

# GLOBAL VOTING POLICY

2024

## 1. Introduction

Aviva Investors are committed to being long-term responsible stewards of our clients' assets. We actively exercise our rights as investors to promote responsible and sustainable practices in companies in which we invest. This document highlights areas of focus and priority that may lead to engagement and voting action.

As a founding signatory to the UN Principles for Responsible Investment (PRI), we believe that companies conducting their businesses in a responsible manner with high standards of integrity and a sustainable business model will deliver better long-term returns to investors, while creating value for wider stakeholders and society.

Ultimately, evidence of robust corporate governance at companies, including strong Board oversight (see section 6) is key to achieving this, and in helping us deliver on our stewardship priorities (see section 2).

### **Our approach**

We seek to establish a supportive and constructive relationship with the boards of companies we invest in. We are keen to understand the specific business and commercial context of a company and recognise that no single governance model can or should apply to all companies. We carefully consider the explanations that companies provide for departures from best practice, to ensure that bespoke arrangements provide the necessary checks, balances, and protections for investors. We look at how companies meet the spirit of good governance, not the letter, and we consider past practice in forming our opinions.

## 2. Stewardship Priorities

We maintain a deep conviction that environmental, social and governance (ESG) factors can have a material impact on investment returns and client outcomes. Being a responsible financial actor means our investment approach must support, and not undermine, the long-term sustainability of capital markets, economies and society.

Businesses play an increasingly critical role in the economic, social and environmental welfare of society. We strongly support the ambition and objectives of the UN Sustainable Development Goals and expect all companies to contribute towards their successful delivery. This means striving to do no harm and seeking to maximise the positive social and environmental impact of their business.

We have a comprehensive long-term stewardship plan covering a broad range of major thematic trends. The three sustainable outcomes we want to contribute to are underpinned by a clear philosophy to allocate capital to companies that support the transition (or find solutions) to an economy that is lower carbon and resilient to a warmer world, works towards halting and reversing nature loss, and is more socially equitable. Our voting policy aims to support delivering these three sustainable outcomes.

We also engage with companies to understand, and where relevant, mitigate sustainability risks and the principal adverse impacts (PAI) that a company has on people and the planet. We will use PAI indicator data to inform our engagement priorities as well as to assess our impact. Where sustainability risks and principal adverse impacts are systematic or representative of market failures, we will engage with policy makers and regulators to highlight these issues and support them in taking corrective action.

Accordingly, we expect companies to clearly articulate how sustainability and stakeholder considerations are embedded in corporate strategy, culture, business operations, and targeted outcomes. This integrated approach to sustainability objectives should be fully reflected in public disclosures e.g. the annual report.

## 3. Climate change

Aviva Investors considers climate change to be the greatest systemic challenge facing society, global economies, and companies. We subscribe to the Intergovernmental Panel on Climate Change (IPCC) position that the global temperature increase needs to be limited to no more than 1.5 degrees above pre-industrial levels in order to avert the worst impacts of climate change and preserve a liveable planet. To achieve this, we must aim for net-zero emissions by 2050 at the latest.

Failure to act will have catastrophic and pervasive consequences including for capital markets and asset valuations. The rapidly shrinking carbon budget demands unprecedented multi-stakeholder action, including by the private sector to accelerate our own plans and take immediate and decisive climate action.

Aviva Investors believes that effective engagement with investee companies and exercising our voting rights and responsibilities to promote well-functioning markets is critical to driving positive change and embedding and accelerating the transition to a low carbon future.

It is, of course, the prerogative of companies to determine the best approach for addressing their own climate-related risks and opportunities. However, it is helpful for long-term investors like Aviva Investors to understand, whether and how companies are adapting to the net zero transition. Below we have provided a summary of key criteria that we believe constitutes a competent

climate strategy, particularly for climate high impact sectors<sup>1</sup>, across five key pillars: Targets, Transition plan, Governance, Disclosures and Lobbying. Our publicly available commentary also provides more information on our approach to climate change.<sup>2</sup>

- 3.1 Targets.** Aviva Investors expects all companies to set and disclose meaningful short, medium- and long-term science-based reductions targets for all material greenhouse gas emissions (GHG), where available for their sector. As national and regional policy expectations around Scope 3 evolve and crystallize, we will look for companies to align their commitments and disclosures accordingly. We also encourage all companies to commit to and work towards achieving approved Science Based Targets (SBTs) aligned with [The Science Based Targets Initiative \(SBTi\)](#).<sup>3</sup> Where sector guidance is not yet available, companies should ideally demonstrate engagement with the SBTi to develop a credible decarbonisation pathway. Gaining approval and verification can help demonstrate the credibility and accountability of plans.
- 3.2 Transition Plan.** We expect companies to articulate robust and financially viable climate transition plans that will support the decarbonisation of economies in a socially just and inclusive manner. In this disclosure, it is important that companies clearly explain their goals, how their GHGs targets support achievement of broader goals (e.g. net zero emissions goals), and any foreseeable obstacles that could obstruct progress on these initiatives. We are strong supporters of the UK Transition Plan Taskforce Disclosure Framework<sup>4</sup> and International Sustainability Standards Board (ISSB) sustainability disclosure standards (IFRS S1 and IFRS S2)<sup>5</sup> and highlight specific recommendations set forth for companies regarding: **Business models; Financial planning; Engagement with value chain; and Offsets.** In addition, we seek clear disclosures on how companies are taking into consideration broader environmental dimensions of the transition in their planning, including those that related to nature and deforestation. This also includes how they are considering the impacts of the energy transition on all affected stakeholders and operations, and how they will contribute to a reliable and affordable energy system over time.
- 3.3 Governance.** Boards and senior management teams should be fully accountable for their organisation's approach to risk management, target setting, strategic development and reporting, as it relates to climate change and, where relevant, associated issues of biodiversity and deforestation. They should evidence explicit and clearly defined oversight responsibilities as well as how sufficient expertise is maintained to understand companies' climate performance. We also expect the meaningful integration of strategic objectives as they relate to climate change, using ideally quantifiable metrics, into variable incentive arrangements for executives and senior management. The percentage of total compensation linked to climate targets should reflect the extent to which transition plans will fundamentally reshape the business model, growth profile and investment thesis of the company.
- 3.4 Disclosures.** Companies should provide clear and comprehensive disclosure regarding climate risks, including scope 3 emissions where appropriate, and how they are being mitigated and overseen. In addition to the recommendations of the Task Force on Climate-related Disclosures (TCFD), we expect companies to report annually using the CDP Climate Questionnaire<sup>6</sup>, which provides investors with valuable climate data on a large universe of companies in a standardized and comparable format. We seek detail over how business models align to a range of climate-related scenarios, including a scenario in which global warming is limited to well below 2°C, and considering global ambitions to achieve a limit of 1.5°C. Companies should also disclose financially material climate risks within annual reports. Investors need to be able to

<sup>1</sup> Companies considered significant greenhouse gas (GHG) emitters through their operations or value chain and that operate in sectors for which transition is paramount for the alignment with the Paris Agreement.

<sup>2</sup> <https://www.avivainvestors.com/en-gb/responsibility/our-climate-approach/>

<sup>3</sup> <https://sciencebasedtargets.org/>

<sup>4</sup> <https://transitiontaskforce.net/>

<sup>5</sup> <https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/>

<sup>6</sup> <https://www.cdp.net/en/companies-discloser>

quantify the potential financial implications of climate risks, and the integration of these into company financial statements. It is important to ensure consistency between narrative reporting and company accounts.

- 3.5 Lobbying.** We recognise that achieving the Paris Agreement requires policy action in a wide range of areas. Accordingly, we encourage companies to provide greater transparency on climate-related advocacy in their engagement with governments, industry counterparts (including trade associations) and other stakeholders. We encourage companies to outline what activities are undertaken, how they align to their climate transition plans, and what outcomes they hope to achieve through this engagement.

*We will not support the re-election of chair of the board and/or chair of the sustainability committee (or most relevant resolution on a case-by-case basis) where we have ongoing concerns that companies, particularly those operating in climate high impact sectors, are failing to evidence sufficient progress on key measures of climate ambition and risk management, as articulated above.*

*As a baseline, we expect companies to make progress against the following two criteria: (i) making a public commitment to be “net zero” for operational and supply chain emissions (Scopes 1, 2, and 3), if material/relevant by 2050 aligned to a 1.5°C trajectory, and to seek and receive third-party approval that targets are science-based; and (ii) to provide public detailed disclosure of climate-related risks, in alignment with the TCFD framework.*

*Voting is also tied to the progress of our strategic engagement with investee companies to ensure alignment with a net-zero trajectory.*

*We typically support climate-related shareholder resolutions that we believe will improve a company’s climate strategy in line with peers and the goals of the Paris agreement, and that strive to implement better reporting and transparency on companies’ climate-related strategy. However, we will closely evaluate the specific requests of each proposal in the context of a company’s unique circumstance. More information on our general approach to shareholder proposals can be found in section 13.*

## 4. Nature

Our planet is currently facing the Sixth Great Extinction, with an alarming 69% decrease in wildlife populations since 1970. We are rapidly destroying the natural world and the ecosystems on which we depend, with the world consuming 1.5x the level that the planet can sustainably provide every single year.

It is clear that the Earth’s biodiversity and ecosystems are not being valued today, and this is what is resulting in their exploitation and depletion. However, given that 55% of global GDP is reliant on our biodiversity and ecosystems, and that the potential value of this natural capital has been estimated at \$140tr, greater than global GDP at almost \$90tr, we believe it’s just a matter of time until it is. Therefore, not only is tackling these challenges a question of our survival, but we believe it will increasingly become an important driver of company valuations.

The Post-2020 Global Biodiversity Framework agreed at COP15 in Montreal established a 2030 mission and set new targets and goals, most notably the 30x30 target of conserving at least 30 per cent of global land and oceans by 2030. The Global Biodiversity Outlook report<sup>7</sup> highlighted our collective failure to deliver any of the 20 targets in the prior decade. This must not be repeated if we are to halt and reverse nature loss, recognising efforts to combat climate change are inextricably linked to the protection of the planet’s ecosystems.

<sup>7</sup> <https://www.cbd.int/gbo5>  
avivainvestors.com | Global Voting Policy

Companies therefore need to demonstrate how they are aligning their internal policies and practices with a nature-positive ambition and quantify the financial risks and opportunities associated with their dependencies and impact on nature, providing decision-useful disclosures to investors. Companies that have significant impacts and dependencies on water and forests are expected to respond to CDP Forest and/or Water surveys.

Accordingly, we expect all companies to begin reporting within a reasonable timeframe against the Taskforce on Nature-related Financial Disclosures (TNFD) framework ([tnfd.global](https://www.tnfd.global)), finalised in 2023. In preparation for reporting against the framework, companies should undertake the TNFD recommended business model assessment process, referred to as LEAP<sup>8</sup>.

**Deforestation.** Companies producing or buying products linked to deforestation, including palm oil, soy, beef, leather, timber, pulp & paper, natural rubber, cocoa and coffee, should commit to and implement a zero deforestation and conversion-free policy in their supply chains. In November 2021, we signed a commitment to use our best efforts to eliminate agricultural commodity-driven deforestation from our portfolios by 2025, as part of the Financial Sector Deforestation Action (FSDA). The expectations we have of companies are laid out in the FSDA Investor Expectations. Further guidance can be found in the [Accountability Framework Initiative \(For Companies | Accountability Framework initiative - Accountability Framework \(accountability-framework.org\)\)](#) and [the Finance Sector Roadmap](#).

*We will not support the re-election of chair of the board and/or chair of the sustainability committee or equivalent where:*

- *we have concerns with the company's approach to biodiversity including deforestation, or a lack or biodiversity policies and targets.*
- *we have concerns with the approach to biodiversity including deforestation, or a lack or biodiversity policies and targets. In particular, the Forest 500 index scores will inform our voting decisions;*
- *we have concerns with the approach to sustainable management of hazardous chemicals;*
- *the company's disclosures are not deemed in line with our expectations linked to the materiality of the issues to their business.*

*We will support shareholder proposals relating to addressing biodiversity concerns when we hold similar views. More information on our general approach to shareholder proposals can be found in section 13.*

## 5. Social

Society is increasingly characterised by extreme and rising levels of social inequality, threatening the stability and prosperity of society and economies around the world. Failure to address the drivers of inequality have the potential to increase poverty levels, exacerbate existing social tensions and undermine political and economic stability – impeding our ability to make progress on global issues such as climate change and biodiversity loss as well as posing a risk to companies and investors.

Addressing these inequalities can have positive benefits including increased productivity and growth, both at a micro and macro level.

In order to transition towards a more socially just and equitable society, companies need to ensure they are respecting human rights through promoting decent work and acting responsibly as corporate citizens.

**5.1 Human rights.** As set out in our Human Rights policy, we expect companies to have a robust process in place to identify and manage human rights risks and impacts in their value chain. In line with the United Nations Guiding Principles on Business and Human Rights (UNGP\_Brochure (undp.org)) we expect companies to have a public commitment to human rights, a robust human rights due diligence process to identify and prevent human rights risks and impacts to stakeholders

<sup>8</sup> [The LEAP Nature Risk Assessment Approach » TNFD](#)  
[avivainvestors.com](https://www.avivainvestors.com) | Global Voting Policy

across their value chain, and an operational grievance mechanism to enable access to remedy. We also take into consideration the findings of key global initiatives which measure and track company performance against specific sustainability indicators. This includes the Corporate Human Rights Benchmark (CHRB) as well as the World Benchmarking Alliance (WBA), which inform our voting activities.

**5.2 Promoting decent work.** The quality and nature of work directly impacts the wellbeing of workers in a company's value chain and can play a significant role in addressing inequalities within local communities and wider society. Companies should be able to demonstrate how they are providing work that is safe, secure, well paid, and which enables different groups to feel included and flourish. Decent work is an internationally recognised objective, most clearly represented by SDG 8.

We expect companies to ensure they are respecting the principles on fundamental rights at work in the International Labour Organization (ILO) core conventions, including but not limited to the fundamental right to freedom of association and collective bargaining. Companies should also demonstrate how they are guaranteeing workers a living wage or living income to ensure they enjoy a decent standard of living - we will typically consider this in the context of the company's approach to pay across all levels of the organisation (for more information see Section 12). We also expect companies to pay particular attention to workers who may be at higher risk of exploitation and disadvantage. Companies are expected to extend their workforce policies to the contingent and supply chain workforce, by setting clear expectations of business partners in contractual agreements and assessing their own purchasing behaviour to ensure they enable respect for human rights and conditions for decent work.

Providing decent work is a clear route for companies to attract, retain and develop talent at every level within the business. This can have multiple benefits including increasing productivity and morale. It is also likely to result in a reduction in staff turnover, litigation and reputation risk. Workers are a company's most important asset and responsibility, and central to the success of the company today and long into the future.

*We will not support the re-election of chair of the board or chair of the sustainability committee (or most relevant resolution) where we have concerns in relation to:*

- *Approach to human rights or human rights due diligence. Corporate Human Rights Benchmark scores will inform our voting decisions;*
- *Failings in its duties to treat employees and workers fairly and responsibly:*

*We typically support shareholder proposals calling for improvements in human rights, human rights due diligence and disclosures. The same will apply to resolutions asking for better disclosures around diversity and inclusion, so that shareholders and other stakeholders can better assess company performance in these areas. More information on our general approach to shareholder proposals can be found in section 13.*

## 6. Board leadership and effectiveness

We look for effective boards which safeguard shareholder interests and have the right skills and experience to take the company's strategy forward. The board is responsible for testing and approving corporate strategy and should provide clear and concise disclosure on how the board composition, governance structures and corporate culture have been designed to support this process. We welcome disclosure around how sustainability considerations have been factored into long-term corporate strategy.

**6.1 Board composition and balance.** The board's role is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls which enables risks to be assessed and managed. In addition to our expectations that director biographies should be disclosed, we consider it important that companies explain if there is the appropriate mix of skills, knowledge, experience and diversity required to meet the challenges and opportunities and strategic objectives of the company. We recognise the important role of the chair and independent non-executive directors in providing robust internal challenge to board discussions and ensure decisions are always made in the best interests of

the company. Boards are expected to determine the most effective mechanism of understanding and incorporating the views of key stakeholders within the boardroom – and reporting to investors on their approach.

*We will not support the re-election of the board chair (or other resolutions when the chair is not up for re-election) if we have concerns with the overall composition of the board.*

*We will not support the re-election of the nomination committee chair (or other resolutions when the nomination chair is not up for re-election) where we have concerns with the mix of skills on the board.*

**6.2 Purpose, standards, values and culture.** Boards are responsible for establishing a firm's purpose and building and reinforcing the values of the company. Companies that embrace a strong and positive corporate purpose and culture are less likely to experience incidents of corporate and employee misconduct, and are generally more dynamic, innovative, and better placed to develop resilient brands and stakeholder relationships, and recruit and retain high quality talent.

*We will not support the re-election of the relevant board members where material cultural issues in the firm are evident.*

**6.3 Accountability.** Boards are expected to ensure appropriate governance structures are in place to oversee the successful execution of strategy, efficient allocation of capital, and the presence of a robust risk and controls environment. We will hold the board accountable for the manner in which they discharged these responsibilities as well as the quality of disclosures and where they fail to understand their impact on wider society. In addition, we refer to the UN Global Compact Principles on Human Rights, Labour Standards, Environment and Business Malpractice and where there are material failings, we will hold Boards to account. We also take into consideration the findings of key global initiatives which measure and track company performance against specific sustainability indicators.

*We will not support the re-election of the relevant board members where we do not believe the board has discharged their responsibilities appropriately.*

*Our preference is to enact change through constructive engagement however where this has failed we may look to take voting action on company boards.*

*We will not support the re-election of the relevant board members the company has involvement/remediation of a breach of global conventions.*

**6.4 Independence.** It is vital that boards comprise of a sufficient number of independent directors to provide balance and protect the interest of minorities. Whilst we think that this number should typically be at least half of the board, we are mindful that this may not be practical for all markets and companies (such as markets that require employee representation). However, audit and remuneration committees should be entirely independent.

In assessing the independence of non-executive directors, we consider those who have not been appointed through a formal, rigorous and transparent procedure as not independent, in addition to the following criteria:

- is or has been an employee of the company or group within the last ten years;
- has, or has had within the last 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;
- has received or receives additional remuneration from the company apart from director fees (or is paid disproportionately high fees), participates in the company's share option or a performance-related pay scheme, or is a member of the company's pension scheme;



- has close family ties with any of the company's advisers, directors, senior employees or founding family;
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies;
- represents a significant shareholder (or government stake);
- has served on the board for more than nine years from the date of their first appointment.

In general, non-executive directors that have been on the board for over 9 years we believe can be beneficial to the company and we are unlikely to vote against their re-election based on this factor only providing they do not sit on the remuneration or audit committee and the board has had refreshment.

Where any of these or other relevant circumstances apply, and the board nonetheless considers that the non-executive director is independent, a clear explanation should be provided.

*We will not support the re-election of non-independent directors (including executives when deemed necessary) where:*

- *the board lacks sufficient independence*
- *they serve on the remuneration and/or audit committee*

**6.5 Independent chair.** We have always viewed the separation of the chair and chief executive roles and in particular, an independent chair, as fundamentally important in protecting shareholder value. For non-independent chairs, we would look at the process undertaken to mitigate the risks such as the appointment of a strong senior independent director, the level of independence/challenge on the board and key committees, and whether this arrangement is for a transitional period. Further, there is a need for much better disclosure in the report & accounts as to why a non-independent chair is considered to be in the best interest of the company and its investors. We would typically use the same criteria for the chair that we use to assess the independence of other non-executive directors (see section 6.4), with one exception. Given the nature of their role, the nine-year rule is less relevant for the chair. However, we expect companies to consider succession arrangements and we would be concerned to see non-executive chairs serving longer than 15 years unless there were exceptional circumstances.

*We will not support the re-election of a non-independent chair unless a company evidences exceptional circumstances. In markets where the practice of a combined chief executive and chair is broadly accepted, we will only consider supporting the structure where a company has instituted robust alternative controls that ensures an appropriate balance of power on the board.*

**6.6 Succession planning.** We look to see that necessary arrangements are in place to manage succession of board members and senior management. Companies with good succession planning arrangements are generally seen to perform better over the long-term. We prefer talent to be nurtured from within companies although we recognise that in some situations an external appointment may be appropriate. To ensure that there is a formal, rigorous and transparent procedure for board refreshment and new appointments, nomination committees should not be chaired by an executive director or a non-independent chair of the company. Further, the majority of the committee should be independent.

*We will not support the chair of nomination committees at companies that have failed to adequately plan for a change in leadership or have not demonstrated sufficient focus on building high caliber succession options.*

**6.7 Diversity** We look for diversity of thought on boards and view diversity through a broad lens, including gender, ethnicity, nationality, skills and experience. Inclusive and diverse boards are more likely to be effective boards, better able to

understand their customers and stakeholders, and benefit from fresh perspectives, new ideas, vigorous challenge, and broad experience. This in turn leads to better decision making. We are cognizant of different market expectations in this area and will also take into account the extent of progress being made by companies.

**6.7.1. Gender diversity.** We are strong proponents of the need for more women in senior management and on the board. Although we have noted an increase in women on boards over recent years, in many markets the percentage of female directors remains below a third. In most markets female representation in senior management and executive positions is far less than that. As such, we continue to encourage companies to implement proactive gender diversity strategies and targets to develop an inclusive culture and a robust and dynamic pipeline of future talent.

*We will not support the re-election of the nomination committee chair (or other resolutions when the nomination committee chair is not up for re-election) if female directors represent less than a third of the board, unless it is evident that the company has made significant progress in this area.*

*We will also not support the re-election of the nomination committee chair (or other resolutions when the nomination committee chair is not up for re-election) if we have concerns over the lack of females within the leadership team and where there is no credible action plan to address the issue.*

**6.7.2. Ethnic diversity.** We view the balanced representation of board directors from different ethnic and social backgrounds as a critical business issue. This is essential for ensuring a deep understanding of key stakeholders including suppliers, employees and customers, while also securing the best available talent. Moreover, we firmly believe that companies have a responsibility to actively promote social inclusivity. We expect companies to take proactive steps to improve the ethnic diversity of the board, senior management and the broader employee base. Simply referencing the limited size of the talent pool will not be deemed an sufficient explanation for a lack of diversity, as companies will be expected to explore non-traditional channels to access potential director candidates.

*In markets where information on director ethnicity is available, we will not support the re-election of the nomination committee chair (or other resolutions when the nomination committee chair is not up for re-election) if the board lacks ethnic diversity and has not outlined a credible diversity strategy.*

**6.8 Over-boarding / time commitments.** Board members, including some executives may become overstretched if they have taken on numerous other directorships. We expect boards and nomination committees to gain assurances that newly appointed directors (or existing directors taking on additional roles) can devote the time required with consideration given to their roles on other boards, and the size and complexity of such companies. Further, boards need to consider the impact of potential stress events in the directors' other roles such as M&A activity. These considerations should be clearly disclosed in the report and accounts. While we are willing to accept good explanations, we see four non-executive appointments of listed companies as the maximum one individual can manage properly. This reduces according to the significance of the posts, for example, an individual having more than two chair positions may be problematic. Also, executive directors should have no more than one non-executive role.

*We will not support the re-election of non-executive directors where:*

- *The number and/or nature of their other roles may compromise their ability to fulfil their board duties*
- *They are chair of the nomination committee and/or the board where concerns with overboarded directors haven't been addressed*
- *They have had a poor attendance record e.g. where they have attended less than 75% of board meetings without providing a reasonable explanation.*

**6.9 Board evaluation.** Boards should undertake a formal evaluation on an annual basis and preferably an external evaluation at least every three years. To the extent possible, the company should provide details of the outcomes of the process.

**6.10 Annual re-election.** We support the annual re-election of directors as this enhances their accountability to investors. Where annual re-election is not local practice, we would encourage companies to put such arrangements in place or as a minimum, we would expect directors to stand for re-election every three years. Directors should be proposed for election on an individual basis rather than by slate.

*We will not support the re-election of directors where their term of office is longer than three years.*

*We will not support the re-election of directors in bundled resolutions.*

**6.11 Company Secretary.** Beyond their normal course of duties, company secretaries often provide advice and counsel to the board chair, executive directors and others. They are also typically an initial contact point for investors and accordingly, should be able to respond to questions and any concerns. To ensure objectivity, a company secretary should not also be an executive director. Where companies consider there to be special reasons that justify them performing both roles, these should be adequately explained.

## 7. Reporting and Disclosures

We seek transparent, timely disclosures of reliable information sufficient for investors and wider stakeholders to make informed decisions on long-term investment. We would encourage companies to adopt internationally accepted frameworks for integrated reporting such as the Global Reporting Initiative (GRI) and Sustainable Accounting Standards Board (SASB). We are also broadly supportive of the intent of the reform currently being developed by the ISSB, established by the IFRS Foundation, which is in the process of developing IFRS Sustainability Disclosure Standards (Sustainability Standards) which, once finalised and then adopted by relevant jurisdictions, we expect to provide a comprehensive global baseline of sustainability disclosures for the financial markets. Accordingly, we expect companies to clearly articulate how sustainability and stakeholder considerations are embedded in corporate strategy, culture, business operations, and targeted outcomes. This integrated approach to sustainability objectives should be fully reflected in the annual report.)

We expect all companies regardless of their market of listing to make the report and accounts available ahead of the General Meeting, and in particular, sufficiently in advance of voting deadlines so shareholders are able to make informed decisions.

## 8. Controls and Audit

**8.1 Internal controls.** It is important that boards communicate to their investors in a meaningful way on how they oversee the risk and controls environment. The board should provide clear and concise information that is tailored to the specific circumstances material to the company and should avoid using standardised language which may be long on detail but short on insight. The reporting should be fair, balanced and understandable.

**8.2 Audit committee and auditors.** There has been significant focus on the quality of audits in recent times (including numerous reviews on the state of the audit market). To have trust in the information a company provides, investors must be satisfied that independent audits will identify and raise any accounting discrepancies, uncertainties and aggressive management assumptions. Audit committees must do better at disclosing how they have satisfied themselves on the quality of the audit including the audit plan, scope of testing, technology and resources allocated, and validation of assumptions. Beyond governance, expertise and process, the level of independence and culture of challenge is essential for high quality and effective audits. The role of audit committees and auditors should take both financial, and non-financial audits into account.

*We will not support the re-election of members of the audit committees where:*

- *There are concerns over accounting and auditing practices at the company*
- *Concerns over the competency of the audit committee members including if material accounting concerns have been identified at other companies where they were audit committee members*
- *Continuation of high non-audit fees without adequate explanations*

*We will not support the reappointment of the auditors when:*

- *there are concerns over the competency of the audit partner.*
- *The auditor report fails to detail how material risks such as climate change have been considered in accounting assumptions, especially if climate is considered fundamental in the business valuation*

**8.3 Re-tendering and Rotation.** Whilst some consider that a rotation of auditors may reduce audit quality because it takes a significant amount of time to understand the client’s business, our overriding view is that changing long serving auditors will ensure a more independent and effective audit. As such, we consider companies should re-tender for new auditors every 10 years and mandatorily rotate the auditor every 20 years. We encourage companies to follow similar practices even if they are listed in markets where there are no regulations on this issue. This process should be explained in the accounts, and where changing auditors is not considered to be in the best interests of the company, this should be clearly explained. We expect these disclosures to advise whether any challenger firms have been invited to tender for part, or all of the audit. More effort to explore working with other firms will ultimately increase competition which in turn should help to improve audit quality.

*We will not support the reappointment of the auditors when:*

- *they have served as auditors in excess of 20 years.*

**8.4 Audit and non-audit fees.** The integrity of the auditor’s relationship with the company may be compromised when a firm is paid excessive consulting fees on top of fees paid for auditing services. Such arrangements have the potential to open the audit process to a wide range of conflicts of interest. Both audit and non-audit fees should be disclosed. A breakdown of the non-audit fees should also be provided.

*We will not support the reappointment of the auditors where:*

- *There is insufficient information on fees*
- *Auditors who have received significant non-audit fees unless these have been adequately explained*

**8.5 Going concern.** It is vital that companies discuss their long-term prospects, for example in the strategic report as part of the viability statement. We expect boards to include in its assessment of long-term viability a robust identification and assessment of the major risks to the business, and how any such material uncertainties may impact the business over the stated time horizon of assurance. Environmental, social and governance (ESG) risks should be included in the scope of this assessment where pertinent. We will assess these statements as part of our investment processes, detailed in section 10 of this voting policy, and engage where there are areas requiring clarification or prompting concerns. Given our long-term outlook we encourage companies to capture the ‘foreseeable business period’ rather than just 12 months, and to accompany this with an explanation as to why a certain period was selected in the context of the entity, its operational environment and business cycle.

- 8.6 Sustainable borrowing.** We expect the board and audit committee to provide robust oversight of the health of the balance sheet, future funding arrangements, optimum gearing levels, and ensure consistency with the agreed risk appetite of the business. This should include stress testing the balance sheet against various earnings, cash flow, and asset and liability valuation scenarios. The audit committee should review relevant metrics related to debt covenants and ensure the company is providing suitable levels of disclosure to the market.

*We will not support proposals that seek to increase borrowing limits, expand lending arrangements, or issue new debt and other interest-linked securities, where we have concerns over the sustainability of a company's absolute level of debt or relative gearing;*

*Where we consider there has been an egregious failing of oversight we will also vote against members of the audit committee.*

## 9. Capital Authorities

- 9.1 Share Buybacks.** The buying back of shares is an important mechanism of returning excess cash to shareholders and demonstrating the board's confidence in the future prospects and value of the business. However, often this can come at the expense of future investment for growth or the maintenance of a strong balance sheet. As such there may be a tradeoff between delivering near terms returns and creating long-term value. To enable shareholders to assess the relative merits of a proposed share buy-back proposal we expect the company to provide holistic disclosures on the firm's overarching capital allocation strategy and how buy-backs are evaluated within that framework. Specific disclosures should include:

1. Clear rationale for future buyback programmes beyond assurances of enhancements to earnings per share. Explanations should include how share buy-backs would be positive for the long-term future of the company and specifically, how the board assesses buy-backs against other investment opportunities.
2. Better disclosure on previous share buy-back programs that have been executed in the year under review. We believe there should be more specific disclosure including volumes, prices and how purchases have created long term value for the company.
3. More details on the effect of share buybacks on remuneration arrangements for executive directors and senior management.

During periods of significant market and economic uncertainty, we would expect share buy-backs to be paused before other financial and capital related decisions are made.

*We will not support general authorities that:*

- *Allow for shares to be bought back at a premium of more than five percent of the share price*
- *Have a duration of over 2 years*
- *Allow share repurchases of over 15% of the company's issued share capital*

- 9.2 Share issue authorities.** Although share issuance criteria differ from market to market, in respect of authorities for the issuance of shares without pre-emption rights, we seek to ensure there is reasonable protection for existing shareholders. Given their dilutive effect, our preference is for general authorities to be limited to no more than 10% of a company's issued share capital, unless a clear justification and strategic rationale is provided. We are mindful that in a number of markets the limit is 20% and that in 2022 the UK pre-emption guidelines have effectively increased to 20% (from 10%). As such, we may support authorities up to 20% but if after having obtained approval there are concerns over the use of authority, whether that be timing, size or process, it is likely that this will result in voting sanctions for the relevant directors (particularly the Board Chair), when they next come up for re-election. Share authorities should be put to shareholders on an annual basis, as over the year there may be significant changes in company circumstances or market conditions.

*We will not support general authorities to issue shares without pre-emptive rights which:*

- Allow over 20% of issued share capital to be allocated
- Allow a duration of over 18 months

*If after having obtained approval we have concerns over the use of authorities, we are likely to vote against the Board Chair.*

**9.3 Dividends.** Whilst we support the majority of dividend payments, there may be occasions where the amount proposed or paid is considered too high or too low, dependent on the company's financial position and other circumstances. As such, it is important that companies explain their policy on dividends and properly justify their decisions.

Boards should not delay making changes to dividend commitments, including the fundamental rebasing of dividends, if the policy is deemed unsustainable or inhibits the company's ability to capitalise on value enhancing investment opportunities.

During periods of market and economic uncertainty, we would support temporary adjustments to dividends. However, boards should be cognisant of the important role that dividends play for savers and pensioners, when seeking to balance the interests of different stakeholders.

*We will not support the re-election of the chair where we have material concerns over the dividend policy and payment.*

## 10. Shareholder Rights

**10.1 Double Voting Rights and anti-takeover defences.** One of our many considerations in valuing a company is how the shares are structured and the protections in place for minority shareholders. We believe that companies should have share structures that support the one share, one vote principle to ensure all shareholders are treated equally. The same applies to share authorities which may be used as anti-takeover devices.

*We will not support proposals where:*

- Companies are either seeking to establish or continue the practice of double/unequal voting rights (such as amendments to articles).
- There are material concerns over the share structures or the use of share authorities which are not considered to be in the interests of shareholders generally.

**10.2 Untraced shareholders** – We are supportive of companies using the sale of proceeds of untraceable shares and unclaimed dividends for charitable causes. This should reside within a robust governance framework with clearly articulated objectives and regular reporting on impacts and outcomes of the program.

## 11. Data Security

**11.1 Cyber security.** This is an increasingly significant operational, legal, commercial and reputational risk. We expect boards to describe the extent to which they provide oversight of cyber-risks and the control mechanisms in place. This should include a clear understanding of vulnerabilities, levels of investment in technology, people and processes, and implementation of crisis management protocols. Boards must be able to demonstrate the existence of appropriate skills and experience amongst directors that will enable the appropriate level of oversight of cyber risks. The extent and manner in which these oversight responsibilities are delegated through the business will be subject to heightened shareholder scrutiny.

**11.2 Data Protection.** Increased regulation around data protection covers a number of areas including processes for obtaining consent for use of personal data, deletion of personal data (right to be forgotten) and child protection. This may result in significant costs and operational challenges for companies. We expect boards to assess the business impacts of regulations or voluntary improvements to data protection to ensure operational readiness, update compliance frameworks, crisis management protocols, and provide appropriate levels of disclosure.

Companies with a global footprint will have to operate under multiple and divergent political and legal environments. This may include managing requests for sensitive information on clients and employees from host governments and regulators. While we expect all companies to operate within the legal requirements of each jurisdiction, companies should disclose a clear policy framework on how it deals with data requests of this nature. We would also expect companies to be transparent on the number and nature of requests for data made by host governments and how these were handled.

## 12. Remuneration

We trust the remuneration committee to set appropriate pay arrangements for executives. The committee should have appropriate company knowledge to design remuneration arrangements that are aligned with company strategy and to incentivise and reward long-term sustainable value creation. Remuneration packages should be simple, balanced, and transparent, and deliver pay outcomes that reflect company performance and the stakeholder experience. They should not only be designed to consider the needs of the executives but of the whole business.

We understand that all companies are different and there is a need for more flexibility in the structure and approach companies take to executive pay. We will therefore consider arrangements on a case-by-case basis and evaluate them in the context of the company's operating environment.

Where companies are looking to make significant changes or have unusual circumstances, we encourage dialogue to better understand their rationale. We will consider such proposals individually, considering the company's circumstances and taking into account our own views of the company's challenges.

Our general principles on executive remuneration are as follows:

- Total pay outcomes should be a fair reflection of company performance;
- Arrangements should reward long term performance (i.e. based on plans that have a timeframe of at least 3 years);
- The majority of pay should be performance based;
- Executives should have a meaningful shareholding in the company or appropriate mechanisms in place to build up ownership;
- When determining pay outcomes, careful consideration should be made to stakeholders and in particular fairness compared to the pay arrangements across the wider workforce.

We have provided further details of our approach to evaluating remuneration proposals in Appendix 1.

While we take a flexible approach and take into consideration individual circumstances we may not support remuneration arrangements where we have the following concerns and sufficient explanations have not been provided:

- *Pay is misaligned with the interests of shareholders and the company;*
- *Fixed and/or variable pay is excessive;*
- *Significant increases in compensation;*
- *Discretionary payments or retention awards have been made;*
- *Pay outcomes have not been adjusted following a significant ESG incident/failing;*
- *Executive pay is misaligned with the wider workforce and other stakeholders.*

*For material issues, or if previously flagged concerns have not been addressed, we will consider voting against the chair of the remuneration committee and the chair of the board.*

## 13. Shareholder Proposals

The overriding principle governing our approach to voting on shareholder resolutions is to act in line with our fiduciary responsibilities, in what we deem to be in the best long-term interests of our clients. As the nature of shareholder resolutions changes from year to year, as do the factors that inform our analysis of each one, we take a nuanced approach to these resolutions.

**13.1** We closely evaluate all resolutions on a case-by-case basis, in the context of a company's unique circumstances. When reviewing these resolutions, we will consider a variety of factors:

- (i) **The business and economic relevance. The materiality** and relevance of the issue to the company, and the risks or benefits to the company's long-term value for shareholders and key stakeholder groups. Our analysis will take into consideration the context in which companies operate— including the business and market environment, geographic, and jurisdictional factors.<sup>9</sup>
- (ii) Framing and nature. We will evaluate whether the resolution request is **well-framed and reasonable** and not, in our assessment, **unduly prescriptive or constraining** on the decision-making of the board or management. We support resolutions that improve governance and a company's approach to material risks. However, we will withhold support where a resolution's adoption may not necessarily achieve the intended objectives of advancing long-term shareholder interests.
- (iii) Company practices. We will assess the company's current approach and whether it has demonstrated **sufficient practices** to address the intent of the resolution on both an absolute basis and relative to peers. If we believe there is an opportunity for improvement or with a more appropriate sense of urgency, we will support the resolution.
- (iv) Company responsiveness. whether the company has demonstrated appropriate engagement and **responsiveness** on this issue. Example factors considered include providing a credible commitment to act in a reasonable time frame, disclosing outreach efforts by the board to shareholders prior to the vote, enhancing corporate engagement and disclosure of specific and meaningful actions taken to address shareholders' concerns.

<sup>9</sup> Note that our evaluation of the relevance and materiality of a given issue can change from year to year as the business and market environment changes for companies.



In addition to the considerations above, other factors that we will take into account include, and are not limited to:

- (i) whether there is a competing or corresponding shareholder resolution on the topic;
- (ii) the legal effect of the shareholder resolution, as resolutions may be advisory or legally binding depending on the jurisdiction; and
- (iii) management's recommendation on how shareholders should vote on the resolution.

## 13.2 Approach to Management-Proposed ESG Resolutions

In a variety of markets, companies have begun submitting resolutions to a shareholder vote that enables shareholders to signal approval of new ESG strategies or of progress. Aviva Investors will evaluate and update our guidelines to factor in our approach to more commonly proposed resolutions. However, at this time, Aviva Investors will take a case-by-case approach to all management- sponsored ESG resolutions.

When reviewing these resolutions, we will consider a variety of factors, as outlined above.

## 14. Investment trusts

**14.1 Independence.** Where the members of investment trust boards are all non-executive directors, these directors should ideally all be independent. Further we believe that lengthy service can compromise the independence of directors, even for investment trusts.

*We will not support the re-election of non-independent directors if there is more than one non-independent director on the board, unless there is strong evidence of regular board refreshment.*

**14.2 Re-issue of treasury shares.** Share issuance authorities should be accompanied by a commitment that shares will not be issued at a discount to Net Asset Value (NAV). We would need to be convinced that any re-issuing of treasury shares at a discount is in the best interests of shareholders, even if the price represents a premium based on the average discount at which all shares held in Treasury had been repurchased.

*We will not support the issuance of shares including the re-issue of Treasury shares at a discount to NAV unless there is exceptional justification provided demonstrating that it is in the best interest of shareholders.*

## 15. Our process

Aviva Investors voting policy has been designed to address the themes and issues that are most critical to sustainable business performance and to drive positive outcomes for our clients and broader society. Our positions have evolved and crystallised through decades of experience as an active and responsible global investor whilst being informed by the issues that are most important to our clients. We believe that our clients are best served through the adoption of a single centralised voting policy and approach under which all funds and strategies will be voted in the same way. This ensures that we are able to communicate a consistent position to companies on best practice, emerging issues and judgements on complex specific issues.

In order for our stakeholders to understand our stewardship philosophy, policy and activities, we have set out our broad process as follows:

**15.1 Oversight.** Primary responsibility for oversight of our policy lies with the Global Executive Committee and Board at Aviva Investors.

- 15.2 Integration with fund managers.** Decisions with respect to our active holdings are made in conjunction with our fund managers to ensure that all special circumstances are appropriately taken into account.
- 15.3 Proxy agencies.** We use proxy voting agencies to support research and operations. However, voting decisions are retained in-house and executed in accordance with this policy.
- 15.4 Abstentions.** We seek to provide clear communication to investee companies of our support or opposition to management proposals. Hence, in the majority of cases we will cast our vote in favour or against a resolution. However, we may abstain on resolutions in very limited circumstances. This typically relates to occasions where companies have made some positive changes but we are unable to support the entirety of a proposal, and shareholder resolutions where we support the spirit but not the letter of the resolution.
- 15.5 Engagement with companies.** As we own a large number of securities we are unable to engage with all companies ahead of their shareholder meetings to discuss our voting intentions. We will endeavour to do so where we have a significant holding of the stock or where we are a top 10 shareholder. Similarly, with remuneration consultations or offers of meetings on corporate governance issues, we will prioritise our resources by the size and value of our holding, and the materiality of any concerns. We will engage to mitigate material sustainability risks and principal adverse impacts in line with our beliefs on corporate sustainability set out above. In addition, we write to companies on an annual basis to advise of any changes to our voting policy and where our voting records and rationale can be found on our website.
- 15.6 Collaboration with other stakeholders.** We maintain an active participation in formal and informal investor networks promoting dialogue between institutional investors and other stakeholder groups including NGOs, to press for positive change in corporate policies and behaviours, as well as policy and regulatory reform. However, we are careful to stay within Competition Law Regulations.
- 15.7 Inside Information.** The decision as to whether we should become insiders is taken on a case-by-case basis. In specific circumstances we are willing to be made insiders. However, we prefer to have a clear idea of the expected period we are likely to remain inside. Our preference is to be insiders for as short a time as possible (days rather than weeks). Aviva Investors operates one global Stop List in respect of all its trading activities so when a security is added to our Stop List, trading is restricted in respect of all Aviva Investors clients, as well as for Personal Account Dealing.
- 15.8 Conflicts of interest.** Aviva Investors takes its fiduciary duties to clients and beneficiaries very seriously, and we apply a consistent and transparent approach to the management of conflicts of interest in accordance with local regulation. Our principal objectives when considering matters such as engagement and voting are always to act in the interests of our clients and underlying beneficiaries, and to treat all clients and beneficiaries fairly.

Aviva Investors manages conflicts of interests when voting through the following processes:

- making companies aware each year of our areas of focus on governance matters, including our Global Voting Policy. This enables boards to take our expectations into account without a conflict coming into play, and also demonstrates our commitment to a transparent process and policy on behalf of all client funds;
- being transparent to companies and to clients on our voting decisions and the rationale for such decisions;
- making our voting decisions public on a company by company basis so our voting record is transparent and available for external scrutiny;
- when agreed with clients, we will act on their specific voting direction (for their holdings) including the use of independent third party instructions; and
- voting process and decisions, including incidents of potential conflicts, are subject to Aviva Investors' internal audit and controls procedures

## Contact details:

For more information please contact:

### **Louise Piffaut**

#### **Head of ESG Liquid Markets**

Aviva Investors  
80 Fenchurch Street  
London  
EC3M 4AE  
Email: [louise.piffaut@avivainvestors.com](mailto:louise.piffaut@avivainvestors.com)

### **Richard Butters**

#### **Head of Stewardship**

Aviva Investors  
80 Fenchurch Street  
London  
EC3M 4AE  
Email: [richard.butters@avivainvestors.com](mailto:richard.butters@avivainvestors.com)

### **Nathan Leclercq**

#### **Head of Corporate Governance**

Aviva Investors  
80 Fenchurch Street  
London  
EC3M 4AE  
E-mail: [nathan.leclercq1@avivainvestors.com](mailto:nathan.leclercq1@avivainvestors.com)

## Appendix 1: Remuneration Principles

The following principles guide our approach to voting on binding and advisory remuneration proposals.

These are not intended to be fully exhaustive of all elements of pay but provide some views around the various elements of pay.

### 1. General

- A. Pay outcomes:** Overall levels should not be excessive and total remuneration paid to individuals should be reflective of company performance.
- B. Simplicity.** We prefer pay arrangements that are clear and understandable. Care needs to be taken to ensure that performance conditions are not convoluted, repetitive or overly complex.
- C. Discretion.** We believe that remuneration committees should retain some level of discretion to ensure that remuneration outcome closely reflect company and management performance and stakeholder outcomes. However, the scope and limits to discretion should be clearly outlined to shareholders beforehand.
- D. Identifiable limits.** We would expect an identifiable limit for each of the different components of remuneration. This need not necessarily be in monetary terms but expressed in a way that will allow shareholders to understand the potential maximum payouts.
- E. Quantum.** Excessive pay can represent a risk to the company both in terms of encouraging the wrong behaviours within the firm and also for its reputation. Remuneration committees should consider setting a limit on the maximum level of 'realised' pay in a given year and structure policies accordingly. This could include additional deferrals or phasing of pay-outs that exceed the stated cap. We will make our assessment based on the explanations companies provide for the overall pay levels and other exceptional factors.
- F. Pay Ratios.** This is an important tool for investors to assess the appropriateness of executive remuneration arrangements having regard to both historic and sector trends. While we acknowledge that ratios will fluctuate year-on-year, in general we would expect the number to trend downwards over time.
- G. Balance of pay.** The right balance between fixed and variable pay will depend on the company. However, in general we prefer to keep fixed pay lower with higher pay for exceptional performance, while guarding against incentivising inappropriate risk taking. Companies should justify why the balance is appropriate.
- H. Sustainability.** We would expect short and long-term variable pay to include robust and relevant sustainability metrics that have a meaningful impact on total pay outcomes [when material]. This should include climate related objectives for high carbon emitting sectors.

### 2. Salary & Benefits

- A. Pay increases and salary positioning.** Companies should provide good reasons for any pay increases. In general, increases for executives should be below that of the wider workforce and where this is not the case a clear rationale should be provided. We are supportive of rewarding exceptional performance over the long-term, but companies should explain pay increases in the context of additional returns to shareholders, how other employees will benefit and why it is deserved. Falling behind the pay benchmark is not a sufficient reason on its own. Companies are unique and directors' pay should therefore reflect these differences. Care should be taken when using benchmarks as individual roles and companies can be very different.
- B. Substantive salary increases post acquisition.** Salary increases solely based on inorganic growth is not deemed appropriate. The integration/success of an acquisition needs to have been proven first. If retention

and integration challenges are considered to be key issues, then we would prefer this to be reflected in performance-related pay.

- C. Salaries / remuneration packages for new joiners.** Unless there are exceptional circumstances, salaries/pay packages for new directors should not be more than their predecessors, particularly if predecessors were in post for a significant amount of time and delivered strong performance.
- D. Pensions.** Executive pension entitlements should mirror benefits provided to the general workforce.
- E. Tax arrangements.** Adjustments to individual tax arrangements should not result in additional costs to the company.
- F. Benefits.** Where executives receive additional benefits these should not be excessive.

### 3. Incentive Plans

- A. Performance measures and alignment to long term strategy.** The outcomes of annual bonus and share plans should be closely aligned with the strategic business targets communicated to the market. We expect earnings and other performance measures to be constructed so that measurements are transparent, minimise arbitrariness and do not skew vesting in favour of participants. We do not support 'cliff-edge' vesting and prefer sliding scales which begin from an appropriately low base. All performance measures should be clear and transparent with specified measurable metrics and targets.

Targets should include environmental, social and governance (ESG) targets where performance in these areas is key to strategy and the sustainability of the business. This should include climate related objectives where a company faces material transition risk. ESG considerations should also be part of malus and clawback mechanisms or incorporated as an underpin.

We prefer Total Shareholder Returns (TSR) to be a component of LTIP awards. We are aware of the shortfalls of TSR but no performance measure is perfect and many are open to manipulation. Importantly, it is the measure that most aligns company performance with the shareholder experience.

- B. Payment at median.** Companies should be careful not to deliver excessive payouts for median or threshold performance. Bonuses at target should not exceed 50% of the maximum while long term awards should limit vesting for median performance to 25% or below. We would expect an inverse relationship between the quantum of the award and the percentage vesting for threshold performance.
- C. Alternatives to traditional LTIP arrangements.** In principle we are supportive of companies departing from traditional LTI arrangements provided companies are able to clearly demonstrate why the change is in shareholder interests. We will carefully consider proposals to introduce restricted shares or hybrid plans on a case-by-case basis i.e companies should provide a clear justification of the benefits to shareholders of granting executives share awards without performance conditions. In addition to considering the rationale for such proposals, we will evaluate the discount levels applied to the total award, holding periods, and the long-term vesting history of previous performance based share awards.

We are supportive of share options (or other forms of share appreciation rights) as an alternative structure for long term incentive arrangements, particularly if the share price needs to improve in order for awards to vest. Other factors we will consider are individual awards limits, the level of dilution, and vesting periods.

We are supportive of co-investment plans where they encourage executives to invest their own money into company shares.

- D. LTIP Performance periods.** We expect long-term schemes to be a minimum of three years.
- E. Fall in share price.** Where awards are granted off a depressed share price we would expect the remuneration committee to reduce the award size ideally at grant..
- F. Dilution.** New share awards, when aggregated with outstanding awards under all of the company's other schemes, should not exceed 10% of the issued ordinary share capital (or 5% in respect of executive/discretionary schemes in any rolling 10 year period).
- G. Retesting.** We do not support the retesting of performance conditions for incentive plans.
- H. Pro-rating for time for departing directors' LTIP awards.** LTIP awards for departing directors should be prorated in size while maintaining the initial vesting schedule with respect to the vesting period and performance conditions.
- I. Change in control.** There should be no automatic waiving of performance conditions following a change in control and we expect awards to be pro-rated for performance and time.
- J. Malus and clawback.** Pay arrangements should enable performance adjustment or post-vesting clawback for executive directors' variable pay and specify the circumstances in which the remuneration committees would consider it appropriate to act.
- K. Discretionary and retention payments.** We do not approve of discretionary payments and do not believe retention payments work. A coherent remuneration policy should be sufficiently retentive and reward exceptional performance.

#### 4. Executive shareholdings:

We expect management to build a meaningful shareholding in the company and held over time. This could be achieved through the following mechanisms:

- A. Investments from their personal wealth**
- B. Bonus deferral**
- C. Shareholding guidelines**
- D. Holding periods on long-term incentive plans.**
- E. Holding periods for executives after they have left the business**(i.e shareholding guidelines should continue for a period post-employment)).

#### 5. Recruitment & Leaver Arrangements

- A. Recruitment policy.** We understand the need for flexibility in the event of external recruitments. However, we expect remuneration committees to adhere to the following framework:
  - I.** Any breach of normal limits should still be within the maximum limits set for payments for exceptional circumstances. We do not include buyout awards in our assessment as we recognise that there may be occasions when it is necessary to exceed the maxima quoted in the policy.
- B. Recruitment payments.** Where recruitment payments are made we consider the following:

- I. Justification of the quantum of awards
  - II. Whether the incentives are subject to performance conditions (only vested incentives from the previous employer should be compensated for without performance conditions)
  - III. Whether the compensation is granted in restricted shares
  - IV. The extent to which recruitment awards are a fair reflection of the expected value of payments forgone.
- C. Exit payments.** Exit payments should be no more than 12 months base salary and should only be made when deserved and legally obligated. We acknowledge that market practice in some countries allows for more than 12 months pay on termination of contracts and in such case we will look to see if there are any mitigating factors for us to support such arrangements.
6. **Collateral and hedging.** We are not supportive of director shareholdings being used as collateral for loans or any form of hedging.