

RESPONSIBLE INVESTMENT

# Voting Policy

SPECIALISTS IN INVESTMENT MANAGEMENT

Approver: Quilter Cheviot Limited 30 November 2023.

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 Head 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 global equity and investment trust positions\*, this includes the monitored equity lists, the monitored investment trust list, our AIM portfolio service, MPS Building Blocks, funds managed by Quilter Cheviot\*\* and where we own more than 0.2% or £2 million of a holding in the UK. This represents around 95% assets we hold which have voting rights. Voting is undertaken alongside engagement; the extent of the engagement will be dependent on the materiality of our holding.

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 reason for this is simple: voting must happen alongside 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 the position will only be held by one client

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
- FTSE Women Leaders Review (formerly Hampton-Alexander)
- Parker Review

We were among the first group of investors to become signatories to the revised Stewardship Code in 2021 and have retained signatory status in 2022.



We review this policy annually. This policy was updated in September 2023.

\*As far as reasonably possible given the local regulations regarding share voting. Other infrequent instances of non-vote placement may include where Crest Depository Interests (CDIs), ADRs or GDRs are held. Ability to vote on these holdings differs on a case by case basis.

\*\*Climate Assets Balanced Fund and Climate Assets Growth Fund; Quilter Cheviot Global Income and Growth Fund for Charities; Quilter Investors Ethical Fund; Libero Balanced

## 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 that meet with the companies we invest in on a regular basis; as well as monitoring them on an ongoing 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.

When a vote is executed, we will contact the company to inform them of our voting decision. Where a company or fund does not respond to requests for engagement or does not have an accessible contact address we will take into account the lack of shareholder transparency in our final voting decision. The following provides a guide to how we typically vote in relation to specific topics:

## Environment

- **Transition plan:** Where companies are responsible for material emissions of carbon dioxide (or equivalent GHGs) we expect to see appropriate management of climate related financial risks and transition planning. Transition plans of investee holdings are a key tool for understanding the de-carbonisation trajectories of our investment portfolios. We expect companies to have a transition plan that commits to reducing emissions to net zero by 2050 or sooner and covers all relevant business areas and all material GHG emission scopes (1, 2, and 3). We expect this plan to set short, medium and long term targets aligned with the relevant emission pathway. We expect high quality disclosure of emissions specifying scope 1, 2 and 3 (breaking out material scope 3 categories) which enables investors to track underlying de-carbonisation progress against targets. We also expect companies to disclose and quantify the principal actions it will take to deliver the GHG emissions targets, for example setting out capital expenditure plans. We may vote against the board of companies that are not meeting these expectations or are 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 the skill-set is lacking we may vote against the Chair of the Nominations Committee. We support the Financial Stability Board's 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. We will typically support well structured and relevant shareholder resolutions calling for further transparency on lobbying.
- **Natural capital:** We will typically support any resolutions that improve efforts to disclose adverse impacts on natural capital, specifically in relation to:
  - Biodiversity: We will generally support any resolutions for better company-level disclosure on biodiversity impact management and mitigation.
  - Water risk: We will typically support resolutions that enhance transparency around water usage and encourage companies to submit disclosures to the CDP Water framework.
  - Deforestation: Similarly, we will generally support resolutions that enhance transparency on operations in high-risk areas and exposure to supply chains where deforestation is a material risk. Again, we encourage companies to submit disclosures to the CDP Forests framework.
- **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. We will also typically support shareholder resolution that enhanced transparency on company performance in relation to human rights standards at both an entity and supply chain level.
- **Covid-19:** Generally speaking, we will not support remuneration policies that propose pay increases for a company that has used 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.
- **Racial diversity:** The Parker Review, which is focused on ethnic minority representation on boards, has set a target of 'one by 2021' for the 100 largest companies in the UK and 'one by 24' for the largest 250 companies in the UK. 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. We will typically support shareholder resolutions that enhance company performance on racial diversity transparency and auditing.
- **Gender diversity:** If the company is one of the largest 350 companies in the UK and the board does not have at least 30% women on the board (in line with the recommendations of the Hampton-Alexander review), this is a red flag, and we will typically vote against the chair of the nomination committee. We would look to apply these standards in other geographies where appropriate.
  - All male boards: 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.

- **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 (US focus):** We are typically supportive of shareholder resolutions limiting this practice and calling for additional transparency where present. Mandatory 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.

## Governance

- **Board:** The board is collectively responsible for the long-term success of the company. The board must have sufficient independence as Non-Executive Directors (NEDs) should constructively challenge management and no single individual should have unfettered powers of decision making. 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 size of the company).
- **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 director where the number of roles and other commitments that a NED may have is considered excessive, 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, while 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 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. For investment companies, we support the AIC guidance (October 2017) regarding the issuance of new shares.
  - 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 5% 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.
- **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 that 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 plans for this, then we will consider voting against the audit committee chair.
- **Threshold to call a special meeting (US focus):** Threshold to call a special meeting (US focus): We will typically support shareholder resolutions that look to reduce the threshold to call special meetings where there is either no current ability 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 the proposals generally 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.

- **Independent Board Chair:** We are supportive of a separation of board Chair and CEO positions. Separated roles are more common in markets like the UK but combined positions are more often seen in the US. Where a combine CEO/Chair role is present we may not support a shareholder resolution calling for distinct roles if the company can demonstrate a robust Lead Independent Director is in situ. This role should have well defined responsibilities.
- **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 (US focus):** 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. We see a group representing 3% of share issuance with qualifying shareholders having held the company's shares for a minimum of three years as a good benchmark.

## 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 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 determine how we vote, but 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 the views of company management. Voting reports are available on our website and also on request.



QUILTER CHEVIOT

SPECIALISTS IN INVESTMENT MANAGEMENT

**This is a marketing communication and is not independent investment research. Financial Instruments referred to are not subject to a prohibition on dealing ahead of the dissemination of marketing communications. Any reference to any securities or instruments is not a recommendation and should not be regarded as a solicitation or an offer to buy or sell any securities or instruments mentioned in it. Investors should remember that the value of investments, and the income from them, can go down as well as up and that past performance is no guarantee of future returns. You may not recover what you invest. All images in this document are sourced from iStock.**

Quilter Cheviot and Quilter Cheviot Investment Management are trading names of Quilter Cheviot Limited, Quilter Cheviot International Limited and Quilter Cheviot Europe Limited.

Quilter Cheviot Limited is registered in England with number 01923571, registered office at Senator House, 85 Queen Victoria Street, London, EC4V 4AB. Quilter Cheviot Limited is a member of the London Stock Exchange, authorised and regulated by the UK Financial Conduct Authority and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

Quilter Cheviot Limited has established a branch in the Dubai International Financial Centre (DIFC) with number 2084 which is regulated by the Dubai Financial Services Authority. Promotions of financial information made by Quilter Cheviot DIFC are carried out on behalf of its group entities. Accordingly, in some respects the regulatory system that applies will be different from that of the United Kingdom.

Quilter Cheviot International Limited is registered in Jersey with number 128676, registered office at 3rd Floor, Windward House, La Route de la Liberation, St Helier, JE1 1QJ, Jersey and is regulated by the Jersey Financial Services Commission and as an approved Financial Services Provider by the Financial Sector Conduct Authority in South Africa.

Quilter Cheviot Europe Limited is regulated by the Central Bank of Ireland, and is registered in Ireland with number 643307, registered office at Hambleden House, 19-26 Lower Pembroke Street, Dublin D02 WV96.