

# DE LISLE PARTNERS

## Guidelines on Governance for ESG reporting

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### GUIDELINES ON GOVERNANCE FOR ESG ASSESSMENTS

This document sets out the parameters and questions we consider when assessing the Governance aspects of ESG reporting for North American listed equities in which we invest. Our focus is on small-cap US equities which do not yet have the depth or frequency of ESG disclosures found in larger and/or 'dirtier' enterprises such as oil and gas, mining, chemicals and industrials.

**Sources of information:** public disclosures including the company's website, its sustainability reports and/or regulatory filings, notably the 10-K Annual Report and Proxy materials; third-party Morningstar/Sustainalytics Governance ratings where available, social media commentary and focused internet searches on members of the board and C-level executives.

Our bespoke template covers the main concerns of Governance as we believe that good governance on behalf of all stakeholders is crucial to achieve good performance in the stock market.

Our scoring takes into consideration a number of factors designed to elicit the effectiveness of a company's Board of Directors, its independence and its relationship with senior management, especially in family-controlled companies, and how pay awards and other financial incentives are calculated and linked to long-term performance.

#### Key priorities:

##### 1. Investor Relations

We want to see a dedicated Investor Relations officer in all but the smallest companies and make an assess their responsiveness. We expect to see a dedicated Investors tab on the company website which should give access to all documents covering both internal Governance and external company reporting to the SEC and other regulatory filings. These should include various Codes of Conduct, Conflicts of Interest and a Conflict Mineral Policy. We also want to see detailed picture biographies of C-level managers and directors.

##### 2. Balance of power between board, the management and shareholders

We take a careful look at family-controlled companies to ensure there is a balance of power and a board with sufficient independence to ensure shareholders rights are respected.

We expect C-level executives and board directors to have shares in the company so that interests are aligned. We also expect them to set up 10b5-1 plans over the sale of shares and disclose these in regulatory filings.

We prefer to see a diversity of shareholders and expect the company to report fully in quarterly earnings statements and participate in investor conferences and

roadshows. Companies should also offer direct engagement to larger shareholders and report the level of these activities in the annual Proxy statement.

### **3. Gender and ethnic diversity among directors and C-level managers**

We assess the make up of boards of directors and want to see a diversity of age, gender, background and ethnicity. We will vote against the re-appointment of any directors over 80 years of age, unless there is a good reason for continuance. We push for a maximum serving age of 75. We expect the majority of directors to be independent of management and be voted for annually and refreshed regularly, as appropriate.

### **4. Board composition and effectiveness**

We check relevant expertise and skill levels among board members and want to see structured continuous director education and annual performance evaluations. We particularly look for expertise in the areas of IT/AI and cybersecurity, macro risk evaluation, and sustainability.

Boards traditionally have headline Audit, Nomination and Governance, and Compensation committees which must be chaired by independent directors. Sustainability governance in the US is mostly assigned to these committees though a minority have set up separate ESG/sustainability committees and we encourage this.

We believe that board committees play a vital role in effective governance by providing in-depth analysis, strengthening oversight and ensuring compliance with new regulations and so we want to see evidence of regular meetings and position statements to show how these roles are being performed.

### **5. Remuneration of directors and C-level executives**

Say-on-Pay voting by stockholders for senior executives (CEO, CFO and other NEOs) is now commonplace in the US. Proxy materials contain detailed information on how pay packages (base salary, bonuses, short- and long-term stock options) are calculated. The vote is non-binding but a negative vote usually prompts the board to reconsider their pay practices.

We want to see material sustainability metrics integrated into executive pay packages and linked to quantifiable climate-related targets and workforce goals which should be set out in Proxy documents available to investors.

We check salary packages of the CEO and CFO to ensure they are in line with peer group companies.

## **Engagement strategy**

Where there are gaps in reporting or inadequate information on which to complete our own bespoke reports, we engage with the company usually through the Investor Relations department. In smaller companies, notably community banks, the Chief Financial Officer is usually responsible for sustainability matters.

We initially send in a list of questions to the company that we would like answered. If this does not elicit a response, we phone the company to find someone in authority to engage with us. We have found this approach is largely successful though it can take time to obtain the more detailed responses that satisfy us.

Even in cases where we have had limited success, we hope that by pursuing direct engagement with management we will encourage the company to start considering ESG issues and publish basic reporting which will satisfy EU and UK investors.

Note that DEI-related pay metrics have declined sharply in 2025 driven by political and legal pressures. We will vote against the abandonment of DEI initiatives by US companies if these are included in proxy voting; otherwise we will contact companies where we spot changes in their reporting.

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