

Diamond Hill Capital Management, Inc. Proxy Voting Policy, Procedures and Guidelines

One of the responsibilities of owning stock in a company is the right to vote on issues submitted to a shareholder vote. In order to fulfill its responsibilities under Rule 206(4)-6 and Rule 204-2 of the Investment Advisers Act of 1940, Diamond Hill Capital Management, Inc. (hereinafter “we” or “us” or “our”) has adopted the following Proxy Voting Policy, Procedures and Guidelines (the “Proxy Policy”) with regard to companies in our clients’ investment portfolios.

Key Objective

The key objective of our Proxy Policy is to maximize the long-term value of the securities held in our clients’ portfolios. These policies and procedures recognize that a company’s management is entrusted with the day-to-day operations and long-term strategic planning of the company, subject to the oversight of the company’s board of directors. While we believe ordinary business matters are primarily the responsibility of management and should be approved solely by the corporation’s board of directors, we also recognize that the company’s shareholders must have final say over how management and directors are performing, and how shareholders’ rights and ownership interests are handled, especially when matters could have material economic implications for the shareholders.

Therefore, we will pay particular attention to the following matters in exercising our proxy voting responsibilities as a fiduciary for our clients:

Accountability. Each company should have effective means in place to hold those entrusted with running a company’s business accountable for their actions. Management of a company should be accountable to its board of directors and the board should be accountable to shareholders.

Alignment of Management and Shareholder Interests. Each company should endeavor to align the interests of management and the board of directors with the interests of the company’s shareholders. For example, we generally believe that compensation should be designed to reward management for doing a good job of creating value for the shareholders of the company.

Transparency. Each company should provide timely disclosure of important information about its business operations and financial performance to enable investors to evaluate the company’s performance and to make informed decisions about the purchase and sale of the company’s securities.

Decision Methods

Our recommendation is for clients to delegate the responsibility of voting proxies to us. Many clients recognize that good corporate governance and good investment decisions are complementary. Often, the investment manager is uniquely positioned to judge what is in the client’s best economic interest regarding proxy voting issues. Additionally, we can vote in accordance with a client’s wishes on any individual issue or shareholder proposal, even in cases where we believe the implementation of a proposal will diminish shareholder value. We believe clients are entitled to a statement of our principles and an articulation of our process when we make investment decisions, and similarly, we believe clients are entitled to an explanation of our voting principles, as both have economic value.



For those clients who prefer to retain the ability to vote the proxies in their account, they will receive proxies from their custodian, transfer agent, or other third-party service provider such as their proxy service provider. They will not receive proxy information from Diamond Hill.

We have developed the guidelines outlined below to guide our proxy voting. In addition, we generally believe that the investment professionals involved in the selection of securities are the most knowledgeable and best suited to make decisions regarding proxy votes. Therefore, the portfolio management team whose strategy owns the shares has the authority to override the guidelines. Also, where the guidelines indicate that an issue will be analyzed on a case-by-case basis or for votes that are not covered by the Proxy Policy, the portfolio management team whose strategy owns the shares has final authority to direct the vote. In special cases, we may seek insight from a variety of sources on how a particular proxy proposal will affect the financial prospects of a company, and then we vote in keeping with our primary objective of maximizing shareholder value over the long term.

Voting to maximize shareholder value over the long term may lead to the unusual circumstance of voting differently on the same issue in different strategies at Diamond Hill. For instance, the Small Cap strategy may own a company that is the subject of a takeover bid by a company owned in the Large Cap strategy. Analysis of the bid may show that the bid is in the best interest of the Large Cap strategy but not in the best interest of the Small Cap strategy; therefore, the Large Cap strategy may vote for the merger whereas the Small Cap strategy may vote against it.

In addition, when securities are out on loan, our clients collectively hold a significant portion of the company's outstanding securities, and we learn of a pending proxy vote enough in advance of the record date, we will perform a cost/benefit analysis to determine if there is a compelling reason to recall the securities from loan to enable us to vote.

Conflicts of Interest

Conflicts of interest may arise from various sources. Clients may take positions on certain shareholder and/or proxy voting issues that they perceive to be in their own best interests but are inconsistent with our firm's primary objective of maximizing shareholder value in the long run. We encourage clients who have investment objectives that differ from ours to notify us that they will vote their proxies themselves, either permanently or temporarily. Otherwise, we will vote their shares in keeping with this Proxy Policy.

In some instances, a proxy vote may present a conflict between the interests of a client and our interests or the interests of a person affiliated with us. For example, we might manage money for a plan sponsor and that company's securities may be held in client investment portfolios. The potential for conflict of interest is imminent since we would have a vested interest to support that company's management recommendations, which may not be in the best interests of clients. Another possible scenario could arise if we held a strong belief in a social cause and felt obligated to vote in a certain manner to support that social cause, but it may not be best for our clients. In cases of conflicts of interest that impede our ability to vote, we will refrain from making a voting decision and will forward all of the necessary proxy voting materials to the client to enable the client to cast the votes themselves. In the case of the mutual funds under our management, we will forward the proxy material to the independent trustees or directors if we are the investment adviser or to the investment adviser if we are the sub-adviser.

Recordkeeping

We will maintain records documenting how proxies are voted. In addition, when we vote contrary to the Proxy Policy or on issues that the Proxy Policy indicates will be analyzed on a case-by-case basis, we will document the rationale for our vote. We will maintain this documentation in accordance with the requirements of the Act and we will provide this information to a client who held the security in question upon the client's request.

Proxy Voting Principles

1. We recognize that the right to vote a proxy has economic value.

All else being equal, a share with voting rights is worth more than a share of the same company without voting rights. Sometimes, investors may observe a company with both a voting class and a non-voting class in which the non-voting class sells at a higher price than the voting, the exact opposite of the expected result described above; typically, this can be attributed to the voting class being relatively illiquid. Thus, when you buy a share of voting stock, part of the purchase price includes the right to vote in matters concerning the company.

2. We recognize that we incur additional fiduciary responsibility by assuming this proxy voting right.

In general, acting as a fiduciary when dealing with the assets of others means being held to a higher than ordinary standard in each of the following aspects:

Loyalty - We will act only in the best interest of the client. Furthermore, the duty of loyalty extends to the avoidance of conflicts of interest and self-dealing.

Care - We will carefully analyze the issues at hand and bring all the skills, knowledge, and insights a professional in the field is expected to have in order to cast an informed vote.

Prudence - We will make the preservation of assets and the earning of a reasonable return on those assets primary and secondary objectives as a fiduciary.

Impartiality - We will treat all clients fairly.

Discretion - We will keep client information confidential. Information concerning client-specific requests is held strictly confidential between the client and us.

3. We believe that a corporation exists to maximize the value for shareholders.

Absent a specific client directive, we will always vote in the manner (to the extent that it can be determined) that we believe will maximize shareholder returns over the long term.

4. We believe conscientious proxy voting can result in better investment performance.

The presence of an owner-oriented management is a major consideration in many of our investment decisions. As a result, we typically would not expect to find ourselves at odds with management recommendations on major issues. Furthermore, we do not anticipate entering a position intending to be shareholder activists. Yet, cases will arise in which we feel the current management or management's current strategy is unlikely to result in the maximization of shareholder value. One reason for owning such stock might be that the stock price is at such a significant discount to intrinsic value that the share price need not be "maximized" for us to realize an attractive return. Another reason may be that we anticipate management will soon alter company strategy when it becomes apparent that a new strategy is more appropriate. Additionally, we may disagree with management on a specific issue while still holding admiration for a company, its management, or its corporate governance in general. In certain circumstances, we may engage with management to discuss our concerns and share ideas. We do not subscribe to the "If you don't like management or its strategy, sell the stock" philosophy in many instances.

5. We believe there is relevant and material investment information contained in the proxy statement.

Closely reviewing a company's proxy materials may reveal insights into management motives, aid in developing quantifiable or objective measures of how a company has managed its resources over a period of time, and, perhaps most importantly, speak volumes about the "corporate culture."

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Proxy Voting Guidelines

Each proposal put to a shareholder vote is unique. As a result, while each proposal must be considered individually, there are several types of proxy issues that recur frequently at public companies. Below are brief descriptions of various issues and our position on each. Please note that this list is not meant to be all-inclusive. In the absence of exceptional circumstances, we **generally** will vote in the manner outlined below on the proposals described.

I. Corporate Governance Provisions

A. Board of Directors

The election of the Board of Directors (the "Board") is frequently viewed as a "routine item." Yet, in many ways the election of the Board is the most important issue that comes before shareholders. Inherent conflicts of interest can exist between shareholders (the owners of the company) and management (who run the company). At many companies, plans have been implemented attempting to better align the interests of shareholders and management, including stock ownership requirements and additional compensation systems based on stock performance. Yet, seldom do these perfectly align shareholder and management interests. An **independent** Board serves the role of oversight on behalf of shareholders. For this reason, we strongly prefer that the majority of the Board be comprised of independent (also referred to as outside or non-affiliated) directors. Furthermore, we believe key committees should be comprised entirely of independent directors. In cases where a majority of the Board is not independent or a key committee is not entirely independent, we may vote against non-independent directors as well as the nominating and governance committee. When voting non-U.S. proxies, we may take local standards into consideration to determine the appropriate level of independence for both the Board and key committees.

1. Cumulative Voting

Cumulative voting allows the shareholders to distribute the total number of votes they have in any manner they wish when electing directors. In some cases, this may allow a small number of shareholders to elect a minority representative to the Board, thus ensuring representation for all sizes of shareholders. Cumulative voting may also allow a dissident shareholder to obtain representation on the Board in a proxy contest.

Since cumulative voting subjects management to the disciplinary effects of outside shareholder involvement, it should encourage management to maximize shareholder value and promote management accountability. Thus, we will vote **FOR** proposals seeking to permit cumulative voting.

2. Majority vs Plurality Voting

A majority vote requires a candidate to receive support from a majority of votes cast to be elected. Plurality voting provides that the winning candidate only garner more votes than a competing candidate. If a director runs unopposed under a plurality voting standard, the director only needs one vote to be elected, so an "against" vote is meaningless. We feel that directors should be elected to the Board by a majority vote simply because it gives us a greater ability to elect Board candidates that represent our clients' best interests. In evaluating majority voting vs. plurality voting, we will vote **FOR** majority voting proposals. However, we find plurality voting acceptable when the number of director nominees exceeds the number of directors up for election.

3. Absenteeism

Customarily, schedules for regular Board and committee meetings are made well in advance. A person accepting a nomination for a directorship should be prepared to attend meetings. A director

who is found to have a high rate of absenteeism (less than 75% attendance) raises significant doubt about that director's ability to effectively represent shareholder interests and contribute experience and guidance to the company. While valid excuses for absences (such as illness) are possible, these are not the norm. Schedule conflicts are not an acceptable reason for absenteeism since it suggests a lack of commitment or an inability to devote sufficient time to make a noteworthy contribution. Thus, we will **WITHHOLD** our vote for (or vote **AGAINST**, if that option is provided) any director who fails to attend at least 75% of the regularly scheduled Board and committee meetings. We may make exceptions when there are extenuating circumstances that prevent a director from attending 75% of the meetings.

4. Classified Boards

A classified Board separates directors into more than one class, with only a portion of the full Board standing for election each year. A non-classified Board requires all directors to stand for election every year and serve a one-year term.

While staggering the election of directors on a classified board may maintain a certain level of continuity and stability, a classified Board makes it difficult for shareholders to change control of the Board. A classified Board can delay a takeover advantageous to shareholders yet opposed by management or prevent bidders from approaching a target company if the acquirer fears having to wait more than one year before gaining majority control.

We will vote **FOR** proposals seeking to declassify the Board and **AGAINST** proposals to classify the Board.

5. Third-Party Transactions

We will **WITHHOLD** votes or vote **AGAINST** directors who may have a conflict of interest, such as receipt of consulting fees from the corporation (affiliated outsiders) if the fees are significant or represent a significant percent of the director's income.

6. Auditor Ratification

We believe that management is in the best position to choose its accounting firm, and we will generally support management's recommendation. However, we recognize that there may be conflicts when a company's independent auditors perform substantial non-audit related services for the company. While we will generally vote **FOR** management proposals to ratify the selection of auditors, we may vote against the ratification of an auditor if non-audit related fees are excessive relative to fees paid for audit services, or when an auditor fails to identify issues that violate standards of practice intended to protect shareholder interests. Likewise, we may vote against or withhold votes from audit committee members in instances where the committee does not provide sufficient oversight to ensure effective, independent auditing. Examples of auditing concerns that may lead to an against or withhold vote include accounting irregularities or significant financial restatements.

7. Dual Chair/CEO Role

While we prefer the separation of roles between the Board Chair and CEO, there may be times when a dual Chair/CEO role is an effective governance structure at a company. Therefore, we will vote on the separation of Board Chair and CEO on a **CASE-BY-CASE** basis, taking into consideration the specific circumstances of the company. Factors that we will consider include the existence of a Lead Independent Director, as well as any past or ongoing governance concerns.

8. Director Tenure

We view director tenure as just one data point when considering the overall composition of the Board. While we will not withhold votes from a director based on tenure alone, we will consider the length of a director's Board service on a **CASE-BY-CASE** basis. Characteristics such as average tenure across the Board and overall Board independence may affect our support for directors with lengthy tenures. We will consider the qualifications of the directors on the overall Board and the effectiveness of the Board's existing governance structures as well.

9. Proxy Access

Proxy access is the ability of certain shareholders, or groups of shareholders, to have their own director nominee(s) included in the company's proxy materials. We will vote **CASE-BY-CASE** on proxy access proposals, considering multiple aspects, including the binding nature of the proposal, ownership, and duration thresholds, as well as the company's existing governance structures and historical level of responsiveness to shareholder concerns.

10. Proxy Contests

A proxy contest is a campaign to solicit shareholder votes in opposition to management at an annual or special meeting. Typically, the objective of the shareholder(s) initiating the proxy contest is to elect specific directors to the Board or to approve a specific corporate action. Incumbent directors are those directors that currently sit on the Board, and dissident nominees are those directors that shareholder(s) who oppose a firm's management and/or policies seek to elect to the Board.

Due to the unique nature of each proxy contest, we review these on a **CASE-BY-CASE** basis, with the overarching goal of maximizing shareholder value. Among other factors, we will consider the strategic plans of both the incumbents and dissidents and the governance profile of the company.

11. Board Diversity

At Diamond Hill, we believe strong, effective corporate boards are comprised of directors with a diversity of skills, perspectives and experience. We believe that cognitive diversity, which we define as having a variety of viewpoints, perspectives, and ways of processing information, is beneficial for organizational decision making, problem solving, and remaining competitive over time. Additionally, we believe that a board's composition should, at a minimum, reflect the diversity of its stakeholders, and boards that include the perspectives of historically under-represented groups including women and minorities can contribute to long-term sustainable value creation and reduce risk over time.

Therefore, we generally oppose the elections and re-elections of Nominating/Governance Committee members if we can find no evidence of board diversity at a company. We will also generally vote in favor of proposals that encourage the adoption of a diverse director search policy.

B. Voting/Shareholder Rights

Shareholder rights are an important tool used to hold boards of directors accountable and ensure that they are acting in the best interest of shareholders. While we do not intend to be shareholder activists, there may be times when an expansion of shareholder rights is needed in order to improve alignment of interests and increase the long-term value of a company. Therefore, we view proposals related to shareholder rights, including proposals for the right to call special meetings and the right to act by written consent, on a **CASE-**

BY-CASE basis, taking into consideration each company's ownership concentration and the governance characteristics of the board of directors.

1. Supermajority Votes

Most state corporation laws require that mergers, acquisitions, and amendments to the corporate bylaws or charter be approved by a simple majority of the outstanding shares. A company may, however, set a higher requirement for certain corporate actions. We believe a simple majority should be enough to approve mergers and other business combinations, amend corporate governance provisions, and enforce other issues relevant to all shareholders. Requiring a supermajority vote entrenches management and weakens the governance ability of shareholders. We will vote **AGAINST** management proposals to require a supermajority vote to enact these changes. In addition, we will vote **FOR** shareholder proposals seeking to lower supermajority vote requirements.

2. Shareholder Rights Plans (Poison Pills)

Shareholder rights plans are corporate-sponsored financial devices designed with provisions that, when triggered by a hostile takeover bid, generally result in either: (1) dilution of the acquirer's equity holdings in the target company, (2) dilution of the acquirer's voting rights in the target company, or (3) dilution of the acquirer's equity interest in the post-merger company. This is typically accomplished by distributing share rights to existing shareholders that allow the purchase of stock at a fixed price should a takeover attempt occur.

While shareholder rights plans can benefit shareholders by forcing potential acquirers to negotiate with the target company's Board and achieving a higher premium in the event of a purchase, these plans can also lead to the entrenchment of management and discourage legitimate tender offers by making them prohibitively expensive. Therefore, we will evaluate these proposals on a case-by-case basis. However, we generally will vote **AGAINST** proposals seeking to ratify a poison pill in which the expiration of the plan (sunset provision) is unusually long, the plan does not allow for the poison pill to be rescinded in the face of a bona fide offer, or the existing management has a history of not allowing shareholders to consider legitimate offers. Similarly, we generally will vote **FOR** the rescission of a poison pill where these conditions exist.

We will vote **FOR** proposals requiring shareholder rights plans be submitted to shareholder vote.

II. Compensation Plans

Management is an immensely important factor in the performance of a corporation. Management can either create or destroy shareholder value depending on the success it has both operating the business and allocating capital. Well-designed compensation plans can prove essential in setting the right incentives to enhance the probability that both operations and capital allocation are conducted in a rational manner. Ill-designed compensation plans work to the detriment of shareholders in several ways. For instance, there may be outsized compensation for mediocre or poor performance, directly reducing the resources available to the company, or misguided incentives that cloud business judgment. Given the variations in compensation plans, most of these proposals must be considered on a case-by-case basis.

A. Non-Employee Directors

In general, we believe stock-based compensation will better align the interests of directors and shareholders than cash-based compensation. Directors should own enough stock (directly or in the form of a stock derivative) that when faced with a situation in which the interests of shareholders and management differ,

rational directors will have an incentive to act on behalf of shareholders. However, if the stock compensation or ownership is excessive (especially if management is viewed as the source for this largesse), the plan may not be beneficial to shareholder interests.

We will vote **FOR** proposals to eliminate retirement plans and **AGAINST** proposals to maintain or expand retirement packages for non-employee directors.

We will vote **FOR** proposals requiring compensation of non-employee directors to be paid at least half in company stock. Likewise, we may vote **AGAINST** or **WITHHOLD** votes from directors who sit on the Compensation Committee at companies who do not require non-employee directors to be paid at least half in company stock.

B. Stock Incentive Plans

Stock compensation programs can reward the creation of shareholder value through high payout sensitivity to increases in shareholder value. Of all the recurring issues presented for shareholder approval, these plans typically require the most thorough examination because their economic significance is large and there are many variations among these plans. As a result, we must consider any such plan on a **CASE-BY-CASE** basis.

We recognize that options, stock appreciation rights, and other equity-based grants (whether the grants are made to directors, executive management, employees, or other parties) are a form of compensation. As such, there is a cost to their issuance, and these issues require a cost-benefit analysis. If the costs are excessive, then the benefit will be overwhelmed. Factors that are considered in determining whether the costs are too great (i.e., that shareholders are overpaying for the services of management and employees) include: the number of shares involved, the exercise price, the award term, the vesting parameters, and any performance criteria attached to the award. Additionally, objective measures of the company's long-term performance will be factored into what we consider an acceptable amount of dilution. We will also consider past grants in our analysis, as well as the level of the executives' or directors' cash compensation.

We will look particularly closely at companies that have repriced options. Repricing stock options may reward poor performance and lessen the incentive such options are supposed to provide. We will vote **AGAINST** any plan that permits the practice of option repricing.

C. Compensation

The Securities and Exchange Commission adopted rules in 2011 which implement requirements in Section 951 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which amends the Securities Exchange Act of 1934. The rules concern non-binding shareholder votes on executive compensation related to say-on-pay and golden parachutes.

1. Say-on-Pay Votes

Public companies are required to provide their shareholders with an advisory vote on the compensation of the most highly compensated executives. Support for or against executive compensation will be determined on a **CASE-BY-CASE** basis.

2. Frequency of Votes

Companies are required to provide their shareholders with an advisory vote on how frequently they would like to be presented with say-on-pay votes: every one, two, or three years. We generally believe an **ANNUAL** advisory vote on executive compensation is appropriate, as annual say-on-pay voting aligns shareholder feedback with the Board's and Compensation Committee's decision making. In situations where compensation and performance appear to be misaligned, or we have

general concerns about the compensation structures in place to such an extent that we have voted against the advisory say-on-pay vote itself, we may also vote against or withhold votes from directors who sit on the Compensation Committee.

3. Golden Parachutes

Companies are required to disclose compensation arrangements and understandings with highly compensated executive officers in connection with an acquisition or merger. In certain circumstances, these companies also are required to conduct a shareholder vote to approve the golden parachute compensation arrangements. We have a bias against golden parachutes, but since each merger or acquisition presents unique facts and circumstances, we will determine our votes on golden parachutes on a **CASE-BY CASE** basis.

4. Claw back of Incentive Compensation

From time to time, we may consider proposals for policies regarding the recoupment of incentive compensation from senior executives whose compensation was based on faulty financial reporting or fraudulent business practices. This type of behavior not only causes direct financial harm to shareholders, but it also creates reputational risk to the company that may impact its value over time. We review claw back proposals on a **CASE-BY-CASE** basis, taking into consideration whether the company already has robust policies in place that would address our concerns.

III. Capital Structure, Classes of Stock, and Recapitalizations

A. Common Stock Authorization

Corporations increase the supply of common stock for a variety of ordinary business reasons including: to raise new capital to invest in a project, to make an acquisition for stock, to fund a stock compensation program, or to implement a stock split or stock dividend. When proposing an increase in share authorization, corporations typically request an amount that provides a cushion for unexpected financing needs or opportunities. However, unusually large share authorizations create the potential for abuse. An example would be the targeted placement of a large number of common shares to a friendly party in order to deter a legitimate tender offer. Thus, we generally prefer that companies request shareholder approval for all requests for share authorizations that extend beyond what is currently needed and indicate the specific purpose for which the shares are intended. Generally, we will vote **AGAINST** any proposal seeking to increase the total number of authorized shares to more than 120% of the current outstanding and reserved but unissued shares, unless there is a specific purpose for the shares with which we agree.

B. Unequal Voting Rights (Dual Class Exchange Offers/ Dual Class Recapitalizations)

Proposals to issue a class of stock with inferior or no voting rights are sometimes made. Frequently, this class is given a preferential dividend to coax shareholders to cede voting power. In general, we will vote **AGAINST** proposals to authorize or issue voting shares without full voting rights on the grounds that it could entrench management.

However, multi-class structures may be beneficial to companies for limited periods of time, and in such cases, we will evaluate proposals to ensure they include appropriate sunset provisions or require shareholder reauthorization after a predetermined period of time.

IV. Environmental and Social Issues

Environment and social issues are often difficult to analyze in terms of their effect on shareholder value. Nonetheless, we expect the companies in which we invest to demonstrate a commitment to a long-term perspective, sustainable competitive advantages, and stakeholder-focused management teams that can add value to the company without impeding the ability of future generations to meet their economic, social, and environmental needs.

Shareholder proposals relating to a company's activities and policies about certain environmental and social issues are prevalent at annual meetings. Due to the complicated nature of each proposal, we consider these issues on a case-by-case basis. We will vote **FOR** any proposal that seeks to have a corporation change its activities or policies when we believe the failure to do so will result in economic harm to the company. Similarly, we will vote **AGAINST** any proposal that requests a change we believe will result in economic harm. We may **ABSTAIN** from voting on certain issues where we do not believe we can determine the effect of the proposal.

When voting, we will consider whether or not a shareholder proposal addressing a material environmental or social issue will promote long-term shareholder value in the context of the company's existing business practices. We will generally support proposals requesting increased transparency or disclosure of workplace diversity, gender pay equity, lobbying and political spending, and climate change and sustainability efforts in instances where a company is not already disclosing sufficient information. We will not support requests for increased disclosure when such information would reveal sensitive or proprietary information that could place the company at a competitive disadvantage, or if increased disclosure is administratively impractical.

V. Voting Non-US Securities

Voting proxies of non-US issuers can be much different than voting proxies of US-domiciled companies. It can be more difficult due to issues such as share blocking and country requirements for investors to obtain power of attorney in local markets. In addition, the SEC has acknowledged that in some cases it can be in an investor's best interests not to vote a proxy, for instance, when the costs of voting outweigh the potential benefits of voting. Therefore, proxy voting for non-US issuers will be evaluated and voted, or not voted, on a **CASE-BY-CASE** basis.