Overview

Techtronic Industries Company Limited (TTI) is a Hong Kong-listed multinational company that manufactures power tools, outdoor power equipment, hand tools, and floor care appliances. Their products are available under brands including MILWAUKEE, RYOBI, and HOOVER. TTI was founded by Dr. Roy Chi Ping Chung and Mr. Horst Julius Pudwill in 1985 and listed on the Hong Kong Stock Exchange in 1990. By the end of 2022, TTI had 44,000 employees and its operations spanned across the US (77% of its sales revenue), Europe and Asia.1

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities that, in our assessment, can impact their ability to deliver sustained financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance best practices.

Our multi-year engagements with TTI have covered a range of topics, including board composition and effectiveness, board diversity, and the company’s management of sustainability-related issues. Over that time, the company has taken steps to increase the diversity of the board, with the appointment of their first female

1 Techtronic Industries Company Limited “Circular of Re-election of Directors and Notice of 2023 Annual General Meeting”

2 BIS conducts proxy voting for those clients who authorize BIS to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can also retain their voting rights or vote their shares in line with their preferences by selecting one of 14 third-party policies. 47% ($1.8 trillion of $3.8 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the $1.8 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data from January 1, 2022 through September 30, 2022.

3 Techtronic Industries 2022 ESG Report.

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independent director in 2021 and a second in 2022. With recent scrutiny on the company’s accounting practices, our latest engagement focused on governance structures and internal control processes.

At TTI’s May 2023 annual general meeting (AGM), management resolutions included the re-election of the Chairman, Mr. Horst Julius Pudwill, and amendments to the company’s share award scheme and share option scheme.

Rationale for BlackRock’s vote

Item 3a: Elect Horst Julius Pudwill as Director (AGAINST)

BIS did not support the election of the Chairman, Mr. Horst Julius Pudwill, because he also chairs the Nomination Committee, which we believe should be chaired by an independent director to ensure objectivity, transparency, and independence in the board recruiting process.

As explained in our commentary, “Our approach to engagement on board quality and effectiveness,” BIS looks to boards to establish robust and effective corporate governance practices. The board nomination process is key to ensuring the company nominates non-executive directors with relevant skills and experience who can bring independent views as well as ensure objectivity in the decision-making of the board and their ability to oversee management.

Although the relevant HK Listing Rule requires an issuer must establish a Nomination Committee chaired by the Chairman of the board or an independent non-executive director, as detailed in our Hong Kong Proxy Voting Guidelines, in BIS’ view, the Chairman of the Nomination Committee should be independent, so as to protect against an over-concentration of power in a single director and support committee objectivity. Therefore, BIS considers it preferable that the Chairman of the board does not chair board committees. An independent director-led Nomination Committee is better positioned to ensure objectivity, independence and transparency in the board recruiting process, especially around succession planning for senior board and management positions.

In the case of TTI, Mr. Pudwill is the largest shareholder who effectively controls 19.8% of the company’s underlying shares. As the co-founder and the former CEO of TTI, he has chaired the Nomination Committee for over 16 years. There is a risk that his position as both Chairman of the board and the Nomination Committee, as well as representing the largest block of affiliated shareholders, lead to a concentration of power that may not support a robust and effective board renewal process and may impair long-term shareholder value.

For these reasons, BIS did not support the re-election of Mr. Pudwill at the company’s 2023 AGM. BIS will continue engaging with the company as we believe that TTI would benefit from enhancing their board nomination procedures to support an effective board which takes into consideration the interests of all shareholders and supports the company in delivering durable, long-term financial value creation.

Item 7: Proposed amendments to the share award scheme (AGAINST)

Item 8: Proposed amendments to the share option scheme (AGAINST)

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4 A short-seller research report published by Jehoshaphat Research has resulted the 25% decline of the share price since Feb 2023 due to market concerns on its accounting practice.

5 Hong Kong Main Board Listing Rule 3.27A requires an issuer must establish a Nomination Committee chaired by the Chairman of the board or an independent non-executive director and comprising a majority of independent non-executive directors.

6 Approximately 2% of his share ownership is under the controlled entity Cordless Industries Company Limited that is 70% owned by Mr. Pudwill and 30% owned by Dr. Roy Chi Ping Chung. Shareholding information as of December 31, 2022. Techtronic Industries 2022 Annual Report.

7 Techtronic Industries 2007 Annual Report indicated that Mr. Horst Julius Pudwill was the chair of the Nomination Committee.
BIS did not support the proposed amendments to the share award scheme and the share option scheme as in our view the amendments are not in shareholders' long-term financial interests given they allow for providing options to service providers and have relatively short vesting periods.

TTI’s board proposed to amend the share award scheme⁸ and the share option scheme⁹ in view of the amendments to Chapter 17 of the Listing Rules relating to share schemes of listed issuers that became effective from January 1, 2023.

The key amendments of the share schemes:

i. Provide the board with the discretion to grant shares up to 1% to the selected participant, and up to 0.1% to a director, including executive directors, non-executive directors and independent non-executive directors (INEDs) without further shareholder approval.

ii. Expand the eligible participants in the share option scheme to include service providers and related entity participants, with grant sub-limits for each category up to 1% of total shares.

iii. Provide that the 12-month vesting period requirement under the Listing Rules be allowed to be relaxed in certain circumstances and the Remuneration Committee to have discretion to determine a shorter vesting period.

As explained in our Response to the HKEX’s consultation paper on “Proposed Amendments to Listing Rules relating to Share Schemes of Listed Issuers”, BIS has concerns regarding the proposal to relax the current shareholder approval requirement for grants of share awards to an INED, substantial shareholder, or controlling shareholder. For companies of large market capitalization, a share grant as small as 0.1% may constitute excessive compensation in absolute monetary value or a significant proportion of a company’s annual profit. Given the potential conflicts of interest, and the risk of incentivizing perverse behavior not aligned with shareholder value creation, we consider it important that shareholders have the opportunity to approve such decisions.

In addition, in BIS’ view, service providers should not be eligible to participate in share option schemes intended to incentivize and reward employees and directors critical to the company’s long-term sustainable growth. TTI has defined service providers to be business partners within the industry of electrical and electronic products, suppliers of goods and services, and persons or entities that provide R&D or technological support. We believe that the grant of shares to persons who provide services to the company in the ordinary course of business – usually governed by non-exclusive service contracts – could cause unnecessary dilution to long-term investors.

Lastly, in our view, the minimum period for vesting share awards should be at least 24 months to create better alignment between rewards to participants and longer term financial value creation for investors. For incentives to be effective, BIS has found that share awards should vest on a sliding scale over a period of at least two- to three years, with at least half of the share awards vesting only after the second year (i.e., subject to a 24-month vesting period). Moreover, long-term investors benefit when incentive schemes for senior executives, who have a critical role in driving the long-term success of the company, have longer vesting periods, ideally three- to five-years. TTI’s proposal to authorize the Remuneration Committee to determine a shorter (less than 12-month requirement as allowed under the Listing Rules) vesting period at their discretion, without shareholder approval, may not be in the best financial interests of long-term shareholders like BlackRock’s clients. Therefore, we voted against these proposed amendments.

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⁸ Techtronic Industries AGM Circular Page 11 “Proposed amendments to the share award scheme.”
⁹ Techtronic Industries AGM Circular Page 13 “Proposed amendments to the share option scheme.”
About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock’s fiduciary duty as an asset manager, BIS’ purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients’ investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders as appropriate. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public voting guidelines and informed by our analysis of company disclosures and, where relevant, our engagements.¹⁰

To support investors’ assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our website. For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship
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¹⁰ As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock’s ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a “best-efforts” basis.