Case study

Monolithic Power Systems

Primary themes

Environmental | Social | Governance ✓

Approach

Direct ✓ | Collaborative | Escalation

Objective

Achieved ✓ | Ongoing | Not met | N/A – interaction

Context

Monolithic Power Systems is a US-listed company that specialises in high-performance, energy-efficient power management solutions. The company designs and develops integrated circuits that manage and control power in electronic devices.

The investment proposition is centred on the company's innovation, its alignment as an environmental solution (through its energy-saving impact) and long-term growth prospects through its offerings to high-demand sectors such as AI, industrial automation and consumer electronics.

Summary

The company was founded by its current CEO, Michael Hsing. The CEO holds c. 2.8% of share capital but the company's ownership base is diverse and spread across traditional asset management institutions. In addition, there are no special share classes, and the company operates with a 'one share, one vote' structure.

We are supportive of the management team and satisfied with how strategy is devised and executed. However, the dialogue with the company is predicated on certain observations and best practice issues which surfaced at the 2025 AGM. On initial inspection, these appeared to be a technical voting matter, but the combination of the issues discussed below made us look more closely at the company's approach to governance, as well as the technical details.

Engagement objectives

The dialogue was triggered due to the governance considerations linked to the voting issues discussed below. The dialogue was also aligned to the specific investment team's stewardship policy which refers to enhancing corporate governance. Our objectives were defined as follows:

- **Evaluate the approach to Board reform:** The company currently operates with a classified Board structure. This means that directors are segmented into classes and do not face annual re-election; instead, each class of director faces election by rotation (e.g. one third every year). This is not preferable as it blunts shareholder accountability. In principle, we desire annual re-election as outlined in Jupiter's Voting & Company Dialogue policy.

At the 2024 AGM, a shareholder proposal lodged by governance activist John Chevedden, called on the Board to de-classify the Board so that all directors face annual re-election. We supported this proposal, as the position is aligned to our own policy and the outcome improves accountability to shareholders. The proposal received unanimous backing, with 83.2% of the AGM supporting the motion. This was also helped by at least one of the proxy agencies supporting the motion. The company duly acted on this advisory result at the 2025 AGM by including a management proposal to de-classify the Board.

The situation was not as straightforward as we thought. While the Board sought to de-classify its structure, it wanted to phase in the arrangement from 2028 when directors would be elected for two years; it would not be until 2030 that directors would face annual re-election. While we recognised the company's intentions, we were surprised by the gradual pace of change given the conclusive outcome of the shareholder motion.

- **Evaluate the approach to governance reform:** The June 2025 AGM contained a shareholder proposal to reduce the ownership threshold to call a special meeting to 10% of outstanding common stock. This motion was also proposed by governance activist John Chevedden.

  Again, the shareholder motion is aligned with Jupiter's Voting and Company Dialogue Policy, whereby, in principle, we support measures that promote shareholder rights. However, it should be noted that in March 2025, the Board unilaterally moved to amend the by-laws so that a 30% ownership threshold is required to call a special meeting. This sets a more demanding condition for shareholders, so we were encouraged to vote in favour of the shareholder proposal. We viewed the company's earlier actions to be defensive.

- **Signal concern over pay alignment:** The company's compensation structures are aligned with best practice and did not raise any concerns from the proxy agencies. However, we had concerns about the selection of hurdles that governed the long-term incentive. We did not take issue with the hurdles on a technical level, but voted against, as the selection of metrics was tilted towards areas of the business that were more predictable. We felt the performance indicators should be adjusted to capture a more comprehensive and rounded performance test of management and, in time, be more fully aligned to the drivers of long-term shareholder returns.

About the engagement

We discussed each matter with the VP of Finance during a routine meeting, acknowledging the company's efforts to act upon shareholder concerns by reducing the ownership threshold to call a company meeting from 30% to 25%, while noting our views that this remains too high. We also recognise the management team's argument that the long-term incentive plan was intended to provide evidence of the direct incentive for management to diversify the end-market exposure of the wider business, in this case to include materially significant automotive sector revenue. Following our engagement, we expect future long-term incentive plans to reflect a more balanced performance of the business segments and expressed our support for this.

Outcome

While we fully appreciate the innovative and entrepreneurial qualities of the company and its management teams, we remain engaged as long-term supportive shareholders. Our stewardship focus continues to be discussion of matters we deem important to long-term-minded minority shareholders such as ourselves, and we will continue to use the combination of engagement and voting rights carefully, as the business progresses on a rapid growth trajectory and overall evolution.