# NEST's voting policy

# Contents

# Background

NEST own assets, including shares in companies, on behalf of our members. These shares give us a say in how companies are run through voting rights and engaging with companies on how they operate. We want NEST's voting and engagement activities to support and shape good corporate behaviour. We believe sound corporate governance and companies that consider their impact on the society and the environment have a better chance of sustaining long-term economic success. This supports better investment outcomes for our members.

## About this document

This document sets out our high level beliefs on the issues NEST votes and engages on with companies we invest in. Since we published our first voting policy, our viewpoints and engagement with companies on a number of sustainability issues like climate change has developed significantly. There have also been several regulatory governance changes on issues like executive pay, risk management and audit. We've evolved our active ownership approach to reflect these developments, and gained more insight into our members' views and concerns through direct contact from members and via discussions with NEST's Members' Panel.

In light of these positive developments, we've refreshed our voting policy to include updated governance principles and enhanced sustainability guidance for our investee companies. This document also sets out some of our expectations and outcomes on engagement with our investee companies in the context of our broader policy on active ownership.

There are a number of issues where our expectations don't directly translate into an obvious voting outcome. In these instances we would expect that engaging with the company to communicate our views is more effective. We've highlighted some of these instances where we're more likely to engage rather than vote on a resolution. We also include some engagement outcomes for certain issues in our policy to demonstrate how our voting and engagement activity is linked.

## Who is this document for?

The main audiences for this document are the companies NEST invests in and the fund managers we work with. It may also be of interest to our members, stakeholders and employers with a detailed interest in the means by which NEST acts as a responsible investor.

We have assumed those reading this document will be familiar with voting rights, as well as the **UK Corporate Governance Code** and the **Pensions and Lifetime Savings Association voting guidelines**.

## How to read this document

Text boxes introduce each policy area. These set out some of our high level beliefs.

We then provide a more detailed summary of the principles we deploy in each area. Under the heading 'Outcome/voting guideline' we also include what these are likely to mean in practice. This indicates how we will engage and/or vote on each principle.

# How NEST applies our voting policy

NEST takes its responsibilities as an asset owner seriously. Currently we invest in pooled funds managed by external managers. As clients, we work closely with our fund managers to help us support good corporate behaviour.

Our fund managers exercise our voting rights in accordance with their own policies. Part of our procurement process for choosing fund managers involves ensuring their voting policies are well thought out and documented.

Having our own policy enables NEST to document our position and expectations to our fund managers on good corporate behaviour. We use it to hold our fund managers to account on the decisions they make. It also helps us identify differences in how they vote to how we would vote on a particular issue. Having our own established policy in place helps us to have healthy discussion and debate with our fund managers.

We always seek to vote and engage in the interest of our members and encourage our fund managers to consider our voting policy in their voting decisions. While our views will generally be aligned with our fund managers', there will be times we adopt a different approach on some areas. We are able to override a select number of votes cast by our global equity manager. This means that even as a pooled fund investor, we can directly exert our influence on investee companies on matters we feel strongly about.

Having a clearly articulated voting policy also supports NEST in participating in the wider debate on corporate behaviour.

# Policies on key areas

## Corporate leadership

The board and executive leadership team are responsible for setting the ‘tone from the top’. This ensures the business is acting in the long-term interests of its shareholders and other stakeholders. We believe companies are more likely to sustain their performance when boards lead their organisations in ways that benefit people in the whole organisation, not just a select few.

Sustainable performance is also more sustainable when senior leaders achieve their goals within a framework of professional ethics and integrity.

Boards should have an appropriate level of independence from management. Individual board members should each be competent, persuasive, open-minded, professional and sound in judgement. The board as a whole should be diverse in terms of gender, ethnicity, and experience. We believe diversity of thought contributes to better decision making.

| Principle | Outcome/voting guideline |
|---|---|
| **Leadership and conduct** | |
| Sound ethics, values and professional integrity help to support consistent decision making and behaviour. Attaining high standards of behaviour and ensuring these standards are filtered across organisations should be an ongoing objective of senior leaders. We expect the board to create a reliable and effective decision making culture. This should include whether the organisation’s objectives and activities are framed in ways that promote ethical behaviour and prevent unethical behaviour. | We support the chairperson and board where we see values, ethics and purpose set at senior level and instilled across the company.<br><br>We support the chairperson, chief executive and chair of the remuneration committee where we see board involvement in how tasks and directives are framed. |
| **Separation of chair and CEO roles** | |
| We do not expect to find combined roles without good reason. When roles are combined, organisations may struggle to offset the risks associated with one individual having this level of power and access to information. Where roles are not separated there could be an over-reliance on one individual to provide this counterbalance, such as the senior independent director. This could take their time and focus away from the matters normally related to their role. | We may vote against re-election of the chair of the nomination committee if the positions of chairperson and chief executive are combined and/or the individual in question. |

| Principle | Outcome/voting guideline |
|---|---|
| **Non-executive directors** | |
| We expect the chairperson to create a constructive culture that facilitates effective non-executive director behaviour. This includes providing support and challenge while remaining independent from the executive board.<br><br>We expect non-executive directors to look beyond day-to-day issues and provide independent and balanced advice. Powerful and persuasive communication skills are needed, especially when there is shareholder disagreement with the board or during times of company difficulty. | We may vote against re-election of the chairperson where there is limited evidence of a board culture that facilitates effective non-executive director behaviour.<br><br>We may vote against the re-election of one or more non-executive directors where the board fails to respond appropriately to significant company events. |
| **Director independence** | |
| We expect to find at least half the board comprising independent non-executive directors. We expect a smaller company to have at least two independent non-executive directors. We support the definition of independence as set out in the UK Corporate Governance Code. Independent non-executive directors are more likely to offer challenging questions and perspectives where there are not relationships or circumstances that could interfere with independent judgement. | We may vote against re-election of the chairperson, chair of the nomination committee or other board members where we doubt the board's overall independence. |
| **Effectiveness** | |
| Boards are more effective when all directors play full parts and take collective responsibility. An effective board will be characterised by diversity, including the way they think, their gender and what each can contribute. We support progressive approaches to encouraging difference so as to avoid group-think.<br><br>The board and its committees have the capacity to discharge their duties more effectively and debate more constructively when there is breadth of expertise, knowledge and skill. Personality and cultural differences can positively impact on the way a group thinks. Individual board members should each be competent, persuasive, open-minded, professional, and sound in judgement. The purpose, priorities and skill contribution of each director should be clear to shareholders. | We may vote against re-election of the chair of the nomination committee or other board members where we doubt the effectiveness of the board's overall composition.<br><br>We may vote against the appointment or re-election of any director where we doubt their capacity for focus, contribution, or where the appointment seems not to clearly meet a skill set need. |

| Principle | Outcome/voting guideline |
|---|---|
| **Nomination** | |
| When there are vacancies, companies should assess the potential need for diversity to increase or maintain a broad mix of thought and flow of ideas that contribute to more effective decision making.<br><br>Companies should publicly state both an aspirational level of women on their boards, as per Lord Davies' recommendations, and the steps being taken to ensure boards include more women. If boards are not achieving adequate diversity throughout the company, they need to explain why. | We will vote against the re-election of the chair of the nomination committee where a company fails to disclose an aspirational target for women on the board. We will also vote against re-election if there is no indication of momentum or progress of electing women onto boards as per the Davies recommendations. |
| **Director re-election and commitment** | |
| We do not believe annual contracts are a cause of short-term thinking. Good directors are exercised by the challenge of leadership. This makes us favour annual elections for all directors.<br><br>Increasing regulation, compliance and complexity has changed the context and tempo of directing. Immersion in directing is now essential for effective stewardship of today's large company.<br><br>Part-time non-executive directors need to allocate significant time to their roles. Part-time directors need to dedicate sufficient time in order to be able to ask challenging questions based on a sound knowledge of the business. They will also need to dedicate the time needed to address the significant information asymmetries between themselves and full-time executive directors.<br><br>Full-time executive directors with significant external professional commitments are unlikely to be fully effective. | We do not support non-annual elections without convincing explanation and justification.<br><br>We are less supportive of part-time non-executive directors with more than a low number of significant external roles.<br><br>We generally do not support full-time executive directors taking on a chairmanship or more than one non-executive directorship. |

| Principle | Outcome/voting guideline |
|---|---|
| **Diversity** | |
| We believe diverse boards in terms of gender, background, experience, education, qualifications and ethnicity can improve the quality of decision making.<br><br>Personality and cultural differences can have an impact on the way a group thinks and we support progressive approaches to encouraging differences.<br><br>Evolving the board when vacancies arise by including an assessment of the potential need for diversity can increase and maintain a broad mix of thought and flow of ideas. This can contribute to more effective decision making.<br><br>We support seeing this approach encouraged and progressed throughout the wider workforce.<br><br>A focus on diversity can also help to legitimise both the board and company. We believe that a company should have a policy on board diversity.<br><br>In line with The Davies Review Five Year Summary we think 33 per cent is a reasonable minimum target for representation of women on corporate boards, rather than a binding quota. We believe companies should publicly state an aspirational level of women on their boards and should work towards further increasing women's representation by 2020.<br><br>Companies should disclose the steps and measures they are taking to include more women on boards and across the company. If they are not achieving adequate diversity throughout the company, boards need to explain why.<br><br>Companies should also disclose the proportion of women on the board, women in senior executive positions and female workers in the whole organisation. | We support boards that have a company-wide diversity policy, or demonstrate how the board diversity policy filters across the workforce by setting the 'tone from the top'.<br><br>We will vote against the re-election of the board chair of the nomination committee if a company fails to disclose a policy on board diversity.<br><br>We will vote against the re-election of the chair of the nomination committee if a company fails to disclose an aspirational target for women on the board.<br><br>We will vote against the re-election of the chair of the nomination committee if there is no indication of positive momentum or progress of electing women onto the board. |

## Sustainability

We believe a co-ordinated move to improve corporate sustainability can fundamentally change the way companies behave and do business.

Changing geopolitics, globalised workforces, growing public and investor concern over business impacts on environment and public health are increasingly impacting companies' long-term profitability. Many high profile corporate scandals on issues such as poor pay practices and poor management of health and safety have shone a spotlight on the many other risks that impact companies' performance. There is an imperative for change and a strong case for companies to improve and report on their sustainability practices. We believe this gives companies a higher chance of sustaining long-term economic success.

'Sustainability' concerns a company's environmental, ethical and social performance. Understanding companies' sustainability builds a more complete picture of the quality of a company's corporate strategy, risk management and general conduct.

| Principle | Outcome/voting guideline |
|---|---|
| **Risk oversight** | |
| The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Risk governance should ensure risks are understood, managed, and, when appropriate, communicated. Boards should explain to shareholders how they approach overseeing and managing risks.<br><br>Boards should confirm in the annual report they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. | We may vote against the annual report where there is no disclosure to indicate a board-level body responsible for risk management. The body responsible may be a separate risk committee, the audit committee with risk written into its remit, an individual on the board, or the whole board. |
| **Sustainability reporting** | |
| We believe sustainability factors have the potential to materially impact on a company's future prospects. This means we expect the annual report to include details of material sustainability risks and how these are managed and incorporated into strategic reporting. It is important this information is publically accessible and independently verified. We support companies that participate in stakeholder initiatives that aim to increase quality and transparency around sustainability risk reporting. | We are unlikely to support a resolution to receive the report and accounts where we believe that a company does not disclose information in relation to environmental, employment, social and community risks. This should include the process for assessing, addressing, measuring and monitoring the present and ongoing nature and development of such risks. |

| Principle | Outcome/voting guideline |
|---|---|
| **Timely reporting and target setting** | |
| Companies need to communicate to shareholders how sustainability risks are being managed and the changes relating to these risks in a timely fashion. Where a risk has materialised during the reporting year, the board should communicate how the company is responding. We promote the timely disclosure of sustainability performance through engagement with companies. We support initiatives designed to encourage standardised metrics across sustainability reporting. | We are more supportive of boards that provide disclosures of progress against relevant sustainability key performance indicators (KPIs). We may consider voting against the report and accounts if the company has not disclosed progress against sustainability KPIs.<br><br>We are more supportive of a resolution to receive the report and accounts where there is independent assurance of key non-financial metrics. |
| **Climate change** | |
| We recognise that high quality reporting does not necessarily mean high quality performance. We also recognise there is no one size fits all approach to climate change as the risks vary between business and sector.<br><br>We view companies that are transparent on their approach to addressing climate change risk positively, particularly those companies in high risk sectors. We expect these companies to make a commitment to managing and/or reporting on the Greenhouse Gas (GHG) emissions.<br><br>We want to see signs that high risk companies are managing their contribution to climate change. We can establish this by looking at the climate change strategy and where this strategy sits. For example, whether it is owned by the risk committee or environmental sustainability committee.<br><br>High risk companies should also be clear who is responsible for their climate change strategy and what makes them qualified and experienced enough to handle its delivery. The company should also be clear about what it expects to achieve and how integral the climate change strategy is to the organisation. | We may engage with companies regarding climate change if they operate within a sector we consider to be sensitive to climate risks.<br><br>Where companies in high risk sectors do not have a strategy for reducing their greenhouse gas emissions and/or where it has not reported on progress, we may consider voting against the report and accounts.<br><br>If we believe a director with responsibility for climate change strategy has performed poorly, and we do not see material and relevant disclosure of a climate change strategy, then we may vote against their re-election. |

| Principle | Outcome/voting guideline |
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| **Cyber security**<br><br>Cyber security is increasingly important for investors, companies and regulators. Cyber-attacks are part of a new reality for companies along with the significant economic costs of such attacks.<br><br>Boards must take the right steps to protect the company. With an increasing amount of business taking place online, cyber security is an issue for all companies. Some sectors are potentially subject to a higher risk. We expect company disclosure to provide assurance that appropriate policies are in place to prevent, detect and respond to cyber security. | We support boards that take a proactive stance on cyber-security such as through attainment of the Cyber Essentials Badge. |
| **Workforce**<br><br>The people who constitute a company's workforce are in many cases a firm's most valuable asset. There is evidence that well engaged, stable and trained workforces operating in a supportive environment are likely to be more committed and productive. In turn, this means they will be more likely to drive long-term business success.<br><br>Reporting on the following metrics provides investors with an understanding on how a company is maximising the long-term value of its human capital:<br><br>• the composition of the workforce<br>• the stability of the workforce<br>• the skills and capabilities of the workforce<br>• worker motivation.<br><br>We support campaigns that advocate a living wage for low income earners. We also encourage investee companies to take a living wage approach when reviewing pay scales for lowest paid workers and contractors.<br><br>We believe the UK Modern Slavery Bill presents a step forward in promoting transparency in relation to company actions on modern slavery risks in its workforce. It also ensures directors consider modern slavery risks by requiring the statement to be considered and signed by a board director. | We support companies that provide disclosure on their workforces and are supportive of the PLSA's recent work on workforce reporting. Where we have concerns with a company's reporting on its workforce we may vote against the chairperson.<br><br>We may engage with companies that do not pay the living wage. This would be in order to develop our understanding of employment and pay so we can vote more informatively on the pay policy.<br><br>We support companies that follow the Transparency in Supply Chains Guidance issued by the Home Office. |

| Principle | Outcome/voting guideline |
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| **Charitable and political donations** | |
| In general, we do not support companies making donations to political parties or political candidates.<br><br>However, we do recognise there are legitimate circumstances where it may be in the interests of a company and its shareholders to support EU political organisations concerned with policy review and law reform, or sector-specific special interest groups. We will consider resolutions that seek authority to make donations to such bodies on a case-by-case basis.<br><br>We believe companies should ask their shareholders to approve donations regardless of whether the political expenditure is for the UK or an overseas jurisdiction.<br><br>We generally support charitable donations based on there being appropriate justification, including financial soundness of the arrangement. | We will normally vote against any authority that would allow directors to make donations to political parties.<br><br>We will support most resolutions requesting to undertake EU 'political' expenditure. We expect authorisation to be:<br><br>• no longer than four years, however best practice is that approval should be sought on an annual basis<br>• no more than £75,000<br>• provide assurance that no donations to political parties will be made.<br><br>We do not support resolutions which seek authority for longer than four years or for a material amount in the absence of a clear justification.<br><br>We will consider voting against the report and accounts where shareholders' funds have been used to make political donations without shareholder approval. |
| **Tax management** | |
| Tax practices of organisations can potentially lead to heightened reputational risk for companies. There are also increasing regulatory and litigation risks as governments take a more active stance on aggressive corporate tax behaviour. Such risks can have material long-term financial implications.<br><br>The level of tax planning advice provided by the external auditor can indicate a client with an aggressive tax planning focus. A large proportion of non-audit fees can threaten independence and provides an indication of the level of resources spent by the company on tax planning. We do not support boards where tax services form a significant proportion of non-audit fees. We also look out for boards that treat tax as a potential or significant risk for the company. | We support companies committed to tax transparency by presenting to investors and stakeholders a consistent, complete, and accurate profile about their tax operations around the world.<br><br>Where a company's external auditor also provides services in relation to tax and the value of such services is of a significant proportion of the audit fee (25 per cent), we will vote against the audit committee chair.<br><br>We generally do not support proposals that seek reincorporation or a change of domicile based on lowering investor protection, paying reasonable taxes, or to protect against being taken over. |

| Principle | Outcome/voting guideline |
|---|---|
| | We may not support large business restructurings, mergers and acquisitions where tax planning is a key driver. |
| **Bribery and corruption** | |
| Companies should have a zero tolerance policy towards bribery and corruption. They should be committed to doing business ethically with proper anti-corruption programmes in place that systematically investigate and report corruption incidents. Sound risk management processes are vital for anti-corruption compliance policies to operate effectively.<br><br>A number of indicators can provide an insight into whether the necessary due diligence is in place. This may include communications from senior management, a whistleblowing policy, the use of KPIs in and their link to remuneration. The quality of disclosure to shareholders in the annual report can also provide insight into due diligence. | Where a board failed to act on information available to it at the time, and bribery occurred as a consequence, we will vote against any board members who sat on the board at the time the bribery occurred.<br><br>We may engage with companies where we have concerns about their due diligence or corruption risk management processes. |
| **Shareholder proposals** | |
| We value the right of shareholders to submit proposals to company general meetings highly.<br><br>We will review proposals on a case-by-case basis and in accordance with our policy. | We generally support shareholder proposals that enhance shareholders' rights, are in the economic interests of shareholders, or support sustainability and good governance.<br><br>We are unlikely to support proposals on issues we believe directors or workers have already addressed, are addressing, and where the direction of change is already positive.<br><br>We are unlikely to support proposals that are not relevant to the ongoing success of the company or for performing at an appropriate level. |

## Reporting and audit

Investors rely on financial statements and reporting to tell them how companies are doing. Having an independent and unbiased audit helps us trust what we're told by the company. If we can't trust what the company is saying about how it is being run, then we cannot be confident about investing.

Auditors express an opinion on how far a company's financial statements and reporting are 'true and fair'. They also provide a view on effectiveness of the companies' internal controls and governance processes around financial reporting.

Audit committees are made up of members of a company's board and are responsible for overseeing financial reporting. This includes making sure there are appropriate checks on the financial reporting systems in place and that the appointed auditor is independent of the company's management.

| Principle | Outcome/voting guideline |
|---|---|
| **Informative and future-orientated reporting** | |
| The annual report is an opportunity for directors to communicate in a meaningful way on their stewardship of the company to investors. We believe high quality and informative narrative reporting supports an improvement in investor:<br>• decision making<br>• voting and engagement with the board<br>• confidence and continued long-term financial investment in the company.<br><br>We believe the strategic report within the annual report needs to represent:<br>• a balanced and comprehensive analysis of the company's performance and prospects<br>• a forward-looking outlook<br>• an informative description of principal risks and uncertainties facing the business<br>• analysis using appropriate financial and non-financial key performance indicators.<br><br>We believe the viability statement within the annual report provides boards with the opportunity to conduct a narrative qualitative assessment of the long-term health of the company. It can also integrate business planning with managing the key risks, in addition to the going concern statement. We expect the look-out period to be longer-term but right for the company.<br><br>The board's report on risk management and internal control should provide shareholders with a clear understanding of the processes employed, including strategic, safety, operational and compliance and control risks. 'Boilerplate' statements and simply complying with minimum disclosure requirements are unlikely to provide shareholders with reasonable assurance or meaningful information. This is also not enough to give shareholders assurance they are getting a true | We will vote against resolutions to approve the report and accounts where reporting does not provide accurate or clear guidance on the principle risks and uncertainties.<br><br>We may vote against resolutions to approve the report and accounts where discussions of internal controls do not include appropriate levels of detail and substantiation.<br><br>We are unlikely to support the report and accounts when we hold concerns with the company's internal control and internal audit processes. |

| Principle | Outcome/voting guideline |
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| impression of how the company is managing risk. | |
| **External audit independence** | |
| Auditor independence is essential in order to discharge duties with integrity, objectivity, and professional scepticism. It is also in the interests of the shareholders that the audit process is free from management pressure and commercial conflicts.<br><br>An independent audit process is one performed in the interests of the shareholders and free from management pressure and commercial conflicts. The financial incentives faced by the external auditor need to be managed so as not to influence their independence. | We may vote against the re-election of the chair of the audit committee where we doubt the independence of the external auditor. |
| **Competition and re-tendering** | |
| We believe in the re-tendering of the external audit contract at least every 10 years based on ‘comply or explain’ in order to support robust standards.<br><br>The introduction of re-tendering based on ‘comply or explain’ is an opportunity to invigorate wider choice within the audit market. We see this as vitally important. We believe in competition in the audit market supports higher standards. | We may not support the re-election of the external auditor if:<br>• the auditor has been in place for more than eight years and no plans to put the audit service out to tender are disclosed<br>• there is no evidence to suggest that a new appointment was put out to a competitive tender.<br><br>Where the company's business model is not international, we do not support tenders that limit participation to the ‘big four’ auditors. |
| **Audit fees** | |
| We believe the level of fees earned by auditors for non-audit work can have the potential to affect auditor objectivity. We will have significant concerns about external auditor objectivity where the ratio of non-audit to audit fees is close to, or greater than, 0.7 and the absolute financial value of non-audit fees is significant. We believe companies should disclose in the annual report a breakdown of audit and non-audit related fees paid to the external auditors during the year. | We generally do not support resolutions on auditor re-appointments where non-audit fees exceed 70 per cent of audit fees paid to an external auditor in any 12 month period and the absolute financial value of non-audit fees is significant. |
| **Audit committee report** | |
| Audit committees that act independently from management can provide additional confidence in the integrity of the auditing process through the annual report. This could include more information on accounting judgements, on what basis their ‘fair and true’ assessment was decided, the reliability of the reported performance, and variability either side. We welcome a more critical and transparent approach that includes judgement, assessments and key decisions taken. | We are likely to vote against the re-election of the chair of the audit committee where the audit committee report fails to provide meaningful information to assist shareholders understand how the audit committee operates and the issues it addresses. |

## Reward

We are sceptical about the current level of executive pay, whether there is a sufficient tie between reward and performance and whether there should be any link at all.

Companies should pay no more than is necessary for the purpose of attracting, retaining and motivating directors of the quality required to run the company successfully. We believe that executives should not be paid more than is necessary to support these goals.

Many of those who step-up to a board role will already be successful financially. Individuals stepping-up to a board director position are likely to be exercised by the puzzle and challenge of leadership and its achievement as much as pay. The heavy linking of pay to performance for already high achievers is unlikely to produce the motivational drivers that investors want executives to be energised by.

In our view, success is the result of the hard work by all workers, not just those within the executive team. We have seen no evidence that wide pay disparity between executives and those lower down creates sustainable economic performance within a company and wider society.

| Principle | Outcome/voting guideline |
|---|---|
| **Pay in context** | |
| Executive pay should not be set in a vacuum, but should be considered within the context of the overall experience of all workers. We expect the remuneration committee to have a high level of awareness and oversight of the remuneration policy of the entire company. The remuneration committee should be aware of pay levels in equivalent sectors, industries, and wider public concerns.<br><br>Employee reward and benefits are a significant factor in determining and developing a company's culture. It is not always clear why directors' pensions accrue at a preferential rate compared to ordinary workers, or why some executive directors receive pay increases greater than those awarded elsewhere in the organisation.<br><br>We want more information on pay, especially on workers lower down in organisational structures. We are interested in increased disclosure on the proportion of staff on zero hours contracts, paid below the UK living wage and disclosure against 100 per cent of UK staff by gender and ethnic minority.<br><br>We expect companies to be mindful of and address gender inequality amongst their workforce. We believe that the new reporting legislation requiring companies with more than 250 workers to disclose how much they are paying in salaries and bonuses to their male and female workers is a welcome step. | We may vote against the annual remuneration report if the board does not consider overall worker pay when setting pay for executive directors.<br><br>We may vote against the remuneration report if executives receive preferential pension treatment over other workers.<br><br>We may vote against the remuneration report if executives have received salary increases above inflation or the wider workforce without providing any justification.<br><br>We will engage with companies about the disclosure of information on pay across the organisation.<br><br>We will engage with companies highlighted in the league table from 2018 we believe are failing to address pay differences between male and female workers. |

| Principle | Outcome/voting guideline |
|---|---|
| **Multiple incentive schemes** | |
| Part of the complexity of executive pay is the growing proliferation of component parts. Some studies report up to nine separate parts to pay. Where remuneration has more than three core components — base salary, incentive plan, and pension — the remuneration report should explain what this is achieving and why this is needed. | We may vote against the re-election of the chair of the remuneration committee where there are a significant number of incentive schemes in operation resulting in an opaque incentive structure. |
| **Remuneration committee meetings** | |
| On average, FTSE All Share company remuneration committees meet more times during the year than do audit or nomination committees. This can lead others to form the impression that boards see the remuneration committee as more urgent than other committees. Without supporting explanation from the board, we do not see why the remuneration committee should be meeting more frequently than other committees. | We may vote against the re-election of the chair of the remuneration committee where the remuneration committee meets more frequently than other committees without suitable explanation. |
| **Aligning business aims and shareholder interests** | |
| Where remuneration is used to align executive director behaviour with objectives, the remuneration committee should formulate objectives based on the aims of the business and shareholder interests. Shareholders differ widely in their characteristics and this potential diversity is likely to lead to a variety of interests. | We are more supportive of the remuneration committee where business aims and shareholder interests are used as objectives to align and reward executive director behaviour. |

## Capital

Existing shareholders collectively own the company, so companies should go to existing shareholders first for approval before undertaking certain transactions.

| Principle | Outcome/voting guideline |
|---|---|
| **Buying own shares** | |
| We generally support proposals to return cash to shareholders that we believe enhance net asset value. We believe that the Investment Association (IA) Guidelines on Own Share Repurchase is an appropriate good practice standard for industry. | We generally support buy-back proposals that follow IA guidelines on Own Share Repurchase. |
| **Pre-emption rights** | |
| We believe that pre-emption is an important right. We believe that the pre-emption group Statement of Principles and IA guidance on Directors' Powers to Allot Share Capital and Disapply Shareholders' Pre-emption Rights provides a recognised basis of understanding between companies and investors. | We generally support share capital proposals that follow pre-emption group and IA guidelines. |
| **Increase in share capital or preferred stock** | |
| Companies need to establish and maintain an efficient capital structure. The IA's guidance on Directors' Powers to Allot Share Capital and Disapply Shareholders' Pre-Emption Rights provides a basis of understanding between companies and investors on changes to share capital. | We generally support share capital proposals that follow IA guidelines. |
| **Mandatory takeover bid Rule 9 waiver** | |
| The requirement that a takeover bid be launched when a substantial percentage of the issued share capital has been acquired by one shareholder, or by shareholders acting in concert, is an important protection for minority shareholders. | We will generally vote against a Rule 9 waiver. |

| Principle | Outcome/voting guideline |
|---|---|
| **Dividends** | |
| Dividend payments are a valued and relied on source of income for some shareholders and a source of financial discipline for corporate boards. We believe in resolutions to approve the final dividend regardless of size. | We are less supportive of the chief finance officer where a separate resolution to approve the final dividend is omitted. |
| Disclosing the parent company distributable profits balance is very informative. We are more supportive of boards that provide clear disclosure of distributable reserves at the parent level, the portion of profit that is distributable, and the portion of distributable reserves for use as dividends. This is to give us confidence dividends are not being proposed from amounts that might not be distributable. | If we have concerns with a company's dividend cover and with the company's disclosure we will write to the company asking for them to make appropriate disclosures. If in the following year we consider disclosure to continue to be insufficient we may vote against the report and accounts. Similarly, if a company has had recent compliance issues with UK law in relation to dividends, we will pay close attention to the future disclosure of the company. |

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