



VOTING POLICY

RESPONSIBLE INVESTMENT AT QUILTER CHEVIOT



QUILTER CHEVIOT
INVESTMENT MANAGEMENT

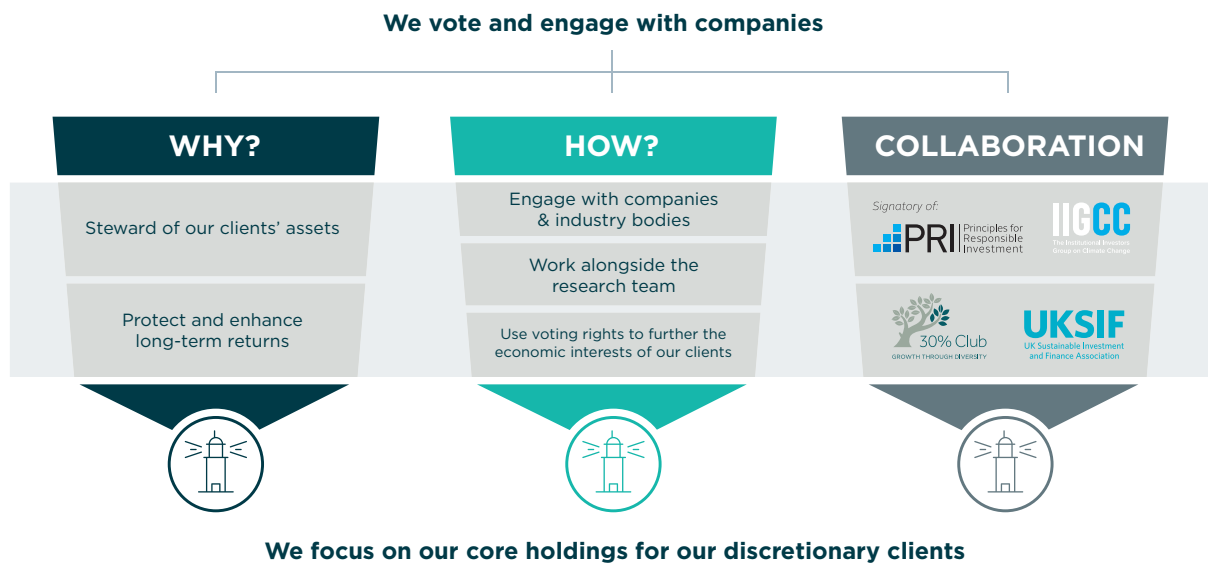
This policy outlines Quilter Cheviot’s voting approach, in line with our commitments made to the UN-supported Principles for Responsible Investment (PRI), the UK Stewardship Code and Shareholder Rights Directive II (SRD II). As responsible investors we use our voting activities to fulfil our role as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

Voting and engagement is part of our investment process, therefore all decisions are 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 this is reviewed by the voting panel which comprises the Chief Investment Strategist, Chief Investment Officer, Head of Equity/Fund Research, and the Director of Responsible Investment.

We will vote differently to recommendations made by ISS where we have engaged with the company (either previously or as a result of the voting recommendation) and have determined that a different course of action is justified given that interaction.

We vote on our UK, European and US equity and investment trust positions – this includes the monitored equity lists, the monitored investment trust lists, the AIM portfolio service, MPS Building Blocks and where we own more than 0.2% or £2 million of a holding in the UK. We have a long tail of holdings which is unsurprising given the nature of our client base; we do not intend at this stage to vote on every single position we have. The reasoning for this is simple: voting must happen alongside engagement and therefore, whilst we could easily vote on every single holding globally, we would not engage on that scale in a meaningful way, and in some cases the position will only be held by one client.

Stewardship = Active Ownership



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

- UK Corporate Governance Code 2018
- AIC Corporate Governance Code for Investment Companies
- Pensions and Lifetime Savings Association guidance

We are also pleased to confirm that we are among the first group of investors to become signatories to the revised 2020 UK Stewardship Code.



Voting Principles

In determining our voting principles we use ISS' policy for the UK and Ireland. This is broadly consistent with that of the Pension & Lifetime Savings Association (PLSA) as well as good practice within the market.

Voting decisions are a reflection of our investment thesis, and we have dedicated equity and fund research teams who meet with the companies we invest in on a regular basis; as well as monitoring them on an on-going basis. We use the following principles to guide how we vote, 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 making a decision.

The most recent version of the UK Corporate Governance Code (the Code) was released in July 2018. Companies have to report in line with this on a comply or explain basis. Within this there was a welcome new provision regarding shareholder dissent. In future, where a company has received 20% or more votes against a board recommended resolution it should:

- As part of the voting results announcement, provide details of how it intends to engage with shareholders to understand the rationale behind the dissent
- Provide a final summary in the annual report on what impact the engagement with shareholders has had on the board's decision making. If applicable, explanatory notes should be included with the resolutions at the next shareholder meeting

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

The following provides a guide to how we typically vote in relation to specific topics:

Environment

- **Climate Capability:** We expect boards to be able to demonstrate capability in communications with investors and executive oversight. Where we feel the skill-set is lacking we may vote against the Chair of the Nominations Committee. We support the FSB Taskforce on Climate Related Financial Disclosures (TCFD) and see climate risk as an important consideration in our long-term valuation of a company.
- **Climate Change Disclosures:** We may not support the report and accounts of companies or election of directors with sustainability responsibilities (Chair of board or Chair of Sustainability Committee or equivalent) which operate in highly carbon emitting sectors that have not made sufficient progress in providing investors with relevant climate disclosures (including publishing net zero commitments and interim reduction targets).
- **Climate Lobbying:** We may not support the report and accounts of companies or election of directors with sustainability responsibilities (Chair of Board or Chair of Sustainability Committee or equivalent) with relationships to industry associations that are oppositional to efforts to transition to a low carbon economy – where they are not recognised and engaged upon.
- **Biodiversity:** We will generally support any resolutions for better company-level disclosure on biodiversity matters and efforts to disclose adverse impacts on natural capital.
- **Climate shareholders resolutions:** We will generally support shareholder resolutions for better company-level disclosure and more detailed interim target reporting on climate metrics, especially if in line with the Paris Climate Agreement.
- **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 made sufficient progress in this area.



Social

- **Human rights standards:** We support the upholding of human rights global standards – including the UN Global Compact on Human Rights, Labour Standards, Environment and Business Malpractice. We may vote against the report and accounts or individual director elections where concerns have been identified.
- **COVID-19:** Generally speaking, we will not support remuneration policies that propose pay increases for a company that has utilised significant government support or furloughing/redundancy schemes. We believe companies should endeavour to align the experience of the executive with the wider workforce during this time.
- **Diversity:** The Parker Review, which is focused on ethnic minority representation on boards, has set a target of ‘one by 2021’ for FTSE 100 companies and ‘one by 24’ for FTSE 250 companies. We monitor and engage with companies in this area, and are firmly of the view that ‘one and done’ is not an acceptable approach to this. If the company is a constituent of the FTSE 350 and the board does not have at least 30% women on the board (in line with recommendation of the Hampton-Alexander review), this is a red flag, and we may vote against the chair of the remuneration committee. We will also review this for all other markets and smaller companies.
- **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.
- **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.

Governance

- **Board:** The board is collectively responsible for the long-term success of the company. The board has to have sufficient independence as Non-Executive Directors (NEDs) should constructively challenge management and no one individual should have unfettered powers of decision making. In order to ensure that the composition of the board is appropriate there are a number of factors that we assess.
- **Board independence:** The appointment of a former CEO as Chairman would be contentious, unless there was a reasoned rationale for this, likewise for the roles of Chairman and CEO not being separated. The ratio of independent to non-independent NEDs and the composition of different committees (this will vary depending on whether the company is in the FTSE 350 or not).
- **Board effectiveness:** The information we receive ahead of the election of a new director we expect to be both timely and detailed regarding their experience and skills.
 - We may vote against a director where the number of roles and other commitments that a NED may have is considered excessive, in order to ensure that all NEDs have sufficient time to devote to the board.
 - When there is a contested election of directors we will make the assessment based on whether we believe change is necessary, and if so, whether we believe the dissident board nominees are likely catalysts for positive change. We will also take into consideration the Financial Reporting Council’s consultation regarding the Code which recommends that NEDs (including chairperson) should have a maximum tenure of nine years. In most cases we will not look upon this favourably unless there are extenuating circumstances (e.g. to ensure a smooth transition period or hiring complications).



- **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 on 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):** Where the LTIP terms do not include change of control, good leaver and malus / clawback provisions we will consider voting against the remuneration policy.
- **Shareholding requirements:** We would expect that executives hold shares equivalent to a minimum of 200% of their base salary.
- **Pensions:** We tend to vote against remuneration policies that do not follow UK Corporate Governance Code best practice when it comes to pension contributions. The Code states that the pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce.
- **Capital Structure:** Changes to the capital structure may well impact shareholders' long-term interests if not considered carefully. Therefore whilst we are generally supportive of companies managing their capital effectively, consideration will be given to the following factors:

 - New issuance: we are supportive of companies issuing new capital as long as 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. For investment companies we support the AIC guidance (October 2017) regarding the issuance of new shares
 - Pre-emption rights: when new shares are issued usually existing shareholders are given the opportunity to take these up (pre-emption rights), in order 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 5% of the ordinary share capital in any one year
 - Share buybacks: we will support share buybacks as long as 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.



- **Auditor:** 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 which must be addressed clearly. Where they are not (and adequate explanation is not given) then we will consider voting against the chairman 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 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 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 plans for this, then we will consider voting against the audit committee chair.

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; therefore this is again a principle-based approach. We support the AIC Code recommendations that the performance and contractual arrangements are reviewed annually by directors independent of the manager; and additionally that the board of an investment company is fully independent of the firm providing fund management services. 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.

Smaller Companies

Long-term shareholder returns remain our determinant in how we vote; however there are two key differences in the approach we take to smaller companies:

- We will generally support a smaller company to have the right to dis-apply pre-emption rights and the routine authority to do so should be limited to 10% of the ordinary share capital in any one year
- The ratio of independent to non-independent members on different committees

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 publicity is likely to prove counterproductive to our engagement process. Undertaking potentially sensitive engagement in public may lead to a defensive reaction and entrench views of company management. Voting reports are available on our website and also on request.





Investors should remember that the value of investments, and the income from them,
can go down as well as up. Investors may not recover what they invest.
Past performance is no guarantee of future results.

Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB, England. Quilter Cheviot Limited is a member of the London Stock Exchange; is authorised and regulated by the UK Financial Conduct Authority; has established a branch in Jersey and is regulated under the Financial Services (Jersey) Law 1998 by the Jersey Financial Services Commission for the conduct of investment business in Jersey and by the Guernsey Financial Services Commission under the Protection of Investors (Bailiwick of Guernsey) Law, 1987 to carry on investment business in the Bailiwick of Guernsey. Accordingly, in some respects the regulatory system that applies will be different from that of the United Kingdom.



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