

# Voting Policy

May 2021

Quilter Investors is an investment management business of the Quilter plc group and is the trading name of Quilter Investors Limited and Quilter Investors Portfolio Management Limited. References to 'Quilter Investors' throughout this document can mean either or both of these companies.

On behalf of our clients, we predominantly invest via collective vehicles such as open and closed-ended funds (including investment trusts). We may also invest directly in bonds and equities. Many of these asset classes carry voting rights, including equities and investment trusts.

## Oversight of voting by sub-advisers

Where Quilter Investors delegates the investment management of a fund to another manager, it is important for the manager to align engagement and voting with the investment strategy. Due diligence is undertaken on these asset management firms by our independent fund research team in order to assess their approach to stewardship and responsible investment.

We expect our managers to vote at shareholder meetings on our behalf. As with investment decisions, our managers have complete discretion on how to vote. As a minimum standard, we expect our managers to execute proxy votes where practicable.

## Direct voting by Quilter Investors

Voting is a key component of our process for engaging with closed-end funds. We vote on all resolutions at all annual general meetings (AGMs) and extraordinary general meetings (EGMs) globally (unless we are restricted from doing so, for example in share-blocked jurisdictions). Our investment team reviews all resolutions ahead of shareholder meetings and we only decide how to vote after due consideration and discussion. As a rule, we aim to discuss and resolve any concerns with management before deciding to abstain or vote against a resolution.

We review all resolutions that are tabled and take an active involvement where necessary. For example, we may disagree with the recommendations of directors and/or third-party proxy advisers/administrators, and when appropriate we will amend our voting attentions accordingly and provide a rationale for why we have done so in our

voting reports. We wholeheartedly recognise the importance of voting, especially given that we are a significant investor in the closed-end fund sector.

In respect of our equity holdings, the majority are UK listed companies and therefore, our voting is concentrated on UK equities and investment trusts. For these holdings, we use the services of Institutional Shareholder Services ("ISS"), a third-party proxy voting service provider to facilitate the fulfilment of voting.

## Reporting

We are fully transparent on our voting activity and publicly disclose our voting activities on our website on a quarterly basis, in addition to producing an annual voting report. A link to our voting records can be found [here](#).

Where we consider a vote to be significant, additional disclosure related to the voting rationale will be provided. Examples of significant votes include (but are not limited to):

- Vote against management
- Vote against ISS recommendations
- Where the value of shareholding relative to total portfolio and ownership share in company exceeds 10%
- Vote on resolutions attracting media attention or public scrutiny
- Materiality of issues voted on, particularly with respect to the impact on shareholder value
- Materiality of the vote to engagement outcomes

## UK Stewardship Code

We recognise the UK Stewardship Code 2020 ("the Code") as best practice. It aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

As a responsible investor, we are committed to our role as a steward of clients' assets in order to protect and enhance long-term returns. This policy is written in recognition of the Code as best practice and, although not currently a signatory,

Quilter Investors will work towards embedding the requirements of the Code with a view to becoming a signatory.

A significant proportion of the assets we invest in on behalf of our clients are funds managed by third party asset managers. Where these funds invest in UK equities, in general and where relevant, we expect asset managers to adhere to the Code and we expect them to apply their own voting and engagement policies. In certain situations, for example specific strategies or investment structures, the above requirements may not be relevant or appropriate. Where this is the case, we expect the manager to articulate a meaningful rationale as to why it may not be relevant or appropriate.

## Key voting principles

We have developed a set of voting principles, set out below, that reflect guidance from the Financial Reporting Council in the UK Corporate Governance Code and from the Pension and Lifetime Savings Association, as well as good practice within the market.

We consider the recommendations of ISS in our engagement and voting decisions, but we apply our own views to the voting policy and will not always follow the recommendations of ISS if we feel it is in the best interests of our clients to take a different course of action.

## Our approach to voting decisions

The following provides a guide to how we typically approach voting decisions in relation to specific topics.

### Open-ended funds

Where we hold voting rights in open-ended funds, we will exercise these rights at general meetings. This includes all AGMs and EGMs globally unless we are restricted from doing so, for example where share-blocking occurs. Typically, these types of general meetings tend to have shorter agendas and are more administrative in nature.

## *Open-ended funds* (continued)

In line with our general voting approach, we will consider the recommendations of ISS (our third party proxy adviser) in our voting decisions. We apply our own views to the voting policy and therefore, will not always follow the recommendations of ISS if we feel it is in the best interests of our clients to take a different course of action.

## *Investment trusts*

The governance structure of an investment trust is slightly different to that of a listed company and as such the Association of Investment Companies' ("the AIC") has adapted the UK Corporate Governance Code; these differences are reflected in our voting principles. Interaction with the board and our knowledge of the investment trust forms an important part of our voting decisions.

We support the AIC Code recommendations the performance of, and the contractual arrangements with, the manager are reviewed annually by directors independent of the investment trust manager and that the board of an investment trust is fully independent of the firm providing fund management services. We will generally support continuation votes, however, where a special meeting is called owing to discount mechanisms being triggered, we will review this on a company specific basis.

## **Board Effectiveness and Independence**

We believe it is in the best interests of investors for boards of directors to exercise effective and independent oversight of management. Where applicable, Non-Executive Directors (NEDs) should constructively challenge management and no individual should have unfettered powers of decision-making. In order to ensure that the composition of the board is appropriate

there are a number of factors that we assess, including:

- The appointment of a former CEO as chair would be deemed contentious, and we would seek the rationale for this. Similarly, we would seek the rationale for the roles of chair and CEO being held by one person.
- The ratio of NEDs to non-independent directors and the composition of different committees (this will vary depending on whether the company is in the FTSE 350 or not).
- We consider board composition in respect of gender diversity.
- When there is a contested appointment of directors, we will make the assessment based on whether we believe change is necessary, and if so, whether we believe the dissident board members are likely catalysts for positive change.
- We expect the information we receive, ahead of the appointment of a new director, to be both timely and detailed regarding their experience and skills.
- We consider the number of roles and other commitments that a NED may have.
- NEDs should have sufficient time to devote to the board. The presence of NEDs on key committees such as the Audit Committee and the Remuneration Committee are indicators of good governance.
- Additionally, we will take into consideration the Financial Reporting Council's recommendation that NEDs (including chairs) should have a maximum tenure of nine years.

## **Audit and accounts**

The role and the appointment of the auditor are central to good corporate governance. We take the following factors into consideration:

### **Independence of the auditor**

- The length of the auditor's tenure and the ratio of audit to non-audit fees are issues that must be addressed clearly. Where they are not (and adequate explanation is not given) then we will consider voting against the chair of the audit committee and/or voting against the auditor's remuneration.

- Where the tenure of the auditor exceeds ten years and there has not been a recent tender process, nor are there plans for this, then we will consider voting against the re-election of the audit committee chair.

### **Audit procedures**

- Concerns regarding the auditor's procedures or a sudden (and unexplained) change in auditors will usually lead to us voting against the appointment of the auditor.
- Where there are concerns about the accounts or audit procedures, an accounting fraud, or a material misstatement in the year, we will consider whether to approve the financial statements and statutory reports.

### **Remuneration**

Executive pay should be aligned to the long-term strategy of the company and returns to shareholders, with performance targets that are challenging but realistic. Therefore, moving the goal posts in terms of the re-testing of performance conditions or the re-pricing of share options is not something we would usually support. Increases in executive remuneration should be in line with those across the wider employee base; and we would expect that executives hold shares equivalent to a minimum of 200% of their base salary. Remuneration has become increasingly complicated; ultimately the decision as to whether to support the remuneration policy is linked to whether we believe the executives are adding value for shareholders over the long-term. To determine this, we will consider a number of factors including:

- Whether the approach to fixed remuneration is appropriate and the performance criteria for all elements of variable pay are clearly in line with the company's strategic aims and whether the award levels for the variable pay components are capped.
- That there are clear explanations for maximum awards being given for any LTIP (Long-Term Incentive Plan) and annual bonus.
- That the LTIP terms include change of control, good leaver and malus (an incentive



award before it has vested or been paid)/ clawback provisions (incentive award already vested or paid).

- Contractual entitlements are reasonable and do not provide excessive payments in the event of termination.
- Shares granted or other types of long-term incentives should be subject to a vesting and holding period of at least five years.
- During economic crises additional scrutiny will be placed on the executive remuneration experience relative to the wider workforce. We expect there to be broad alignment.

### Capital structure

Changes to the capital structure may impact shareholders' long-term interests if not considered carefully. Whilst we are generally supportive of companies managing their capital effectively, consideration will be given to the following factors:

- New issuance: we are supportive of companies issuing new shares for capital raising so long as it is not detrimental to existing shareholders. We would therefore expect the general issuance authority to not exceed one-third of the issued share capital, or two-thirds for a fully pre-emptive rights issue. For investment companies we support the Association of Investment Companies guidance (October 2017) regarding the issuance of new shares.
- Pre-emption rights: when new shares are issued existing shareholders are usually given the opportunity to take these up (pre-emption rights), in order to avoid the dilution of existing shareholdings.

Companies have the right to disapply these pre-emption rights, but we would expect this to be limited to 5% of the ordinary share capital in any one year.

- Share buybacks: we will support share buybacks as long as they do not exceed more than 15% of issued ordinary share capital in any one year, and that the authority to conduct share buybacks is put before shareholders on a regular (usually annual) basis.

### Other issues

When considering other resolutions, we will evaluate what is in the best interest of clients and assess them on a company by company basis. Other resolutions may relate to a number of topics, including:

- Environmental and social issues
- Proposed changes to the Articles of Association
- Pay-out ratio of dividends
- Mergers and acquisitions
- Related party transactions
- Reincorporation proposals
- Authority to call a general meeting with two weeks' notice
- Political donations and expenditure in the EU
- Takeover bids (we will usually vote against mandatory takeover bid waivers)

In relation to shareholder resolutions, we will judge each of these on its individual merit and vote accordingly.

### Smaller companies

Long-term shareholder returns remain our primary determinant in how we vote, however, if we have direct holdings in smaller companies, there are two key differences in the approach we would take:

- We will generally support a smaller company to have the right to disapply pre-emption rights and the routine authority to do so should be limited to 10% of the ordinary share capital in any one year.
- We will generally consider different ratios of independent to non-independent members on different committees.