Voting policy global 2021

Last revised in March 2021

ROYAL LONDON
ASSET MANAGEMENT

Contents

Indicates a voting outcome

1 Introduction

This document outlines our approach to proxy voting for global markets, excluding the UK. This document should be read in conjunction with our UK Voting Policy, which is available on our website.

Royal London Asset Management (RLAM) is dedicated to encouraging long-term wealth creation within the companies we invest for the benefit of both the shareholders and the company. Corporate governance is of central importance in creating and protecting shareholder value, and plays a pivotal role in ensuring companies are in good standing with their stakeholders. In keeping with our commitment to the UK Stewardship Code and United Nations Principles for Responsible Investment (UNPRI), we believe it is the responsibility of institutional investors to act as owners of the companies in which they invest and will seek to maximise value from its investments by using its influence as a shareholder. We do this through engagement and the use of voting rights to promote good corporate governance in investee companies. RLAM regards voting in a responsible, informed and consistent manner to be a fiduciary duty of institutional investors.

In developing and applying its engagement and voting policy in global markets, RLAM will take account of the provisions of the newly updated UK Corporate Governance Code as well as regional governance codes and best practice. RLAM will apply discretion and have due regard for the particular circumstances of an investee company, whilst vigorously pursuing the interests of its customers and clients. RLAM recognises that best practice can and often does develop ahead of code provisions and will vote to encourage companies to adopt best practice.

We aim to vote all our actively held shares globally unless impracticable due to local market conditions, such as share blocking or local power of attorney requirements. We may still vote in these markets if the expected benefit of voting outweighs any reduction in liquidity.

We lend stock on a number of our funds. We have an automated stock recall process in place and will make all reasonable efforts to recall stock in advance of a vote, ensuring that we are exercising our full voting power at a meeting.

2 Governance monitoring and engagement

We recognise that engagement with companies located outside of the UK presents certain challenges. We believe companies should be ready, where practicable, to enter into dialogue with institutional shareholders based on the mutual understanding of objectives.

Where we have concerns about environmental, social and governance (ESG) issues as well as strategy and performance, we will seek to engage with management and non-executive directors where practical. We will also participate in collaborative company meetings with other shareholders. This can be useful in ensuring that the company is aware of the seriousness of the situation and that ESG concerns are shared by several investors. For more information on our approach to stewardship and company engagement, please refer to our Stewardship and responsible investment report 2021.

In cases where a board is not responsive to engagement, RLAM will consider further active involvement where appropriate, including:

- Meeting directors, including non-executives
- Making joint representations with other institutions
- Using its voting power to oppose the board
- Making public statements
- Submitting resolutions at general meetings
- Working with other investors to requisition an extraordinary general meeting (EGM).

3 Voting procedures

3.1 Voting decisions

To ensure consistency, all voting decisions on our actively held stocks are implemented centrally by our Responsible Investment Team. The Responsible Investment Team interpret our policy and implement our voting decisions using a third party web platform. All decisions are made in consultation and collaboration with our fund managers, who are notified of all final voting decisions made for stocks held within their funds. Fund managers have the opportunity to raise questions or challenge votes before they are dispatched. Contentious votes are escalated to our Head of Equities or Chief Investment Officer who makes the final voting decision.

3.2 Transparency

RLAM considers that transparency is a necessary feature of responsible shareholding. RLAM discloses details of its votes on its website (www.rlam-voting.co.uk/voting/), giving brief explanations for instances where we have not supported management.

4 Our approach to voting

RLAM will seek to support the board of a company that acts in the long-term interests of shareholders and other stakeholders. In general RLAM will vote as follows:

FOR

- A resolution that is consistent with these guidelines, accords with best practice, and is in shareholders' best long-term interests.

ABSTAIN

- A resolution falls short of best practice, but the issue is not sufficiently material to oppose management; or
- A matter is material, although not fundamental, and RLAM has not previously raised the matter with the company; or
- As a means of warning a company or drawing attention to an issue. We may choose to abstain on an issue before voting against the board in an effort to raise our concerns with the board.

AGAINST

- A resolution is inconsistent with these guidelines, does not accord with best practice, or is not in shareholders' long-term interests; or
- A resolution on which we have previously abstained where we have reason to believe our concerns have not been addressed by the board.

RLAM prefers to send a clear message to the board and therefore will minimise the use of abstentions where possible. We do however view the use of abstentions (market permitting) as beneficial in signalling our initial concerns with a company and starting a dialogue with the board to seek further improvements.

5 General voting guidelines

This section sets out our general approach to voting in global markets. However, we acknowledge that best practice may differ in some markets, and have therefore set out some market-specific guidelines in section 6 below.

5.1 Board composition

Companies should have a board that has the appropriate skills and experience and be broadly independent and free from conflicts of interest.

We will consider voting against the election of directors if:

- The chairman is not independent or serves as both the Chair and as an executive.
- There is a classified board or directors do not stand for election every year (large-cap companies only).
- There are serious concerns regarding the balance of independent directors on the board.
- In the case of a unitary board structure, there is not a majority of independent directors on the board.
- In the case of two-tier boards, if the supervisory board is not fully independent.
- There are persistent attendance concerns without a legitimate explanation.
- Directors are considered 'overboarded'. For example, non-executives who serve on more than five boards, or executives with more than one additional non-executive position.
- There is evidence of an entrenched board (more than half the board has served for more than 15 years).
- Executives sit on the audit or remuneration committees.
- The controlling shareholder/family (or their representatives) hold a disproportionate number of board seats relative to their shareholding.

5.2 Diversity

We believe in merit and that it is essential that non-executive and executive candidates are chosen on the basis of their overall competence and ability to effectively enhance the performance of the company. We also believe that diversity of individuals, whether of gender, ethnic origin, nationality, professional background, experience or other factors, are valid aspects in considering an individual's potential contribution to the Board.

When assessing the Board's diversity balance, RLAM will have due regard for local regulations and/or best practice.

RLAM may abstain or vote against the Nomination Committee Chair if the company does not have sufficient gender diversity level on the board, as required by the applicable market specific legal requirements or best practice. If the board does not include at least one female director, we will vote against the re-election of the chair of the nomination committee.

5.3 Shareholder rights

Companies should abide by the one share-one vote principle, provide an acceptable level of protection for shareholders and be willing to engage with shareholders where concerns arise.

- We will support shareholder-proposed resolutions that seek improvements to shareholder rights, including the ability of shareholders to call a special meeting and nominate directors to the board.
- We will review shareholder rights plans on a case-by-case basis and will only approve plans that ensure shareholders receive a fair price.
- We will not support shareholder rights plans that provide management with undue protections at the expense of independent shareholders' interests.

We will consider voting against management-proposed resolutions if:

- There is a dual class share structure with inequitable voting rights (except where this is required by law)
- There is limited protection of shareholder rights (for example through country of incorporation or corporate structures such as variable interest entities (VIEs))
- There is evidence that the board is unresponsive to shareholder engagement (such as consistently high votes against management or other shareholder rights controversies)
- The board proposes 'any other business' resolutions or amendments to company by-laws to allow 'casting votes' or second votes to decide the outcome of tied votes.

5.4 Virtual shareholder meetings

RLAM agrees with the need for flexibility when it comes to the format of general meetings of shareholders, especially in exceptional circumstances where attendance in person might not always be possible. We therefore welcome the option for hybrid meetings where shareholders have the option to attend either in person or virtually. RLAM does however also believe that physical meetings help preserve the rights of shareholders to engage with management and hold them to account, and should always be held when possible.

RLAM will oppose requests for virtual-only meetings unless in the most exceptional circumstances.

RLAM may consider voting against the Chair of the Board in situations where we consider the virtual-only format to be used necessarily to the detriment of shareholders.

5.5 Remuneration

Companies should provide a competitive yet fair level of remuneration for executives that is tied to long-term financial performance. RLAM will be supportive of remuneration practices that incentivise directors by relating pay to long-term value creation for shareholders.

We acknowledge that successful and profitable companies should consider their impact, both positive and negative, on other stakeholders including employees, suppliers, customers and others. As such, this should be considered within the company's approach to remuneration.

When assessing remuneration we will consider the following:

- Is it aligned with long-term value creation for shareholders and the best interests of the company and its stakeholders?
- Is there a high degree of transparency around incentives and performance conditions?
- Is the overall package reasonable (relative to the particular circumstances of the company) in its design, potential and outcome?

We will consider voting against remuneration resolutions if:

- The board has applied discretion to increase or adjust remuneration without sufficient justification.
- The company has used golden hellos or golden parachutes.
- The quantum of awards is not sufficiently justified by performance.
- The vesting period for long-term incentive awards is less than three years.
- Long-term incentive awards are not subject to performance measurement other than share price.
- Executive shareholdings are not sufficiently material to align them with the interests of shareholders.
- There is a history of high votes against pay in previous years and the board has not addressed shareholder concerns.
- Poor disclosure does not allow us to make an informed assessment of pay practices.
- Ignore material and important stakeholders

5.6 Audit and control

Companies should maintain a robust audit function and maintain appropriate oversight of the financial accounts.

We will consider voting against the report and accounts and/or against the auditors if:

- There is a qualified audit opinion and there is insufficient explanation.
- There are questionable related party transactions.
- There are high non-audit fees.
- We have concerns about the independence of the auditors.
- The company has not published a full set of audited accounts prior to the shareholder meeting.

5.7 Climate risk

RLAM expects all companies to assess and address their respective risks, liabilities and opportunities around climate change, whether these are physical, financial and/or reputational. We believe proactive engagement with companies is the most effective tool for helping address material risks from climate change. For example, we are active members of the Climate Action 100+ (CA100+) initiative[1], which is engaging with the world's largest and most systemically important emitters of carbon.

However, we acknowledge that there are occasions where we may need to use our vote as shareholders where engagement has not been effective or where climate change is a material risk to the business. We encourage companies to issue TCFD[2] reports and other public disclosures regarding their climate risks. We will use our vote on shareholder proposals to support and encourage greater disclosure on climate risk.

RLAM may abstain or vote against the chair of the board where climate change is a material risk to the business and where we believe engagement has not been effective.

RLAM will vote for shareholder proposals requesting companies to disclose material climate-related information on their climate risks, or requesting companies to produce a TCFD report. RLAM will also support shareholder proposals at the CA100+ companies where we consider the proposal to be reasonable, in the best long-term interests of the company, and not overly prescriptive in nature.

5.8 Principal adverse impacts (ESG risks)

In line with our obligation as an Asset Manager to consider the principal adverse impacts of our investments, RLAM equally expects investee companies to acknowledge and address their most material negative impacts whether these are financial, social, environmental or governance-related.

Topics covered by this include, but are not limited to:

- Climate change – comprising GHG emissions, carbon footprint management, TCFD reporting, Just Transition planning, fossil fuel exposure etc.
- Circular economy – the reuse and/or management of waste water, hazardous waste, raw material consumption, chemical waste and other potential pollutants.
- Biodiversity – activities such as deforestation that may negatively impact the local biodiversity, particularly associated with sites or operations located in areas with sensitive or fragile ecosystems.
- Environmental impacts – including issues such as food waste, fleet management, emissions, spillages, single-use plastics and animal testing.
- Human rights – the absence of an approach to modern slavery, exposure to child labour, adverse human rights impacts and indigenous rights.
- Employee rights – health and safety management, accident and/or fatalities rates, whistle-blower and discrimination protection and income inequality.
- Business ethics – corruption, bribery, problematic approaches to tax and exposure to controversial weapons.

Not all companies will be impacted by all risks. We expect and accept the need for the approach to these topics to be proportionate, taking into account the risk and exposure of the company. Where possible we will seek to engage with companies on these topics to drive change,

but should engagement be ineffective or not possible, RLAM will use both our and the companies' principal adverse impacts to inform the way we use our vote.

Votes will be assessed on a case by case basis taking into account the severity of the issue, the Company's track record and approach, and the materiality to both the company and the affected parties.

RLAM may abstain or vote against the Chair of the Board where there is a material risk and we believe there is insufficient reporting and/or progress on remediation.

RLAM will support shareholder proposals requesting companies to disclose material information on their risks and/or impacts. While RLAM believes companies themselves are best placed to develop specific targets, we may support shareholder resolutions asking for companies to develop their own targets in the event that they have not made sufficient progress.

MARKET SPECIFIC GUIDELINES

6 USA and Canada

6.1 Introduction

The USA and Canada are similar in many aspects of their approach to corporate governance; as such the principles outlined below can be applied to both markets, with a few minor exceptions.

Regulation in the USA is provided at a federal level by the Securities and Exchange Commission (SEC), with further guidance provided by NASDAQ and the New York Stock Exchange. The USA operates a 'rules-based' approach to governance, with best practice outlined and promoted by the Council of Institutional Investors (CII).

In Canada regulation is not governed federally, instead at the territory or province level. The Ontario Securities Commission, responsible for the regulation of the Toronto Stock Exchange; provides the standard that most other regulatory bodies will follow. Best practice is promoted by the Canadian Coalition for Good Governance (CCGG).

Governance follows a 'principles-based' approach, where Companies are required to outline their response and efforts to comply with these principles.

6.2 Executive compensation

Executive compensation should be designed to promote the long-term success of the company. It is the responsibility of the compensation committee to ensure that compensation is adequate in the market context but not excessive, tied directly to the performance of the company and that the policy is tailored to work for the specific circumstances of that company.

Compensation in the US is markedly higher than that in any other market. We are not, in principle, opposed to high levels of pay, provided that they are warranted and can be linked to exceptional performance on behalf of the company and all stakeholders.

We acknowledge that pay schemes in the US and Canada are typically comprised of a combination of performance shares, stock options and restricted stock units (RSUs). We encourage the use of straightforward, performance-linked incentive schemes awarded over the long-term, that can be understood by shareholders, employees and executives alike.

RLAM will normally vote against a compensation report proposal where:

- There are favourable change-in-control terms such as a single trigger for accelerated vesting of awards or high payouts of base pay, bonuses and benefits on a takeover.
- Excessive cash severance, tax gross-ups or excessive or inappropriate benefits and perquisites are provided.
- For example excessive use of private corporate jets, covering directors' personal tax liabilities on vesting shares in the event of a takeover or merger etc.
- Pay plans that allow for excessive dilution (typically dilution should be below 10%) or plans that allow for automatic replenishment of shares or reloading of expired stock options.
- Less than 50% of long-term incentives are performance based or with less than a minimum three year vesting period. We may support RSUs or stock options as part of the overall compensation package, but will review these on a case-by-case basis.
- Omnibus compensation schemes, which bundle multiple types of company compensation into one vote, if any aspects of the schemes do not meet our voting guidelines.
- NEDs receive share options and/or have the ability to influence decisions about the level of variable awards they receive. We would consider modest restricted shares for NEDs to be acceptable in this market, however strongly oppose the granting of any award that may be linked to performance as this would directly impact their independence.
- The company has failed to disclose any details of the performance targets used under the incentive plans.

6.3 Say-on-pay frequency

Shareholders at US companies can vote on the frequency at which companies put their compensation report to a shareholder vote; either every one, two or three years. These compensation votes are not binding but only advisory in nature; there is no binding vote on compensation in the USA.

RLAM will support annual say-on-pay votes.

6.4 One-off awards

Exceptional or one-off awards are prevalent in the market. We fundamentally disagree with the concept of granting executives additional awards outside of the applicable compensation plan. The reasons cited by companies for these awards are often retention purposes, promotions, acquisitions or disposals, or can often be undisclosed. If a compensation plan is not adequately addressing the needs of the business, we believe the plan should be changed and awards granted via the performance-based incentive structure, rather than continued granting of one-off awards.

RLAM will vote against the compensation report when material exceptional awards have been granted absent a compelling rationale.

6.5 Board independence

Both markets operate a one-tier board structure with often only one executive director, the CEO; sitting on the board. As such the expected average level of independence on the board is higher than that in other markets where other executives may have a board presence. The number of directors on the board can often be higher than in other markets, but generally is between 5 and 20 people. We will not oppose additional executives sitting on a board, but will expect the level of independence to be maintained. Our expectation is that at least two-thirds of directors are independent.

For controlled companies where a founder, insider or external shareholder holds a controlling interest in the company; we are understanding of the requirements for nominated representatives to sit on the board. We will still expect an overall independent majority on the board, but will only vote against when at least 50% of the board is non-independent.

RLAM will vote against any non-independent director when the board is not comprised of two-thirds independent directors.

For **controlled companies**, RLAM will vote against a non-independent director when the board is not majority independent.

6.6 Director independence

In considering whether a director is independent, RLAM will have regard to local best practice and guidance as this differs from accepted practice in the UK. Factors that may impact independence include, but are not limited to; previous employment at the company, material financial, familial or other relationship with the company, any compensation explicitly intended to incentivise company performance such as stock options, cross-directorships, significant shareholding or excessive tenure.

Director tenure limits are not expressly outlined in the market, however when voting we will have regard to the overall average level of tenure on the board.

Mandatory retirement provisions still operate in the market, where directors may be required to resign at a certain age. Whilst we do not believe age should be the sole factor for retirement, we will pay due regard to average age of the board and take action if we believe there are succession concerns.

RLAM will oppose the re-election of the longest serving non-executive director, if overall board tenure is considered to be excessive.

6.7 Overboarding

It is critical that directors are able to devote sufficient time to each of their roles, while also retaining some capacity to deal with any unexpected corporate events that may increase the demands on their time. It can be difficult as an investor to assess the required time commitments for each non-executive role as this is driven by the particular complexities of each business. RLAM will take into account what these additional roles are when deciding whether to vote against a director on this basis. For individuals serving in an executive capacity, we believe their external commitments should be restricted to only one other role. For NEDs, we will apply a guide of five roles, but this will be dependent on the complexities of the roles in question.

RLAM will vote against the non-executive appointment of a director who we considered to be overboarded.

6.8 Combined CEO/Chair

The number of CEOs also serving as chairman in the market has steadily declined over recent years; however it remains prevalent, particularly at younger founder-led companies. RLAM strongly believes that the positions of chair of the Board and chief executive should be separated to avoid concentration of power in one individual.

The chairman should meet the independence criteria. In the absence of evidence to the contrary, it will be assumed that a chairman who holds an executive position will in fact be the chief executive. It is recognised that, in exceptional circumstances, there may be occasions when the combination of both positions can be justified, but the onus rests on the directors to demonstrate this to shareholders through persuasive disclosure in the annual report and through engagement with shareholders.

RLAM does not consider it appropriate for a former or retiring chief executive to become chairman of the same company. Such arrangements should be in place only for only a short transitional period, and assurance would be sought from the company that a separation of the roles will occur as soon as possible. Additionally, a demonstrably independent lead independent director should be appointed.

RLAM will vote against the election of a director holding both positions of chairman and CEO. RLAM will also vote against the chair if they were not independent at the time of appointment, absent a sufficient rationale.

6.9 Diversity

We believe in merit and that it is essential that non-executive and executive candidates are chosen on the basis of their overall competence and ability to effectively enhance the performance of the company. We also believe that diversity of individuals, whether of gender, ethnic origin, nationality, professional background, experience or other factors, are valid aspects in considering an individual's potential contribution to the Board.

When assessing the Board's diversity balance in USA and Canada, RLAM will have due regard for local regulations and/or best practice.

RLAM will vote against the Nomination Committee Chair if the company does not have at least one female director on the Board. RLAM will vote against the Nomination Committee Chair if a company with a board of seven or more directors does not include at least two female directors.

We believe that companies should provide broad-based disclosure on their diversity and may consider voting against the nomination committee chair at US companies, should the Board fail to disclose its ethnic diversity absent a compelling rationale.

6.10 Director elections

We expect companies to adopt majority voting standards for all director elections, where any director who has not received at least 50% shareholder support must immediately step down. Unlike many other markets this is not an automatic procedure. Market practice instead is for directors to tender their resignation, within the company's specified time-frame; which the board then has the discretion to accept or reject. RLAM expects directors to immediately tender their resignation, and for the board to accept this unless a compelling rationale is provided to shareholders.

We also expect companies to move away from the more historic staggered board election approach and submit directors to annual re-election. Staggered boards allow directors to be re-elected for an extended period, often three years; so only a minority of directors are submitted for each annual vote. This system severely restricts shareholders in voicing their concerns about individuals on the board. Staggered boards are also at times referred to as 'classified' boards.

A large number of companies in this market continue to elect directors using a plurality rather than a majority vote standard. In plurality voting, provided there are the same number of nominees as board seats; directors can be re-elected with only one vote. If there are more nominees than board seats plurality allows those with the most votes to be elected, but in reality very few votes are contested in this way. In these instances we will use a 'withhold' vote to express our opposition to a director as an 'against' is not a valid vote option. Directors that do not receive a majority of 'for' votes are still expected to tender their resignation to the board immediately.

Boards that allow directors to continue to serve for a long period after they receive a majority vote against are in breach of core governance principles.

RLAM will vote against any director who has failed to achieve majority support in the previous year. We will also vote against the chair of the governance committee or board chairman.

6.11 Advanced notice requirements

RLAM will oppose 'advanced notice requirements' in Canada which set out unreasonable time limits for proposing director nominations and providing the necessary disclosures. We would normally consider 30 days' notice prior to the AGM and 15 days prior to a special meeting to be 'reasonable.'

6.12 Proxy access

While infrequently used, proxy access is an important shareholder right providing shareholders the ability to nominate a director to the board. The access requirements ensure that only substantial long-term shareholders have the right to nominate anyone to the board. Currently just under half of the companies in the Russell 1000 have proxy access provisions in place[3].

When assessing a proxy access provision we will take into account the size of the company, whether the company has a history of being responsive to shareholders and the size and length of the required shareholding. Current market practice is to allow shareholders proxy access if they own 3% of the shares over a three year period, but we review these on a case-by-case basis and may support alternative arrangements if judged to be in the best interests of all stakeholders.

RLAM will support proxy access provisions, provided the size and duration of the shareholding requirement are reasonable in relation to the company.

6.13 Proxy contests

We are supportive of the adoption of 'universal' proxy cards, whereby investors can chose to elect the nominees they deem to be most appropriate, as opposed to the current contested system where investors must choose one of two opposing lists of director nominees.

RLAM will evaluate all contested elections on a case-by-case basis. We will base our decision on what we believe to be in the best interests of both individual shareholders and the long-term success of the company, taking into account the backgrounds and experience of all nominees.

6.14 Shareholder resolutions

Shareholder resolutions are a major element of this market and a key way in which shareholders can signal their discontent, or requests, to management teams that are often less accessible than in the UK or Europe.

We will endeavour to support shareholder filed resolutions when judged to be in the best interests of all stakeholders whether focused on environmental, social, governance or other matters. Our methodology for these resolutions is to assess whether they cover a subject or issue of material importance to the company and whether the benefit of implementation is proportional to the cost and practicalities of doing so.

RLAM may oppose a shareholder resolution if we judge the subject to be immaterial to the underlying business, if implementation of the proposal is so onerous as to negate any potential benefit; or if the filer of the resolution is judged to be seeking political or personal gain.

RLAM will support proposals that call for greater disclosure and ESG reporting.

RLAM will support climate related proposals submitted by shareholders provided they are proportional and judged to be in the best interests of all stakeholders.

6.15 Multiple share classes

We are strongly opposed to multiple share class structures when these violate the one-share one-vote principle, or create a misalignment between voting rights and underlying economic exposure to a company. These structures are claimed to be present to help the founder of a business retain control and prevent short term investors or activists disrupting the status quo. In reality this can often lead to board entrenchment and reduced accountability to shareholders and the rest of the market.

One instance in which we may consider being supportive is if the multiple classes or supervoting rights are accompanied by sunset provisions. In line with Council of Institutional Investors' position, we would expect these to be removed after a reasonable length of time, currently seven years or less.

RLAM will vote against the introduction of multiple share classes, unless there is a strong 'sunset' provision.

RLAM will usually support resolutions asking for recapitalisation, or the removal of multiple share class structures.

RLAM may vote against the chair of the governance committee or the chairman if a shareholder resolution requesting recapitalisation receives significant minority shareholder support and is not implemented.

6.16 Exclusive forum

Northern American companies may propose to introduce forum selection clauses into their articles of association. These clauses determine a particular state or provincial jurisdiction (usually the place of company's incorporation) as the exclusive forum for all disputes of intra-corporate nature, such as, among others, breach of fiduciary duty claims or shareholder derivative actions. Exclusive forum clauses can often mean increased associated costs and difficulties around pursuing lawsuits. We believe that such clauses limit shareholder rights of effective legal remedy when it comes to the choice of venue and related relief available under a particular state or province's legal system.

RLAM will generally vote against proposals to introduce an exclusive forum provision, unless the company provides a reasonable justification for the clause.

RLAM may vote against the incumbent Chair of the Governance Committee and/or its members when the board adopted an exclusive forum provision during the year under review without prior shareholder approval.

7 Japan

In Japan the corporate governance framework is set by Japanese company law and the Tokyo Stock Exchange listing rules, amongst other financial and legal legislation. Japan has historically had a unique approach to governance with very limited independent representation and continues to struggle with entrenched and interconnected boards. The introduction of the Japanese Stewardship Code in 2014 and Corporate Governance Code in 2015 has led to a number of changes in the Japanese governance landscape. We highly encourage the move towards increased independence and diversity in the boardroom and the drive for greater disclosure of remuneration practices.

7.1 Director independence

Local market requirements specify that an 'outsider' must be present on the board. In this market there is a differentiation between an insider, an affiliated outsider and independent outsider. Outsiders are often not independent due to familial, business or other connections with the company.

We do not view affiliated outsiders as sufficient to satisfy independence requirements and look for the presence of independent outsiders on the board. Market norms, under pressure from international investors, are now for at least two and often three independent outside directors to be present on the board.

We expect at least two independent outsiders to be present on the board, and will consider voting against any affiliated (non-independent) outsiders if this standard is not met.

If there is insufficient independence on the board we will also consider voting against the highest ranking member of the nominations committee, or the chairman/CEO of the board.

7.2 Board structure

Three different board structures are permitted under the Japanese Companies Act. The most widely used structure is a two-tier board with a statutory auditor, additional options however include a US-style one-tier board with three committees, and a one-tier board with an audit committee.

Two-tier board (Kansayaku)

This is the most common board structure in the market, requiring a board of directors and a separate board of statutory auditors or **Kansayaku**. Market best practice requires two independent outside directors to sit on the board, with an additional 50% independence on the **Kansayaku**.

For statutory audit boards we expect at least 50% of members to be independent, this also applies to alternate statutory auditor appointments.

US-style unitary board

A change in regulations in 2003 allowed the establishment of US-style single board structures. This has primarily been adopted by the largest, most international of Japanese companies to attract a more international shareholder base. The board must have an audit, nominations and compensation committee. Each committee should have a minimum of three directors, a majority of whom must be outside directors.

Market best practice is for at least two fully independent outside directors to sit on the board, but this structure largely complies with international best practice of at least 50% overall independence.

For companies adopting a US-style unitary board, we will expect at least 50% overall board independence with a majority of independent members on the three board committees.

Board with audit committee

A hybrid system has also more recently been adopted with both a **Kansayaku** and a formal internal audit committee. This audit committee must be comprised of at least three directors, the majority of whom should be outside directors. There should be at least two independent outside directors on the board.

For audit committee boards, we expect 50% independence on the committee and at least two independent outsiders on the board.

7.3 Cross shareholdings

Japanese companies have historically had extensive cross (or strategic) shareholdings. These shareholdings are thought to strengthen business relationships primarily between a company and their bank, but also extend to suppliers and customers. This system gave rise to the keiretsu, large industrial groups of companies clustered around the major local banks. Essentially this system functions as a takeover defence mechanism and can help insulate management from their shareholders and other external market forces. The percentage of cross-shareholdings has fallen over recent decades but remains a significant part of the market.

A key focus of the Japanese Governance and Stewardship Codes are to promote the unravelling of these arrangements. Companies are required to have and publish their policy on the reduction of cross-shareholdings, and annually review and report against these. The purpose for each holding must be examined, with the risks and benefits disclosed for shareholders. The company's voting policy with respect to these shareholdings should also be disclosed.

RLAM may vote against the chair of the board if we have substantial concerns with the company's cross-shareholding policy or the limited efforts to reduce holdings.

7.4 Diversity

While the Japanese Corporate Governance Code stops short of specifying targets related to gender or cultural diversity, these are mentioned in the code as material factors for the Board to consider and promote throughout the company. We expect companies listed on both the First and Second Section of the Tokyo Stock Exchange to include at least one female director.

If the board does not include at least one female director, we will consider voting against the chair (or the most senior executive) of an audit committee board or a statutory audit board, and against the nomination committee chair of a US-style unitary board.

7.5 Equity compensation plans

We are generally supportive of equity compensation plans, particularly as a means of retaining and incentivising the workforce. When evaluating plans we will take into account the total dilution level, vesting period and recent history of equity grants requested by the company.

RLAM will oppose any plans featuring re-pricing provisions, performance based incentives to outside directors, members of the audit committee or statutory auditors.

7.6 Directors and statutory auditors' fees

Companies are required to seek approval for any changes in the aggregate fees payable to both the directors and statutory auditors. Details of the compensation package for an executive are rarely disclosed. RLAM will generally support any changes to the aggregate fee level provided these are reasonable relative to the size of the company.

7.7 Other matters

In Japan, we will also generally apply the following voting principles:

- We will vote against the incumbent chair of the board if the company has failed to seek shareholder approval prior to the adoption or renewal of a poison pill.
- We will vote against the adoption or renewal of a poison pill.
- In evaluating companies' oversight frameworks, we will take into account any potentially excessive strategic shareholdings held by the company.
- We oppose the granting of retirement bonuses to outsiders and/or statutory auditors as this detrimentally impacts their independent oversight of the board.
- We will additionally oppose retirement bonuses for executives if the amount is not disclosed.
- We will only support the issue of share subscription rights if the company fully discloses the price of the shares, the number of shares to be issued, the purpose of the issuance and the recipients.
- We will consider shareholder proposals on a case-by-case basis, remaining sensible to the practicalities and merits of each proposal. We will generally support those proposals calling for increased board independence and environmental reporting.

8 Europe

8.1 Introduction

European corporate governance standards and regulations can vary country to country dependent on the legislative framework. With the introduction of numerous EU directives however, there is emerging commonality and the adoption of market-wide standards. The most recent amendment to the Shareholder Rights Directive now requires all EU companies to submit their remuneration reports for shareholder vote on an annual basis, as well as to seek shareholder approval of the company's remuneration policy at least every four years.

We will apply the general guidelines outlined below as far as they are applicable to each market; we have also outlined our approach to key country-specific items.

8.2 Board and committee independence

Board structures in Europe can be either one or two tier depending on local market norms. Two tier boards comprise of a management board, made up of executives; and a supervisory board including independent directors, shareholder and employee representatives. In markets such as Germany, the number of employee representatives directly correlates to the size of the workforce and given the additional requirement for independent representation this can lead to substantial supervisory boards.

When assessing board and committee independence in Europe we are always cognisant of local regulations and market norms, however RLAM believes in the importance of an independent majority on the board. We do not view employee representatives as independent in these instances, but will assess the overall balance of the board when deciding whether a board is sufficiently independent.

We expect audit and remuneration committees to be fully independent.

RLAM will vote against non-independent directors where the board is less than 50% independent. For countries/companies that adopt a two tier board structure, the supervisory board must be majority independent; employee representatives (where present) are included in our calculations as affiliated/non-independent directors.

RLAM will vote against non-independent members of audit and remuneration committees.

8.3 Chair and CEO

RLAM strongly believes that the positions of chairman and chief executive should be separated to avoid concentration of power in one individual. The chairman should, on appointment, meet the independence criteria. In the absence of evidence to the contrary, it will be assumed that a chairman who holds an executive position will in fact be the chief executive. It is recognised that, in exceptional circumstances, there may be occasions when the combination of both positions can be justified, but the onus rests on the directors to demonstrate this to shareholders through persuasive disclosure in the annual report and through engagement with shareholders.

The chair of the board should be independent on appointment. Although some markets permit the role of the CEO and chair to be combined, we would prefer for the roles to be separated unless combined on a temporary basis with a sufficient rationale.

8.4 Diversity

We believe in merit and that it is essential that non-executive and executive candidates are chosen on the basis of their overall competence and ability to effectively enhance the performance of the company. We also believe that diversity of individuals, whether of gender, ethnic origin, nationality, professional background, experience or other factors, are valid aspects in considering an individual's potential contribution to the board.

When assessing the board's diversity balance in Europe, RLAM will have due regard for local regulations and/or best practice.

RLAM will vote against the nomination committee chair if the company does not have sufficient gender diversity level on the board, as required by the applicable market specific legal requirements or best practice.

8.5 Bundled elections

In a number of markets, the practice of bundled director elections continues. In these instances shareholders are granted only one vote on whether a group of directors should be re-elected. These forms of resolutions inhibit the ability of investors to make decisions on the merits of individual candidates. As such should a single director warrant a vote against, shareholders are forced to either vote against all directors up for re-election or to support all candidates.

RLAM has decided in these instances to vote against all directors unless there is a compelling rationale to support.

RLAM will oppose bundled director elections if we have concerns with one or more individual elections.

Italian slate elections

Elections at Italian companies are a slight variance on the above mentioned bundled elections. They usually take the form of slate selections (**voto di lista**). Two competing slates of directors are presented to shareholders, who must then choose which slate to support. One list is often presented by the company or a major shareholder, and often the other slate is sponsored by the representative association of the Italian investment management industry, **Assogestioni**. While the directors on the slate that secures the majority of votes will be elected to the board, Italian law specifies that at least one candidate must be elected from the slate that has the second highest number of votes. Candidates are listed on the slate in the order in which they will be re-elected.

Assogestioni's main objective is to promote good corporate governance practices and foster investment management activity in Italy; as such we will generally support the slate they have sponsored.

We will generally be supportive of **Assogestioni** sponsored slate director elections in Italy.

8.6 Annual director elections

RLAM believes that all directors should be subject to re-election annually and will support proposals in favour of annual elections. However, we acknowledge that in some European markets the standard practice may differ and continues to provide for rotating elections of 3-4 years for directors. A number of markets are phasing out this system over the next few years and we are supportive of this step.

We will refrain from voting against if the company has committed to a deadline to implement annual elections.

We believe that directors should be subject to annual re-election, but for those markets where this is not standard practice we will oppose any term lengths greater than three years.

8.7 Remuneration policy and implementation

RLAM will apply as far as practicable our general guidelines on remuneration outlined above and in increased detail in our UK Voting Policy. We will however take into account local market practice and norms when making a voting decision. Pension provisions, as an example; are mandated by law in many markets and are often significantly above the levels in the UK. Severance packages are also the norm in many markets and are governed by EU regulations.

As with other markets RLAM will be supportive of remuneration policies that incentivise directors by linking a significant proportion of reward to long-term company performance and stakeholder value creation. We also support increased disclosure in many European markets where disclosure lags global peers.

When assessing remuneration reports and policies, we will carefully consider all relevant factors such as the underlying company's performance, the overall structure and disclosure, the rationale for any proposed changes, and local market as well as global best practice.

8.8 Authority to issue shares and disapplication of pre-emption rights

RLAM believes that pre-emption rights for existing shareholders are important and should be protected. Shares may be issued for cash without pre-emption or for remuneration purposes, subject to limits as to the proportion of shares issued in relation to the issued share capital, and also subject to flow rates.

RLAM will generally vote against requests to issue shares with pre-emptive rights if the requested amount exceeds 100% of the company's issued share capital and vote against requests to issue shares without pre-emptive rights if the underlying amount exceeds 20% of the company's issued share capital.

8.9 Share repurchases

RLAM will generally vote against requests to repurchase shares when the requested amount exceeds 15% of the company's issued share capital, except when there is an explicit statement that any shares above this 15% threshold will be cancelled or held in treasury. We will also expect disclosure of the maximum price and will generally vote against share buybacks which may be used as a takeover defence.

8.10 Voting rights

RLAM strongly believes in the one-share, one-vote principle and opposes any share structures that grant either enhanced or impaired rights to certain shareholders. RLAM will oppose any change in articles allowing the granting of shares with different voting rights. Equally RLAM will support any resolution repealing a multiple class share structure.

Double voting rights

In 2014 an act was passed in France, the Loi Florange; granting double voting rights to shareholders who had held their shares for two years or more. The act was intended to promote the interests of long-term investors and provide increased stability to companies by restricting the voting rights of short term activist investors. Companies have the right to disapply this by submitting a resolution to a shareholder vote, which many have done. Doublevoting rights are however available at a number of French companies. Similar legislation is in place in Italy and is currently being discussed in Spain.

Generally, RLAM is opposed to the idea of unequal voting rights; and fully supports the one-share, one-vote principle. As such we will support any management resolutions overturning the automatic double-voting rights granted by this or similar acts.

However at companies where this act is in force and long-term shareholders are able to register for double-voting rights, we believe that it is in the best interests of our clients for us to take up those rights. As such, we will make reasonable efforts to register our shares to enable us to exercise our full voting rights, provided it is in our clients' best interests to do so.

RLAM will vote against any resolutions introducing unequal voting rights, equally RLAM will generally support any resolutions reversing these rights.

8.11 Related party transactions

Given the continued dominance of family-controlled corporations and other substantial shareholders across Europe, it is common to see the approval of related party transactions at annual general meetings. When assessing requests for approval of material related party transactions, we will evaluate these on a case-by-case basis, and we will generally vote against any transaction falling outside of the company's regular business scope without a reasonable rationale, or in cases of insufficient disclosure regarding the transaction's terms.

RLAM will review these transactions on a case-by-case basis.

8.12 Any other business

At the conclusion of AGMs in certain markets an 'any other business' resolution can be presented. The purpose is to ensure that if any other matters arise at the meeting, the Board has the ability to take action with prior approval from shareholders. These forms of resolutions are detrimental to shareholders who are not physically present and able to vote at the AGM, no information is provided in advance as to what may or may not be discussed. RLAM wishes to make an informed decision when voting and absent information we are unable to do so. As such we will oppose these resolutions whenever they are presented.

RLAM will oppose 'any other business' resolutions, as these detrimentally impact shareholders who are not physically present at the meeting.

8.13 Censors

Censors are a relatively recent addition in the French market and are consultants who advise the board. While consultants are not at all unusual and are used globally to assist the board when making decisions on particular matters, censors essentially also sit on the board. They are not included in the company's independence calculations and do not have the ability to vote on board matters, but given their status have the potential for significant influence in the boardroom without being subject to the same duties and oversight as directors.

We view the appointment of censors as inappropriate unless there is a significant short-term need for their expertise in the boardroom. We may consider supporting an appointment if the company makes a compelling case and there is a limit on their tenure.

RLAM will generally oppose the appointment of censors in France without a significant accompanying rationale.

8.14 Discharge of management and supervisory boards

German, Swiss and Nordic companies may ask their shareholders to ratify the actions of the supervisory and management boards during the most recent fiscal year. The vote on discharge can be presented either as a standalone voting agenda item for each individual director or as a vote to ratify the board's actions as a whole. Such requests are seen as a vote of confidence to approve the actions of directors, and often receive a high level of approval. Voting in favour of discharge does not release directors from being liable for any negligence or wrongful acts committed when performing their duties. While there is no formal requirement to do so, in cases where there are significant votes against this ratification, often senior members of the board will resign.

RLAM will generally evaluate such proposals on a case-by-case basis, taking into account any ongoing or finalized legal proceedings, investigations, or any other indicators of the board's performance during the fiscal year under review.

9 Australia

In Australia much of the governance framework is set out in the Listing Rules of the Australian Securities Exchange (ASX), the Corporations Act and the constitutions of the companies themselves. The Australian Securities and Investments Commission (ASIC) is responsible for ensuring compliance with the rules of the ASX, and can impose penalties on companies which do not. Additional bodies such as the Australian Council of Superannuation Investors (ACSI), the ASX Corporate Governance Council and the Australian Prudential Regulatory Authority also set out guidelines and standards that influence the market. As there are many similarities between the UK and Australian corporate governance standards, we will largely apply the principles contained in our UK Voting Policy when voting.

However we have outlined below our approach to a number of issues unique to this market.

9.1 Supermajority voting

The Australian Corporations Act allows for the adoption of a supermajority vote standard. This would require certain resolutions to obtain 75% or more of votes in order to be passed. This higher level of votes curtails shareholder rights by decreasing the likelihood of a resolution being passed. At this time, Australian companies have largely not adopted this but RLAM would have substantial concerns should a company try to implement this voting standard.

RLAM will generally vote against any change of articles requiring supermajority voting standards.

9.2 Board spill resolutions

A unique feature of this market is the board spill resolution. The idea of these resolutions is to hold the board to account should the remuneration report receive greater than a 25% vote against for two consecutive years. If there is greater than 25% opposition in the first year, then at the subsequent AGM a spill resolution is put to shareholders. This resolution asks, if the remuneration report receives another significant vote against, whether the members of the board should all be subject to re-election. This re-election would take place at another meeting to be held within 90 days of the AGM. If the remuneration report receives a second high vote against, and the spill resolution is passed by 50% of votes; then the board spill meeting must take place.

A board spill is a significant step that could result in the ejection of all but the managing director, as such each will be assessed on a case-by-case basis. When voting RLAM will take into account how responsive the company has been to shareholders, whether any changes have been made to remuneration and other relevant considerations.

We will review all board spill resolutions on a case-by-case basis.

9.3 Diversity

We believe in merit and that it is essential that non-executive and executive candidates are chosen on the basis of their overall competence and ability to effectively enhance the performance of the company. We also believe that diversity of individuals, whether of gender, ethnic origin, nationality, professional background, experience or other factors, are valid aspects in considering an individual's potential contribution to the Board.

When assessing the Board's diversity balance in Australia, RLAM will have due regard for local regulations and/or best practice.

RLAM will vote against the Nomination Committee Chair if the company does not have sufficient gender diversity level on the Board, which should equal to at least one female director at ASX300 companies with boards of up to five directors in total and at least two female directors at ASX300 companies with boards of six or more directors in total.

9.4 Non-binding shareholder proposals

Increasingly in the market shareholder resolutions are being filed asking companies to change their constitutions to allow shareholder to file non-binding proposals at an AGM. These proposals would allow shareholders an opportunity to table a resolution on an issue and communicate to the company their support and/or opposition without restricting the company to reply in a particular fashion. We acknowledge the argument that this should be addressed through regulatory change rather than at an individual company level, but agree that this is a useful mechanism for shareholders.

RLAM will generally support requests for non-binding shareholder proposals.

10 China/ Hong Kong/Taiwan

In China, the corporate governance landscape is set by the company law, the Foreign Investment Law (as of January 1st, 2020), the Securities Law and the Code of Corporate Governance for Listed Companies. Further guidance is provided by the listing rules of the two stock exchanges, Shanghai and Shenzhen.

In Hong Kong, the corporate governance framework is determined by the Listing Rules of the Hong Kong Stock Exchange and the Corporate Governance Code. The Stewardship Code (published by the Hong Kong's Securities and Futures Commission) governs the practices expected in relation to responsible investing and the stewardship of practices of shareholders. A significant portion of companies listed at the Hong Kong Stock Exchange are also listed in mainland China.

In Taiwan, the corporate governance framework is set by the Company Act, the Securities and Exchange Act, Corporate Governance Best Practice Principles for TWSE/GTSM Listed, and a number of additional regulations governing separate corporate governance procedures.

10.1 Board structure

In China and Taiwan, companies may be governed by a two-tier board structure with a board of directors and a board of supervisors. Supervisors are often representatives of shareholders and employees, and in mainland China will often include representatives of the Communist Party who are not subject to a shareholder vote. Independent representation is limited but we believe at least one-third of the board of directors and the board of supervisors should be independent.

By contrast in Hong Kong, companies are governed by a single board including nomination, remuneration and audit committees. These committees should be comprised of a majority of non-executive and independent directors.

Directors are generally put to a shareholder vote on a rotating basis every three years. Local best practice is also for one third of directors to be independent. For dual China-Hong Kong listed companies using the two-tier board structure we will apply the same independence guidelines as for China listed companies.

We will vote against non-independent directors where the board does not meet the local requirements outlined above.

10.2 Cumulative voting

In Taiwan, directors are normally elected via a cumulative voting mechanism, in which a shareholder's votes are multiplied by the number of candidates. A shareholder then has the right to divide their votes among multiple candidates or decide to cast all votes in favour of one single candidate. At companies where a candidate nominee system is adopted, shareholders might also be asked to elect a set number of candidates from a certain pool of nominees, which exceeds the amount of available seats on the board.

RLAM will review such elections on a case-by-case basis, but will generally apply votes equally between eligible directors.

10.3 Remuneration

Remuneration votes are generally restricted to the approval of aggregate fees for the next financial year, without any breakdown of individual directors' allocations. As such it is difficult to assess whether these are appropriate.

We will take due regard of previous years' fees and corporate performance and vote against any that seem disproportionate.

We are supportive of the granting of equity based awards as a way of incentivising management, although this remains limited in these markets. We are equally supportive of equity plans for employees, provided the exercise price of shares and allocations are disclosed in the terms of the plan.

In China, Hong Kong and Taiwan, we will generally apply the following voting principles:

- We will vote against non-independent, non-executive nominees where the board is less than one-third independent.
- We will vote against non-independent nominees sitting on the audit committee (including executives).
- We will vote against non-independent nominees sitting on the remuneration committee if the committee is not 50% independent. We will also vote against any executive directors serving on the remuneration committee.
- We will vote against non-independent, non-executive nominees sitting on the nomination committee if the committee is not 50% independent.
- We will vote against the chair of the nomination committee if the board does not include at least one female director.
- RLAM will vote against share issuances without pre-emptive rights and requests to issue repurchased shares if the discount rate is not disclosed. We will also vote against share issuances which are in breach of the local listing rules.

- In China and Hong Kong RLAM may vote against amendments to Company's Articles of Association whenever there is a risk of Communist Party Committee being granted the authority of making substantial decisions without Board or shareholder approval.

11 Malaysia/Singapore/ Thailand/India

In Malaysia, the corporate governance framework is set by the Companies Act from 2016, the Capital Market Services Act, the Bursa Malaysia Securities Berhad Listing Requirements, and the 2017 Malaysian Corporate Governance Code.

In Singapore, the corporate governance rules are defined by the Code of Corporate Governance, the Companies Act, guidance set out by the Singapore Stock Exchange and the Practice Guidance. The Governance Code is on a comply-or-explain basis, providing for a slightly higher degree of disclosure than other local markets.

In Thailand, the corporate governance landscape is determined by the Public Limited Companies Act and the Corporate Governance Code for listed companies.

In India, the primary corporate governance rules are set by the Companies Act 2013 and Listing Regulations. In addition, corporate governance is also addressed by various Acts and Regulations of the Securities and Exchange Board of India, as well as by voluntary guidelines.

11.1 Board structure

In these markets boards follow a one-tier structure, comprised of executives, non-executives and independent directors. Boards are expected to be majority independent and have an audit committee which is comprised solely of NEDs, a majority of which are independent. In India it is now mandated that boards also have remuneration and audit committees, and at times a corporate social responsibility committee depending on the size of the company.

Staggered (or 'classified') board elections are common in these markets, with directors submitted to a shareholder vote only once every three years.

We will vote against non-independent directors where the Board does not meet the local requirements outlined above.

11.2 Director tenure

Under the new Singaporean code, tenure limits for independent directors have been set at nine years, after which a director is no longer defined as independent. This change will not come into effect until 2022, and as such does not drive a vote against a director at this stage.

In India, tenure guidelines are currently set at ten years.

11.3 Dual-class shares

Singapore recently allowed the listing of companies with dual class shares. We strongly believe in the one-share one-vote principle and oppose these dual class structures, unless there are strong sunset provisions in place to phase these out after a reasonable period of time. Particular attention will be paid to board responsiveness in these situations, and we may decide to vote against board directors if we feel the board is not adequately addressing the interests of smaller shareholders.

11.4 Remuneration

While there are no formal requirements to submit remuneration to a vote or provide a breakdown of fees, local Malaysian legislation is forcing the disclosure of how directors are remunerated and the link between pay and performance.

In Singapore the local Governance Code specifies the disclosure of the remuneration of the top five highest paid executives with a breakdown of fixed versus performance based pay, any equity awards, benefits or other forms of remuneration. Shareholders are not afforded a vote on this but RLAM may, where there are significant concerns; escalate a vote against a director on the remuneration committee if awards are deemed inappropriate.

In India the election of an executive director is often bundled with the approval of the terms of their remuneration package. Where possible we will review these terms using our general remuneration guidelines.

In these markets, we will generally apply the following voting principles:

- We will vote against non-independent, non-executive nominees where the board is less than one-third independent (when the chair is independent) or where the board is less than 50% independent (when the chair is not independent).
- We will vote against non-independent nominees sitting on the audit committee (including executives).
- We will vote against non-independent nominees sitting on the remuneration committee if the committee is not 50% independent. We will also vote against any executive directors serving on the remuneration committee.
- We will vote against non-independent, non-executive nominees sitting on the nomination committee if the committee is not 50% independent.
- We will vote against the chair of the nomination committee if the board does not include at least one female director. In Malaysia, in line with local regulation, we will vote against the chair of the nomination committee if gender diversity is not at 30%.

12 Indonesia

In Indonesia, Company Law obliges companies to comply with corporate governance provisions included in their respective bylaws. Additionally, the companies are expected to adhere to industry-specific laws and regulations depending on their business activities, some of which may also include corporate governance rules. In 2015 Corporate Governance Guidelines for Public Companies were published, along with company disclosure initiatives in 2017.

Disclosure and transparency have improved marginally in recent years, but the market retains some of the lowest governance standards and disclosure levels in the region.

12.1 Board structure

Companies operate a two-tier board structure with a board of directors and a board of commissioners. Each board must have at least two members, with one being independent. Should there be more than two individuals on the board; the requirement is for 30% of directors to be independent.

In this market, we will generally apply the following voting principles:

- We will vote against non-independent, nonexecutive nominees where the board is less than one-third independent.
- We will vote against non-independent nominees sitting on the audit committee (including executives).
- We will vote against non-independent nominees sitting on the remuneration committee if the committee is not 50% independent. We will also vote against any executive directors serving on the remuneration committee.
- We will vote against non-independent, non-executive nominees sitting on the nomination committee if the committee is not 50% independent.
- We will vote against the chair of the nomination committee if the board does not include at least one female director.

13 Brazil

In Brazil regulation is driven by the Sao Paulo Stock Exchange, the Brazilian Securities Commission (CVM), and best practice guidelines are set by the Instituto Brasileiro de Governança Corporativa (IBGC). We encourage Brazilian companies to adopt a best practice approach and will support companies that showcase adequate levels of board independence, address diversity concerns and demonstrate good remuneration policies.

13.1 Board structure

Brazil operates a two-tier board structure, with a board of directors and a management board whose members are elected by the directors. Local law also permits the establishment of a supervisory council with an advisory role, no directors or executives can serve on this council.

In the case of non-controlled companies 50% board independence is required. For the majority of Brazilian companies which have controlling shareholders, we believe that at least one-third of directors should be independent.

The supervisory council should not contain any executive directors or anyone with a significant affiliation with the company.

The IBGC recommends the establishment of an audit committee on the board, but there is no legal requirement for any committees to be established. Where an audit committee is in place, we expect this to be comprised fully of independent directors.

RLAM will vote against non-independent directors where the board does not meet the local requirements outlined above.

13.2 Voting procedure

Directors are often elected by competing slate. Holders of common shares will have the opportunity to vote on either candidates nominated by minority shareholders OR on the management slate. Voting for candidates on one slate will prevent the election of any nominee on the opposing slate. Preferred shareholders will only have the opportunity to vote on candidates nominated by other preferred shareholders. There is no opportunity to vote on the management slate.

Shareholders have recently been permitted to request cumulative voting to be adopted for a meeting, however there is a minimum 10% joint shareholding requirement for this, and given the controlled nature of many companies, in practice this takes place infrequently.

13.3 Remuneration

Under Brazilian law, shareholders must annually approve the aggregate remuneration for management and the board of supervisors (if applicable), and companies must disclose the remuneration policy used in the annual report. We expect remuneration policies to account for market context and company specific performance factors in determining pay outcomes. In Brazil, we will generally review remuneration on a case-by-case basis given the varied company arrangements in this regard, but where possible will apply our general global guidelines.

In this market, we will generally apply the following voting principles:

- We believe boards should be comprised of at least one-third independent directors for controlled companies and at least half independent directors for non-controlled companies. Where the board does not meet this threshold, we will vote against the non-independent non-executive nominees.
- We expect the audit committee to be fully independent and will oppose non-independent nominees who serve on the committee.
- We believe the remuneration and nomination committees should be majority independent. Where committees do not meet this threshold, we will vote against the non-independent nominees.
- Where there is not at least one female on the board, we will vote against the chair of the nomination committee.

14 Latin America (excluding Brazil)

The stock exchanges of Chile, Colombia, Mexico and Peru have partnered to comprise MILA (Mercado Integrado Latinoamericano). While each market has its own corporate governance body and securities regulators this partnership has resulted in some overlap in approach.

14.1 Board structure

Public companies in Chile and Mexico are largely controlled, with substantial influence from a small number of extremely wealthy families, the government or the military and can have highly complex ownership structures.

Peruvian companies have a two-tier structure comprising of a board of directors and a management board, elected by the directors. The board of directors are submitted individually for annual shareholder vote. In Chile, Colombia and Mexico one-tier boards are in place. Due to the predominance of controlled companies, we believe that boards should be at least one-third independent. In the case of non-controlled companies we will apply a 50% independence threshold.

All markets other than Peru require the establishment of an audit committee, which we believe should be comprised of solely independent directors.

RLAM will vote against non-independent directors where the board does not meet the local requirements outlined above.

14.2 Voting procedure

In Chile, Colombia and Mexico directors are often submitted for election by slate. In Chile companies have the choice between individual and slate elections, and in Peru elections are individual.

Plurality voting is in operation in Chile, cumulative voting in Peru, and Colombia may elect in the Company's Articles of Association whether directors are elected by plurality, cumulative or majority voting. In Mexico, shareholders who are not Mexican nationals will often have little or no voting rights.

14.3 Remuneration

There is no requirement in any of these markets for executive remuneration to be disclosed or submitted to shareholder vote. Directors' fees are required to be disclosed and often shareholders will have the opportunity to vote on the fees provided during the last financial year as well as the proposed fees for the upcoming year. Where remuneration proposals are presented, our global voting approach will apply.

14.4 Share structure

In Colombia, Mexico and Peru companies have the ability to issue shares with varying voting rights.

Rather than shares having different number of votes attached, shares will be in two main classes, common shares with voting rights, and preferred shares with either no or restricted voting rights.

Where deemed appropriate for Latin American companies, we will apply the following general voting principles:

- We believe boards should be comprised of at least one-third independent directors for controlled companies and at least half independent directors for non-controlled companies. Where the board does not meet this threshold, we will vote against the non-independent, non-executive nominees.
- We expect the audit committee to be fully independent and will oppose non-independent nominees who serve on the committee.
- We believe the remuneration and nomination committees should be majority independent. Where committees do not meet this threshold, we will vote against the non-independent nominees.
- Where there is not at least one female on the board, we will vote against the chair of the nomination committee.

15 Middle East and North Africa

Governance standards in the Middle East and North Africa (MENA) can vary from country to country depending on the regional regulatory environments, but there are a number of similarities in regulation and approach. As such, while we may adapt our voting based on individual circumstances, a number of overarching principles apply when voting this region.

15.1 Board structure

Boards are predominately one-tier in the region with varying requirements over the establishment of audit, remuneration and/or nomination committees. Only non-executive directors may serve on audit and remuneration committees, and a number of these should be independent in line with individual market guidance.

As such we will oppose non-independent or executive members of these committees where the local best practice guidance has not been met. Saudi Arabia is the only market to specify that all committees must be comprised of non-executives.

In the majority of MENA markets best practice is for 50% of the board to be independent, as such we will oppose any non-independent director if this threshold has not been met.

We will vote against non-independent directors where the board does not meet the local requirements outlined above.

15.2 Voting procedure

Staggered (classified) boards operate across these markets, with board terms typically 3-4 years with directors submitted to a vote on a rolling basis. Cumulative voting is being adopted across the region. In these cases the number of shareholder votes is multiplied by the number of directors, with shareholders then able to allocate their votes across one or all nominees at will. RLAM will generally allocate their votes equally among the nominees; however for controlled companies where we have concerns we may concentrate our votes across the independent candidates to the board.

Some MENA markets will have director elections by slate, in these instances where we have a significant concern against one nominee we will vote against the entire slate.

For these markets, we will generally apply the following voting principles:

- We believe boards should be comprised of at least one-third independent directors. Where the board does not meet this threshold, we will vote against the non-independent, non-executive nominees.
- We expect the audit committee to be fully independent and will oppose non-independent nominees that serve on the committee, including executives.

- We expect the remuneration and nomination committees to be majority independent. Where this threshold is not met, we will vote against the non-independent nominees.
- Where there is not at least one female on the board, we will vote against the chair of the nomination committee.
- Where remuneration proposals are presented, our emerging market voting approach will apply to these resolutions.

16 South Korea

We recognise the standards set by the Korea Corporate Governance Service, as well as relevant listing regulations and Korean laws (Commercial Act and the Capital Market & Financial Investment Business Act) that ensure best practices throughout the market. We are encouraged by the introduction of the Principles on the Stewardship Responsibilities of Institutional Investors in 2016 and the developing corporate governance landscape in Korea. As such, we will support companies that adhere to these standards.

16.1 Board structure

Based on market cap, Korean companies are required to adopt either a one or two-tier board structure. Smaller companies can have a separate board of corporate auditors, whereas larger companies are required to adopt a one-tier board with an audit committee whose members are elected by shareholders.

Smaller companies are required to have at least 25% independence on the board and large companies are required to have at least three independent directors or 50% of the board. As such we will oppose the election of any non-independent director if the board is not majority independent.

For a one-tier board, the audit and remuneration committees must be comprised only of independent directors. We also believe that in the case of two-tier boards, the corporate auditors should also be fully independent.

Nomination committees are also a market requirement, we believe this should be comprised of a majority of independent directors.

We will vote against non-independent directors where the board does not meet the local requirements outlined above.

16.2 Voting procedure

Directors are often submitted for individual shareholder approval, but often these are bundled for foreign investors who must elect directors as a slate. As with other markets, where we have a significant concern with an individual we may elect to vote against the entire slate.

Director election is by simple majority, with the removal of a director requiring two-thirds of the vote. Voting power is limited to 3% irrespective of the size of the shareholding, curtailing the influence of large controlling shareholders. Cumulative voting may be applied to the election of directors at a general meeting, but only at the request of minority shareholders. Staggered board elections are still used by a number of companies; we will support the repeal of this where possible.

16.3 Overboarding

In line with our overboarding policy in other markets we believe that a director, whether in an executive or non-executive capacity, should retain adequate time to fulfil the requirements of their roles. As such we will oppose the re-election of any directors who have exceeded the recommended number of directorships.

16.4 Remuneration

Remuneration is submitted to shareholder approval in the form of aggregate fees, and may consist of salary, bonus awards, performance awards and benefits. Limited disclosure is provided beyond this aggregate fee.

Retirement benefits are still commonplace in the market, when these are submitted to shareholder approval we will oppose the granting of these to non-executive directors as we believe the granting of these is detrimental to the independence of these directors.

We are supportive of the move towards remunerating executives via performance linked equity awards. When these are submitted to a shareholder vote, our general global voting guidelines for equity awards will be applied.

For this market; we will generally apply the following voting principles:

- Where the board is not at least 50% independent, we will vote against the non-independent, non-executive nominees (large-cap companies only).
- Where the board is not at least 25% independent, we will vote against the non-independent, non-executive nominees (small-cap companies only).
- We expect the audit and remuneration committees to be fully independent and will oppose any non-independent nominees who serve on these committees.
- We believe the nomination committee should be majority independent. Where the committee does not meet this threshold, we will vote against the non-independent nominees.
- Where there is not at least one female on the board, we will vote against the chair of the nomination committee.
- Where remuneration proposals are presented, our global voting approach will apply to these resolutions.

17 Conflict of interest policy

RLAM recognises that during the course of our stewardship and voting activities promoting environmental, social and governance good practice, conflicts of interest may inevitably arise from time to time. We place a strong emphasis on ensuring these conflicts can be effectively identified, managed and disclosed.

We have a clearly defined Conflicts of Interest Policy which ensures that all staff understand their responsibilities when dealing with our clients' assets. A summary of this policy is available on our website and is described in our annual Stewardship and Responsible Investment Statement. If we become aware that there could potentially be a conflict of interest, we will notify the Chief Investment Officer. The senior management will then discuss the circumstances and ensure that any conflicts are appropriately managed and that we always act in the best interests of our clients.

Ashley Hamilton Claxton,
Head of Responsible Investment
March 2021

Notes

1 https://climateaction100.wordpress.com/about-us/

2 Taskforce on climate-related financial disclosures. https://www.fsb-tcfd.org/

3 https://www.sidley.com/en/insights/newsupdates/2019/01/the-latest-on-proxyaccess

Contact us

For more information about our range of products and services, please contact us.

Royal London
Asset Management
55 Gracechurch Street
London EC3V 0RL

020 7506 6500
communications@rlam.co.uk
www.rlam.co.uk

Telephone calls may be recorded.
For further information please see the Legals notice at www.rlam.co.uk.

Issued in April 2021 by Royal London Asset Management Limited, 55 Gracechurch Street, London, EC3V 0RL. Authorised and regulated by the Financial Conduct Authority, firm reference number 141665. A subsidiary of The Royal London Mutual Insurance Society Limited.

Ref: PO RLAM PD 0016

ROYAL LONDON
ASSET MANAGEMENT

82935 04 2021