

# Global voting principles

# Contents

## 01 Key principles and approach

- 01 Engagement
- 01 Escalation strategies
- 02 Managing conflict of interest
- 02 Expectations of our asset management partners
- 02 Shareholder resolutions

## 02 Company board

- 03 Culture
- 03 Stakeholder engagement

## 03 Board leadership, roles and independence

- 03 Board leadership and separation of principal roles
- 03 Senior or Lead Independent Director
- 03 Executive Directors
- 03 Non-Executive Directors and external commitments
- 04 Board balance and independence
- 04 Proportion of Non-Executive Directors on the board
- 04 Independence of Non-Executive Directors
- 04 Cross-directorships and interlocking boards
- 04 Extensive board service and independence
- 04 Employee representatives

## 04 Competence, objectivity and renewal

- 04 Diversity, competencies and perspectives
- 05 Nomination and re-election of directors
- 05 Retiring directors
- 05 Succession planning

## 05 Effective functioning of boards and communication

- 05 Board size
- 05 Two-tier boards
- 05 Board evaluation
- 05 Board meetings and attendance
- 05 Non-Executive Director ('NED') only meetings
- 06 Senior/Lead Independent Director, communication and accountability

## 06 Board committees

- 06 Audit Committee
- 06 Nomination Committee
- 06 Remuneration (Compensation) Committee
- 07 Other board committees

## 07 Remuneration

- 07 Disclosure
- 07 Benchmarking
- 07 Annual incentives
- 08 Equity incentive plans
- 08 Including ESG metrics in remuneration
- 08 Restricted stock plans (UK)

- 08 Equity dilution
- 09 Executive contracts and pensions
- 09 Non-Executive Directors' fees
- 09 Employee ownership
- 09 Level of executive pay, income inequality and the cost-of-living crisis
- 09 Impact of global events

## 09 Audit, risk and control

- 09 Appointment of external auditors
- 10 Internal audit
- 10 Auditor liability
- 10 Related-party transactions
- 10 Risk management

## 10 Social and environmental factors

- 10 Climate change and net zero expectations
- 11 Nature-related issues
- 11 Human rights

## 12 Shareholder and bondholder rights

- 12 Issuance of shares
- 12 Pre-emption rights
- 12 Share repurchases
- 12 Bondholder meetings
- 13 Controlled companies and share classes with differential voting rights
- 13 Voting caps
- 13 Mergers and acquisitions, spin-offs and other corporate restructurings
- 13 Poison pills/takeover defence plans
- 13 Political donations
- 13 Listings and reincorporation in a tax or governance haven
- 13 Aggressive tax strategies

## 13 Additional reporting and voting matters

- 13 Company reporting
- 13 Codes of corporate governance
- 14 Conducting shareholder meetings
  - 14 General meetings
  - 14 AGM/GM result disclosure
  - 14 Vote transparency
  - 14 Position on abstentions
  - 14 Share-blocking
  - 14 Record dates
- 14 Electronic voting and of use proxy advisory services
- 14 Additional soliciting materials (US)
- 14 Stock lending

## Key principles and approach

The Phoenix Group Holdings plc board of Directors (the 'board') approves the Group sustainability strategy as part of the Group's wider corporate strategy. The implementation and monitoring of our sustainable investment practices, including voting and engagement (i.e., stewardship), sits with the Life Companies' Board Investment Committee ('BIC') and relevant subcommittees. The Group Chief Investment Officer - who reports directly to Phoenix Group's Chief Executive Officer - is accountable for the Group's Sustainable Investment activities, including stewardship. Although both Phoenix Group's Stewardship policy and these Global Voting Principles (the 'principles') are designed for the long term, they will be reviewed annually and updated when needed. Any update to these policies is subject to a thorough internal review process.

As part of our stewardship efforts, we have developed principles to articulate our high-level beliefs and expectations of good corporate governance, environmental and social practices. These inform our monitoring of the exercise of voting rights by our asset management partners at annual and general meetings ('AGMs' and 'GMs') on an ex-post basis. We are not directly involved in voting decisions, either by casting votes or sending voting instructions to our asset management partners, except in the case of a small number of execution-only funds. It is our intention, where possible, to either direct or bring voting activities in-house for selected mandates in the future. Throughout the principles, where we state that we support a particular voting position, we refer to a general principle that our asset management partners can take into consideration when voting at shareholder meetings on our behalf.

**We believe that institutional investors bear a responsibility to vote at shareholder meetings and engage with investee companies to drive better corporate behaviours, which should also lead to stronger and more sustainable financial outcomes for our customers.**

When developing these principles, we have considered local market regulatory expectations and codes of best practice as well as broader global principles, including the UK Corporate Governance Code<sup>1</sup>, the G20/OECD Principles of Corporate Governance<sup>2</sup> and guidelines provided by the International Corporate Governance Network<sup>3</sup> ('ICGN'), the United Nations Global Compact<sup>4</sup>, and International Labour Organization ('ILO')<sup>5</sup>. We plan to review and revise these principles every year to address the evolving priorities of our customers, and to reflect regulatory developments and industry best practice.

Our approach is to be 'critically supportive' of the companies we invest in. This means that we will encourage the use of votes at company shareholder meetings to support or challenge aspects of corporate governance and sustainability practices. A vote against company management's recommendations may be reflective of a company-, market- or sector-specific concern with practices and disclosures. We encourage full transparency on the rationale for voting against management on an item at AGMs or GMs and in relation to environmental, social and governance ('ESG') shareholder resolutions.

We believe that an effective framework that supports a sustainable business model includes:

- a board and management team with clearly defined roles and purpose that work constructively and collectively while fulfilling their individual roles, such as overseeing succession planning, acquisitions and capital allocation;
- a long-term strategy that supports the integration of sustainability issues in company operations and activities;
- appropriate checks and balances in company management structures;
- effective systems of internal control and risk management covering all material risks, including ESG issues;

- the promotion of a culture of transparency and accountability that is grounded in sound business ethics throughout the company;
- the protection of the rights and interests of all shareholders in the company;
- a commitment to minimising negative impacts and maximising positive impacts on the environment and society; and
- remuneration policies that reward the creation of long-term shareholder value and deliver the right outcomes for all stakeholders through the achievement of corporate objectives.

### Engagement

Voting and engagement activities are connected and should reinforce each other. We see engagement as an effective tool to improve understanding of company practices and inform voting decisions. Boards and management should aim to use engagement meetings with investors as an opportunity to explain their business model, long-term strategy and operational practices and to make sure they are well understood by the market. Equally, it is vital for a successful two-way dialogue that companies listen to investors, collect their feedback and report on any progress made against raised concerns.

We appreciate that achieving ESG best practice is a process that involves ongoing interaction between the board, management, shareholders and stakeholders to address long-term issues, evolving regulatory matters and societal demands that will impact the value of our customers' assets.

We expect companies to align closely with our expectations, or to engage with us where circumstances prevent them from doing so. We strongly encourage companies to contact us and our asset management partners with information about upcoming AGM and GM topics and challenges unique to the company.

We will engage with companies or regulators on key strategic and ESG topics both directly or alongside other investors, including through collaborative initiatives. We may engage with companies proactively around company-specific, thematic, sector- or market-level priorities, upcoming AGM/GM topics, or in response to news coverage. We will seek to be pragmatic and constructive in our dialogue with management and boards and set clear expectations about the changes we wish to see in company practices or disclosure. We also expect engagement conversations, where appropriate, to involve high-level strategic discussions on matters that may affect companies' long-term financial returns.

Where 20% or more of the votes have been cast against a board-recommended resolution, we expect boards to understand why, including by comprehensively engaging with investors beyond the top ten on the shareholder register. In their next annual report, companies should disclose the steps taken to address shareholder concerns.

Where companies are unresponsive or engagement is unsuccessful, we support shareholders' right to submit a shareholder proposal for consideration by all investors. In these instances, companies should communicate promptly and fully with shareholders and refrain from obstructing the process. The board should provide a full and reasoned response to each shareholder proposal on the ballot.

### Escalation strategies

If, despite several engagement efforts, companies do not make the improvements that we expected, we will consider forms of escalation. We expect our asset management partners to be prepared to take similar actions for engagements conducted on our behalf. Possible escalation strategies are:

- collaborating with like-minded investors to reinforce our position;
- supporting votes or voting against management at the company meeting;
- speaking at an AGM to make statements and pose questions to the whole board;
- filing/co-filing shareholder resolutions; or
- recommending no additional investments, decreasing exposure and ultimately divesting of the holdings.

1 2018-UK-Corporate-Governance-Code-FINAL.pdf (ffc.org.uk).

2 G20/OECD Principles of Corporate Governance (oecd-ilibrary.org).

3 ICGN Global Governance Principles | ICGN.

4 The Ten Principles | UN Global Compact.

5 International Labour Organization (ilo.org).

### Managing conflict of interest

Conflicts which arise through stewardship activities conducted directly by our Stewardship Team are related to engaging with or monitoring voting at a listed company's AGM or GM where:

- the company is a shareholder in Phoenix Group, a client or a supplier
- Asset Management employees or members of Phoenix Boards have personal investments or board seats in companies engaged or receiving a vote.

We manage any conflict by treating all clients equally and not altering our engagement objectives. When a conflict of interest arises in our voting monitoring activities, the Stewardship Team refrains from communicating our voting principles' positions with asset management partners.

Our approach to conflicts of interest related to [stewardship activities](#) outlines in detail the processes in place to manage such conflicts when they arise.

Voting activities are primarily delegated to our asset management partners<sup>6</sup> and are executed under their customised voting policies. As part of our selection, appointment and monitoring of managers, we request that they have a robust conflict of interest policy in place. Phoenix receives a copy of the conflict of interest policy and reporting on number of conflicts that have arisen from each relevant asset manager as part of our regular due diligence processes.

### Expectations of our asset management partners

These principles provide a framework for us to assess how our asset management partners exercise voting rights in alignment with our principles and beliefs. Any comparative analysis will guide our dialogue with managers and future decisions on further defining the scope of our direct exercise of voting rights.

As we rely on asset management partners to vote on our behalf, we expect them to:

- apply a customised voting policy reflective of their principles and approach;
- provide an opportunity every year to clients to share feedback on their customised voting policy;
- provide an opportunity to clients to share expressions of wishes on key votes for them; and
- be fully transparent on their voting records and rationales for voting against management, and on ESG shareholder resolutions.

### Shareholder resolutions

We are generally supportive of initiatives that seek to introduce and/or enhance the ability to submit proposals. We encourage companies to engage proactively in constructive dialogue with shareholders and other stakeholders to identify actions which can be taken to address existing concerns and remove the need for shareholder proposals.

We consider all shareholder resolutions on the ballot in the context of the corporate governance and sustainability practices at a company and in accordance with our understanding of the long-term benefit to shareholders.

We will typically support voting in favour of shareholder resolutions related to:

- improving board accountability, executive pay practices, ESG disclosure, policies and practices as outlined in the relevant sections of these principles;
- establishing the right of shareholders to nominate or remove directors and allowing an advisory shareholder vote on pay;
- seeking additional or improved reporting and/or management of ESG issues where we have concerns, or the improvements sought are proportionate to the risks faced;
- introducing Say on Climate and/or to disclose and/or strengthen climate transition action plans, and include social factors in the transition plans (in particular for companies in high-emitting sectors);
- requesting transparency on pay equity, particularly in regions where this disclosure is not yet mandatory, and/or demanding independent racial equity audits as we believe these help shareholders better assess companies' management of gender and racial inequalities and related risks; and
- seeking alignment of corporate lobbying activities with stated climate objectives.

We will typically support voting for resolutions proposed by shareholders where we agree with both the broader issue highlighted and the actions proposed.

We will consider the proponent's and company's arguments, as well as broader information, such as regulatory requirement, investor expectation of best practice and practices by peer companies. We expect companies to provide comprehensive information on the management's position on each shareholder resolution and be available to respond to reasonable enquiries from shareholders.

We will typically support voting against resolutions when they:

- are too prescriptive in nature;
- cover an issue where the company has already taken significant action; and/or
- focus on issues which are not considered material for the long-term performance of the company.

We expect companies to adopt shareholder proposals where the majority of shareholders have voted in favour. Where there is significant support (20% or more of votes in favour), we expect the company to consider the benefits of the proposal, discuss this with its shareholders and include any outcome in its annual disclosures.

## Company board

We use the term 'board' to describe the board of directors and similar supervisory decision-making bodies. Boards are ultimately responsible for the long-term success of the company through oversight of and delegation of powers to executive management. In fulfilling this role, a company board is also accountable to shareholders. In order to function effectively, boards should receive regular reports and updates from executive management on the management of the business, and should question management on these matters.

The board is responsible for:

- testing the business strategy proposed by executive management, which includes the risk appetite and integration of ESG issues;
- ensuring the integrity of the company's accounting and reporting both on financial and ESG matters;
- assuring the independence and effectiveness of external audit;
- overseeing the effectiveness of internal control systems;
- defining succession planning of both the executive management and the board as a whole;
- promoting a culture of integrity, openness and one that values diversity; and
- being responsive to the views of shareholders and wider stakeholders.

<sup>6</sup> With the only exception of a small number of execution-only funds and selected sustainability-focused funds.

We acknowledge that the structure of the board may vary between companies, depending on the nature of the company's business, country of domicile, size and complexity, stage of development, ownership structure, strategic priorities, and skills of the members on the board. We believe, however, that boards of successful companies are characterised by key fundamental attributes such as:

- leadership, roles and independence;
- competence, objectivity and renewal;
- effective functioning; and
- communication and accountability to shareholders.

Where a two-tier board structure is the norm, companies should have and provide disclosure on processes in place to ensure the board works together, all the directors are effectively involved and the unique skills and experience of individual directors are utilised.

### Culture

We believe that a company's culture should promote integrity and openness, and value diversity. Companies should strive for an inclusive workplace where everyone can achieve their potential and is able to speak up freely.

The board is responsible for ensuring that the company's culture is aligned with its purpose, values and strategy. Furthermore, the board should take into consideration the best interests of shareholders and stakeholders and ensure these are embedded in its corporate culture.

### Stakeholder engagement

Stakeholder engagement is critical in achieving long-term sustainable success and should be a core element in the formulation and execution of a company's strategy. The needs and interests of different stakeholders, as well as the potential impacts of business operations, should be considered when making decisions across the company and at all levels. This should be reinforced by the board and management by setting the right tone from the top.

We expect companies to disclose information including:

- how they monitor the company's culture and how that relates to the business strategy;
- how their mission statement and values are communicated and reinforced; and
- any key performance indicators that are linked to culture.

## Board leadership, roles and independence

The board's composition is crucial for ensuring that good governance standards are maintained. Boards should have a meaningful representation of both Executive and Non-Executive Directors ('NEDs'). Non-Executives should normally be fully independent of the company, although we recognise that non-independent non-executives with specific skills and experience have a valuable role to play within the board. This could include representatives of significant shareholders, or a long-serving board member with specific expertise in, for example, regulatory matters. In building an effective board, the company should seek candidates from a wide pool of relevant talents to ensure diversity of thought and properly informed board discussions.

We expect all non-controlled companies to have boards with at least 50% independent directors.

### Board leadership and separation of principal roles

The Chair sets the agenda of the board in consultation with the company secretary, executive management and directors. He/she is the person ultimately responsible for the appointment and removal of the Chief Executive Officer ('CEO').

The roles of the Chair and CEO are substantively different and should be separated to ensure accountability within the board and a proper balance of authority and responsibility between executive management and oversight.

If the roles are combined over an extended period, companies should explain and justify this decision in their reports and accounts. In all such cases, we expect boards to nominate a Senior Independent or Lead Independent Director ('SID' or 'LID') or deputy Chair with clearly defined responsibilities.

Where this is not the case, we will typically support voting against the election of combined Chair and CEO positions. We will also carefully consider other factors, including the board balance, companies' exceptional circumstances and whether the combination of roles is temporary (for example, for newly listed companies) with a clear sunset timeline.

We will generally not support the recombination of roles for Chair and CEO and will expect companies to commit to splitting the roles within a short and pre-set timeline.

### Senior or Lead Independent Director

We believe that the presence of a SID or LID should not be limited to cases where there is a combined Chair and CEO on the board. The SID/LID plays an essential role on the board and should lead on the succession and appraisal process of the Chair. Additionally, he/she should:

- meet investors regularly in order to stay well informed and collect feedback;
- be a key contact for investors, especially when the Chair, CEO or Chief Financial Officer ('CFO') has failed to address concerns; and
- be a fully independent Non-Executive Director.

### Executive Directors

Including executives in board meetings enhances discussion and allows independent directors to gain the fullest understanding of the company's operations and business model. We support the appointment of key executives to the board alongside the CEO and the CFO. The presence of other executives provides additional company knowledge for the board and also ensures that it is not solely dependent on the CEO/CFO for inputs relating to the company's operations and strategies. The number of Executive Directors should not, however, outweigh the number of independent non-executives.

Boards that lack meaningful executive participation through board membership should use the board evaluation report to describe how the board has benefitted from regular interaction with company executives.

### Non-Executive Directors and external commitments

NEDs can provide a valuable contribution to the development of the company by bringing additional skills, sector knowledge and experience. Demand on directors' time has never been greater, so we seek to understand the competing priorities which may influence a director's ability to fulfil his/her duties and seek evidence that directors have sufficient time and energy to perform their role properly. The board's Nomination Committee should assess and be satisfied with the time required of directors for fulfilling other external leadership roles, such as directorships in public and private companies and non-profit organisations.

We will support voting against the election or re-election of any director, including one serving in an executive capacity, where we are concerned about their ability to dedicate sufficient time to the role. The appropriate number of directorships is influenced by the size, complexity and circumstances of the company, the nature of other commitments and the results of the board evaluation, among other factors. We expect directors to limit the number of external board positions they hold and may support voting against the appointment of NEDs who hold:

- more than five external directorships in quoted companies (not including multiple directorships within a single corporate group);
- more than four directorships in large/complex listed companies;
- in the case of a full-time executive, we expect that he/she will not hold more than one external Non-Executive Directorship; and
- in the case of the board Chair, he/she should not have more than three external directorships, or one external Chair position alongside an external directorship.

## Board balance and independence

We support boards that are well balanced in terms of numbers of NEDs, level of independence and mix of skills and experience among members.

Where we do not consider boards to be well balanced, we may support voting against the election or re-election of the Chair or members of the Nomination Committee. Concerns arise when:

- one-third of NEDs have served on the board for more than 12 years;
- more than half of the board (one-third in the case of controlled companies<sup>7</sup>) is comprised of non-independent directors; or
- the board lacks appropriate diversity across gender, race, nationality, ethnicity and work experiences, that can reflect the nature, scope and aspirations of the business.

## Proportion of Non-Executive Directors on the board

We favour a majority independent board to oversee corporate management and support effective decision-making in the best interests of the company and its stakeholders. A sufficient number of independent NEDs ensures greater diversity of views and alignment with key board committees' independence requirements.

We expect all non-controlled companies to have boards made up of at least 50% independent directors. As a minimum, we expect all boards, including those of controlled companies, to be at least one-third independent. In emerging markets, where the pool of talent for NEDs may be limited, we apply lower thresholds and expect only one-third of the board to be independent.

We may support voting against the election or re-election of NEDs on boards that do not meet these expectations.

## Independence of Non-Executive Directors

Our definition of directors' independence favours a principles-based approach to ensure that directors are able to act in the interests of the company, its shareholders and broader stakeholders.

We encourage companies to use their corporate governance report or annual shareholder meeting materials to describe the board evaluation process and the value that non-independent directors bring to the board. Independent NEDs of public companies should:

- not be former executives of the company. In general, we do not support the idea of a 'cooling off' period for former executives, unless directors have been past employees in a junior capacity; in such circumstances, a gap of at least five years would be appropriate;
- not have close family ties with the company's advisers, directors or senior employees;
- not have served on the board for more than 12 years, as they may lose their independent perspective; we will be guided by local corporate governance codes in markets which set more stringent expectations for tenure and independence<sup>8</sup>;
- not be significant shareholders or representatives of any significant shareholder (e.g. owning more than 3% of the company's share capital), or special interest groups (e.g. a lobbying organisation), a government or affiliated companies;
- not have had, within the past three years, a material business relationship with the company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company;
- have no significant commercial involvement with the company as a professional adviser, major supplier or customer;
- not be entitled to performance-related pay, stock options, pensions, or benefit from large donations to charitable causes of their choice by the company;
- not hold other directorships in companies in a closely related industry; and
- not hold cross-directorships or have significant links with other directors (see 'Cross-directorships and interlocking boards' below).

The Nomination Committee should also evaluate the impact that other relationships between directors might have on their independence. For instance, relationships through academic institutions, charities or social clubs could impact independence and should be reviewed during the directors' evaluation process.

## Cross-directorships and interlocking boards

Board directors should be independent from one another. When directors are jointly serving on two or more boards, an imbalance of power might emerge. For example, one of the individuals could be an executive on a board evaluated and remunerated by a fellow Non-Executive Director.

We expect companies to disclose cross-board and other interlocking relationships and to explain how the independence of individual directors is preserved.

## Extensive board service and independence

Board entrenchment is a significant governance risk. Effective boards are made of directors with fresh perspectives. In our view, prolonged membership on a board may jeopardise the independence of directors who have closer ties with management and become overly invested in prior strategic decisions. We encourage companies to establish a 12-year tenure limit for NEDs and adopt a proactive approach to non-executive succession planning and board refreshment.

While we recognise that there is no fixed time period that can automatically trigger a director's loss of independence, we use a 12-year benchmark as a rule globally (exceptions detailed in 'Independence of Non-Executive Directors' above). Long-tenured directors' experience and perspective may be valued by boards. In this case, these individuals should be considered affiliated directors and should not serve on committees, such as the Audit Committee, which should be fully independent.

We believe that for an appropriate board balance to be achieved, no more than one-third of NEDs should have served for more than 12 years. Nomination Committees should review the mix between new and long-standing directors necessary to achieve a balanced board.

## Employee representatives

We expect directors to take into consideration the views of the company's employees. In markets where this is not regulated through quotas and specific governance structures, companies have the option to appoint employee representatives to the board or set up employee fora and advisory panels.

While we value employees' representation on the board, we do not consider these representatives to be fully independent and will look for an appropriate proportion of shareholder-elected representatives to be independent to form a well-balanced board and committees.

## Competence, objectivity and renewal

### Diversity, competencies and perspectives

A diverse mix of skills and perspectives is critical for strengthening the quality of the board and the strategic direction of the company. We strongly encourage companies to disclose directors' skills matrices in their annual reporting. We expect companies to widen the pool of potential candidates for board and management roles to ensure that they draw on the richest possible combination of competencies and outlooks in alignment with their business strategy. Boards should partner with specialist recruitment consultants, who can identify candidate lists with the broadest diverse characteristics.

Directors should also continually update their skills and knowledge through targeted internal and external training including in relation to sustainability issues relevant to their company's sector.

<sup>7</sup> Controlled companies have 30% or more of voting rights held by one related entity or individual.

<sup>8</sup> For example, the threshold in the UK Corporate Governance Code is nine years.

**We will support voting against the re-election of directors standing for election where we assess there is a lack of key skills and expertise relevant to the business and its regional scope. We will pay close attention to the board's ability to credibly oversee the ESG performance of the company.**

We recognise the importance of gender and ethnic diversity as a critical issue for corporate performance and social justice. We expect our investee companies to promote gender equality and address the lack of inclusion of underrepresented groups and systemic racism in the workforce.

We encourage boards to affirm the value of diversity, including gender, ethnic origin, nationality, professional background and many other factors that may enhance the board's overall strategic thinking and performance. In particular, we invite boards to develop a statement/policy that sets out the company's approach to promoting diversity at the board, executive management and global workforce levels. Companies should seek to collect and disclose, where permissible, relevant data on the composition of the workforce, report on associated pay gaps and set and disclose targets, performance against these targets and timelines for improvement where issues are identified. We welcome additional disclosure around hiring practices, promotion, and retention rates for diverse employees.

We will support voting against the re-election of Nomination Committee Chairs or other directors standing for election, or management resolutions (such as the discharge of the board) at companies that are failing to meet our minimum expectation on gender and ethnic diversity. We have different expectations depending on the market and company size, but we generally expect at least a third of the board to comprise women. In larger companies in markets such as the UK, US and Canada, we expect the presence of at least one board member meeting the local market ethnic diversity definition.

#### **Nomination and re-election of directors**

We strongly believe that a majority independent Nomination Committee is best placed to identify and put forward suitable candidates for the board. We expect companies to propose only one candidate for each available position as an indication that the company is clear about the value individual directors bring to the board. We encourage companies to specify the candidate's name, biography, qualifications, experience and skills that are of particular relevance and importance to the board and the long-term strategic direction of the business.

We support board candidate proposals from shareholders where there is clear evidence of ineffective board oversight and responsiveness or where local governance rules encourage direct shareholder participation in board nominations through cumulative voting systems or similar arrangements.

We believe that the board needs to be regularly renewed to retain an open and critical perspective. For this reason, each individual director should submit him or herself for re-election at regular intervals. We will support voting against the election of directors presented under a bundled resolution.

We acknowledge that the regulations that govern the frequency of director re-election vary greatly from one country to another. Nevertheless, we prefer to have all directors standing for annual election to strengthen the accountability of the board to shareholders. Failing that, we encourage at least the Chair of the board, as well as the Chairs of the Audit, Remuneration and Nomination Committees to stand for annual re-election to strengthen accountability of the core functions of the board. We also believe that after 12 years of service on the board, directors should be subject to annual re-election.

#### **Retiring directors**

We would not normally expect a retiring Executive Director to retain a seat on the board as a NED, except in highly unusual circumstances. For two-tier boards, however, we recognise that there may be instances in which the contribution of former Executive Directors will be valuable in enhancing the supervisory board's understanding of the business. In such cases, we would expect that no more than one member of the supervisory board is a retiring executive and all other members are fully independent.

We will not normally support voting for a retiring CEO to become Chair.

#### **Succession planning**

Succession planning is vital for the efficient functioning of boards. We expect companies to put in place a formal and transparent procedure for the appointment of new directors with the right sets of skills to ensure board continuity and effectiveness. Regular internal and external board evaluation exercises, which include a review of board diversity, are crucial to support this process.

We also encourage companies to publish information on skills and expertise they are looking for in future candidates.

## **Effective functioning of boards and communication**

#### **Board size**

In the case of a two-tier board structure, both boards should comprise between five and ten members. Similarly, a unitary board should have between five and 15 members. In the case of overly large boards and in the absence of a commitment to reduce the board size, we will support voting against one or more directors, unless a clear justification has been provided by the company.

#### **Two-tier boards**

We support both two-tier and unitary boards. We also recognise that a two-tier board structure is the norm in many markets. At the same time, we are aware that there can be communication challenges between a supervisory board and a management board. That is why we expect companies to ensure that all board members can work together, and explain what mechanisms are in place to capitalise on the unique skills and experience of each director.

#### **Board evaluation**

All boards should implement internal and external evaluation processes that consider the effectiveness of the entire board, the contributions made by each member, the systems for interaction between the board and company management and any areas for improvement. We encourage companies to disclose this information in their annual disclosures. Companies should draw on professional third-party assistance to facilitate external periodic evaluations, ideally every three years.

#### **Board meetings and attendance**

The board should meet regularly to ensure effective oversight of corporate management.

Director attendance at board meetings is crucial for making valuable contributions to the board and fulfilling their fiduciary duties. We also expect directors to attend the AGM and facilitate communication with the shareholders whom they represent. The company should disclose the attendance record of individual directors in the annual report, and provide mechanisms for shareholders to communicate directly with the board.

We will not support the election of directors with a poor attendance record or boards that fail to accommodate shareholder dialogue.

#### **Non-Executive Director ('NED') only meetings**

NEDs should meet regularly without the presence of executive board members and when circumstances demand. They should also have at least one meeting per year to hold discussions away from day-to-day business matters. Ideally, these meetings should be chaired by a SID or LID, although the Chair may be present provided he/she is a non-executive.

Conversely, in the case of two-tiered boards, supervisory boards should meet with executives on a regular basis to minimise the risk that NEDs could become marginalised from the business.

### Senior/Lead Independent Director, communication and accountability

The board should proactively make itself available for consultations with shareholders on any substantive matter, whether or not it forms the subject of a vote, and should, to this end, appoint a SID or LID who can fulfil a formal liaison role. This is most important in cases where the CEO also holds the Chair position, the Chair has executive responsibilities or is not independent on appointment. Directors should consult shareholders prior to seeking approval for resolutions at the AGM and other meetings where any resolution could be considered contentious or consultation is deemed appropriate.

The SID/LID should also seek to establish lines of communication with an appropriately large and diverse group of institutional shareholders, both through separate meetings and by periodically joining the regular meetings that Executive Directors hold with investors. In particular, we encourage companies to create a communication channel in which the SID/LID, alongside the Chairs of the key board committees where/if required, can interact with shareholders about matters relating to governance ahead of AGMs. In addition, we expect boards to demonstrate an understanding of, and sensitivity to, the views and expectations of key stakeholders.

## Board committees

We encourage companies to move towards fully independent Audit and Remuneration Committees. The Nomination Committee should be composed of a majority of independent directors. All board committees should report on their activities annually to shareholders to enable an informed assessment of their effectiveness.

### Audit Committee

The Audit Committee is chiefly responsible for monitoring the integrity of corporate financial statements and provides an important safeguard for shareholders and other stakeholders who rely upon the integrity of reports and accounts as a basis for their dealings with the company. The committee should be responsible for assessing the effectiveness, independence, qualifications, expertise and resources of the external auditors as well as the quality of internal and external audit functions.

The Audit Committee should consist of at least three individuals who are exclusively independent non-executive independent directors. We expect at least one member to have recent and relevant financial, accounting or audit experience, and all Audit Committee members to be financially literate. The board Chair, if considered independent, may be a member of the committee but not its Chair. Non-independent board directors may be invited to attend Audit Committee meetings but should not be formal members with voting powers.

Where there is no formal risk management committee, the Audit Committee should be accountable for the proper oversight of risk management and internal controls. This includes reviewing all significant financial and non-financial risks. Shareholders and stakeholders rely on the Audit Committee to ensure companies have sound and robust internal controls in place to manage the company's financial, operational and reputational risks. In countries where it is not customary to have a board Audit Committee, the individual statutory auditors should be independent and fulfil the role of the committee.

Given that this system separates the audit oversight from the core responsibility of being a director, we do not generally consider this system to be preferable to having a board Audit Committee.

The Chair of the Audit Committee, in conjunction with the senior auditor, should ideally make themselves available to shareholders at the AGM, especially in the event of a significant restatement of accounts or material weakness in internal controls.

We will not support the election or re-election of members of the Audit Committee if we consider that they have not fulfilled their duty to shareholders. We will also not support the election of these directors to the boards of other companies we invest in.

### Business ethics

We believe that it is crucial that boards affirm their responsibility for reviewing internal business ethics systems. This could be done through the Audit Committee, the board or via a dedicated business ethics committee to ensure that there is an effective mechanism for the internal reporting of wrongdoing. The designated committee should have oversight of the business ethics control systems and interactions with other parties, such as suppliers, customers, contractors or business partners.

Anti-corruption measures should come under particular scrutiny by the board, especially in the context of extra-territorial anti-corruption legislation such as the US Foreign Corrupt Practices Act, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada) and the UK Bribery Act.

Business ethics control systems should include appropriate whistleblowing mechanisms related to financial fraud, bribery and corruption and any other breach of company policies or codes of ethics. The Audit Committee may serve as the body to receive whistleblowing reports where no other designated committee exists.

### Nomination Committee

A Nomination Committee should oversee all board and senior executive appointments, ensuring the right composition and an orderly succession process. In the nomination process, the committee should consider and assess the board's necessary mix of skills, experience, diversity, tenure and external commitments.

The majority of the committee should comprise independent NEDs and the board Chair, and should draw on executive advice as required. While we prefer a fully independent Nomination Committee, we recognise that in some instances, the presence of a non-independent director<sup>9</sup> or representative of a large shareholder may be appropriate. In some markets, companies may have either a Nomination Committee or a specific corporate governance committee that is responsible for corporate governance practices and procedures.

This committee should strive to achieve global good practice and consult with shareholders to understand their expectations. In all cases, the nomination/governance committee should have oversight of human capital policies for the workforce beyond the board and senior management.

### Remuneration (Compensation) Committee

The Remuneration Committee is responsible for setting the remuneration of senior executives.

We expect Remuneration Committees to consist exclusively of independent Non-Executive directors. The Chair of the Remuneration Committee should have appropriate knowledge of the business to align the remuneration of senior executives with its strategy. This is why we expect the Remuneration Committee Chair to have served as a member of a remuneration committee for at least a year prior to their appointment as Chair of the committee.

The Remuneration Committee should:

- consult with other board functions to ensure that pay mechanisms are well aligned with strategic goals and the company's appetite for risk;
- understand the balance in the allocation of profits to employees as incentive payments, dividends to shareholders, and retention or reinvestment in the business itself; and
- use independent advice, which can include internal HR and reward specialists and/or external consultants. In all circumstances, we expect the committee to exercise its own independent judgement when considering any advice provided by third parties.

<sup>9</sup> In the UK the Chair of the board is only considered independent on appointment.



We encourage Remuneration Committees to engage in direct dialogue with an appropriate group of institutional shareholders, including those below the top ten on the company's shareholder register. This is particularly important ahead of making significant changes to executive pay policy and structure. Ongoing dialogue with a broad group of investors allows Remuneration Committees to learn directly from investors about specific concerns on executive remuneration, as well as evolving expectations.

The committee's fiduciary duty is also to ensure that the amount of payment to management is fair and appropriate and aligned with the culture of the company. The committee should be attentive to remuneration levels across the company to assure itself that management is setting remuneration strategy properly. We would encourage the committee to reflect on other important issues linked to pay such as discrimination, glass ceilings, income inequality and poverty within its workforce.

We will consider supporting votes against the Chair and/or members of the Remuneration/Compensation Committee where there are significant concerns over the committee's decision-making, or where concerns identified with pay policies and practices remain unaddressed in the year after they have been raised.

### Other board committees

#### Corporate responsibility and sustainability

We believe that corporate responsibility or sustainability committees are highly desirable to ensure a proper oversight of corporate ESG risks and opportunities. Such committees can often also fulfil the role of a business ethics committee. We expect companies to constitute such a committee to ensure that proper policies, implementation practices and internal control systems are in place to identify and manage any ESG risks and opportunities for the business. The committee should comprise both executive and independent members and can also serve as a source of external perspective on emerging business and societal concerns. While the presence of such a committee is valuable to ensure the integration of relevant ESG issues in corporate strategy and operations, we believe that, as for other strategic and material matters, the responsibility for overseeing the ESG performance of the company, particularly relating to the corporate climate strategy and key social issues, should remain with the entire board and not be confined to a committee.

#### Advisory committees

Boards may require direct access to independent and external advice and expertise from third parties or stakeholders. We support the use of advisory committees or councils by boards to assist with specific information and aid decision-making without affecting the size and composition of the board.

## Remuneration

Levels of remuneration and other incentives should be designed to promote the long-term success of the company, protect competitiveness for talents when necessary, reflect executives' contribution and be aligned with financial performance. No director should be involved in setting his/her own remuneration.

Remuneration Committees should design executive incentives that:

- drive behaviours consistent with their company's purpose, values and strategy; and
- demonstrate an understanding of the views and expectations of shareholders and other key stakeholders in their company's markets, including employees.

Our key expectations for executive pay are summarised below:

- Salaries should be set at appropriate levels for the company's size and complexity.
- Significant salary increases should be linked to material changes in the business or in the role and responsibilities of executives.
- Companies should only pay what is necessary and seek to avoid excessive awards and should justify base pay/salary levels awarded.
- Companies should be careful in the use of benchmarks and peer groups and provide robust disclosure and justification on their use.

- Salary increases should generally not be higher than those awarded to the general workforce and a full assessment of the impact on total remuneration levels should be conducted. Where higher increases are awarded, they should be carefully justified.
- A significant proportion of total remuneration should be variable and subject to appropriately challenging performance metrics to reward strong performance and drive shareholder value over a sufficiently long period of time. Any adjustments to targets should be explained.
- Incentive awards should be clearly disclosed and explicitly linked to the achievement of the business strategy and objectives, and aimed at incentivising long-term thinking by management and aligning management interests with those of long-term shareholders.
- Executives are expected to build up an equity holding in the company while employed and thereafter; ideally, this will be achieved through directly purchasing company shares. We believe this is one of the best ways of aligning the interests of management and investors.
- Boards should retain ultimate discretion to ensure that final payments are aligned with the underlying long-term performance of the business and the shareholder experience. We expect boards to disclose the main reasons that can lead to the application of discretion, whether discretion can be used to adjust awards upwards as well as downwards, what elements of pay are subject to discretion and the impact on awards and final payouts.
- In general, severance payments should not exceed one year's salary and benefits. We accept that in some markets the payment of two years' salary and bonus is the contractual norm. Larger severance packages should be subject to a separate shareholder approval.

We will support voting against remuneration-related proposals that fall materially short of our expectations.

### Disclosure

The annual remuneration report should disclose the total amount of remuneration including cash, options, stocks, benefits, pension contributions, deferred compensation and any company loans that executives may receive under different performance scenarios. The remuneration report should be written in a way that aids and enhances understanding by investors and stakeholders; it should not be used simply as a compliance document.

The remuneration report should be written in plain language.

The remuneration of all Non-Executive and Executive Directors should be disclosed individually.

Pension arrangements for executives and employees should be disclosed in detail, along with differences in contribution rates for executives and the general workforce. Companies should also include details on how, and in which cases, the Remuneration Committee might exercise its authority to withhold or reclaim all or part of non-base pay from executives.

### Benchmarking

Companies should ensure they disclose meaningful information on the benchmarking data used and the rationale to select a specific benchmark group. Remuneration Committees should consider relevant factors when defining peers' benchmarks including companies' size and complexity, geographic spread and performance. We do not encourage use of peer groups that are too large or too small. We believe that it is reasonable that executives of under-performing companies are remunerated less highly than directors of companies where performance goals have been met.

### Annual incentives

Bonuses for Executive Directors should be set as an appropriate proportion of base salary and should be capped. Companies should demonstrate the alignment of their remuneration policy with their overall business strategy and planning, with at least 50% of metrics attached to the annual incentive linked to the delivery of financial performance and 100% of the bonus linked to performance objectives. Discretionary bonus awards must be fully explained and justified by companies.

We would encourage all targets under the annual bonus to be disclosed in advance but accept retrospective disclosure to take account of sensitivities around short-term target disclosure that persist in certain markets. No bonus should be paid if threshold levels of financial performance are not met, irrespective of the level of achievement under other non-financial objectives.

We advocate the introduction of risk-related underpins – or preconditions – to bonus awards to ensure that incentive payments are not awarded in the event the company's financial strength or credit quality might deteriorate. The same applies for high-risk sectors, where workplace fatalities have occurred or in case of a material ESG controversy.

We expect a proportion of the bonus (typically 50%) to be deferred in shares for at least two years. Companies should put in place provisions to allow for a reduction or forfeiture of the annual bonus component in exceptional circumstances (e.g. malus/clawback<sup>10</sup>).

### Equity incentive plans

We support the principle of motivating and rewarding executives through the granting of equity incentives. Performance targets for equity incentive plans should be clearly disclosed and challenging. Ideally, all incentive awards should be performance-based.

Generally, we believe that executive pay plans should reflect a balance of financial, operational and relative performance targets and that at least 50% of awards should be performance-linked. In most markets we expect 100% of awards to be linked to pre-determined performance metrics.

We believe that the Remuneration Committee is in the best position to determine the most appropriate performance metrics for driving the long-term business strategy. Overall, plans should have a limited number of performance metrics that reflect a range of expectations and should not rely disproportionately on the achievement of a single metric. In cases where only a relative performance measure, such as total shareholder return, is employed, use of an absolute performance metric can serve as an underpin to ensure that rewards are scaled back when the company's overall performance suffers.

We agree that exceptional performance over a significant period merits an exceptional level of remuneration. We oppose retesting of performance conditions and support voting against remuneration plans where the Remuneration Committee has used its discretion to relax any performance targets previously approved by shareholders.

We will consider one-off equity awards on a case-by-case basis in light of justification provided by the company. Frequent use of exceptional awards, however, raises questions over the adequacy of the overall remuneration strategy and effectiveness of succession planning.

We will take particular care when reviewing equity awards granted for the purposes of recruitment or retention when such awards are not linked to meaningful performance targets.

Longer-term incentive plans should be fully share-based, and total vesting and holding periods should be five years or more. We also encourage companies to require longer-term holding periods post-vesting.

We expect companies to have a strictly enforced shareholding requirement. In general, no shares should be sold until the shareholding requirement is met, with the exception of instances where tax is due on vested shares and a sale is required to meet the tax obligation. Such requirement should also be substantially high. It is expected that 100% of vested LTIP and deferred bonus shares be retained (except those sold for tax purposes) until the shareholding requirement at least equal to the level of annual LTIP award is achieved.

The Remuneration Committee should maintain the right to withhold all or part of performance-based pay (malus) from executives before it has vested in cases where it deems it appropriate.

The Remuneration Committee should also be able to recover sums already paid out to executives. This clawback authority might occur following a significant restatement of accounts and/or ESG controversies, where previously granted awards were paid on the basis of inaccurate figures or where the long-term outcomes of a specific strategy result in significant value destruction for shareholders. In particular, when representations made by executives to the Audit Committee about the integrity of controls have been shown to be inaccurate, or executives have failed to exercise due caution in the discharge of their duties, the company should consider reclaiming performance awards. Clawback policies may also be supplemented with extended deferral periods for share and bonus plans.

### Including ESG metrics in remuneration

We expect companies exposed to high levels of ESG risks and opportunities to include in their short- and/or long-term variable pay plans relevant and clearly measurable metrics for managing and mitigating these factors.

We encourage the inclusion of ESG targets in executive pay where these factors have a significant material impact on the company's performance. We also expect those companies to provide an overview of the process undertaken to identify such factors, an explanation as to why they consider these factors to be relevant and the rationale for their choice of relevant ESG metrics. If a company is part of an industry where ESG issues can be significant contributors to business success and chooses not to include any such factors in executive pay, we expect the company to explain the reasons for this.

Remuneration targets attached to ESG metrics should be meaningful, measurable, aligned to the company's strategy, linked to the company's overarching long-term ESG goals, subject to third-party verification and assigned a specific weight.

ESG remuneration targets should not be based on purely qualitative assessments. An overly large number of different ESG indicators or targets based on inclusion/performance in ESG/sustainability indices raise concerns.

We will support voting against pay policies and plans at companies in high-impact sectors failing to be aligned with our expectations on linking ESG performance to executive incentive structures.

### Restricted stock plans (UK)

The introduction of restricted stock plans should be reviewed on a case-by-case basis. Where companies decide to introduce restricted stock plans, we expect a company to provide a clear and justified explanation for the adoption of the new approach and will review the specific disclosed terms of each proposal and consider whether the scale of the plan is appropriate and includes appropriate underpins (for example to address windfall gains).

Award levels should be reduced significantly compared to the normal long-term incentive grant, to take account of certainty of reward.

### Equity dilution

We recognise that different limits apply in different regions and encourage companies to provide transparent explanations regarding the issuance of shares for incentive plans. In general, we expect no more than 10% of a company's equity to be used for all share schemes over a ten-year period and no more than 5% in ten years for discretionary schemes. The annual run rate or burn rate<sup>11</sup> should also be reasonable at approximately 1%. 'Treasury shares'<sup>12</sup> should be included within these limits. Restrictions should apply to all shares whether they are market purchased or newly issued. If the company is insufficiently transparent regarding the details of such schemes, we will support voting against them.

10 A malus allows the Remuneration Committee to reduce 'at risk' remuneration prior to testing. A clawback refers to the cancellation of unvested incentives, subject to applicable law, where some or all the performance-based remuneration should not be received.

11 The potential dilutive effect of equity grants on a company's issued shares over a certain time period, usually a fiscal year.

12 Defined as previously issued shares that are bought back from shareholders and held by the issuing company.

### Executive contracts and pensions

Executive contracts should not be for more than 12 months, except where a longer period may be required for recruitment. In this case, the notice period should be reduced month by month until the agreed period of no more than 12 months is attained. In markets where 24-month contracts are required by law but longer provisions are permitted, we will expect companies to limit executive contracts to 24 months' salary and bonus, including in the event of a change in control.

Remuneration Committees must proactively set out the potential rewards on severance in the event of inadequate performance and clarify the performance conditions under which such severance benefits are to be payable.

We encourage companies to seek mitigation where a director has taken up employment elsewhere and to adjust the length and size of any payments accordingly. We regard one year's base pay and pension entitlements as sufficient severance and encourage companies to make larger severance packages the subject of a shareholder vote.

In the UK, we expect executive pension contributions to be broadly aligned with those for the majority of the workforce. Where alignment has not been achieved, we expect companies to disclose a plan to achieve alignment over no more than three years.

### Non-Executive Directors' fees

NEDs' fees should reflect the level of responsibility and time commitment of the role. NEDs should not be entitled to options or other performance-related pay and therefore should not be included in any such scheme, although a proportion of the fixed fees may be paid in market-priced shares.

### Employee ownership

We believe that widespread employee ownership can contribute positively to shareholder value, as it further aligns employees' interests with those of shareholders. Where companies operate broad-based stock option plans, employee discounts should not exceed 20% on a fixed date, the company should not extend loans to purchase options, and options should not be repriced without shareholder approval.

Remuneration Committees should take explicit care that employee ownership plans are included within company-wide dilution limits and that they cannot be used as anti-takeover devices.

### Impact of global events

We expect Remuneration/Compensation Committees to take account of individual circumstances and sensitively balance the goal to continue to incentivise executive performance with the need to ensure the executive experience is commensurate with that of shareholders, employees and other stakeholders.

We will likely support voting against approaches that seek to insulate or reward executives in a manner that is inconsistent with the approach taken for the general workforce.

Where a company has had to raise additional capital from shareholders, or has required government support in a given year, we will expect this to be reflected in the executive remuneration outcomes.

- We would not support salary increases unless commensurate with the workforce.
- We will consider payment of any annual bonuses on a case-by-case basis.
- Long-term incentive plans should not be unduly adjusted to insulate from the negative impacts of crises that affect the whole economy during the performance period.

Remuneration Committees should use discretion to reduce vesting outcomes where these are inconsistent with the company's overall performance. This must also apply in the case where windfall gains have been received. These could be as a result of equity-linked awards being granted at a depressed share price, or revenues arising from extraordinary circumstances beyond the influence of executive management.

## Audit, risk and control

Boards are responsible for assessing the resources available for the internal and external audit functions and their effectiveness. We expect Audit Committees to be able to explain to investors the degree of oversight the board has of the established processes and procedures that ensure the independence and robustness of the internal and external audit functions. We recommend that the independent members of the Audit Committee meet on a regular basis with the company's auditors and without company management. This may enable a better flow of information between the auditors and the board.

### Appointment of external auditors

The auditors' performance and appointment should be reviewed periodically. Where the same firm remains as auditor for a period of time, there should be a policy of regular rotation of the lead audit partner. We believe that systematic rotation of audit firms is both desirable and in the best interests of shareholders. Specifically, we strongly encourage the practice of putting the audit contract out to tender every ten years and will support voting against the re-appointment of particularly long-serving audit firms for more than 20 years.

Over the medium term, we consider it desirable to broaden the choice of auditors available to companies by using a broad pool of audit firms that can demonstrably meet the required standard of competence and global coverage. We expect audit quality to be the main consideration in the selection of the auditor and expect that shareholders should be given the opportunity to vote on the appointment and payment of auditors.

### Fees paid to a company's auditors in addition to audit fees

Where auditors carry out consultancy work in addition to auditing the company, this should be disclosed and the Audit Committee should consider whether there is a risk that an auditor's impartiality may be jeopardised. The range, nature and tendering process for any such non-audit work should be supervised by the Audit Committee, whose responsibilities in this area should be fully disclosed. We generally discourage non-audit work to be undertaken by the company's auditor, although we recognise that there are certain areas of non-audit work where the company's auditors may provide valuable expertise, without compromising independence.

We believe that substantial non-audit fees in excess of 50% of audit fees in a given year may be an indicator of compromised independence. In the event that substantial non-audit fees are paid for more than one year, we will support voting against the reappointment of the auditor or the payment of auditor fees.

### Internal audit

An effective and sufficiently resourced internal audit system is essential for identifying new and emerging risks that may affect business objectives. The Audit Committee should have responsibility for and oversight of the internal audit function. The processes and procedures in place to manage such risks should be embedded into the company's risk-based control system and summarised in the annual report.

### Auditor liability

We may support arrangements to cap auditor liability only in exceptional circumstances, i.e. where the risk of a catastrophic and disproportionate claim can be demonstrated. In such circumstances, we expect companies to approach auditors' liability in a manner consistent with the following guidelines:

1. Directors must assure themselves that the audit's quality will be preserved and enhanced.
2. Auditors' liability should be based on the principle of proportionality rather than through the application of a fixed monetary cap.
3. Shareholder approval should be sought on a forward-looking rather than retrospective basis.
4. Audit Committees should ensure that a full explanation of the reasons for putting such a resolution to shareholders is disclosed.
5. Directors should ensure that the effect of agreements throughout the company's subsidiaries provide for proportionality.

### Related-party transactions

Many companies are involved in substantial related-party transactions, for example between a controlling shareholder and the company; this represents a significant risk for minority shareholders.

This risk is mitigated by having board oversight or a fully independent Audit Committee responsible for ensuring that such transactions are conducted based on arm's-length valuations. We strongly encourage companies to:

- secure prior shareholder approval for material related-party transactions;
- disclose sufficient information about such transactions to ensure shareholders can make informed voting decisions;
- consider whether such transactions should be supported by an independent fairness opinion;
- disclose any shareholdings that controlling shareholders may have in other companies or investment vehicles that have a material interest in their company; and
- ensure that they have in place a written agreement with their controlling shareholders to demonstrate that the company is able to carry on its activities independently from the controlling shareholder(s).

Related-party transactions should be:

- subject to proper board oversight and shareholder approval;
- clearly justified or beneficial to the company;
- undertaken in the normal course of business or; on arm's length commercial terms;
- in line with best practice; or
- in the interests of all stakeholders.

### Risk management

The board as a whole is responsible for defining a company's risk tolerance relative to its strategy and operations and is also responsible for monitoring the company's performance relative to defined risks. Financial, operational and reputational risks that are relevant to the company's business should be included in this oversight, including material ESG issues. Depending on the size and complexity of the company, a stand-alone board risk management committee might be warranted. Such a committee may enhance board effectiveness in situations where the Audit Committee is already stretched. We do not have a specific expectation that every company should establish a risk management committee, but we believe that in the absence of such a committee the board should clearly demonstrate that it is alert to and regularly monitors risks on an enterprise-wide basis. It is also best practice for the board as a whole to review the company's risk management as a standing item of regular board meetings.

## Social and environmental factors

Social and environmental factors can present serious risks and significant opportunities to corporations with an impact on the bottom line. That is why a well-run company should have formal systems to identify, assess and manage such significant risks and opportunities in relation to its industrial sector, geographical presence, customer basis, workforce and specific business model. Companies should provide appropriate public disclosure on the identification of such factors, their policies and practices to manage these areas, measurement of performance with sufficient historical information as well as evidence of strategies and targets to achieve good practice.

### Climate change and net zero expectations

In an effort to avert catastrophic climate change impacts, the UN climate negotiations in Paris resulted in broad agreement that we must collectively reach global net zero emissions by around 2050. From the view of a highly diversified asset owner, climate change manifests itself as both a systemic risk and an opportunity within investment portfolios. Companies will have to develop their own plans to achieve net zero emissions, a task which if managed incorrectly will pose significant transition, physical and legal risks to their businesses in the long term.

We are highly supportive of internationally recognised frameworks to guide our approach to net zero in investment portfolios and dialogue with investee companies. In particular, we refer to the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations, the CA100+ Net Zero Framework, the UK Transition Plan Taskforce and the UK's Transition Pathway Taskforce to assess the credibility of companies' transition plans.

More specifically, we expect companies in high-emitting sectors to provide robust disclosure and evidence on climate change management and action across the following pillars linked to the TCFD framework:

- **Governance and remuneration**
  - Assignment of board-level oversight and responsibility for climate-related issues.
  - Evidence of boards' skill sets to understand climate-related risks and opportunities.
  - Executive remuneration considers to climate transition-related KPIs including short-to-medium term hurdles linked to the company's net zero strategy.
  - Evidence of alignment of direct and indirect lobbying activities with the Paris agreement's goals. Where misalignment with the company's climate strategy is identified, we expect to see examples of escalation actions to ensure alignment.

## • Strategy

- Commitment to a long-term net zero goal by 2050, with a clear scope, timeline and baseline.
- Details on measures that will be deployed to deliver GHG emissions reduction targets, including the proportions of revenues that are considered 'green' where relevant, initiatives in collaboration with suppliers and clients, the use of Carbon Capture, Utilisation and Storage ('CCUS') and offsets.
- Definition of a coal phase-out plan, with a clear target for divesting coal assets by 2030 in OECD countries and 2050 in the rest of the world (for companies active in thermal coal mining, trading and/or combustion for energy generation).
- Evidence of climate scenario planning to test the alignment of the company transition plan and relevant interim targets with net zero. Multiple scenarios should be sought, including a 1.5°C scenario. The company should disclose the methodological framework used for scenario analysis, underlying assumptions and variables.
- Details on capital allocation and R&D spending in alignment with the company's transition plan.
- Definition of a Just Transition strategy to identify impacts from transitioning to a lower-carbon business model on workers and communities and measures to minimise harm.

## • Risk management

- Evidence of integration of transition and physical risks in the company risk management framework.

## • Metrics and targets

- Disclosure of historical emissions data covering Scopes 1, 2 and 3, with this information being externally verified.
- Evidence of positive trends on reduction of total absolute and intensity GHG emissions over time.
- Commitment to short-, mid- and long-term targets aligned with a 1.5°C trajectory covering the company value chain.
- Commitment to apply for SBTi verification or a credible independent verification of the company's targets.

## • Disclosure

- Alignment of disclosure with the International Sustainability Standards Board (ISSB) standards, IFRS S1 and S2, which build on the Taskforce on Climate-related Financial Disclosure (TCFD) framework.
- Externally audited annual disclosure on climate change.
- Development of a climate transition plan.
- Statement in the company's financial accounts about climate scenarios under which they were generated as well as any material climate assumptions and outcomes.
- Responses to the annual CDP questionnaire.

We will assess companies' performance on climate change through the use of internal research, external assessment and third-party analysis. More specifically, we will track the progress of companies in high-emitting sectors against a different climate scenarios using tools such as the Transition Pathway Initiative ('TPI').

Management of companies in high-emitting sectors should allow for a routine advisory vote on company transition plans (e.g. Say on Climate) by shareholders. We will assess these and other climate-related resolutions, filed by shareholders or proposed by management, on a case-by-case basis following the relevant expectations outlined in these principles.

As in the case of other thematic engagement programmes, if a company is included in our priority target list for engagement on climate change, we will support the use of our votes on directors' nominations to express discontent in the case of lack of progress by management against our set engagement objectives.

## Nature-related issues

Nature is being degraded at an unprecedented rate and scale, with human activity significantly accelerating this change. We recognise that protecting and restoring the planet's natural resources is an economic and environmental imperative, which presents both an exciting investment

opportunity and a complex risk to manage. We recognise that these nature-related risks and opportunities can be material and are committed to addressing them within our portfolio monitoring and stewardship activities.

Companies have different degrees of dependency and impact on nature through direct operations and/or their supply chain, depending on their sectors and locations.

We understand that companies might be at early stages of assessing this topic, but we nevertheless expect them to:

- Governance: establish a strong governance framework with board-level accountability and responsibility to oversee the integration of nature-related risks and opportunities in the company strategy and risk management strategy and reporting.
- Assessment: identify, on a best endeavours basis, the size, scale and materiality of dependency and impact on ecosystem services at each priority business location including an analysis of the company's supply chain in line with leading relevant industry standards and guidance.
- Integration: integrate the management of actual and potential effects of nature-related risks and opportunities into the organisation's business model, strategy, financial planning and risk management framework, reporting and assess the implications of emerging regulation on operations, supply chain and customers.
- Metrics and targets: develop qualitative and quantitative targets in alignment with internally agreed goals, as well as effective metrics to measure progress towards these across both operations and the supply chain.
- Preservation: respect and adhere to, throughout their operations, international laws, regulations and treaties, including the UN Convention on Biological Diversity, that aim to preserve and restore natural assets and ecosystem services.
- Local stakeholders: respect the rights of Indigenous Peoples and local communities by allowing meaningful and effective participation through free, prior and informed consent (FPIC) in relation to matters that could affect them; ensure equitable access to land, resources, territory and benefits sharing arising from using land and/or natural resources where Indigenous Peoples and communities hold rights or interest.
- Nature-based solutions: allocate resources to robust due diligence processes to develop and/or acquire high quality carbon removal credits from nature-based solutions for offsetting residual emissions across their value chain.
- Disclosure: align corporate disclosure with the most updated version of the Taskforce on Nature-related Financial Disclosures ('TNFD') reporting framework.

When assessing corporate performance against our expectations, we will use internal and third-party research and focused public benchmarks.

We will assess nature-related shareholder and management resolutions on a case-by-case basis, especially when we or our asset management partners are actively engaging with corporate management on this matter.

We will support voting for shareholder resolutions calling on lagging companies to measure and assess the dependencies and impacts of their businesses on nature, develop a policy and strategy to mitigate negative risks/impact or to create positive impact/opportunities and set short-, medium- and long-term targets on this matter.

As in the case of other thematic engagement programmes, if a company is included in our priority target list for engagement on nature-related issues, we will support the use of our votes on directors' nominations to express discontent in the case of lack of progress by management.

## Human rights

As an active asset owner, we recognise our responsibility to respect human rights across our value chain, including aligning our investment practices with the United Nations Guiding Principles on Business and Human Rights ('UNGPs'). In 2022, we developed a Phoenix Group Human Rights policy informing our approach as employer, procurer and provider of financial services, and investor.

We embrace the definition of human rights from the UN Universal Declaration of Human Rights and the core conventions set out by the International Labor Organisation ('ILO'). This includes individual and collective rights to life, health, education, culture, privacy, decent work, freedom of association and collective bargaining, living wage, freedom from forced and child labour, equality and non-discrimination and effective remedy.

Although exposure to human rights risk may vary by company, sector and geography, we believe that the responsibility to respect human rights applies to all companies. More specifically, we expect portfolio companies to:

- have a human rights policy which commits management to undertake measures to respect human rights and align practices with the UNGPs or equivalent emerging industry standards and good practices addressing human rights;
- assign responsibility to the board for overseeing the application of the policy and human rights risk management;
- identify their salient human rights issues through their own operations, the use of their products and services, and their business relationships (including supply chains). This includes undertaking ongoing due diligence to identify, monitor and address risks at each of these three aspects of their business;
- engage with a wide range of stakeholders, including those who might be affected by their operations and business relationships to ensure that they understand and can adequately address risks and adverse impacts;
- provide accessible grievance mechanisms for individuals and communities that may be affected by their operations;
- take action through the use of leverage and provide access to remedy to address harm;
- establish qualitative and quantitative metrics to monitor and track abuses of human rights and actions taken to address these;
- assess the effectiveness of their human rights management, including due diligence processes, measures and targets, and the use of any third-party assurance providers;
- collaborate with peers and other stakeholders through industry initiatives which intend to tackle human rights issues in specific sectors and/or geographies; and
- publicly communicate their efforts to respect human rights, including through the timely reporting and disclosure of their salient human rights issues, how they manage those issues, and their performance in doing so with the use of measurable data when possible.

When assessing corporate performance against our expectations, we will use internal and third-party research, focused public benchmarks and external assessments on violations of human rights standards.

We will assess shareholder and management resolutions on human rights issues on a case-by-case basis, especially when we or our asset management partners are actively engaging with corporate management on this matter.

More broadly, we will support voting for shareholder resolutions calling on companies to formally commit to respect human rights, have in place human rights due diligence processes, and, where appropriate, ensure that victims of human rights abuses have access to remedy.

As in the case of other thematic engagement programmes, if a company is included in our priority target list for engagement on human rights issues, we will support the use of our votes on directors' nominations to express discontent in the case of lack of progress by management.

## Shareholder and bondholder rights

### Issuance of shares

We respect a company's right to issue shares to raise capital. Share issuance should, however, be strictly limited to what is necessary to maintain business operations and drive forward the company's strategy. We will support voting against requests to increase authorised share capital that exceed 50% of existing capital, unless the company has provided specific justification (e.g. to complete an acquisition or undertake a 'stock split').

### Pre-emption rights

We believe that 'pre-emption rights' for existing shareholders are essential. Shares may be issued for cash without pre-emption rights or for compensation purposes, subject to shareholder approval. Companies should adhere to strict limits for issuing new shares on a non-pre-emptive basis as a proportion of the issued share capital.

While legal requirements and practices vary globally, we normally consider appropriate limits in most developed and emerging markets to range between 5% and 10% in one year for general purposes, with an additional 10% possible for a specified purpose<sup>13</sup>. We will support voting against requests to issue shares without pre-emption rights above these limits, unless companies have provided a satisfactory justification.

### Share repurchases

Share repurchases or 'buy-backs' can be a flexible way to return cash to shareholders. The benefits of using this approach depend, however, on a number of factors including the price at which shares are repurchased, the company's financial circumstances and wider market conditions at the time.

We expect companies to repurchase shares in the market when it is advantageous for the company and its shareholders. Repurchased shares should ideally be cancelled to prevent reissue without authority from shareholders.

We expect the board to be transparent in how the authority for share repurchases will be used in relation to other uses of capital (such as dividends, internal investment or mergers and acquisitions).

Authority to repurchase shares should be subject to shareholder approval, be limited to one year, and not exceed 10% of the issued equity. Any share repurchase must benefit all holders on equal terms, taking account of option adjustments.

In the UK, share repurchases can trigger Rule 9 of the UK Takeover Code where there is a significant shareholder or a concert party whose shares account for 30% or more of the issued share capital. In such circumstances, a share repurchase can result in an automatic increase to their shareholding and eventual control without paying minority shareholders a premium. We will typically support voting against Rule 9 waivers unless the waiver is required for purely technical reasons.

### Bondholder meetings

Examples of common proxy voting resolutions at bondholder meetings include:

- amendments to debt covenants and/or terms of issuance;
- procedural matters, such as filing of required documents/other formalities;
- debt-restructuring plans;
- repurchase of issued debt security;
- placement of unissued debt securities under the control of directors; and
- spin-off/absorption proposals.

Given the nature of the items that arise for voting at bondholder meetings, we will support our asset management partners taking a case-by-case approach to bondholder resolutions.

<sup>13</sup> In the UK, our expectations are aligned with the Pre-Emption Group Guidelines as amended from time to time.

### **Controlled companies and share classes with differential voting rights**

We support the one share-one vote principle where all shares have equal voting rights and encourage companies not to issue shares with impaired or enhanced voting rights.

We nevertheless recognise that in some markets differential voting structures are supported by regulation, long-standing and widespread.

Where differential voting structures exist, these structures should be transparently disclosed to the market including sunset provisions in place. In the case of controlled companies, we will review any request to issue shares with enhanced voting rights to determine why these are necessary and the impact on the interests of minority shareholders.

### **Voting caps**

We oppose voting caps in principle and believe that all shares should be entitled to full voting rights irrespective of the holding period.

We nevertheless recognise the widespread use of voting caps in certain markets and the benefits accruing to shareholders not subject to a cap. That is why, at a minimum, we expect companies to clearly disclose existing caps, establish a phase-out plan over the time and not to introduce new caps in the future.

### **Mergers and acquisitions, spin-offs and other corporate restructurings**

Takeover bids and corporate restructurings are important means to maintain an efficient and competitive environment. However, we believe that not all bids add value to shareholders. This is why, in contested takeover bids, we will support our asset management partners discussing the matter with both corporate management and the bidder. We expect boards to conduct thorough due diligence prior to pursuing any merger or acquisition and to seek to maximise shareholder value in any deal.

We will also consider the ESG risk implications of any corporate activity, particularly in high-impact industries. We expect the board to evaluate the potential ESG risks, liabilities and opportunities of any business merger, including any assessment of relevant supply chains. We expect companies to take appropriate consultative measures with employees and communities affected by any corporate restructuring.

### **Poison pills/takeover defence plans**

We consider artificial devices designed to deter bids, known as 'poison pills', to be inappropriate and inefficient, unless they are strictly controlled and of very limited duration to strengthen the board's negotiating position and allow it to obtain more favourable terms from an acquirer. In some markets, the use of shares with enhanced voting rights is common, and may be used to block mergers and acquisitions, thereby performing the same function as poison pills. Any control-enhancing mechanism or poison pill that entrenches management and protects the company from market pressures is not in the interests of shareholders and we will normally support voting against such anti-takeover devices.

### **Political donations**

We do not support corporate donations to political parties or candidates. We will generally support voting in favour of shareholder proposals asking companies to develop a comprehensive policy statement that addresses all relevant aspects of their political involvement.

Companies should disclose a breakdown of payments to political parties, candidates and other activities of a political nature. We expect companies to provide public disclosure that enables shareholders to understand their material associations.

### **Listings and reincorporation in a tax or governance haven**

Companies that are listed on an exchange should comply with the rules and listing requirements of that exchange.

We are generally not supportive of resolutions for a company to reincorporate in a new legal jurisdiction offering lower legal and governance protections to shareholders, regardless of whether this results in a lesser corporate tax burden.

### **Aggressive tax strategies**

Even if structured legally, such strategies can pose potentially significant reputational and commercial risks for companies. We expect the company's board to ensure that the company's approach to tax policy is both prudent and sustainable, and to disclose to shareholders that the board is providing appropriate oversight of its tax policy. Companies should provide a suitable amount of information for investors to understand their tax practices and associated risks.

## **Additional reporting and voting matters**

### **Company reporting**

The annual report and any proxy voting materials should be made available to shareholders in good time for consideration and discussion prior to the AGM. We look for a minimum of 20 working days. Such materials should be easily accessible, preferably on the company website. Companies should follow the principle that disclosure should be fair, balanced and understandable. Disclosure should be meaningful and transparent, so that investors can obtain a clear understanding of all important and relevant issues. The annual report should provide a full review of the business model and strategy, key performance indicators used to gauge how the company is progressing against its objectives, principal risks and any significant factors affecting the company's future performance, including any material ESG issues, and key achievements and standards followed during the accounting period.

### **Codes of corporate governance**

Companies should provide a full and clear statement of all matters relating to the application of the relevant principles, sub-principles and provisions of the national code of corporate governance or stock exchange principles applicable to them. The way the provisions are put into effect should be clearly discussed, and any deviations should be supported by meaningful explanations. We welcome and encourage companies to draw attention to specific areas where they believe departures from code provisions are justified.

## Conducting shareholder meetings

### General meetings

Under normal circumstances, we expect annual physical meetings of the shareholders to be held, with the majority of the directors of the company attending. These meetings can be supplemented with a virtual option (hybrid AGMs). In such cases, companies should seek IT solutions to enable shareholders attending virtually to ask questions of the board and make follow-up remarks during the virtual-only AGM/GM.

### AGM/GM result disclosure

We expect all companies to disclose the vote results for all resolutions both during the meeting and on their websites shortly after the meeting, with a detailed breakdown of votes for and against, including the percentage of votes against and percentage of abstentions and overall turnout.

### Vote transparency

We believe that companies have a right to know how their shareholders have voted.

That is why we encourage our asset management partners to provide ongoing disclosure of their voting activity. This should, at a minimum, include vote comments which set out the rationale for voting against management and in support and against shareholder proposals.

Additional vote comments, particularly where there is an issue that may be escalated to a vote against management in the future, help support investee companies' understanding of investor views.

### Position on abstentions

Our standard voting approach is to either vote for or against resolutions where these options are available to shareholders. There are, however, exceptional cases where we consider abstaining to be appropriate, for example, where company practices have improved significantly but do not fully meet our expectations, or around emerging issues where best practice is still evolving. With respect to shareholder resolutions, we may support abstaining in cases where we agree with the broader issue highlighted but do not agree with the way in which the resolutions propose implementation or prescribe change.

### Share-blocking

We believe that share-blocking, i.e. the practice of preventing shares from being transferred for a fixed period prior to the vote at a company meeting, discourages shareholder participation and should be replaced with a 'record date'. Where share-blocking exists, our asset management partners may be prevented from voting because of concerns about failed trade settlements and extraordinary cost to clients and underlying beneficiaries.

### Record dates

We recommend that a record date is set at a maximum of five working days prior to the company general meetings (with two days standard in the UK) to allow custodians and registrars to clearly identify those shareholders eligible to vote. This will give time for all relevant formalities to be completed, serving the same purpose as share-blocking without the disruptions noted above.

### Electronic voting and of use proxy advisory services

We have appointed Institutional Shareholder Services ('ISS') to produce vote recommendations in accordance with these guidelines. Our Stewardship Team will review these voting recommendations based on an internal prioritisation model, and they will be used to monitor the voting behaviour of our appointed asset management partners.

### Additional soliciting materials (US)

If we become aware that an issuer has filed additional soliciting materials prior to a proxy vote submission deadline, we would endeavour to review and reflect those in the application of our voting principles where (a) the submission is published at least five days prior to our earliest vote cut-off, and (b) the enclosed information is considered to materially affect our voting position.

### Stock lending

Securities lending is a strategy in which beneficial owners of securities temporarily lend their assets to approved borrowers for a fee.

The lender retains all economic benefits of lent securities, including dividend and corporate action entitlement.

We believe that there is a balance to be struck between stock lending practices and voting activities. Securities lending is an important factor in preserving the liquidity of markets, facilitating hedging strategies and providing investors with additional returns for their customers. In these circumstances, underlying shareowners lose voting rights for the securities on loan during an AGM or GM. In rare instances, this has led to abuse, where borrowers have deliberately entered into transactions to sway the outcome of a shareholder vote without any intention of owning the stock long term.

Our asset management partners monitor where a loan position affects an upcoming shareholder meeting. When we and our asset management partners judge a vote to be particularly controversial or strongly linked to preserving the long-term value of the holding, the asset management partners can request to recall the stock out on loan for voting purposes within 24 hours. This is generally in exceptional cases and not for all positions. Our goal is to maximise our voting positions alongside the additional revenues for underlying beneficiaries, balancing the benefits of lending alongside our stewardship commitments. New lending proposals require specific internal approvals and a maximum threshold of 20% of holdings available for lending is applied.