

RESPONSIBLE INVESTMENT

# Voting Policy

This applies to centrally monitored holdings only. Your Investment Manager has the flexibility, within a controlled framework, to tailor your portfolio with regard to asset allocation and security selection, in order to accommodate your investment requirements.

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited 29 October 2024.



# Introduction

As a responsible investor, Quilter Cheviot is committed to its role as a steward of clients' assets to protect and enhance long-term returns. This encompasses our voting policies by considering environmental, social and governance (ESG) factors which could impact shareholder returns.

Quilter Cheviot aims to meet the challenges of a dynamic market environment to deliver the investment performance that provides its clients with the outcomes they require to meet their financial aspirations.

We are committed to using our resources to encourage companies and funds to improve their management of ESG issues.

We review this policy annually. This policy was updated in October 2024.

## Our voting approach

This policy outlines Quilter Cheviot's voting approach, in line with our commitments made to the UN-backed Principles for Responsible Investment (PRI), the UK Stewardship Code and the Shareholder Rights Directive II (SRD II). As responsible investors we use our voting activities to fulfil our role as a steward of our clients' assets, working to protect and enhance long-term returns.

Voting and engagement is part of our investment decision making process which is made in conjunction with the relevant research analyst.

We use ISS as our proxy voting service provider and have set a benchmark policy which ISS bases its recommendations on. We do not always follow ISS' recommendations, and we believe that this is the right approach as it is important that we do not adopt a mechanistic approach to engagement and voting. When we vote differently to ISS or vote against/abstain<sup>1</sup>, this is reviewed by the voting panel which comprises the Chief Investment Officer, Head of Equity Research/Head of Fund Research<sup>2</sup> and the Head of Responsible Investment.

Voting decisions are influenced by engagement and on occasion because of this interaction we may decide to deviate from ISS' policy recommendation. The extent of the engagement is dependent on the materiality of our holding.

### The voting universe is:

- Discretionary holdings within the global equity and investment trust monitored lists where we have voting rights.
- Discretionary holdings in UK listed companies which are IM (investment manager) led ideas where we own more than 0.2% or £2 million of the market cap.
- MPS (Managed Portfolio Service) Building Blocks
- Climate Assets Balanced Fund and Climate Assets Growth Fund
- Quilter Cheviot Global Income and Growth Fund for Charities
- Quilter Investors Ethical Fund
- AIM Portfolio Service
- Quilter Investors ICAV Funds
- Libero Balanced

We vote on 97% of the holdings<sup>3</sup> which have regular voting rights as voting decisions reflect our investment thesis. However, we may not place votes where we do not have a power of attorney in place, or the market/sub-custodian implements share blocking. We have a long tail of holdings which is unsurprising given the nature of our client base; we do not vote on every single position we have. The reason for this is simple: voting is aligned with engagement and therefore, while we could easily vote on every single holding globally, we would not engage on that scale in a meaningful way, and in some cases only one client may hold this position.

1 We only place abstention votes in exceptional cases, we prefer to vote in support of, or against an agenda item.

2 As applicable

3 As far as reasonably possible given the local regulations regarding share voting. Notably, we do not vote where it results in the blocking of trading positions. We also do not currently vote on discretionary holdings (within the global equity and investment trust monitored lists) where we do not have the power of attorney in place. These markets being Switzerland, Sweden, Belgium, Norway. Other infrequent instances of non-vote placement may include where Crest Depositary Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case-by-case basis.

The following standards have been referenced in the development of the Quilter Cheviot voting policy:

- UK Corporate Governance Code 2024
- Association of Investment Companies (AIC) Corporate Governance Code for Investment Companies
- Pensions and Lifetime Savings Association guidance
- FCA PS22/3: Diversity and inclusion on company boards and executive management
- The Investment Association's Remuneration Guidelines
- The European Women on Boards Directive
- National corporate governance codes where available.
- Securities and Exchange Commission (SEC) provisions and listing requirements.

Quilter was among the first group of investors to become signatories to the revised Stewardship Code in 2021 and has since retained its signatory status.

## Voting principles

The standards listed above inform our voting principles across our main voting markets, we also consider local market norms and regulations when determining how we will vote for.

At the Prosus 2024 AGM we did not follow ISS' recommendation to reject the share repurchase resolution. This was based on the limit exceeding 10% which is widely considered to be the acceptable limit. Prosus is a Dutch listed company, and the law in the Netherlands recently changed, increasing the limit to 50%, so therefore in this instance we supported the resolution as it was in keeping with local rules.

Specifically in the UK, there have been several changes to governance expectations over the last twelve months:

- The most recent version of the UK Corporate Governance Code (the Code) was released in January 2024 and will apply to financial years on or after 1 January 2025. Within the updated Code there is a new requirement which asks companies to detail malus and clawback<sup>4</sup> provisions in annual reports. This includes the circumstances in which these would be used, the applicable period and whether these provisions have been used in the reported year.
- In July 2024, the UK listing rules were updated by the FCA. As a result, the Code applies not just to premium listed companies but also to investment companies, which includes investment trusts.
- The updated Code states that, given the different structure of investment companies, they might wish to use the AIC's Corporate Governance Code to meet their obligations under the Code.

When we do not support management, we inform them of our voting decision. Where there is no response to requests for engagement or where there is no accessible contact address, the lack of shareholder transparency will help inform our final voting decision.

We use the following principles to guide how we vote on specific issues, although we may deviate from this on occasion. For example, where there are non-standard arrangements within a company, we will consider the efficacy of these before deciding.

## Environment

**Transition plans:** Where companies are responsible for materially significant emissions of carbon dioxide (or equivalent Green House Gases)<sup>5</sup> we expect to see appropriate management of climate related financial risks and transition planning. Transition plans<sup>6</sup> of investee holdings are a key tool for understanding the decarbonisation trajectories of our investment portfolios. We set the following expectations for company transition plans:

### Targets

- Short-term (pre-2035), long-term (2035-2050).
- Inclusive of material emissions<sup>7</sup>.
- Externally validated (i.e. by the Science Based Targets Initiative (SBTi)) where possible.

4 Incentive plans should include provisions that allow the company, in specified circumstances, to ensure that a recipient forfeits all or part of a bonus or long-term incentive award before it has vested and been paid – this is called 'malus' and/or pays back sums already paid – this is called 'clawback'.

5 We define 'materially significant' in line with the 'high impact' sectors defined in IIGCC's Net Zero Investment Framework (NZIF) 2.0.

6 These are variously referred to as Climate Action Plans, Transition Action Plans, Climate Transition Plans.

7 In line with CDP sector guidelines. (CDP Technical Note: Relevance of Scope 3 Categories by Sector).

## Disclosures

- Comprehensive emissions inventory (Scopes 1, 2 and 3), on a 'disclose or explain' basis.
- Report progress against targets at least annually.
- Climate risk scenario analysis in line with Task Force on Climate-Related Financial Disclosures (TCFD).

## Decarbonisation strategy

- Strategy outlining primary drivers of emissions and key levers to facilitate emissions reductions. This should include a clear trajectory of decarbonisation over time.
- Supply chain decarbonisation strategy – where Scope 3 emissions are material<sup>8</sup>. This should include details of supplier engagement programmes and other key levers to decarbonise the company's supply chain.

We may vote against members of the board where the company is not meeting these expectations or is not making sufficient progress towards these goals.

**Climate capability:** We expect boards to demonstrate capability in communications with investors and executive oversight. Where we feel this skill set is lacking, we may vote against the chair of the Nominations Committee. We support TCFD and see climate risk as an essential element of a company's annual disclosures.

**Climate change disclosures:** We may not support non-executive directors with sustainability responsibilities which operate in high impact sectors that have not made sufficient progress in providing investors with relevant climate disclosures (these include comprehensive emissions inventories, decarbonisation commitments and targets, and annual progress against targets).

**Climate lobbying:** We may not support the election of non-executive directors with sustainability responsibilities with relationships to industry associations that oppose efforts to transition to a low carbon economy. We will typically support well-structured and relevant shareholder resolutions calling for further transparency on lobbying and industry group alignment reviews.

**Natural capital:** We will typically support any resolutions that improve efforts to disclose adverse impacts on natural capital, specifically in relation to:

- **Biodiversity:** better company-level disclosure on biodiversity impact management and mitigation.
- **Water risk:** enhanced transparency around water usage and encourage relevant companies with exposure to this risk to submit disclosures to the CDP Water framework.
- **Deforestation:** enhanced transparency on operations in high-risk areas and exposure to supply chains where deforestation is a material risk. We encourage relevant companies to submit disclosures to the CDP Forests framework.

<sup>8</sup> As per SBTi standard, this is when Scope 3 emissions comprise at least 40% or more of a company's overall carbon emissions.

## Social

**Human rights standards:** We support the upholding of human rights global standards, including the UN Global Compact on Human Rights, which is focused on labour standards, environment, and business malpractice.

We may vote against the report and accounts or individual director elections where concerns have been identified. We will also typically support shareholder proposals relating to transparency on company performance in relation to human rights standards at both an entity and supply chain level.

**Diversity:** When assessing diversity on boards in the UK we follow the FCA guidance which takes into consideration the FTSE Women Leaders Review and the Parker Review:

1. At least 40% of the board are women.
2. At least one of the senior board positions is a woman: Chair, Chief Executive Officer (CEO), Senior Independent Director (SID) or Chief Financial Officer (CFO).
3. At least one member of the board is from a minority ethnic background<sup>9</sup>. We seek to apply these standards in other geographies where appropriate.

Additionally, we will typically vote against all directors with zero female board representation.

**Modern Slavery Act reporting:** We support the aims of the 2015 UK Modern Slavery Act and may vote against the report and accounts or individual director elections of companies that have not fulfilled reporting requirements.

**Shareholder resolutions:** We will generally support shareholder resolutions for better company-level disclosure on diversity matters, where the ask is not considered overly prescriptive.

**Social licence to operate:** We may vote against the report and accounts or individual director elections where concerns related to stakeholder management, cultural heritage, or community issues have been identified.

**Mandatory employee arbitration:** requires employees to agree to internal corporate arbitration procedures in the event of a dispute. Employees are bound by a decision that can favour employers and lack transparency. This is particularly prevalent in the US. We are typically supportive of shareholder resolutions limiting this practice and which call for additional transparency where this is in place.

## Governance

### Board

The board is collectively responsible for the long-term success of the company. The board must have sufficient independence allowing Non-Executive Directors (NEDs) to constructively challenge management, ensuring no single individual has unfettered powers of decision making. To ensure that the composition of the board is appropriate, there are a number of factors that we assess. This is an iterative process, for example in 2024 we undertook research looking at what 'independent' means in different geographies.

<sup>9</sup> Which is defined by reference to categories recommended by the Office for National Statistics (ONS).

**Board independence and tenure:** In the UK, the norm is to have a separation of the CEO and Chair roles. In the US, this is not always the case, therefore we will consider whether the board has a strong Lead Independent Director in place with well-defined responsibilities.

In the UK, the Code sets a maximum term of nine years for all NEDs, this is not the case in the US or Europe. For the US we consider directors with a tenure of more than 15 years as non-independent. We then assess the independence of the entire board, and if the number of non-independent directors exceeds 50%, we will withhold votes from the non-independent directors. We have identified the companies in our monitored universe that meet these requirements, and we have formally advised them of our position in writing.

Typically, within the EU, NEDs who serve over 12 years are considered to be non-independent, and in the majority of cases where less than 50% of the board is not independent, we will seek to express our disapproval by voting against the re-election of the non-independent NED and/or the chair of the Nominations Committee. The exception is Germany, given the high employee representation on boards. In this instance, the hurdle for independence is lower, at 30%. Many of these geographies do not have annual re-elections for all NEDs therefore we will only exercise votes against a specific NED when this is possible. While defined, our approach is not fixed and where board structure is weighted towards a family ownership style, we will assess this on a case-by-case basis.

**Board effectiveness:** Ahead of the election of a new director, we expect the information we receive to be both timely and detailed regarding their experience and skills.

We may vote against a NED where the number of roles and other commitments is considered excessive, to ensure that they have sufficient time to devote to the board. This is commonly known as over-boarding.

When there is a contested election of directors, we will consider whether we believe change is necessary, and if so, whether we believe the dissident board nominees are likely catalysts for positive change.

### **Smaller companies**

In September 2018, the London Stock Exchange amended the rules for companies listed on the AIM market meaning they are now required to apply a recognised corporate governance code and explain how this is implemented.

## **Remuneration (key principles)**

Executive pay should be aligned to the long-term strategy of the company and returns to shareholders with performance targets that are challenging but realistic. Therefore, moving the goal posts in terms of the re-testing of performance conditions or the re-pricing of share options is not something we would usually support. Increases in executive remuneration should be in line with those across the wider employee base. Remuneration has become increasingly complicated. Ultimately, the decision as to whether to support the remuneration policy is linked to whether we believe the executives are adding value for shareholders over the long-term.

To determine this, we will consider a number of factors including:

- Whether the approach to fixed remuneration is appropriate and the performance criteria for all elements of variable pay are clearly in line with the company's strategic aims. Additionally, the award levels for the variable pay components are capped.



- The quantum is reasonable when compared to peers, and any increase in the level of certainty of reward is accompanied by a material reduction in the size of awards.
- There are clear explanations for maximum awards being given for the LTIP (Long-Term Incentive Plan) and annual bonus.
- Contractual entitlements are reasonable and do not provide excessive payments in the event of termination.
- Shares granted or other types of long-term incentives should be subject to a vesting and holding period of at least five years.
- Annual bonuses should be set at an appropriate multiple of salary and should be capped. A bonus of 200% of base salary should only be for the largest global companies. If exceeded, we may consider voting against the remuneration policy.

**Remuneration (malus and clawback):** We will consider voting against a remuneration policy where the LTIP terms do not include change of control, good leaver, and malus/clawback provisions. In the case of the latter, local regulations and rules will inform our decision.

**Shareholding requirements:** We would expect that executives hold shares equivalent to a minimum of 200% of their base salary. For remuneration structures with high multiples of variable remuneration, we expect the share ownership requirements to raise accordingly. In the UK the shareholding requirement should apply for a period post-employment ideally for two years.

**Pensions:** We tend to vote against remuneration policies that do not follow UK Corporate Governance Code best practice when it comes to pension contributions. In the UK, the Code states that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. Outside of the UK guidelines differ and we follow best practice for each market.

**ESG metrics in executive remuneration:** We strongly support remuneration policies with the inclusion of relevant ESG metrics linked to variable pay (most notably carbon-reduction targets). We may not support remuneration policies that have not made sufficient progress in this area.

**Capital structure:** Changes to the capital structure may well impact shareholders' long-term interests if not considered carefully. Therefore, while we are generally supportive of companies managing their capital effectively, consideration will be given to the following factors:

UK:

- New issuance: we are supportive of companies issuing new capital provided it is not detrimental to existing shareholders. Therefore, we would expect the general issuance authority to not exceed one third of the issued share capital, or two thirds for a fully pre-emptive rights issue.
- Pre-emption rights: when new shares are issued, existing shareholders are usually given the opportunity to take these up (pre-emption rights) to avoid the dilution of existing shareholdings.
- Companies have the right to dis-apply these pre-emption rights, but we would expect this to be limited to 20% of the ordinary share capital in any one year.
- Share buybacks: we will support share buybacks provided they do not exceed more than 15% of issued ordinary share capital in any one year, and that the authority to do so is put before shareholders on a regular (usually annual) basis.

EU:

- New issuance: in general, we are supportive of companies issuing new capital if the share issuance periods are clearly disclosed. However, we defer to local market norms if they deviate from this broad stance.
- Pre-emption rights: when new shares are issued, existing shareholders are usually given the opportunity to take these up (pre-emption rights) to avoid the dilution of existing shareholdings.

US:

- New issuance: for companies listed solely on an US exchange, we generally support the issuance of common shares up to 20% of the ordinary share capital in any one year. The exception being early-stage companies where we are generally supportive of the issuance of common shares up to 50% of currently issued common share capital.
- Share buybacks: we vote on a case-by-case basis, considering the given rationale while also weighing the potential for the repurchase authority to be misused.

### **Auditor:**

UK & EU:

The role and the appointment of the auditor are central to good corporate governance. The auditor must maintain independence. Therefore, the length of tenure and the ratio of audit to non-audit fees are issues that must be addressed clearly. Where they are not (and adequate explanation is not given), we will consider voting against the chair of the Audit Committee and/or voting against the auditor's remuneration. Concerns regarding the auditor's procedures or a sudden (and unexplained) change in auditors will usually lead to us voting against the (re)appointment of the auditor. Where there are concerns about the accounts or audit procedures, an accounting fraud or a material misstatement in the year, we will consider whether or not to approve the financial statements and statutory reports. Where the tenure of the auditor exceeds ten years and there has not been a recent tender process, nor are there any plans for one, then we will consider voting against the Audit committee chair.

US:

In the US, the lead audit engagement partner is required to rotate every five years, however there is no set term limit for the audit firm.

**Threshold to call a special meeting:** This is particularly pertinent in the US. We will usually support shareholder resolutions that look to reduce the threshold to call special meetings where there is either no current ability to do so, or the threshold sits above 50%. In each instance we are aware that a balance is required to ensure management resources are being utilised effectively, large shareholdings are considered, and that the proposals put forward an appropriate ownership level.

**Virtual only meetings:** We will not be supportive of management calls to mandate virtual only meetings. Many companies already operate hybrid general meeting models, but we believe opportunity for direct communication with the board (facilitated by in-person meetings) is critical.

**Classified boards:** A classified board is one that elects a percentage of directors each year rather than all directors being put up for annual election. We are typically supportive of proposals to declassify boards and believe the annual election of board members promotes shareholder accountability.

**Proxy access rights:** In the US, proxy access proposals typically request a company change its bylaws to allow a qualifying shareholder (or group of shareholders) to nominate up to two directors.

Although we will review all proposals on a case-by-case basis, we will typically be supportive of proposals to grant proxy access where appropriate holding periods and ownership thresholds are set. Our threshold expectation would be a minimum existing holding period of three years of 3% of share issuance by qualifying shareholders.

## **Investment trusts**

The governance structure of an investment trust is slightly different to that of a listed company and as such, the Association of Investment Companies' (AIC) Code has adapted the UK Corporate Governance Code. These differences are reflected in our voting principles. Interaction with the board and our knowledge of the investment trust takes precedence. Again, this is a principle-based approach.

We support the AIC Code recommendations that directors annually review the performance and contractual arrangements independent of the manager. We will generally support continuation votes. However, where a special meeting is called owing to discount mechanisms being triggered, we will review this on a company-specific basis.

We expect a board to be independent, diverse and have the right skillset. Regarding independence there are two areas of primary focus: first, we do not believe it is acceptable for an investment trust to have a board member who has been appointed or is employed by the investment adviser. We also consider shareholder representatives to be non-independent.

Second, we believe that tenure does impede independence, hence we expect boards to adhere to the nine-year rule unless there are mitigating circumstances. We expect boards to be diverse and to meet the FCA diversity targets. The board's skillset should be appropriate to challenge and support the investment adviser as well as representing shareholders.

When issues regarding independence or tenure arise, we provide the board with written notice that we intend to vote against the concerned director. Typically, we allow the board a minimum of 12 months to implement the necessary changes, though this period can be shortened if we have pressing concerns regarding the board.

## **Reporting**

As a signatory to the UN-backed Principles for Responsible Investment, we have made a commitment to transparency and recognise its importance in creating higher standards, not only for responsible investment practices but also for the wider financial market. From June 2020, we have disclosed all the votes within our voting universe cast on behalf of discretionary clients. We have classified all votes that are enacted within our voting universe to be significant. We do not disclose client-instructed voting publicly. We disclose engagements with all companies and funds on a quarterly basis. In some (rare) cases, we may choose not to name the company or the fund in question if we believe doing so is likely to prove counterproductive to our engagement process. Voting reports are available on our website and on request.



# QUILTER CHEVIOT

## SPECIALISTS IN INVESTMENT MANAGEMENT

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