

# CORPORATE GOVERNANCE AND ENGAGEMENT PRINCIPLES

Since 1889, Northern Trust has been guided by our principles of service, expertise and integrity.

At Northern Trust, our primary objective as an asset manager is to create long-term value for our clients. This objective applies to all of our portfolio management decisions, including operating as a socially responsible investor and engaging with company management and boards of directors. Northern Trust believes that being an engaged owner will help portfolio companies produce sustainable value, and that companies' long-term financial returns are connected to their strategic, environmental, social and governance performance.

## GOVERNANCE AND OVERSIGHT

The Northern Trust Proxy Committee is responsible for oversight of the Corporate Governance and Engagement Principles and practices. The Chair of the Proxy Committee, in coordination with the Proxy Analyst team, Equity Analyst team and the Head of Environmental, Social and Governance (ESG) Investing, implements the engagement program. Northern Trust's Investment Governance Committee, which is responsible for investment governance and performance matters for managed accounts and funds of Northern Trust Corporation and its subsidiaries, provides oversight to the Proxy Committee. In addition, Northern Trust has a Corporate Social Responsibility Committee within our Board of Directors as well as a Head of Corporate Social Responsibility, who is a member of our Proxy Committee and who reports directly to the company CEO.

## SCOPE AND OBJECTIVES FOR ENGAGEMENT

Engagement with management is a core part of the equity research process. Northern Trust's equity research analysts engage with hundreds of companies annually. The focus of these engagements is to

---

**Being a socially responsible company directly contributes to our financial success and creates value for our global stakeholders.**

## CORPORATE GOVERNANCE AND ENGAGEMENT PRINCIPLES

accumulate and interpret facts to reach sound investment conclusions with the aim of delivering positive long-term investment outcomes for clients. Both quantitative and qualitative approaches are employed in this process. In addition to strategy, risk, and sustainability of financials, analysts also monitor corporate governance, environmental and social factors that are of material concern to the long-term sustainability of the investment. The Proxy Analyst team supplements the analysis performed by Northern Trust's Equity Analyst team with additional research on corporate governance and environmental and social matters that contribute to the long-term value of the investment and reflects Northern Trust's commitment to ESG issues.

Our supplemental analysis allows Northern Trust to build a deeper understanding of how companies manage ESG issues, and helps us evaluate a company's overall corporate governance practices and structure. Corporate governance topics covered include executive compensation, risk oversight, board structure (including independence and diversity) and environmental and social risks and opportunities.

### ADVANCING STEWARDSHIP ACTIVITIES

In addition to the direct engagement described above, Northern Trust has also entered into an agreement with Hermes EOS to provide monitoring and engagement services for some of our funds. Hermes EOS conducts a structured monitoring and engagement process focused on corporate governance, environmental and social matters, as well as strategy, risk and other stewardship issues. It screens companies at least annually and selects for its core engagement program companies according to factors such as the size of clients' holdings, the materiality of the risk and the likelihood of success. We have regular discussions with Hermes to align their engagement activities with our direct engagement priorities.

Within the core engagement program there are three tiers of engagement, which vary in intensity depending on the seriousness of the issues and the size of holdings. Engagement typically involves face to face meetings with Board members and executives and, where appropriate, Hermes EOS may collaborate with other investors. A constructive and discrete approach is taken to dialogue with companies, based on a belief that engagement is likely to be more effective when carried out in private. Hermes EOS provides significant transparency with respect to its engagement activities. Further details of the approach used are described under Principle 3 of the Northern Trust UK Stewardship Code Disclosure Statement.

Northern Trust is also a signatory to the Investor Stewardship Group (ISG) framework. The ISG is a group of some of the largest U.S.-based institutional investors and asset managers. The ISG framework provides

---

**You can find more information on Northern Trust's relationship with Hermes EOS [here](#)**

## CORPORATE GOVERNANCE AND ENGAGEMENT PRINCIPLES

basic standards of investment stewardship and corporate governance for institutional investor and boardroom conduct.

### ESCALATION OF ENGAGEMENT

Occasionally, Northern Trust will identify events or decisions on the part of the company's management or board which raise concerns related to the probability that our investment in the company's securities will generate the returns we expected. This may lead our Equity Analyst team to recommend selling or reducing the position in portfolios where such discretion exists. In some instances, Northern Trust may decide that an effort to engage the company in dialogue is a better alternative. Generally, Northern Trust will engage where we own a substantial amount of the company's shares and we intend to remain long-term owners.

Decisions to escalate engagement are made on a case-by-case basis where serious governance concerns arise. Such escalation usually takes the form of arranging a meeting with management and board members to discuss our concerns or writing a formal letter to the company's board detailing our concerns and advocating our recommended solutions. We tend to keep such discussions private to allow for an open and honest dialogue.

### CORPORATE GOVERNANCE PRINCIPLES

When engaging with investee companies and voting on proxies, Northern Trust's Equity Analyst team and Proxy Analyst team, supported by the ESG Analyst team, routinely review several topics, which are described below.

- **Board structure**, including what processes are used for board succession planning and board refreshment. Northern Trust will engage with companies and express concerns where concerns arise as to the attentiveness or competency of individual directors or the board as a whole. Northern Trust will vote against director nominees when there are concerns around independence (depending on committee representation), attendance of board meetings and overboarding. Northern Trust also votes in favor of proposals requiring women and minorities to be included in the pool of board candidates.
- **Executive compensation** program, including how companies structure executive incentive compensation. Northern Trust focuses less on the level of pay managers take home and more on the connection between pay and performance. In examining pay, Northern Trust looks at whether there is an explicit regard to value creation embedded in the pay model, as well as whether the overall level of pay would be appropriate for the officer given basic criteria (i.e., relevant skills and experience). Further, Northern Trust looks for signs that pay differentials are having a detrimental impact on firm performance. These signs may include higher turnover of senior executives, lower or poor talent development, and

---

**The combination of the engagement performed by the Asset Management team at Northern Trust and Hermes on our behalf covers the broad universe of securities held across our funds and client portfolios. Our overall engagement approach and process helps us monitor the management and boards of companies we hold in our portfolios and helps create long-term value for our clients.**

evidence of agency problems such as a lack of performance rigor, poor disclosure or poor shareholder communication.

Northern Trust will vote against executive compensation plans that we believe are not designed to enhance shareholder value, or where there is a lack of disclosure around performance goals. Northern Trust will vote against compensation committee members where the board and company management have failed to take reasonable action over concerns raised by a majority of the company's shareholders.

- **Risk oversight** by the board. Northern Trust believes that the most sustainable companies have a holistic approach to sustainability and risk. In addition, companies should have an enterprise-wide approach to risk management. Companies which address sustainability as a legal risk compliance exercise or which treat each business unit individually in terms of risk management, in our view, may not be in a position to identify the most salient risks to business. It should be considered good practice to involve the board in both establishing and overseeing risk management structure. If there is a lack of Risk Management structure within the Board, Northern Trust may vote against certain Board or Committee candidates.
- **Environmental and social risks and opportunities.** Northern Trust believes that sustainable companies embrace uncertainty and proactively prepare for and minimize the impact of threats through effective planning, including reputational risks associated with environmental and social concerns. We therefore routinely examine and analyze the policies and processes that companies have put in place to protect, elevate and strategically position their organization. In our engagement with companies, we regularly discuss how a company assesses and discloses the environmental impact of their operations and products and in our voting, we generally support proposals requesting the issuance of corporate sustainability reports and disclosures concerning the emission of greenhouse gases.

---

**Northern Trust's Responsible Corporate Governance and Engagement Principles aim to protect our clients' financial well-being throughout the time period and strategy they have set forth. We focus to act as an active owner helping portfolio companies produce sustainable value, long-term financial returns alongside strong environmental, social and governance performance.**

---

### Contact us

To learn more about Northern Trust's Engagement Principles, contact [NT\\_CorporateEngagement@ntrs.com](mailto:NT_CorporateEngagement@ntrs.com)