/OECD Principles of Corporate Governanceⁱ, the ICGN Global Governance Principlesⁱⁱ, and the CAF Guidelines for a Latin American Code of Corporate Governanceⁱⁱⁱ.

This Voting Policy¹ sets out general principles for the voting activity at Credicorp Capital Asset Management and its operations through the subsidiaries of Credicorp Capital Ltd. Additional context-specific policies may complement this document at the subsidiary-level, in line with the current local regulation and corporate governance guidelines from those markets. Our responsible investment strategy and related activities are aligned with the values and practices endorsed by independent and globally accepted codes, including the Principles for Responsible Investing convened by the United Nations (UN PRI). Since June 2020, Credicorp Capital Asset Management is a PRI signatory.

Scope of the policy

Credicorp Capital Asset Management aims to participate in all the shareholders' meetings of the companies in which it owns a relevant share. Each subsidiary may define the threshold for these significant shares. As responsible investors, we are committed to voting in

¹ The Voting Policy was approved by the competent authorities at Credicorp Capital on May 25th, 2020. The approval includes the initial adequacy and implementation period of 180 days.

accordance with the interests of the funds and clients to the best of our ability. Credicorp Capital Asset Management encourages companies to distribute the agenda and meeting materials with enough time to allow shareholders to exercise informed votes. We may abstain from voting if we consider that we have not been able to assess the information or if the meeting agenda differs from the previously announced one.

Voting guidelines

Credicorp Capital Asset Management will review and assess the resolutions presented at shareholder meetings based on this policy and considering the context-specific characteristics of the companies and practices of the local markets. The following guidelines will support us in the effort to represent the best interest of our clients and foster sustainable value-creation for shareholders.

1. Shareholders' rights

Companies' corporate governance frameworks should ensure the recognition of the rights of shareholders and provide the mechanisms for their implementation. Among these are the right to secure methods of ownership registration, obtain relevant financial and non-financial information, participate and vote in the general shareholder meetings, and share the distributable profits of the company. When defining voting actions, Credicorp Capital Asset Management will pay special attention to the treatment provided to shareholders, including the conditions of the general meeting and the management of extraordinary transactions.

- **Equitable treatment of shareholders**

Companies should treat with equality all shareholders of the same series of a class, including minority and foreign shareholders. Voting rights should be proportionate to the shareholder's participation in the company's capital (one share – one vote). Companies should disclose capital structures that allow for differential voting rights. Credicorp Capital Asset Management will vote for resolutions to eliminate share classes without voting rights and against measures that dilute the voting rights of any shareholder.

- **Shareholders' meeting**

The General Shareholders' Meeting is the supreme governing body of the company. Local corporate governance codes stipulate diverse non-delegable powers to the General Meeting. Among these are the power to appoint and remove the members of the Board of Directors, approve the remuneration policy, the financial statements, and extraordinary transactions, including the transfer of assets, mergers, or spin-offs of the company. To be able to participate and vote, shareholders have the right to access information related to the matters to be discussed at the meeting. Companies should have documented rules of procedure to facilitate the exercise of shareholders' rights to participate.

“ *The Board of Directors should summon the meeting with sufficient notice in advance and in accordance with the period set by the by-laws; it should establish minimum periods for the publication and dissemination of the announcement of summons that are longer than those legally required.*

In any case, we believe that the by-laws should establish a period of at least fifteen calendar days, from the announcement of the summons of the General Meeting.

However, even in certain legal frameworks, this period is regarded as insufficient. For example, in European countries a period of twenty-one days may even be required before the date set for holding the assembly.

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CAF, 2013.

Companies should announce the date of the General Meeting sufficiently in advance. The announcement should include an outline of the matters for discussion, the proposals, and relevant materials. In particular, the notice should highlight if the meeting will address corporate changes that may result in the dilution of shares, including modifications to the company by-laws or statutes, changes to the capital structure, and other extraordinary transactions.

Shareholders have the right to request information and materials to cast their votes sufficiently informed. The resolutions at the general meeting should be voted separately and not be bundled. Credicorp Capital Asset Management will assess these resolutions on a case-by-case basis, guided by the principle to preserve the rights and interests of its clients.

▪ Dividends

Companies are encouraged to have a dividend policy that establishes the criteria for the distribution of profits among shareholders in line with the company's growth profile. The policy design should take into consideration the financial needs of the company to ensure its economic sustainability in the long-term. Shareholders should have access to this policy and be able to verify its execution. Credicorp Capital Asset Management may withdraw its support from boards that have failed to design, disclose, or periodically review the compliance of the dividends policy.

▪ Capital structure and share capital increases

Changes to the company's capital structure should be assessed on a case by case basis, including debt issuance, share capital increases, and share repurchase. Credicorp Capital Asset Management would take into consideration the specific conditions of the transaction, the company's financial position, and the changes' effects on shareholders' rights. It may vote against related resolutions if the terms are deemed unfavorable to shareholders and the business in the long-term.

Increases in share capital may affect the non-dilution right of shareholders. When planning a capital increase, boards should provide a report that explains the need for the additional capital and its alignment with long-term value-creation for the company. The report should have the approval of an independent advisor and the independent directors. Ideally, any

increase should offer pre-emption rights to existing shareholders. Otherwise, the board should provide justification. Credicorp Capital Asset Management may vote against resolutions for share capital increases that fail to meet these criteria and compromise shareholders' rights.

- **Mergers and acquisitions**

Mergers and acquisitions (M&A) have the potential to alter the nature of the company and shareholders' value. As such, the board should conduct the transactions transparently and provide shareholders with the necessary information to judge them. The board should include an explanation of the expected implications for the long-term business strategy and culture. An independent source should assess the conditions of the transaction (fairness opinion) to increase transparency.

When assessing these corporate events, Credicorp Capital Asset Management will review the terms on a case-by-case basis taking into account the contribution of the M&A to the creation of long-term value for the company, the equal treatment of shareholders, and the preservation of their rights. Credicorp Capital Asset Management may vote against if it considers that the board failed to provide sufficient information on the transaction or did not conduct the process transparently.

- **Related-party transactions**

Transactions between a controlling shareholder and the company may generate conflicts of interest and the risk that the related party takes advantage of its position in detriment of minority shareholders. Companies should adequately disclose and conduct these transactions in order to protect the long-term interests of the business. Boards should authorize the transactions and have an independent committee to evaluate the valuation and regulatory compliance of the operation. Credicorp Capital Asset management will assess each resolution on a case-by-case basis considering the rationale, pricing, and the recommendations of the independent directors or committee. We may vote against related-party transactions that are not properly conducted or disclosed.

2. The Board of Directors

The Board of Directors oversees the corporate strategy of the company and monitors senior management performance on behalf of the shareholders. The board is accountable to shareholders and the company and should act in their best long-term interests. It should prevent conflicts of interest and align the incentives of senior management with those of shareholders. Moreover, boards are expected to deal fairly and have due regard to relevant stakeholders, including employees, customers, suppliers, regulators, communities, and bondholders. Credicorp Capital Asset Management will use its clients' voting rights to favor resolutions that ensure that the Board of Directors can effectively fulfill these duties.

- Board composition

The Board of Directors should be integrated by qualified and suitable members who understand the business strategy, markets, and stakeholders. Companies should set the number of directors considering their specific circumstances to promote a dynamic and participative board.

The board should provide an appropriate diversity of experience, knowledge, and skills according to the needs of the business. A diverse representation of gender, age, ethnicity and nationality, among others, bring valuable perspectives that contribute to the strategic role of the board. In this regard, we consider that companies should have at least one female director on their board.

The composition of the board should promote the objectivity and independence required to fulfill the board's duties to all shareholders. To prevent the board from being dominated by executive management or controlling shareholders, the majority of the directors should be independent, or at least one-third of the directors in a controlled company. Local regulation and good corporate governance codes stipulate different criteria to determine the independence of directors. This policy summarizes some conditions that may impair the objectivity of the candidates for independent directors (Box 1).

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We recommend that its maximum size will depend on the size of the company itself, which, in most cases, would justify a number set between seven to nine members. In the case of large listed companies, this number may be raised to eleven, since it does not seem that the real management and governance needs of the company would require a higher number.

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CAF, 2013.

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The board of a widely-held company should comprise a majority of independent non-executive directors. Controlled companies should preferably have a majority of independent nonexecutive directors, or at least, three (or one-third) independent directors, on the board.

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ICGN, 2017.

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In countries with single tier board systems, the objectivity of the board and its independence from management may be strengthened by the separation of the role of chief executive and Chair. Separation of the two posts is generally regarded as good practice, as it can help to achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management.

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OECD, 2015.

The leadership of the board should also ensure an adequate balance of power. Ideally, the roles of the chairman of the board and the Chief Executive Officer (CEO) should not be combined. Otherwise, companies that maintain a combined role structure should provide the rationale and appoint a strong lead independent director.

“ (...) normally, an individual director should not hold more than 3 or 4 directorships of any sort, and this should be substantially less for a director with executive responsibilities, as well as for the board chairman and key committee chairs.

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ICGN, 2017.

Box 1. Independent Directors of the Board

Certain circumstances may impair the objectivity and independence of directors. The following conditions may render candidates inappropriate as independent directors.

- Candidates that have had business or contractual relation with the company or any other company of the same group during the previous three years.
- Candidates that are or have been employees or directors of a company or group that has owned shares in the company during the past three years.
- Candidates that have close family ties with any of the company's directors, senior management, or significant shareholders.
- Candidates that receive additional remuneration or benefit other than the director compensation from the company or any other company in the same group.
- Candidates that hold cross-directorship with other directors or senior executives in other companies or entities.
- Candidates that are or have been, a partner or employee of the external auditor of the company or of any other company in the same corporate group during the previous three years.
- Candidates that are shareholders, directors, or senior executives of an entity or institution that receives important donations from the company or any other company in its group or have received them during the past three years.

Directors should contribute effectively to board discussions and decisions in line with their diligence duty. Companies should allow shareholders to judge the level of commitment of the directors by disclosing their attendance to the board and committee meetings and the additional directorships that they hold, including foundations and non-profit organizations. We expect directors to have attended at least 75% of the meetings in one year. We will define the maximum number of external commitments that can be accepted based on local market practices and regulations.

“ *There is no fixed date that automatically triggers lack of independence: the norm can differ in varying jurisdictions between 8-12 years after which a non-executive director may no longer be deemed independent.* ”

ICGN, 2017.

Boards should elect directors at least once every three years. The length of tenure of the directors should be in line with the local best-practices to allow for a combination of renovation and retention of corporate knowledge. For independent directors, the tenure should not exceed twelve years. Otherwise, the director should no longer be considered independent.

When assessing directors' elections or renovation, Credicorp Capital Asset Management will vote for the nominees that present sound qualifications and may contribute to an independent, diverse, and committed board. We will vote against the nominees if we consider that not enough information regarding the candidate qualifications, independence, or external commitments have been provided. We will vote against the renovation of directors that failed the attendance criteria without justification in the previous year.

- **Special committees**

The board may establish specialized committees to provide information and support on technical matters, including audit, director's nomination, and remuneration. To avoid conflicts of interest, these committees should comprise at least a majority of independent directors, both in widely held and controlled companies. Ensuring the objectivity and well-functioning of these committees is crucial for the good corporate governance of the companies.

3. Remuneration

The remuneration structure for board members and senior executives should provide incentives aligned with the long-term business objectives and the interests of the shareholders. A specialized committee should be responsible for the design, implementation, monitoring, and evaluation of the compensation structure, including fixed and variable components. Remuneration should be fair and commensurate with the complexity of the company and the context in which it operates. Compensation policies should link variable payments to performance in the short and long-term. Performance assessment should take into account financial and non-financial indicators, including environmental and social metrics that are material to the business model. Companies should disclose a clear remuneration policy, as well as information that enables shareholders to assess if the compensation for senior executives is in line with pay conditions for the general workforce. Likewise, remuneration practices should seek to eliminate gender pay gaps.

Credicorp Capital Asset Management considers that shareholders should vote on the adequacy of the compensation policies. It will withdraw its support from proposals that fail to disclose the remuneration policy and practices, including the release of performance metrics

for variable compensation. Besides, it will vote against share incentive schemes that represent an excessive dilution of shareholder equity.

4. Transparency, reporting, and audit

Transparency and accountability are fundamental for good corporate governance as they generate trust between investors and the company's leadership. Similarly, a sound independent audit process also contributes to building confidence in the company. Besides, appropriate disclosure of the company's financial and non-financial information facilitates the exercise of ownership rights by shareholders.

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Transparency is a tool that should be used by all kinds of companies, regulated and non-regulated, in different degrees with the dual objective of:

- 1. Offering shareholders and investors as much information as possible so they can make a reasoned and rational judgment of a given company or an investment proposal; and*
- 2. Exert an active control and lessen the possibility that the directors, administrators and members of the senior management of a company unduly take advantage of tangible benefits derived from the advantages of exclusive information, at the cost of or to the detriment of the shareholders.*

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CAF, 2013.

▪ Financial information

The board of directors is responsible for ensuring that the annual report and financial statements provide an accurate representation of the company situation in line with high-quality accounting standards and local regulatory practices. An independent and respected firm should audit the annual report and financial statements. The company's financial information should be accessible to investors and shareholders. Credicorp Capital Asset Management may refuse to approve the financial statements or annual report if the external auditors have expressed reservations or have identified irregularities.

- **Audit committee and external audit firm**

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Examples of other provisions designed to promote auditor independence include, a total ban or severe limitation on the nature of non-audit work which can be undertaken by an auditor for their audit client, mandatory rotation of auditors (either partners or in some cases the audit partnership), a fixed tenure for auditors, joint audits, a temporary ban on the employment of an ex-auditor by the audited company and prohibiting auditors or their dependents from having a financial stake or management role in the companies they audit.

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OECD, 2015.

The board of directors should appoint an audit committee in charge of overseeing the company's financial reporting and internal audit. This committee should be comprised solely by independent directors. The committee will also be responsible for managing the relationship with the external audit firm. In this context, the company shall design internal regulations for the appointment of the external auditor. These rules should include the criteria to choose the auditor based on its professionalism and impartiality, the maximum length of the contract, the conditions for the provision of additional services by the auditor, and the requirement to disclose audit and non-audit fees.

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The independence of the external auditors requires that a maximum limit for the period of appointment is established to avoid excessive linking between the auditing firms and/or their work teams, and the audited company. We estimate that this period should be between six to ten years.

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CAF, 2013.

To ensure its independence, the auditor partner or team should rotate after an appropriate period within the maximum tenure of the audit firm. The rotation should take place at least every five years. Furthermore, the provision of additional services by the external auditor to the company may impair the auditor's objectivity and compromise the integrity of the external audit. The board should disclose the information related to non-audit services, fees, and other payments to the firm to allow shareholders to judge the independence of the external auditor.

Credicorp Capital Asset Management considers that the selection of the external auditor should be subject to shareholders' approval. It will support the appointment of audit firms that are qualified to provide an independent service. Also, it will stand against resolutions that may impair the neutrality of the audit firm or partner, including renovating the contract of the audit firm for more than ten years.

5. Sustainability

Companies need to integrate sustainability into their business strategy, including the effective management of the environmental, social, and governance dimensions of their operations. Economic and financial sustainability requires adequate handling of the relationships of the company with stakeholders like employees, customers, communities, and the environment.

▪ ESG risk assessment

The risk management at the company should encompass the assessment of ESG factors that are material to the business. The identification of ESG-related risks should motivate the design and disclosure of policies and statements to communicate the company's strategy to address these sustainability concerns.

Some of the topics that attract the attention of shareholders and investors are:

- Climate change-related risks
- Gender diversity in the company workforce, senior management, and the board
- Labor conditions
- Supply chain management

“ *The competitiveness and ultimate success of a corporation is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, customers and suppliers, and other stakeholders. Corporations should recognize that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies. It is, therefore, in the long-term interest of corporations to foster wealth-creating co-operation among stakeholders. The governance framework should recognize the interests of stakeholders and their contribution to the long-term success of the corporation.*

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OECD, 2015.

Senior executives and the board of directors should take a proactive stance in incorporating an integrated sustainability approach into the business strategy and operations. In this line, the company's remuneration policy may establish social and environmental performance indicators conditioning the provision of variable compensation.

Credicorp Capital Asset Management will seek to engage with the companies in which it invests to express its expectations and concerns related to environmental and social sustainability. We may withdraw our support from boards of directors that have failed to manage ESG considerations appropriately.

▪ Sustainability reporting

In addition to financial information, corporate reporting should also provide insights into the companies' strategy, performance, and prospects related to environmental and social criteria that are material for the company's operations. Credicorp Capital Asset Management will engage in active dialogue with the companies to raise awareness on the importance of monitoring and disclosing ESG-related information. Likewise, it will support the requests for

reporting on social and environmental performance indicators, policies, and practices made by shareholders.

Implementation and governance

The investment team or the corresponding investment committee at Credicorp Capital Asset Management will be responsible for the voting decisions. The voting body will take into consideration the proprietary analysis of the company, the available meeting materials, and the previous engagement experience with the investee (when applicable). The team may also consult with third-parties, shareholders, analysts, and lawyers if deemed necessary.

To address cases that are not covered by this policy, including controversial topics and substantial transactions, the voting group should make decisions on a case-by-case basis. In the case of controversies, the investment team will act as the ultimate decision-making body. The ESG dedicated staff will be responsible for keeping a record of the voting decisions for every board meeting attended. This information will be disclosed and made available to current and prospective clients at least annually.

The ESG dedicated team at Credicorp Capital Asset Management is responsible for the design, update, and monitoring of the implementation and compliance of this policy. The investment team is also accountable for the implementation of this policy. The Chief Investment Officer (CIO) oversees the compliance of this policy.

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- ⁱ OECD (2015), G20/OECD Principles of Corporate Governance, OECD Publishing, Paris.
<http://dx.doi.org/10.1787/9789264236882-en>
- ⁱⁱ ICGN (2017), Global Governance Principles. International Corporate Governance Network.
http://icgn.flpbks.com/icgn_global_governance_principles/ICGN_Global_Governance_Principles.pdf
- ⁱⁱⁱ CAF (2013), Guidelines for a Latin American Code of Corporate Governance, CAF, Caracas.
<http://scioteca.caf.com/handle/123456789/840>

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