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2023 Proxy Season in Review

In a period of unique market and economic dynamics, Neuberger Berman continued our tradition of vocal engagement to encourage best practices from companies.

Amid expectations for continued tight monetary policy and slowing economic growth, 2023 saw both initial caution in the markets and temporary concerns in the financial sector after the failure of Silicon Valley Bank and other regional banks. However, more resilient economies helped major equity indices achieve substantial gains, starting with a narrow group of large growth stocks before expanding late in the year to other areas amid optimism as to the potential end of monetary tightening. Still, the transition to a "more normal" economic and market environment seemed likely to expose fundamental differences among companies. Therefore, the need for transparency, good governance and attention to financially material issues, including those related to environmental and social practices, has never been greater. In 2023, our investment teams made their voices heard once again through our NB Votes initiative.

NB Votes is our advance vote disclosure initiative where we disclose votes and rationales on various topics in advance of shareholder meetings. In 2023, we disclosed our voting intentions and rationales for proposals at 43 meetings and opposed the company's recommendation in 58% of them. Our initiative also spans the regions where we invest our clients' capital, with 21% of our votes at meetings of non-U.S. companies. Among these votes was a shareholder proposal regarding recapitalization that we submitted to Lions Gate Entertainment Corporation, a tool not frequently used by institutional investors.

This paper presents highlights from our 2023 voting season, looking in particular at published votes where we staked new ground or believe the issue is of particular relevance to our clients. This report should be viewed as part of a cumulative effort to enhance corporate practices, and we would urge you to examine not only the full ledger of published 2023 votes, but our record from past years as well.

Key Themes from the 2023 Proxy Season

Corporate Governance	Executive Compensation	Corporate Disclosure	Methane Reduction
Addressing entrenchment tools, board composition and proactive improvements	Aligning compensation with business objectives	Reporting and oversight of key environmental and social risks are improving	Improving measurement and disclosure practices
Vote examples: Lions Gate Entertainment Corporation, Massimo Corporation, Fujimi Inc., Daiwa Industries, Ltd., NextEra Energy Inc., Ansys Inc., Sunrun Inc., SolarEdge Technologies Inc.	*Vote examples:* Zebra Technologies Corporation, Forward Air Corporation	*Vote examples:* Haemonetics Inc., Texas Roadhouse Inc., Okinawa Cellular Telephone Company, Costco Wholesale Corporation	*Vote examples:* Coterra Energy Inc., Targa Resources Corporation

Governance at the Forefront

Sound governance structures and practices are crucial to delivering shareholder value. While governance practices have generally improved over the past decade, instances of problematic practices still exist. In 2023, we tackled these issues head on, leveraging engagement and escalation to relay our views and the degree of our concern to corporate boards and management teams.

Entrenchment Tools

Lions Gate Entertainment Corp.: *Removal of dual-class share structure*
We believe that companies should maintain voting structures that entitle all shareholders to one vote per share. With the announced spin-off of Lions Gate's studio business, we encouraged the company to adopt a "one share, one vote" policy so that both resulting companies would have governance structures that align the voting and economic interests of all shareholders. Further, we found the company's dual-class share structure to be inconsistent with market practice, and believed it to impair value: At the time we made the proposal, the company's Class B shares traded at a forward Enterprise Value to EBITDA multiple that was less than the average of its selected peers. We believed that the discount was driven in part by the dual-class structure, which dampened trading liquidity, complicated the capital structure and gave certain shareholders outsized influence. Lack of responsiveness from the company compelled us to submit a shareholder proposal calling for the collapse of the dual-class share structure, a stance ultimately supported by a majority of shareholders.

Masimo Corporation: *Problematic bylaws and compensation terms*
Recent corporate actions and governance changes at Masimo heightened our previously communicated concerns regarding corporate governance, capital allocation decisions and the need for more independent board oversight. Specifically, we had concerns regarding the adoption of board entrenchment mechanisms such as anti-takeover provisions and others included in the CEO's employment agreement. Although some changes were reversed in advance of the annual meeting, several of our concerns remained unaddressed despite writing multiple letters to and engaging directly with the board. Given our belief that true independent board oversight is imperative to protect shareholder interests, provide objectivity and serve as a counterbalance to management, we supported the election of dissident nominees to the board.

Fujimi Inc.: *Renewal of poison pill*[1]
Despite our engagement efforts, including disclosing our vote against the renewal of Fujimi's poison pill in our NB Votes initiative last year, the company decided to proceed with the renewal of the poison pill in the face of low shareholder support levels. We believe management's persistent retention of the pill dilutes its latest positive efforts and governance improvements, and we find it

[1] A poison pill is a defense strategy against takeover bids that involves the issuance of shares in an attempt to dilute the acquiring party's stake.

to be a step backwards and contrary to current market governance trends, as Japanese companies continue to undertake corporate governance reforms and increasingly remove poison pills. As a result, we voted against the reelection of three members of the board. While the poison pill will remain valid until June 2024, we continue to urge the company to remove it and not renew it this year.

Board Composition: Connecting Skills and Service

Board composition has become increasingly important in recent years in light of significant challenges and shifts in the operational environment, customer preferences and the regulatory landscape. These developments have affected long-term strategies to varying degrees, calling into question the relevance of legacy director skillsets on boards. In this context, Neuberger Berman values clear disclosure of skills critical to company strategy and the identification of each director's areas of expertise in order to evaluate a board's composition of skills and experience, identify skills gaps, and support succession planning and the director nomination process.

Daiwa Industries Ltd.: *Board skillset concerns*
In 2022, we voted against the reelection of an external director due to concern over the relevance of her skills to company strategy. At the 2023 annual general meeting, we once again voted against her and another external director candidate for similar reasons. We believe that any board candidate must possess additive and relevant skills and experience to be an effective board member representing the interests of all shareholders. Further, we ask that companies provide expanded context for how the board is constituted by using a board skills matrix. The matrix should illustrate the specific skills, capabilities and expertise that will allow the board to meet both existing and future challenges to achieve the company's vision and the board's long-term objectives.

NextEra Energy, Inc.: *Improved board skills matrix*
While the company already provides an aggregated board skills table and racial and ethnic diversity, we believe disclosure of an individualized board skills matrix would improve the company's existing disclosure practices. As such, we supported a shareholder proposal regarding disclosure of an individualized board skills matrix.

Through NB Votes, we highlighted **Starbucks** as an example of best-in-class board skills matrix disclosure. In its proxy, the company identifies the experience, qualifications, skills and attributes it believes are required to provide effective oversight of the company's global activities. It also provides a skills matrix that summarizes the experience, qualifications and attributes for each director.

Improvements in Governance

While the prior examples demonstrate a need for heightened focus on reform, we saw several examples of management proposals designed to strengthen key aspects of their governance.

Ansys, Inc., Sunrun Inc., SolarEdge Technologies, Inc.: *Adoption of annual director elections*
We generally support proposals to "declassify" the boards of operating companies. We believe that shareholders should be able to elect boards of operating companies on an annual basis, and that annual director elections serve as an effective mechanism to hold directors accountable for unsatisfactory performance or misalignment with shareholder interests.

In 2022, Neuberger Berman wrote a letter to the **Ansys** board and disclosed our views on annual director elections and our intention to support a shareholder proposal regarding board declassification. The following year, in response to shareholder feedback, management put forth a proposal to adopt annual director elections, which we were pleased to support. Management teams at both **Sunrun** and **SolarEdge** put forth proposals to declassify their boards and move to annual director elections; we voted in favor of those proposals as well.

Sunrun Inc., SolarEdge Technologies, Inc.: *Adoption of simple majority voting*
We generally support the elimination of supermajority requirements and the adoption of majority vote requirements at operating companies. In most matters presented for shareholder approval, we think a majority vote is appropriate, as it allows for greater accountability to shareholders. For director elections, we believe a majority vote standard is appropriate in uncontested elections. Last year, both **Sunrun** and **SolarEdge** put forth proposals to eliminate supermajority requirements, which we voted for.

Aligning Compensation with Business Objectives

As an active manager, we apply a critical lens to the metrics and targets included in executive compensation plans to assess appropriate alignment and rigor with strategic objectives and investor guidance. In these examples, while we generally found the structure of the plans acceptable, we saw opportunities for better alignment.

Zebra Technologies Corporation: *Accountability around acquisitions*
Over a multiyear engagement with management, we discussed topics related to executive compensation and other financially material environmental and social issues. Most recently, our engagements, including a letter to the board, focused on ongoing concerns with its executive compensation structure and design. We believe that the compensation plan's metrics should reflect the company's increased acquisitiveness as part of its evolving long-term business strategy to provide clearer accountability regarding decisions around mergers and acquisitions. As such, we voted against the compensation plan given our belief that it could have been improved with the addition of one or more return metrics to better capture discipline around capital allocation.

Forward Air Corporation: *Aligning pay with performance*
We opposed the reelection of the chair of the compensation committee due to what we viewed as unresponsiveness to shareholder feedback regarding outstanding concerns with the long-term incentive plan (LTIP). The concerns included: as the removal of EBITDA per share in 2022, resulting in the company's LTIP solely relying on relative total shareholder returns (rTSR); the decrease of the weight of performance share units (PSUs) from 50% to 33% for the CEO and to 25% for non-CEO named executive officers (NEOs); and the increase of the weight of restricted stock units (RSUs) and stock options. We believe the program could be strengthened by the addition of a long-term profitability metric such as return on invested capital (ROIC) and/or free cash flow per share (cash from operations minus capital expenditures) the inclusion of which seems especially appropriate given the role of acquisitions in the company's long-term growth strategy. Further, we have concerns about the timing of these changes at the height of the freight cycle, when the company has likely been overearning due to strong volume, supportive pricing and favorable fuel charges following the freight boom of 2020 – 2021.

Improved Reporting and Oversight of Key Environmental and Social Risks

We believe robust board-level oversight of financially material corporate risks is critical, as is providing investors with needed transparency. This extends to financially material environmental and social factors, which can be important drivers of long-term investment returns from both opportunity and risk-mitigation perspectives. While challenges remain, we saw several examples of progress in disclosure last year.

Haemonetics Corporation: *Disclosure improvements*
Following a multiyear engagement on the need for more transparent reporting, the company published its inaugural corporate social responsibility report and aligned disclosure with the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) standards, along with including data related to Scope 1 and Scope 2 emissions, product safety and EEO-1 data. We supported the reelection of the board chair to signal our support for the company's responsiveness to shareholder feedback through these various governance and disclosure improvements.

Texas Roadhouse, Inc.: *Commitment to more disclosure*
We voted against a shareholder proposal regarding the establishment of GHG reduction targets at Texas Roadhouse because we believe the request was inappropriate given where the company is in its measurement of financially material environmental factors and related-disclosure journey. While large companies are often well along this road, smaller businesses often understandably have a longer way to go, but are often eager to make progress. Texas Roadhouse falls into this category and has made several emissions-related disclosure commitments. We believe that once the company is able to fulfill these commitments to measure and disclose its Scope 1, Scope 2 and material Scope 3 emissions, it will be better positioned to establish informed, credible reduction targets, which

we believe will benefit the company over the long term. We have encouraged the company to establish reduction targets once baseline emissions have been determined, and to produce reporting in alignment with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), which we believe will further enhance its climate risk management processes and disclosures.

Okinawa Cellular Telephone Company: *Fuller disclosure on allocation intentions*
In recent years, our key concern about Okinawa Cellular has been regarding its use of surplus capital, which included a loan scheme to parent KDDI. We believed that any surplus capital generated from operations should be reinvested in its business or returned to shareholders. For these reasons, in 2022, through NB Votes we disclosed our opposition to the reelection of several directors, signaling our concerns over capital inefficiency and corporate governance. In October 2022, in response to shareholder feedback, Okinawa announced its first mid-term plan, which committed to raising earnings per share (EPS) by 15% over the subsequent three years, roughly dividing the proceeds between building organic EPS growth and buying back shares. Last year, the company made further progress by addressing our concerns regarding capital management by drawing down on its loans to KDDI and using the proceeds to repurchase its shares. For these reasons, we supported the reelection of Representative Director Takashi Suga and Representative Director Seiji Yamamori.

Costco Wholesale Corporation: *Improving ESG accountability*
In 2022, we withheld support from the chair of the nominating and governance committee because the board had not established formal oversight of financially material ESG issues. We also supported a shareholder proposal asking the company to set science-based greenhouse gas emissions targets. In response to shareholder feedback, in June 2022, the company formalized board oversight of ESG issues and announced that it would set science-based emissions reduction targets. Given the company's responsiveness to our concerns, we supported the reelection of the chair of the nominating and governance committee in 2023.

Targeting Methane Reduction

Today, the energy sector accounts for around 40% of total methane emissions attributable to human activity, second only to agriculture. Improving methane measurement and emission-reduction efforts will be critical to the sector's ability to transition to a low-carbon economy. Importantly, methane capture can improve operational efficiency by turning potential waste into a marketable product. As a result, methane intensity reporting and reduction targets are becoming standard practice in the energy sector. Industry initiatives like the Oil and Gas Methane Partnership 2.0 (OGMP 2.0) have also been established to further support these efforts and help companies demonstrate their commitment to mitigation. Coterra Energy Inc. and Targa Resources Corp. have demonstrated responsiveness to concerns we raised about methane in NB Votes, though more progress can be made as measurement tools and disclosure expectations evolve.

Coterra Energy Inc.: *Enhancing methane-related disclosures*
While recognizing that the company has adopted several best practices, such as board-level oversight and the inclusion of an emissions-reduction metric in its incentive program, we believe improving the quality and accuracy of methane emission data should be a priority. Based on our engagement, we believe the company is moving in the right direction, but believe it could benefit from further action and disclosure regarding enhancing methane measurement that would better align with those of its peers and the broader industry. As such, we supported the shareholder proposal regarding a report on methane emission disclosures. Following the meeting and in response to shareholder feedback, the company meaningfully increased its methane-related disclosures in its 2023 Sustainability Report and joined the OGMP 2.0.

Targa Resources Corporation: *Improving methane measurement tools*
Given Targa's existing robust methane goals and disclosures, we voted against a methane-focused shareholder proposal, but provided feedback to the company on ways to further improve practices and disclosures. This included strengthening reductions from "flaring" by upgrading older equipment and increasing system redundancy; reducing methane leaks by shifting to electric and updated gas-engine compressors specifically designed for reduced methane slip; and reporting related statistics, such as the total annual and cumulative horsepower of traditional gas-engine compressors that have been converted to or replaced by electric or updated gas compressors designed to reduce methane slip.

In 2023, we were pleased to see Targa expand its aerial methane surveys to its entire operation and increase the frequency of its optical gas imaging for all compressor stations from annually to quarterly. Further, the company has continued to install electric compression instead of gas-fired compression. This effort is particularly meaningful because the methane slip from gas-fired compression accounts for the vast majority of the overall methane intensity of Targa's gathering and boosting segment.

Looking Ahead

We expect 2024 to be busy from a regulatory perspective, with the SEC expected to finalize its climate disclosure rule and various EU disclosure-focused regulations coming into effect. We recognize that many companies have already begun enhancing certain disclosures in anticipation of these rules, and we expect disclosure practices to continue to improve. Paramount for Neuberger Berman, as stewards of our clients' capital, is the quality of these disclosures and understanding how material risks and opportunities are being managed and incorporated into long-term strategic planning, including capital allocation decisions.

More broadly, proxy voting continues to be an important mechanism for shareholders to communicate views to companies. As we've learned from four years of our NB Votes initiatives, transparency from investors on the drivers of their vote decisions is critical to advancing dialogue and improving practices. Particularly as issues raised via shareholder proposals become more specific and complex, we've found that aggregate voting statistics often provide limited insight into proposal analysis and vote decision-making. This underscores the importance of efforts like NB Votes in articulating the considerations that lead to a given voting decision and demonstrating how company-specific elements were taken into consideration.

Importantly, proxy voting is not our only means of influence or interaction with portfolio companies as an active manager. Our investment teams regularly meet with senior management and board members, write letters to boards, and engage in other ways, all in an effort to enhance shareholder value and manage risk for our clients. We will continue to employ these and other levers to encourage high standards of disclosure and progress in addressing financially material corporate risks in a changing environment.

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