VOTING POLICY UPDATE IN 2023

We regularly review our voting policies to ensure they evolve with our thinking on corporate governance, and reflect our commitment to hold executives and auditors to account for their actions. As set out in our Ownership Discipline, voting is one of the core levers shareholders have to ensure robust governance, so it must be handled with diligence and care. As we approach the 2023 voting season, we wanted to share key changes we have implemented. Please refer to our updated policy for further detail.

In keeping with all our voting, while these changes guide our central view, we remain alert to unintended consequences, and where these become plain or an ongoing engagement demands a different approach, we will tailor our vote for those specific circumstances. Our rationales are published quarterly on our website, alongside our voting activity.

PROMOTING BOARD DIVERSITY

Our policy had been to vote against the chair of the nomination committee if a board fails to ensure at least 30% gender diversity (in the UK we required 33%). We are strengthening our policy in the UK in line with the FCA listing rules, with a new diversity rule requiring 40% board gender diversity, and – for non-AIM companies – a woman in a senior position (Chair, CEO, SID or CFO). We believe that there should be a greater balance in the boardrooms, not only because it is right, but it also helps underpin robust challenge and avoids herd-like thinking. This is particularly important in building business resilience, as a diverse board is more likely to have considered potential challenges from a range of perspectives.

Ethnic diversity is also an important issue when we cast our votes. Last year we introduced our policy to vote against the chair of the nomination committee in the UK and US when there is no member of the board from an ethnic minority background. This year, we have extended this rule to Canada (S&P/TSX Composite).

SHAREHOLDER RESOLUTIONS: GENDER/RACIAL PAY GAP REPORTING

We support transparency on pay equity, particularly in regions where disclosure is not yet mandatory. We believe Gender / Racial Pay Gap reporting is appropriate for shareholders to better gauge how the company is managing inequities related to gender and ethnicity. We will therefore vote for resolutions to report on a Gender / Racial Pay Gap.

SHAREHOLDER RESOLUTIONS: RACIAL EQUITY AUDITS

We believe independent racial equity audits would help shareholders better assess how effective a company's management of racial inequalities and related risks is. We will therefore vote for resolutions to oversee or report on a Racial Equity Audit.

CLIMATE-RELATED VOTING

We have further strengthened our climate voting policy this year with regard to companies on our climate amber list in the following respects:

Transition plan: As more and more companies publish net zero commitments, our focus is shifting to the delivery of these commitments. In 2023, for companies with material exposure to climate risks, we will vote against the chair or lead independent director where our analysis shows they are not aligned to their net-zero commitments. This includes an assessment of whether a company's proposed transition plan is being implemented, e.g. whether capital expenditure and operating plans have been appropriately modified.

Remuneration: We continue to look for safeguards in remuneration policies that prevent performance-related pay where performance has been associated with non-aligned outcomes, e.g. carbon emissions above what has been promised under net-zero commitments. We refer to these safeguards as a 'net zero underpin', in reference to a similar concept of a 'capital adequacy underpin' used by banks to ensure minimum capital thresholds are met before any bonuses are paid out.

In 2023, we will abstain on remuneration policies that fail to meet this expectation to permit time for engagement with remuneration committees and build an understanding of our expectations.

Lobbying: Business lobbying against climate action continues to hamper global efforts to control global warming. To ensure climate-aligned lobbying, we already vote against the Chair where the company has lobbied against action on climate change. From 2023, we are looking for companies to positively affirm they will lobby in line with the Paris Agreement. Where this commitment is not forthcoming or the entity is not in a position to provide an independently assured lobbying report, we will consider voting against the chair on a case-by-case basis.

DIRECTOR ACCOUNTABILITY

Our policy is to hold chairs of committees accountable for issues relating to their area of responsibility, normally covering audit and risk, remuneration and nomination/governance. We do this by voting against chairs of key board committees where we have voted against the relevant item over which they have responsibility for two consecutive years. For instance, where we vote against remuneration for two years in a row, we will then also vote against the chair of the remuneration committee.

To ensure consistency at companies with staggered or classified boards, or in absence of the key committees, where we cannot vote against the chair of the relevant committee, we have stipulated the steps to identify the most appropriate responsible director(s) to hold accountable. First, we identify the longest-tenured member of the relevant committee, and if there are none, then we vote against the board chair. We make this link clear in our recorded and published rationales.

CASE-BY-CASE CONSIDERATIONS

We have expanded the list of items we consider case-by-case to include resolutions proposing the issuance of new shares that fail to conform with accepted market practice. We continue to operate internal watch lists of priority companies that we are engaging with, which are reviewed individually. This list has been updated for 2023 covering the following key engagement topics: net-zero alignment, human rights, diversity, circular economy and governance.

IMPORTANT INFORMATION

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.

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