

# Voting policy UK 2021

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Indicates a voting outcome

## 1 Introduction

This document outlines our approach to proxy voting for companies listed in the United Kingdom (UK). This document should be read in conjunction with our Global Voting Policy covering developed markets (ex-UK) and emerging markets, 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 company and its shareholders. Corporate governance is a prerequisite for creating and protecting shareholder value, and plays a role in ensuring companies are in good standing with their stakeholders. In keeping with our commitment to the UK Stewardship Code, 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 and guidelines, RLAM will take account of the provisions of the newly updated UK Corporate Governance Code and of institutional guidelines, such as those of the Investment Association (IA).

In applying this policy, 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.

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

Companies should be ready, where practicable, to enter into dialogue with institutional shareholders based on the mutual understanding of objectives. They should be proactive in making sure important news is imparted, subject to appropriate inside information procedures, and should react helpfully to appropriate questions.

Increasing numbers of companies are proactively reaching out to their investors to seek views on any proposed changes to remuneration. When this is conducted outside of proxy season and in a meaningful manner, this can be a highly effective tool in ensuring that stakeholders' views are taken into consideration. In many instances proposals are tailored over the course of multiple meetings and/or letters and the resulting policy is passed at the annual general meeting (AGM). At RLAM we receive a high number of consultation requests from both our active and passive holdings. We will endeavour to respond to as many of these requests as we can; but on occasion must prioritise either by the size of our holding or the severity of our concerns.

In meetings with companies, RLAM will address environmental, social and governance (ESG) issues with management and non-executive directors. RLAM will seek urgent dialogue with a company's management in cases where concerns over strategy, performance or governance might threaten shareholder value. We conduct extensive engagement with companies on a one-to-one basis, but we also see the merit in participating 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 institutions. For more information on our approach to stewardship and company engagement, please refer to our 'Stewardship and Responsible Investment Statement'.

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

- Meeting directors, including non-executives
- Making joint representations with other institutions
- Using its voting power to oppose the board
- Attending general meetings and 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 disclose details of all votes on our website ([www.rlam-voting.co.uk/voting/](http://www.rlam-voting.co.uk/voting/)) giving brief explanations for instances where we have not supported management.

For many of our actively held stocks, RLAM will write to companies to explain our voting rationale in cases where we abstain or vote against management. This provides an opportunity for dialogue with companies prior to a general meeting.

### 3.3 Attendance at AGMs and other meetings

RLAM believes that voting at company meetings forms an important part of our constructive engagement process with management. These votes will usually be

cast by proxy, but RLAM may consider attending the AGM as an opportunity to engage with the directors on a matter of interest, or where the board has not been responsive to engagement.

## 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 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 as beneficial in signalling our initial concerns with a company and starting a dialogue with the board to seek further improvements.

## 5 Detailed voting guidelines

### 5.1 The Board of Directors

#### Board composition

The quality of the board is of utmost importance in order to facilitate better

informed board decisions. It should have meaningful representation of both executives and non-executives and a mix of directors with the appropriate skills, abilities and backgrounds.

Boards should be comprised of members that reflect an appropriate level of diversity of thought, opinion, gender and ethnicity to provide for optimal decision-making and challenge of management. There should be an adequate number of meetings for the proper management of the company. We would regard six in any one year as a minimum, and often more frequent meetings are necessary.

The board should be large enough for meaningful debate, but overly large boards are unwieldy, and should be avoided. Attendance at board, and board committee, meetings is important and should be publicly reported.

RLAM may vote against the chairman or the nomination committee chairman if material concerns persist in respect of board attendance, composition and diversity; in addition to voting against the individual director.

#### Board independence

For **large companies** RLAM would expect a majority of non-executive directors on the board, and for the chairman to be regarded as independent. We also expect boards to have adequate representation of executives.

For **smaller companies**, in line with the updated UK Corporate Governance Code, we now expect companies to have a majority independent board. We are cognisant of the difficulties some smaller companies face in recruiting additional independent directors; however we will expect progress in this area or meaningful disclosure as to why this standard has not been met.

We would encourage **AIM companies** to apply the UK Corporate Governance Code as far as practicable, or explain their reasons for applying a different code. RLAM will expect at a minimum two fully independent and unaffiliated directors to sit on the board.

RLAM will vote against the election of a non-executive director who we do not consider independent if there are insufficient independent directors on the board, unless a sufficient rationale is provided by the company.

#### Company secretary

We view the role of the company secretary as integral to the proper functioning of the board and maintenance of high corporate governance standards. Their role is to provide impartial advice and assistance to the board in addition to ensuring that an organisation complies with all financial and legal requirements. As such, we do not support the combination of this role with any other executive position.

Where this is the case we will expect extensive disclosure as to measures taken to ensure conflicts of interest are vigorously monitored and managed. We would expect companies with combined roles to seek external corporate governance advice and to disclose the nature of this advice to shareholders.

RLAM will abstain in the first instance, and potentially escalate to a vote against on the re-election of an executive director if that director also holds the role of company secretary.

#### Time commitments

Board members must have enough time and energy to discharge their role properly while maintaining capacity to deal with any emerging issues. We review the attendance record of all board members to ensure that they are fulfilling their role appropriately, and will consider opposing their re-election should their attendance record call into question their commitment to the company.

We will apply the current best practice guidelines when assessing the appropriate number of directorships held by an individual. The size and complexity of the relevant businesses will be taken into account. For example, the demands of serving on a financial services board will be more onerous than that of an investment trust. Private board positions may also

be taken into account if judged to be substantial. We view executive positions to be full-time, as such do not support the holding of more than one additional external directorship.

We will normally vote against the re-election of a non-executive director if we consider his or her time commitments to be of concern. We will not normally support the re-election of a director with a consistently poor attendance record absent of a satisfactory explanation.

### Annual director elections

RLAM believes that all directors should be subject to re-election annually and will support proposals in favour of annual elections.

### Senior independent director

RLAM acknowledges the importance of the role of the senior independent director (SID). In normal circumstances, a chairman who is independent of management should be the normal channel of communication between shareholders and the board. However, we acknowledge that the SID can also be an important link between shareholders and the board, particularly where the chairman is not independent or is unable to resolve a particular issue. It is necessary for the nominated director to be demonstrably independent.

RLAM will not support the re-election of a person identified as the SID whom it considers to not be independent. If a SID has not been appointed, RLAM may abstain or vote against the re-election of the chairman of the nominations committee.

### Director independence

In considering whether a director is independent, RLAM will have regard to the UK Corporate Governance Code's determination of independence in Provision 10. Under this provision factors which may impact independence include, but are not limited to; previous employment at the company, a material business relationship, remuneration

in addition to directors' fees, familial ties, cross-directorships, significant shareholding or excessive tenure.

### Board skills and directorsuitability

RLAM will pay particular attention to the mix of skills on the board, particularly around industry experience, but also on emerging issues and topics such as cyber security risk and sustainability. We encourage companies to improve their disclosure in this area. Adequate biographical information should be provided on the directors for shareholders to be able to assess them. This should include their qualifications and experience, age, gender, term of office, date of first appointment, level of independence and other personal and professional commitments that may impact on the quality of their contribution and independence, including disclosure of other directorships.

While it is the prerogative of the board to select candidates it believes are most suitable, RLAM reserves the right to question the board on whether the skills, attributes and experience of individual directors or directors in the aggregate meet the company's needs.

RLAM will vote against the re-election of individual directors or the chairman of the nomination committee if there are major concerns about director suitability, skills or experience.

### Board committees

For **large companies**, RLAM considers it important that the nomination committee is comprised of a majority of independent directors. The remuneration and audit committees should be wholly comprised of independent directors. Regarding risk committees, we retain the view that the assessment of risk should be a matter for the whole board rather than for a separate committee.

In addition, it is desirable for the board to have committees for issues related to business ethics, health and safety, environment, corporate responsibility, sustainable development and corporate governance. These committees are of particular importance for companies

with greater exposure to environmental and social risks. Such committees serve as a source of external perspective on emerging business and broader societal concerns, and also ensure that the company has proper internal control systems to identify and manage any risks they may pose to the business. We expect these committees to include independent directors with relevant expertise.

For **small companies**, in line with our position above; we expected over the course of 2019 for these boards to become majority independent. As such we view that the audit and remuneration committees should have attained full independence, provided there are at least three members.

If companies cannot meet the majority independence threshold, we would consider supporting committees where at least two-thirds are independent, provided there is a sufficient rationale.

RLAM will vote against non-independent members of audit and remuneration committees. We will also vote against non-independent members of the nominations committee should the committee not be majority independent.

### Chairman and chief executive

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.

RLAM does not consider it appropriate for a former or retiring chief executive to become chairman of the same company. In such a case, the former chief executive

would expect to hold the position 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 SID should be appointed.

RLAM will usually vote against the election of a director holding both positions of chairman and CEO. We would also vote against the chairman if he or she was not independent at the time of appointment, absent a sufficient rationale.

### Succession planning

We believe that the process of planning for succession of board members should be more widely reported upon.

Some of the issues surrounding leadership within a business appear to have their roots in insufficiently developed plans for succession of the executive management team. We also take the view that poor succession planning has contributed to the escalation of executive remuneration.

We will consider voting against the chairman if we have ongoing concerns regarding succession planning.

### 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 essential considerations. Research from McKinsey has consistently shown a clear link between gender, cultural and ethnic diversity, and profitability and value creation. Top-quartile companies for diversity (gender and/or ethnic) are between 27% and 33% more likely to outperform<sup>1</sup>. Therefore we strongly encourage companies to consider boardroom diversity when making any appointment.

In line with the recommendations of the Hampton-Alexander review we believe boards should reach a minimum 33% gender diversity target by the end of 2020.

We will vote against chairs where these targets are not met, or where the company has not provided credible plans for reaching 33%. We may choose to abstain in the first year where we've not had a chance to previously engage with the company on the issue.

We are also supportive of the aims of the Parker Review that there should be at least one person of colour on the board by 2021 in the FTSE 100; and by 2024 for the FTSE250. We will continue to engage with companies throughout 2021 on recommendations 2 and 3 of the review (Pipeline & Succession Development and Transparency & Disclosure); to ensure that they are beginning to consider and address shortfalls in this area. As the targets under recommendation 1 come into effect in 2021 we will consider opposing the re-election of Chairs at companies that have not met this standard and fail to provide a substantive rationale and/or succession plan.

RLAM also believes that diversity and inclusion extends beyond the boardroom, as such we actively engage with companies on their efforts below the board level and throughout the company. We encourage disclosure and reporting on the company's overall approach to diversity and inclusion in the workforce, and will factor this into both our engagement and voting activities.

RLAM will abstain or vote against the re-election of the chairman of the nomination committee, should the board not have at least 33% gender diversity absent a compelling rationale.

RLAM may abstain or vote against the Chairman of the Nomination Committee at FTSE100 companies should the Board not have at least one person from a minority ethnic background absent a compelling rationale, or clearly disclosed plans to address this before the end of 2021.

### Workforce engagement

There is recognition that Boards must do a better job at understanding and addressing the corporate culture and needs of the workforce as a whole. This was most recently codified in changes to the 2018 UK Corporate Governance

Code. The UK Corporate Governance Code provides companies with three options for formalising their approach to workforce engagement. Companies may choose to appoint a workforce representative to the board, establish a formal workforce advisory panel, or appoint a non-executive director as a designated point of contact for workers. Many companies we have engaged with are adopting a hybrid approach of the last two options, setting up formal employee feedback mechanisms and forums, and appointing a designated NED(s) on the board, responsible for facilitating contact between these forums and the board.

RLAM believes that companies should adopt the structure that is most relevant to them and their workforce, rather than favouring a particular approach. We ask that companies clearly explain the rationale for their chosen method and disclose activities undertaken during the year to ensure that employees' voices are being heard.

RLAM will consider voting against the chair or the director responsible for workforce engagement if we feel that inadequate steps have been taken to engage with the workforce, or where there are serious concerns with employee engagement during the year.

### 5.2 Directors' remuneration

Remuneration should be designed to promote the long-term success of the company. It is the responsibility of the remuneration committee to ensure that remuneration is adequate 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.

There has been a noticeable disconnect between pay and performance in recent years. We are not opposed to high levels of executive pay, provided that they are warranted and can be linked to exceptional performance on behalf of the company and all stakeholders.

We encourage the use of straightforward incentive schemes that can be understood by shareholders, employees and executives alike.

In line with the new UK Corporate Governance Code, we also expect companies to demonstrate a link between executive pay and that of the wider workforce, and that the views and experiences of employees have been factored into any decisions. RLAM may vote against pay policies or pay reports that are overly complex or disconnected from the workforce experience.

Shareholders at UK companies may express their views on remuneration through two separate votes: a binding vote on remuneration policy, and an advisory vote on remuneration implementation. The policy vote is required every three years or sooner if material changes are made to the policy. If a company fails to receive a majority of shareholder support, it is required to table a resolution with a revised policy at the next AGM. The advisory vote on remuneration implementation will occur every year regarding retrospective remuneration awarded in the year under review.

Generally, RLAM will vote against the **remuneration policy** if there are concerns with how remuneration is structured, if the policy allows for potentially excessive remuneration or there are increases to maximum pay without valid justification.

We will vote against the **remuneration implementation report** if we do not believe there is adequate alignment between remuneration in the year under review and long-term shareholder value, or if any remuneration decisions were made during the year outside of the agreed policy, absent a sufficient rationale.

Where we have significant concerns about remuneration practices, we may also consider voting against the re-election of the chair of the remuneration committee or against all members of the committee.

## Remuneration policy

RLAM will be supportive of remuneration policies that incentivise directors by relating pay to long-term value creation for shareholders. In line with the UK Corporate Governance Code, 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 reflected in the company's approach to remuneration.

When assessing remuneration we will consider the following:

- Is it aligned with long-term value creation 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 encourage companies to adopt a remuneration policy that is tailored to their strategy and business model. We are open-minded about supporting alternative pay structures (such as restricted shares or long-term deferred bonus schemes), provided an alternative structure is fully justified and explained.

RLAM encourages companies to adopt remuneration policies that incorporate material environmental, social and sustainability-related performance measures, provided they are quantifiable and linked to verifiable key performance indicators (KPIs).

RLAM will normally vote against a remuneration policy where:

- The independence of the remuneration committee is compromised;
- It is not possible to adequately assess the remuneration policy owing to poor disclosure by the company;
- It is not possible to adequately assess the policy or its potential outcomes owing to its complexity;
- There are serious inadequacies in the structure of share- or option-based incentive schemes (see below);
- The company has bundled approval of remuneration schemes with the approval of a merger or other corporate action;

- Service contracts allow the potential for "reward for failure" or early vesting of awards with no reference to performance; or
- Clawback and malus provisions are absent, or insufficient.

## Remuneration implementation

In voting on the remuneration implementation proposal, RLAM will consider whether the report demonstrates effective implementation of the policy over the reporting period. In granting performance-based payments, the remuneration committee should also have due regard to the long-term capital stewardship of the business.

RLAM will normally vote against a remuneration implementation proposal where:

- The independence of the remuneration committee is compromised;
- There is evidence of excessive remuneration having regard to the performance of the company;
- It is not possible to adequately assess the remuneration awarded or vesting in the year owing to poor disclosure by the company or due to complex pay arrangements;
- Bonuses are awarded without reference to performance targets;
- Base salaries were increased at a rate significantly greater than that for the organisation as a whole without sufficient justification;
- The company paid transactional bonuses without sufficient justification;
- The company made ex-gratia payments, such as non-contractual retirement bonuses, golden hellos, or retention bonuses; or
- The company paid recruitment rewards that are absent of performance conditions. This may include 'like-for-like' replacement awards, paid in cash or shares, which do not tie the executive into the future performance of the company;

- The remuneration committee has failed to use an appropriate degree of discretion, where the formulaic outcome of the policy is objectively disconnected with company performance or the shareholder experience.

### Share-based incentive schemes

RLAM recognises the value of performance-related remuneration such as share-based incentive schemes. It considers, however, that such incentives should be designed to reward high performance that adds significantly to shareholder value. RLAM also welcomes employee-wide schemes in the belief that strong employee ownership and engagement can be very beneficial to the strength and competitiveness of a business which ultimately benefits shareholders. It also allows employees to share in the success of a business. We consider best practice to consist of the following:

- Executives should build up a meaningful prior financial commitment;
- Remuneration structures should incorporate material, environmental, social and sustainability-related performance measures linked to verifiable KPIs, where appropriate to the business;
- Performance targets should be sufficiently challenging and aligned with the long-term strategic objectives of the company;
- All performance periods should be for a minimum of three years and preferably for five years;
- Additional post-vesting holding periods for share awards are encouraged; and
- An appropriate vesting scale should govern the level of vesting at different performance points. Only marginal amounts (0-25%) should vest for average or threshold performance and full vesting should only occur for outstanding performance.

RLAM would vote against the adoption of a scheme that incorporated or permitted any of the following features:

- Issuing of discounted share options

- Re-pricing share options
- Breaching of institutional guidelines on dilution
- Automatic vesting on change of control or other trigger
- Early vesting on severance
- Waiving or lowering of performance targets
- Retesting of performance targets
- Insufficiently challenging performance targets (taking account of the size of awards and any vesting scale)
- Amending material aspects of the scheme without reference to shareholders
- Absence of individual participation limits
- Excessive individual participation when considered in conjunction with awards under other schemes
- Performance period of less than three years
- Participation of NEDs in the scheme

### Performance targets

Schemes should be subject to performance conditions that provide a meaningful alignment with company strategy and objectives. In doing so, the chosen targets should take account of performance in a relative (peer comparison) and absolute (underlying growth) sense, and be mindful of the need to retain a focus on long-term capital stewardship.

For total shareholder return (TSR) this would typically translate to 25% vesting at median, relative to the peer group on a sliding scale up to full vesting at upper decile.

However, where high quantum grants are allocated, the lower vesting point should be adjusted so that high absolute levels of award do not vest for average performance.

When using earning per share (EPS) targets, the remuneration committee should satisfy itself that they are not distorted by balance sheet adjustments (such as for share repurchases and other capital adjustments) and genuinely reflect

underlying performance. Particular attention should be paid to how EPS is adjusted for 'exceptional items' to ensure pay outcomes are not distorted by adjustments that exclude items of a one-off nature that are fundamental to the long-term financial and strategic performance of the business.

A minimum credit quality should be maintained as a precondition to any award, and companies should consider whether and how targets that are sensitive to cash flow and leverage may be incorporated into remuneration schemes where relevant to the business.

### Restricted Stock Units (RSUs)

Companies should have the flexibility to determine the type of long-term pay model that suits their business best. We are willing to consider supporting alternative models of pay in the UK, including the granting of Restricted Stock Units (RSUs), under certain circumstances. While we will consider these on a case-by-case basis, we are more likely to support RSU plans with the following criteria:

- RSU schemes that offer a considerable discount to the existing LTIP, preferably 50% on the long term award opportunity to be replaced.
- Plans that comprise of a long vesting/ holding period, we would expect to see a minimum of five years applied.
- We would be supportive of schemes that apply a quantifiable performance underpin or suitable performance on grant.

### Pensions

In line with the 2018 update to the UK Corporate Governance Code and the guidance published by the Investment Association, we fully support the requirement for executive directors' pensions to be aligned with those of the workforce by 2022.

We expect all new remuneration policies submitted to shareholder vote to specify that any new executive appointments will receive the same pension contribution as the majority of the workforce. RLAM may vote against any policy where this is not the case.

Further we expect remuneration committees to review the pension

provisions currently in place for both executives and the workforce. While we understand the difficulties associated with amending pension provisions for current executives, we encourage companies to make and disclose every effort to address discrepancies in pension levels. RLAM will vote against any pension provisions deemed to be excessive in the context of the workforce level, particularly where the company has not made efforts to address this in public reporting.

RLAM may vote against a remuneration policy where executive pensions for new joiners are not aligned with the workforce.

RLAM may vote against a remuneration report where pension contributions are deemed excessive where there is not a compelling explanation.

### Shareholding requirements

We believe it is essential that executives hold significant shares in the company and build up a financial commitment to ensure alignment with the objectives of shareholders. As such, we are supportive of remuneration policies requiring executives to hold shares worth several times their base salary. These shares should be held as a minimum until retirement or termination of employment, but preferably beyond retirement or termination.

### Dilution

RLAM believes that strict guidelines should be observed with regard to the issue or potential issue of shares for incentive schemes, both as to the proportion of shares issued and to the rate at which these are issued annually.

RLAM will not support schemes which do not comply with best practice guidelines on dilution and participation limits, unless sufficient justification is provided. Normally RLAM would expect no more than a total of 10% of a company's equity to be used for share-based schemes within a ten-year period covering all schemes, with no more than 5% being available for discretionary schemes during this period.

Treasury shares should be included within these limits. Best practice is to include all shares used, whether market purchase or newly issued within these limits.

### Service contracts

Provision for one year's pay on severance should relate to basic salary and include only bonuses already earned.

There should be no early vesting of awards under share-based incentive schemes on severance. Wherever possible, a company should seek to mitigate liabilities on severance and should publish its policy on mitigation in its remuneration report. It is recognised that there may be exceptional occasions when a longer-than-normal notice period is appropriate, but the onus rests on the directors to demonstrate this. Where a longer initial notice period is granted on appointment, the notice period should reduce to one year or less within one year.

RLAM will not normally support the election or re-election of a director whose notice period exceeds one year.

### 5.3 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 resulting from climate change. For example, we are active members of the Climate Action 100+ (CA100+) initiative, which is engaging with the world's largest and most systemically important emitters of carbon.

However, we acknowledge that there may be 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<sup>2</sup> 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.

### 5.4 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.

## 5.5 Audit function

### Auditor independence

RLAM will normally vote in favour of the appointment of an auditor recommended by a fully independent audit committee provided that there are no issues that may compromise the independence of the Auditor, such as the size of non-audit fees. Audit committees should periodically review the independence status of their Auditors. We welcome the move to encourage greater frequency of tendering for the audit contract and also believe that

some form of backstop rotation of the audit firm should be in place, such as every fifteen years.

We will consider voting against the re-appointment of the auditor if we have concerns that long audit firm tenure may compromise the independence of the audit or if we have concerns about the quality of the audit.

A vote against the audit committee may be considered appropriate should there be ongoing concerns about the auditor, or in cases of negligence or wrong-doing with regard to the audit.

### Non-audit fees

Where auditors carry out consultancy work in addition to auditing the company, this should be fully disclosed and the audit committee should consider whether there is a risk that their impartiality may be jeopardised. Where non-audit work is undertaken by the company's auditors, the range and nature of this work and the tendering process followed in ordering work should be supervised by the audit committee. Very large non-audit fees can be considered an indicator of risk and are to be discouraged.

We will consider voting against the re-appointment of the auditor if the level of non-audit fees or the type of non-audit work raise concerns about the independence of the auditor.

## 5.6 Share capital

### Dividends

A resolution in respect of dividends should be put separately from the resolution to receive the report and accounts.

RLAM will consider each vote on the dividend on a case-by-case basis and vote in the best interests of our clients.

### Authority to issue shares

RLAM will normally vote for an authority to issue shares with pre-emption rights where the proposed issue is the lesser of the unissued

ordinary share capital or a sum equal to one third (33%) of the issued ordinary share capital. An additional one third (33%) may be issued, but only when subject to a fully pre-emptive rights issue. The authority given should last only until the next AGM.

### 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 normally vote in favour of authorities to issue shares for cash, other than from existing shareholders, where the proposed issue is limited to 5% of the current issued share capital, with an additional 5% for the purposes of an acquisition or specified capital investment. Such authorities should be renewed annually.

Other than in exceptional circumstances, RLAM would vote against the waiver of pre-emption rights beyond the 10% limit.

### Share repurchases

RLAM will normally vote in favour of an authority for share repurchases, provided that it complies with listing rule guidelines (e.g. limit of 15% of issued capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources.

To avoid the possibility of directors being placed in a position of conflict of interest, RLAM advocates the adjustment of relevant targets in executive bonus or share incentive schemes to take account of the increase in earnings per share caused by share repurchases.

## Voting rights

RLAM favours a share structure that gives all shares equal voting rights. RLAM does not support the issue of shares with impaired or enhanced voting rights.

RLAM is likely to withhold support for capital raising by companies with a capital structure that involves unequal voting rights.

## 5.7 The report and accounts

RLAM expects companies to report regularly in a manner that allows shareholders to have a clear understanding of the business, its strategy and its conduct. In short, a board should balance the needs of shareholders with the commercial sensitivities of running the business. The company should be as transparent as possible in its disclosure within the report and accounts so that investors can obtain a clear understanding of all the important and relevant issues.

As part of the system of internal controls, RLAM believes that companies should assess their wider impacts upon various stakeholders, particularly for larger companies, and/or for those with significant social and environmental impacts.

RLAM does not necessarily regard voting against the receiving of the report and accounts as a vote of no confidence in the board. As such, we will use the vote on the report and accounts to signal our concern regarding an issue that we feel requires more attention by the board.

In the case of serious breaches of corporate governance at a company, it might be appropriate to abstain from or vote against receiving the report and accounts.

We may also consider voting against the report and accounts where we have serious concerns about ongoing management of environmental and social risks, and where the company has not been responsive to engagement.

## 5.8 Other matters

### Shareholder resolutions

A full and reasoned statement should be provided outlining management's stance on any shareholder resolution presented on the ballot. Companies should be available to respond to reasonable enquiries from shareholders.

RLAM considers all shareholder resolutions put forward on a case-by-case basis and votes in accordance with its understanding of the long-term benefit to shareholders.

### Political donations

RLAM welcomes the opportunity to vote on material company donations. RLAM supports charitable acts at an appropriate level, but sees donations to political parties or to organisations closely associated with political parties as inappropriate.

RLAM will normally vote against any authority that would allow directors to make donations to political parties.

RLAM would choose to support such an authority only in exceptional circumstances where there was a pressing business case in favour of the authority and where the authority would not have an unduly negative impact upon the company's reputation. It would be the responsibility of the board to demonstrate to shareholders' satisfaction the existence of such exceptional circumstances.

### Memorandum and articles of association

RLAM considers that proposals to change a company's memorandum and articles of association should be presented to shareholders with a separate resolution for each substantive change. The reasons for each change should be provided.

RLAM will normally support management if the proposed changes are regulatory. However, in the absence of a full and clear explanation, RLAM will abstain or vote against amendments to the articles of association.

## 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.

## Takeover bids

Bids are important as a means to maintain an efficient and competitive environment. Some bids do not add to shareholder value, so in contested take-over bids RLAM will seek to discuss matters with management and the bidder.

RLAM will consider each vote on a case-by-case basis and vote in the best interests of our clients.

## Bundled resolutions

Resolutions put to company meetings should cover single issues, or issues that are clearly interdependent. Any other practice potentially reduces the value of votes, and can lead to opposition to otherwise acceptable proposals.

## Any other business

RLAM expects to vote on all resolutions, where the contents have been made clear to shareholders and are in the interests of the company and its shareholders.

RLAM will vote against resolutions where the contents or intentions are unclear, such as one that invites shareholders to vote on an 'any other business'.

## 6 Investment trusts

In assessing the governance of investment trusts, RLAM is supportive of the Association of Investment Trust Companies Code of Corporate Governance as best practice for the sector. We also look for a statement of compliance with the FRC's Stewardship Code along with evidence of adherence. RLAM considers it appropriate that the board of an investment trust should have no more than one representative from its investment managers. We expect the chairman and all other NEDs to be independent. The fund manager's contract should provide no longer than one year's notice period.

RLAM will not support the re-election of a NED if he or she is not considered independent and there are insufficient independent directors on the board.

## 7 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://www.mckinsey.com/business-functions/organization/our-insights/delivering-throughdiversity>
- 2 Taskforce on Climate-Related Financial Disclosures

## Contact us

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