Our voting principles

ROYAL LONDON

Royal London considers that active exercise of shareholder rights is fundamental in operating as a responsible steward of the assets entrusted to it.

The following policy statements set out Royal London's view of what good corporate governance looks like.

The expectations we place on our asset managers

Voting is one of the valuable rights attached to holding shares in a company. As an asset owner, we delegate voting decisions to our asset managers, as part of the investment management process. Our Voting Policy, which sits as part of our Stewardship and Engagement Policy, acts as the basis from which we monitor and influence our asset managers' decisions when voting on our behalf.

We have a set of expectations for asset managers in relation to their voting procedures. We expect them to:

- have a publicly available **voting policy**
- give careful consideration to **ESG** issues when exercising voting rights
- take an **active approach** to voting, whether in active or passive funds
- support investee boards and management where their actions are consistent with **long-term corporate value** as opposed to short-term profits
- support the alignment of voting decisions with investee company **engagement**
- **disclose** voting activity no less than twice a year

The expectations we place on the companies we invest in

Corporate governance is a prerequisite for creating and protecting shareholder value. We believe it is our responsibility, on behalf of our customers, to seek to encourage best practice at the companies in which we invest.

The Board of Directors

Role of the board

The Board of Directors must act in way so as to promote the long-term sustainable success of a company, generating value for shareholders while contributing to wider society. Boards are accountable to their shareholders and should ensure open and effective communication with them.

Meeting frequency

Board Chairs should ensure that there are an adequate number of Board meetings for the proper management of the company.

Board size

Royal London expects Board (and, where applicable, Nomination Committee) Chairs to ensure that Boards are large enough for meaningful debate, but not so large that they become unwieldy and ineffective.

Meeting attendance

Attendance at Board and Board Committee meetings is a fundamental requirement. Royal London expects individual directors and Board (and, where applicable, Nomination Committee) Chairs to be held to account for persistent attendance issues.

Board and board committee independence

In determining whether we consider a director to be independent, Royal London will consider local best practice.

In the UK, we consider provision 10 of the UK Corporate Governance Code (circumstances which may impair non-executive director independence) as setting the applicable standards, but we do regard the factors that it describes as being relevant across all markets.

While Board structures can vary across markets, there are fundamental principles around the meaningful representation of both executive and non-executive directors, with all directors being free from conflicts of interest, that we believe should be adhered to. Where this is not the case, Board and Nomination Committee Chairs should be held to account.

Typically, the minimum standard we would consider as compliant with the principles of good corporate governance is for a majority of the Board to be independent and for Audit and Remuneration Committees (where they exist) to be fully independent.

Royal London may accept different standards depending on market best practice. In most markets outside the UK and Europe, one-third Board independence will generally be sufficient, and, in some developing markets, a Remuneration Committee made up of half independent non-executives may be considered acceptable. In the USA, where fewer executives are members of the Board, we consider two-thirds independence to be the minimum standard (permitting for exceptions in controlled companies). Where a company has a two-tier Board structure, we generally will not support a Supervisory Board that isn't majority independent.

Royal London expects votes to be exercised against individual directors and / or Board and Nomination Committee Chairs as a means of encouraging companies to pursue high standards of corporate governance in the markets they operate in.

The company secretary

Royal London views the role of Company Secretary as integral to the proper functioning of the Board and the maintenance of high corporate governance standards.

We generally will not support the situation where an executive director's role is combined with that of the Company Secretary.

Director capacity/overboarding

Board members must have enough time to discharge their role properly, including by maintaining capacity to deal with any emerging issues. Local best practice guidelines will be considered to inform us as to the appropriate number of directorships held by an individual where we have concerns.

Director tenure and re-elections

Directors nominated for election or re-election should be assessed in the context of the Board as a whole. Royal London will generally not be supportive of directors whose tenure exceeds best practice / laws in their local markets.

In the UK, we will look to the provisions of the UK Corporate Governance Code as a guide of appropriate tenure. In the USA and Canada, director tenure limits are not expressly outlined but mandatory retirement provisions are still in operation when directors reach a certain age. Royal London does not believe age should be the sole factor for retirement, but we expect companies to take action where there are succession concerns.

While our preference is for all directors to stand for election every year, for companies to adopt majority voting standards, and for any director who has not received the requisite supporting votes to immediately step down (in the absence of a compelling rationale), we acknowledge that standard practice may differ across markets.

Proxy access

While infrequently used and specific to the USA and Canada, Royal London considers proxy access (which is a process giving shareholders the ability to nominate a director to the Board) an important shareholder right that we are generally supportive of.

Proxy contests

In proxy contests, Royal London consider the use of 'universal' proxy cards (which allow investors to choose their preferred nominee-directors from both the management and opposition nominees) rather than the use of opposing proxy cards (whereby shareholders must choose between two opposing lists) to yield better results but we recognise the latter is current practice in certain markets.

Senior independent directors

Royal London considers the role of the Senior Independent Director (SID) or a Lead Director (or their equivalent in other markets) an important one. The SID, or their equivalent, can represent an important link between shareholders and the Board and we expect the Nomination Committee Chair to ensure the appointment of a SID or an equivalent. A SID must be demonstrably independent.

Chair and chief executive

Royal London believes the Chair of the Board should be independent.

Accordingly, we consider that the positions of Chair and Chief Executive should be separate and while we will generally not support the combination of these two roles, we recognise that exceptional circumstances may exist.

Succession planning

Succession planning for the Board and senior management is vital to safeguard long-term value for an organisation. The Chair of the Board (or Nomination Committee) should exercise appropriate oversight of a company's activities in creating diverse pipelines of candidates from within the organisation for executive roles, with appropriate consideration given to promoting diversity and inclusion.

Board diversity

Royal London believes in merit: it is essential that non-executive and executive director candidates are chosen on the basis of their overall competence and ability to effectively enhance the performance of the company. We also believe that securing cognitive diversity among Board members, through diversity of thought, opinion, gender, ethnicity, age, background, skills, experience and knowledge is essential for optimal decision-making.

Companies should comply with the specific legal diversity requirements in their operating markets (if present), but our expectation is the active pursuit of local best practice. As a minimum, we expect Boards to have at least one female director, but, for larger companies in most developed markets, we expect gender diversity of at least 30% and at least one person on the Board to be from a minority ethnic background. Board and Nomination Committee Chairs should be held to account where these targets are not met.

Workplace engagement

Boards must understand and address the corporate culture and needs of the workforce as a whole. Corporate culture should promote respect for one another and encourage ethical behaviour and integrity. Royal London expects the Board Chair, or the director responsible for workforce engagement, to be held accountable where there are issues with employee engagement.

Remuneration

Executive remuneration should be designed to promote the long-term success of a company. Royal London looks for companies to develop fair, robust, transparent, and straightforward pay practices which attract the best people, reward outstanding long-term performance, mitigate excessive risk taking and provide clear alignment with long-term value creation for shareholders.

Royal London is not opposed to high levels of executive pay, provided they are warranted and can be linked to exceptional performance, and we recognise that compensation levels will vary across markets. We expect Remuneration Committees to be held accountable for ensuring appropriate remuneration.

In the UK, Royal London expects companies to demonstrate a link between executive pay and that of their wider workforce. We welcome the pay ratio regulations that apply to certain UK listed companies. We are supportive of companies paying their workforce a living wage (or pay packages of equivalent value) and we support equal pay for the same responsibilities.

Remuneration policy

Royal London expects companies to determine the type of long-term pay model that suits their business best. We consider good Remuneration Policies are those which appropriately incentivise directors by relating pay to long-term value creation while incorporating material environmental, social and sustainability-related performance measures and appropriately reflecting positive and negative stakeholder impacts. We are generally opposed to the concept of granting one-off awards to executives outside of the company's Remuneration Policy as, if a Remuneration Policy is not fit for purpose, it should be amended.

We generally expect non-executive directors to receive fixed fee awards only. In markets where practice differs (such as in the USA where non-executives may receive share options), we expect these awards to be modest and not linked to company performance as doing so could jeopardise independence. Royal London supports the use of clawback policies.

Remuneration reports

Royal London expects Remuneration Committees, when granting performance-based payments, to demonstrate effective implementation of the company's Remuneration Policy and a clear alignment with long-term shareholder value. In principle, Royal London will support awards that are aligned to a company's Remuneration Policy but we expect Remuneration Committees to exercise their discretion when the formulaic outcome of a Remuneration Policy is disconnected with company performance or shareholder experience so that reward outcomes are appropriate.

Share-based schemes

Royal London recognises the value of performance-related remuneration, such as share-based incentive schemes: the build-up of executives' significant financial commitment through shareholding ensures alignment with the objectives of shareholders. Similarly, we welcome employee-wide schemes.

Although companies should adopt the structure that best suits their business, Royal London considers that there are cornerstones of best practice. In addition to executives' financial commitment being meaningful, performance targets should be challenging; performance periods should be for a minimum of three years; vesting periods and scales should be appropriately incentivising and account for performance in a relative (i.e. peer comparison) and absolute sense; and material, environmental, social and sustainability-related performance measures, linked to verifiable KPIs, should be incorporated where appropriate.

Alternative remuneration structures

Royal London believes that remuneration schemes should be tailored to be appropriate to the company in question. We are therefore open to alternative models of pay, such as the granting of restricted stock units. We believe any such model should be straightforward in nature with the rationale for adopting an alternative approach clearly communicated to stakeholders.

Pensions

In the UK, Executives Directors' pension contributions should be aligned to those of the workforce, with new Remuneration Policies specifying this for new executive appointments. Royal London expects Remuneration Committees to actively review pension provisions in place and for companies to make every effort to address discrepancies in pension levels.

Service contracts

In the UK, Royal London expects a company to seek to mitigate liabilities on severance, publishing its policy on mitigation in its Remuneration Report. We do not consider early vesting of awards to be appropriate or for pay awards on severance to be linked to anything other than basic salary and bonuses already earned.

While longer notice periods than a year may exist, Royal London consider that they should be the exception.

ESG issues

Climate risk

Royal London expects all companies to assess and address their respective risks, liabilities and opportunities around climate change, whether these are physical, financial or reputational. Royal London is supportive of greater transparency in this area, and we strongly encourage companies to publicly disclose material climate-related information on their climate risks and/or to produce a Taskforce on Climate-related Financial Disclosures (TCFD) report.

While we consider that engagement on these topics should be the primary tool for addressing climate risk in investee companies, we believe that companies and their directors should be held to account where concerns are not addressed adequately and persist for more than two years.

Climate risk - climate transition plans

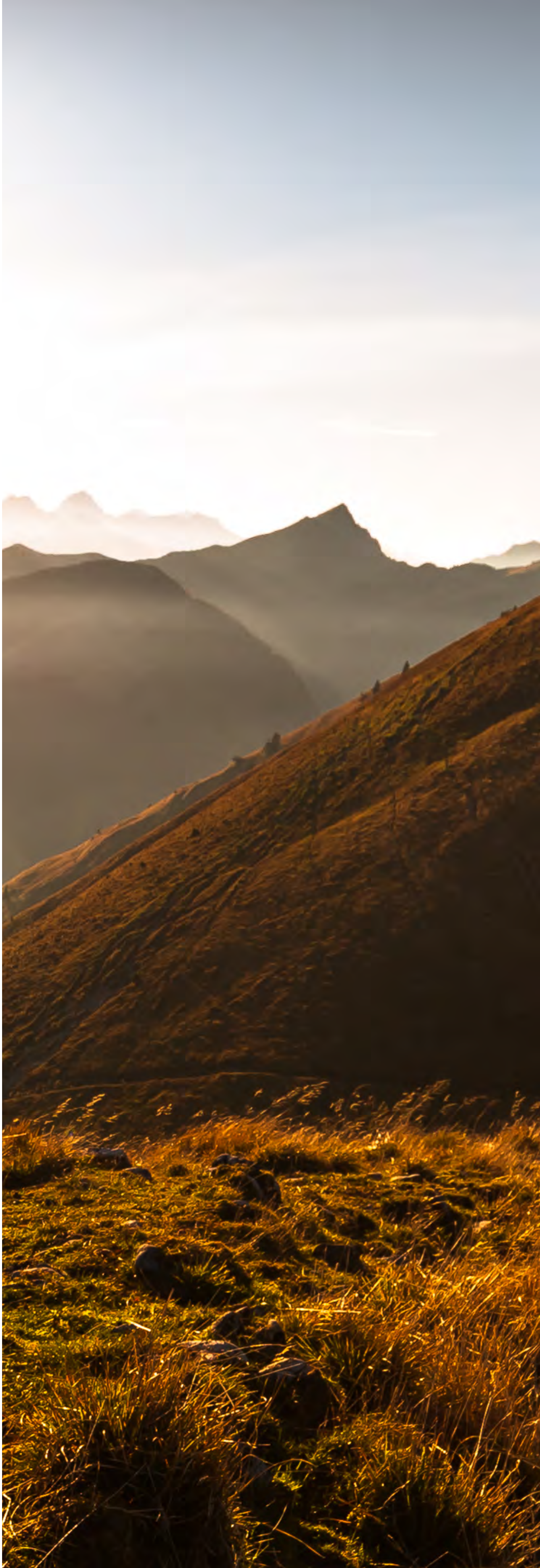
Royal London encourages companies to engage with their shareholders on their Climate Transition Plans. We expect Climate Transition Plans to be aligned with the Paris Agreement and, among other things, for companies to engage with communities, workers and their supply chains to ensure a just transition.

Principal adverse impacts and other ESG issues

Royal London expects companies to acknowledge, and be actively seeking to address, their most material negative risks and impacts whether these are financial, social, environmental or governance-related. Royal London considers that a proportionate approach is acceptable, given that companies will be impacted differently. As a guide only, the risks and impacts we expect to be addressed include:

- Climate change and emissions,
- Biodiversity, including deforestation and consumption of natural resources,
- Environmental issues, including pollution to air and water,
- Human rights, including modern slavery, child labour and indigenous rights,
- Social impacts, including those arising from a transition to a low-carbon economy,
- Business ethics and employee rights, including corruption and bribery, and
- Animal testing practices.

While we consider that engagement should be the primary tool used for addressing shareholder concerns in respect of these topics and the risks associated with them, in the event that they are being inadequately addressed, Boards should be held accountable, either directly via re-elections or via voting on relevant shareholder proposals.



Auditors

Auditor independence

We favour the appointment of an auditor recommended by an independent Audit Committee. Auditors should be independent and ongoing care must be taken by a company so as not to compromise this independence. Audit Committees should periodically undertake a review of the company's Auditors' independence.

We support the move to greater frequency of tendering for audit contracts and believe that some form of backstop rotation should be in place (we consider twenty years or less to be good practice).

Non-audit fees

Very large non-audit fees can be an indicator of a risk to an Auditors' independence. Royal London considers that, where Auditors are engaged in non-audit work, the Audit Committee should exercise appropriate oversight to ensure Auditor independence is maintained.

Share capital

Dividends

In its support for the effective and efficient use of shareholder capital, Royal London will look favourably upon the release of any dividends, provided doing so is also in the best long-term interests of shareholders.

Authority to issue shares

Royal London will be supportive of authorities to issue shares on both pre-emptive and non pre-emptive basis provided they are subject to locally established limitations on size and are accompanied by a specified time limit, or are linked to a specified capital investment.

Share repurchases

Provided they do so in a manner that is compliant with local laws and regulations, and the possibility for director conflicts in respect of bonus share schemes is appropriately managed, Royal London is generally supportive of a company repurchasing shares.

Shareholder Rights

Royal London expects shareholder rights to be protected. Companies should be willing to engage with shareholders where concerns arise and be available to respond to reasonable enquiries from shareholders. We favour a share structure that gives all shares equal voting rights and expect companies to abide by the one share one vote principle.

Other principles

Report and accounts

Royal London expects companies to report regularly and in a manner that allows shareholders to have a clear understanding of the business, its strategy and its conduct. We want companies to be as transparent as possible in their Report and Accounts so investors can obtain a clear understanding of important and relevant issues.

Shareholder resolutions

Shareholder resolutions can be a useful means by which investors can communicate concerns that they may have to manage. While relatively rare in the UK, their use can be particularly prevalent in markets where engagement mechanisms are less well established, or management teams are less accessible. Shareholder resolutions will be assessed on a case-by-case basis, but our expectation is that management will release a full and reasoned statement outlining their stance on any shareholder resolution presented. Royal London will generally look favourably on shareholder resolutions that seek improvement to shareholder rights and / or which address an environmental, social, governance or other stakeholder issue.

Royal London considers the practice in Australia whereby shareholders are allowed to file non-binding proposals to be a useful mechanism for shareholders to engage with management.

Political donations

Royal London supports charitable acts at an appropriate level but sees donations to political parties or to organisations closely associated with political parties as inappropriate. Any support for such an authority should only be in exceptional circumstances and the Board will be responsible for demonstrating such circumstances exist.

Memorandum and articles of association

Proposals to change a company's memorandum and articles of association should be presented to shareholders with a separate resolution for each substantive change. The reasons for each change should be provided.

Virtual shareholder meetings

Royal London welcomes the option for hybrid meetings (where shareholders have the option to attend either in person or virtually) but considers that physical meetings help preserve the rights of shareholders to engage with management and hold them to account.

Takeover bids and defences

While takeover bids can be an important means of maintaining an efficient and competitive environment, whether they are favourable in their ability to offer shareholder value needs to be considered.

Cross shareholdings

Cross-shareholdings are a unique feature of the Japanese market and Royal London expects Board Chairs to be held to account where there appears to be limited efforts to reduce cross-shareholdings or where the company's policy is inadequate.

Investment trusts

We are supportive of the Association of Investment Trust Companies Code of Corporate Governance as best practice for the sector.

Exclusive forums

A feature unique to North American markets, Royal London generally does not consider exclusive forum provisions to be in the interests of all stakeholders, and where present should be subject to shareholder approval.

Related party transactions

In Europe, where there is continued dominance of family-controlled corporations and other substantial shareholders, it is common to see the approval of related party transactions at AGMs. Resolutions proposed in respect of these transactions should be considered on a case-by-case basis.

Any other business resolutions

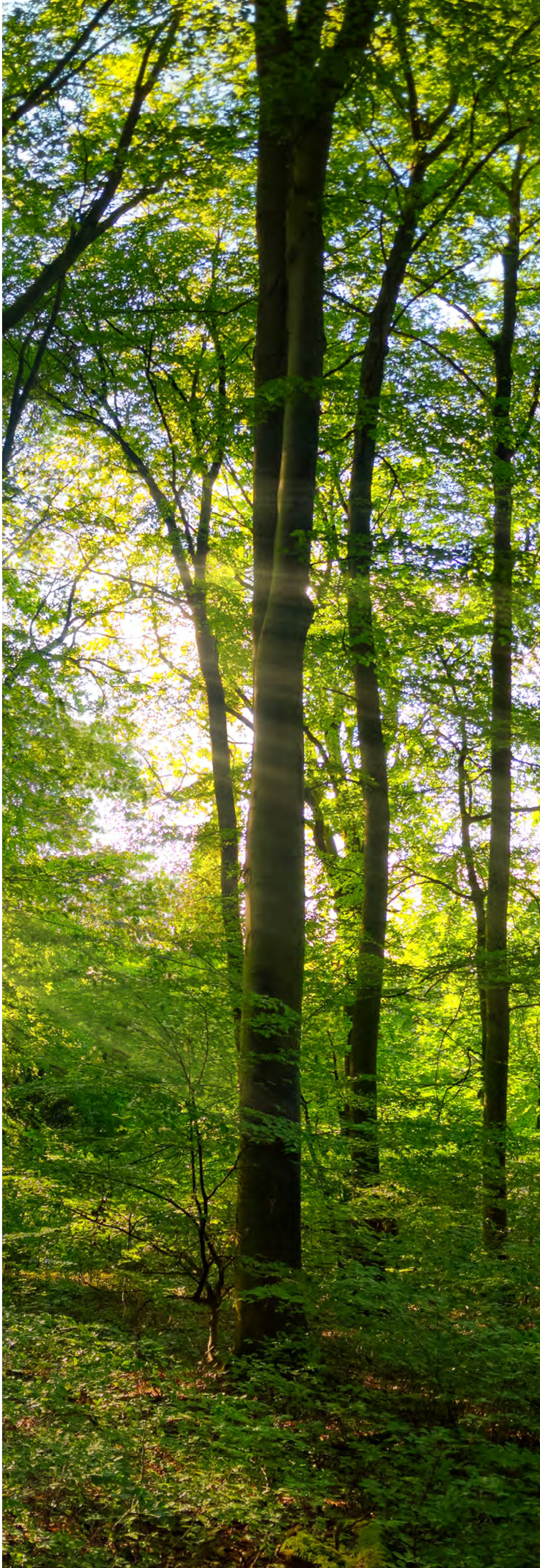
Royal London believes that voting should be done on an informed basis. Accordingly, we are not supportive of the practice of tabling 'any other business' resolutions at AGMs on the basis they may be detrimental to those shareholders not physically present.

Discharge of management and supervisory boards

A request by a German, Swiss or Nordic company for shareholders to ratify the actions of the Supervisory and Management Board(s) during the most recent fiscal year should be considered on a case-by-case basis.

International sanctions

Royal London expects compliance with any and all international sanctions imposed against certain markets, companies or individuals. Where inappropriate links have been maintained with sanctioned markets, companies or individuals and no acceptable justification has been provided, we expect that the Chair of the Board, or those individual directors who have the links, be held accountable.



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