RBC Brewin Dolphin voting guidelines

Brewin Dolphin

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Responsible ownership of our clients' assets underpins our investment approach.

Our voting guidelines outline RBC Brewin Dolphin's core principles for voting as a responsible owner, providing a transparent framework for internal and external stakeholders, including our clients and investee companies. They are reviewed by the research team and the RBC Brewin Dolphin Stewardship Committee and updated at least annually. The aim of the voting guidelines is not necessarily to address each and every voting scenario, but to provide guiding principles on common voting issues and those items we feel are of particular importance across five key themes:

I. Board of directors

II. Remuneration

III. Audit

IV. Shareholder rights

V. Culture

While we will generally vote in line with our guidelines, there may be circumstances where we believe it is in the best interests of our clients for us to vote differently or abstain from voting. As active owners, we undertake thoughtful engagement to support the delivery of long-term value for our clients, which may also inform our voting behaviour.

In the event of a perceived, potential, or actual conflict of interest involving the exercise of our voting rights, we follow our conflicts of interest policy to help ensure that our votes are cast with the objective of creating value for our clients.

Our approach to voting

Our voting guidelines are broadly aligned with international best practice and local corporate governance codes, such as the UK Corporate Governance Code and the ICGN Global Governance Principles. While we recognise that corporate governance rules differ around the world, we do not have regional guidelines. Instead, our aim when making voting decisions is to consider international best practice principles in order to encourage better governance, taking into account local culture and other mitigating circumstances as needed.

We are a signatory to the UN supported Principles for Responsible Investment (PRI) and work towards integrating its key principles into our decision making and investment practices. This includes not only the incorporation of environmental, social and governance (ESG) issues into investment analysis and decision-making processes, but also a commitment to be active owners and incorporate ESG issues into our ownership policies and practices, and to seek appropriate disclosure on ESG issues by the entities in which we invest.

Our guidelines acknowledge our commitments under the UK Stewardship Code relating to exercising our voting rights, direct and collaborative engagement and escalation where necessary. When applying the principles of the Stewardship Code, we are mindful of considering the following, among other issues:

- capital structure, risk, strategy and performance
- adherence to the spirit of corporate governance codes or other applicable best practice guidelines
- directors' duties and board effectiveness
- diversity, remuneration and workforce interests
- audit quality
- environmental and social issues, including climate change
- quality of reporting

Our approach is broadly aligned with the ISS Sustainability Proxy Voting Guidelines, which we currently use to inform our views on good governance and sustainability. These guidelines provide a wealth of information and are publicly available to all stakeholders, including corporates.

Voting process

We actively vote on the companies that we define as being core holdings: those which make up 75% of our listed equity holdings by AUM; those on our centrally recommended lists; those in our centrally managed models; and any company where we hold more than 5% of the issued share capital and the value of our holding is over £5m. This is reassessed monthly. Prioritising our core holdings allows us to exercise our voting rights in a thoughtful way, based on a deep understanding of our investees. We may also choose to vote at non-core holdings on an exceptional basis. This could be at the request of an investment manager or as a result of an activist campaign that we wish to support or oppose.

Escalation

The depth of our due diligence and ongoing engagement with companies means we do not often have to escalate. However, there may be circumstances where escalation will be the optimal way to help ensure the best outcomes for our clients. In those cases, we will escalate matters with an investee company's board and take a more proactive approach to achieve the desired outcome. We also continuously monitor the outcomes of our engagement work and will hold boards to account if agreed changes are not implemented or reasonable requests are repeatedly ignored. In the event that it is necessary to escalate matters, we may do so by:

- expressing concerns through the company's advisers
- meeting with the chair or other board members to discuss concerns
- voting against management proposals
- voting against directors we consider accountable for lack of action or oversight
- making a public statement in advance of General Meetings
- submitting resolutions and speaking at General Meetings

While we generally prefer voting and engagement to divestment, changes to investment recommendations will be considered if escalation strategies are not achieving the desired outcome.

Shareholder proposals

We consider shareholder proposals an important tool for investors to signal growing concerns and pursue change, particularly when pathways for engagement are limited, or the company is not responding to concerns in a suitable manner. Shareholder proposals are becoming increasingly popular and cover a wide breadth of topics, with varying degrees of relevance and appropriateness. Therefore, we consider these proposals on a case-by-case basis relying on our analysts' deep understanding of our investee companies.

As part of our process, we will generally consider:

- The positive and negative impacts of following through with the proposal for the company, the environment, its communities and, ultimately, shareholders (namely our clients)
- The company's current strategy, policies and commitments relating to the issue in question
- Whether more disclosure and /or transparency relating to the issue would be beneficial to shareholders and other stakeholders
- Whether the company has recently been involved in related controversies with significant legal, reputational, or financial implications

While shareholder resolutions are largely advisory in nature, we assess them based on their merit and expect the board to respond appropriately when a proposal receives significant levels of support.

Transparency

Transparency is at the heart of our stewardship reporting, whilst reflecting the fact that a proportion of our stewardship work is done on a confidential basis, which we believe is in the best interests of our clients. A record of how we have voted is publicly available to view on our website (https://vys.brewin.co.uk/), and it is updated on a live basis. Our platform also allows our clients to cast their own votes directly.

Our stewardship activities are recorded by our Research team and monitored by our Stewardship Committee on an ongoing basis. Twice a year, the stewardship team also provides voting statistics and rationales for significant votes[1] to the Committee. This gives them the chance to further scrutinise the votes that have taken place and raise any concerns they may have.

We publish an overview of our stewardship activities on a quarterly basis, including examples of our voting and engagement work, and rationales for all votes where we have voted against management or the recommendations of our proxy advisers. In addition, we produce an annual Stewardship Report which outlines how we have performed against our Stewardship Policy in the preceding 12-month period. This in-depth report also considers the effectiveness of our governance, culture and expertise in promoting good stewardship. It contains detailed information on our approach and shows how it is applied to our work through the use of real-world examples.

Voting guidelines

I. Board of directors

An effective and successful board should promote long-term sustainable value, for the benefit of all stakeholders including investors. The board is accountable to shareholders for contributing to the company's long-term success, by upholding business ethics, holding management to account and overseeing strategy and risk.

We believe that the board should have in place a regular evaluation process to assess its effectiveness and ensure that the right skillset is represented, as well as solid succession plans, and we will generally support proposals that seek to address any perceived gaps. In addition, we expect board members to be open and responsive to shareholder communication and engagement, and may take action when that is not the case through director elections.

Below we outline some key areas for consideration in our voting for election of board members.

(1) We consider significant votes those that were against management, not in line with the recommendation of our proxy advisers, and special meetings of importance.

Independence

The board should have sufficient independence to oversee company management. We consider independent non-executive directors (NEDs) one of the cornerstones of good governance, tasked with representing the interests of minority shareholders.

We will generally vote against the (re-)election of any non-independent NEDs when less than half of the board is independent, or one third of the board for controlled companies.

Chair of the board

The role of chair is critical, bearing the ultimate responsibility for effective supervision of company management. Therefore, the chair should demonstrate independent judgement throughout their tenure.

We will generally vote against the (re)-election of a non-independent chair. On a case-by-case basis, we may consider mitigating factors, such as the presence of a lead independent director with clearly laid out roles and responsibilities.

We will also consider supporting the appointment of a retiring Chief Executive Officer (CEO) as chair of the board only in exceptional circumstances.

Combined chair and CEO

The separation of the chair and CEO roles ensures that decision making powers are not concentrated in one individual.

We will generally not support the (re-)election of a combined chair and CEO and, instead, support shareholder proposals to separate the roles. We will generally mitigate the vote for exceptional circumstances and only if a lead independent director is in place with clearly laid out roles and responsibilities.

Board committees

Committees are an established way to ensure the board can discuss and deliberate specific issues with knowledgeable and specialised members. We would expect most of our holdings to establish a majority independent nomination committee, and fully independent remuneration and audit committees. In addition, we expect that at least one member of the audit committee has recent and relevant financial experience.

We will generally vote against executive directors who serve on any committees, and the (re-)appointment of non-independent NEDs to committees that are not sufficiently independent. We will not generally support the creation of new board committees to oversee risks such as AI or climate change. However, we would expect to see clear evidence that an existing committee has oversight of these issues where material.

Overboarding

Directors should have sufficient time to perform their role and discharge their responsibilities effectively, balancing other appointments. We expect to see full disclosure of all other commitments within the annual report and clearly presented meeting attendance records.

While we do not take a formulaic approach towards external commitments, we will consider voting against the (re-)election of a director who is "overboarded", which we generally define as holding more than five external appointments. We take a more flexible approach for investment trust positions, as they typically require less time commitment. Overboarding concerns would trigger an in-depth review ahead of supporting director re-elections, taking into account the nature of these commitments and attendance track record. We expect to see a minimum of 75% attendance during the year, with explanations for any missed meetings.

Director terms

We believe that investors should have the right to elect directors on an annual basis, to ensure the right board composition and reflect on past performance and oversight.

Therefore, will support the introduction of annual elections if this is not already in occurrence and will generally vote against the introduction of staggered terms. We are conscious of certain jurisdictions where electing for a different term, such as three years, is standard and will vote according to local best practice and regulation.

Diversity

Our belief is that diversity across multiple dimensions and at all levels of the business is essential, and that is also true for a high functioning board that can operate in an effective way.

In evaluating board diversity, we consider international best practice and encourage boards to publicly disclose their approach. We also encourage boards to embrace local targets reasonably ahead of set implementation dates and support measurable goals and defined timelines for achievement.

We will generally vote against the chair of the nomination committee when the board is not sufficiently diverse based on best practice and local standards unless there are mitigating circumstances or a firm commitment to improve diversity with agreed time periods of implementation. Mitigating circumstances could include instances where an investment trust is entering a wind up phase and continuity of directors is important.

Climate accountability

Boards should assess and disclose the impact of climate change on the company and how its business model may need to be adapted as part of long-term strategy. We support the use of established reporting frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) and metrics that allow for comparability and consistency.

For companies with high greenhouse gas emissions (GHG), in particular, we expect annual disclosures aligned with TCFD requirements including:

- governance around climate related risk and opportunities.
- actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.
- how the company identifies, assesses, and manages climate-related risks.
- metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

When we feel that these companies have not provided sufficient disclosures with regards to climate risk and/or not demonstrated sufficient progress against their targets, we will consider voting against the chair of the committee responsible for climate or – in the absence of such a committee – the chair of the board.

II. Remuneration

Companies must attract and retain the best people and management compensation is critical in this regard. We believe that remuneration policies and practices should support the successful delivery of company strategy and promote prudent risk management. Remuneration plays a significant role in ensuring alignment of individual and corporate performance with long-term value creation, which is our overarching consideration when assessing remuneration at our investee companies.

While we assess remuneration plans on a case-by-case basis and do not subscribe to any formulaic approach, we consider the following considerations when deciding how to cast our votes on new remuneration policies or annual remuneration report proposals:

- The nature of the company's business and the industry in which it operates
- The remuneration practices of the company's peer group and location of operations (not just listing)
- The avoidance of any unnecessary complexity, coupled with sufficient transparency and an emphasis on per share metrics
- The encouragement of an appropriate level of shareholding to better align the executive team with shareholder interests
- The level of quantum, including pay increases and termination payments, should be justifiable
- We would also encourage equity grants to be issued at fair market value as well as sensible clawback policies
- The discretion given to the board to amend awards up or down and how it has been used in the past.

Say on pay

Shareholders should be given the opportunity to vote on executive compensation. When executive compensation and shareholder interests are well aligned, we believe value will be enhanced and shareholders, as owners, should have a vote on how this is achieved. We will generally vote against the members of the remuneration committee if there is no such proposal on the agenda in contrast to local standards.

Sustainability metrics in remuneration

We are open to the inclusion of sustainability or ESG metrics in remuneration policies. We support metrics that are robust, cover material risks, and ensure alignment with long-term shareholder interests. However, we will consider voting against remuneration plans that reward executives for activities that we do not deem credible under the sustainability heading or encourage short-term risk taking at the expense of long-term sustainability and shareholder value.

Shareholder dissent against remuneration

While most remuneration votes are advisory and therefore the company is not required to take specific action, we believe that they send a strong message of support or, indeed, discontent with management incentives and alignment with strategy. In our view, boards should demonstrate an effective response to any significant levels of shareholder opposition to remuneration policies and plans, which we would define as approximately 20 percent of shareholders voting against any remuneration resolution.

We will consider voting against remuneration plans and the chair of the remuneration committee when there has been significant shareholder dissent, and the company has not addressed material concerns in an appropriate manner.

Non-executive director (NED) compensation and share ownership

We believe that pay for NEDs should be set at reasonable levels reflecting their duties, responsibilities and time dedicated to the board. In addition, we expect any changes around NED remuneration decisions to be sufficiently explained within the annual report and pay increases to be aligned with the rest of the sector, the workforce, and the shared experience of shareholders. We also prefer to see significant share ownership among board members to improve economic alignment with the long-term performance of the company. In that regard, companies should consider paying a portion of director compensation in stock.

For Investment Trusts, we will generally approve an authority for the board to award NEDs ad-hoc fees for additional work undertaken beyond the normal scope of their role. However, we will keep any such ad-hoc fees paid during the year under review to ensure they remain appropriate. If we have concerns about ad-hoc fees paid without sufficient explanation, we may consider voting against the chair of the Remuneration Committee and/or voting against the renewal of such authority.

III. Audit

We believe that the board should establish rigorous, independent, and effective audit procedures, to ensure the quality and integrity of corporate reporting and provide assurance to shareholders around a company's financial position, performance and prospects.

Audit Committee

The Audit Committee is key to holding auditors accountable and ensuring audit effectiveness and therefore should consist of independent directors. We will generally vote against the (re-)election of a non-independent director as chair of the committee and may consider voting against non-independent members of the audit committee depending on local standards.

Auditor appointment

We will vote against the (re-)election of the auditors when we have concerns over their effectiveness and independence. This would include, for example, situations where the lead audit partner can be in any way affiliated with the company.

Audit fees

High fees for non-audit services such as consultancy or tax planning might create a conflict of interest for the auditor of the company. We will vote against the approval of the audit fees where fees for non-audit services exceed 100 percent of standard audit-related fees, or any stricter limit set in local best practice recommendations.

IV. Shareholder rights

Shareholder rights should be respected to protect minority interests. Fundamental to this protection is ensuring that a shareholder's voting rights are directly linked to its economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

Capital structure

The "one share-one vote" principle ensures that voting rights are reflective of economic stake. We will generally support the adoption or maintenance of a single share structure and single vote per share. In addition, we will not vote against directors where existing dual class share structures are in place, but usually expect there to be sunset clauses in place.

Issue of capital

Issuance of new shares is an acceptable way for a company to increase liquidity or raising funds for certain activities, such as a specified capital investment or acquisition. However, existing shareholders rights should be protected, with the benefits counterbalancing the prospect for dilution of their holdings, and the disapplication of pre-emptive rights meeting standard market thresholds where those exist.

We will generally not support routine authorities to disapply pre-emption rights exceeding 10 percent of the issued share capital in the absence of exceptional circumstances.

For investment trusts, sacrificing pre-emption rights may increase liquidity and allow growth in a cost-effective manner, therefore enhancing investor outcomes rather than diluting them as would often be the case for operating companies. As such, we will generally vote in favour of authorities to disapply pre-emption rights up to 20 percent provided that any amount above 10 percent is to be used for the purposes of an acquisition or a specified capital investment.

Proxy access

We believe it is important to allow shareholders the right to nominate directors for election to the board and have their nominees included in the company proxy statement.

We will generally support the adoption of a proxy access requirement for one or a group of shareholders with a 3 percent minimum ownership for at least 3 years. We will generally not support any amendment or adoption of a proxy access policy which will limit the rights already available to shareholders.

We support shareholders' right to call an extraordinary meeting and will generally vote against any unjustified attempts to raise the threshold needed to call such a meeting.

Shareholder dissent

Significant shareholder dissent is a further aspect of our analysis, with a focus on understanding what action companies are taking to consult with shareholders, understand valid concerns and take any remedial action deemed necessary. The UK Corporate Governance Code mandates that companies must consult shareholders if 20 percent or more vote against the board.

We will consider voting against relevant board members or committee chairs when we feel that the company has not taken significant action to address an issue when at the latest general meeting a management proposal received 20 percent or more against vote; or a shareholder proposal received 20 percent or more support.

In addition, when the board has failed to act when a management proposal did not pass (e.g. election of a director), or to implement a shareholder proposal that has received the required majority to pass and does not demonstrate a valid reason for doing so, we will consider withholding our support for relevant board members.

Virtual meetings

As investors, we welcome the opportunities presented by hybrid AGMs for better shareholder participation by allowing flexibility in terms of timing, location, and reducing travel footprint. We are not supportive of virtual only meetings, as physical attendance often allows for more active participation and interaction with the board and management.

We will generally not support the introduction of virtual only AGMs, unless the company has committed to ensuring shareholders will have the same participation rights electronically as they would have for an in-person meeting.

V. Culture

"Say on Climate" management proposals

While we believe that ultimate accountability for delivering a company's climate strategy lies with the board, we will consider "Say on Climate" proposals on a case-by-case basis as means of signalling our support for the company's direction of travel. In our assessment, we will take into account the following commitments and disclosures by the company:

- A Net Zero commitment by 2050
- Science Based Targets
- Reporting in line with TCFD requirements
- Disclosure of GHG emissions
- GHG reduction targets and time frames, in comparison to industry peers

Shareholder proposals

We will generally support proposals advocating for enhanced disclosure and transparency on issues that are material for the company, as well as good risk management practices, particularly when the company is not providing sufficient information, acting on or showing adequate awareness. We will also consider related controversies and reputational risks.

While not an exhaustive list, below we illustrate some key issues for consideration:

- **Climate change:** We will generally support proposals that request enhanced disclosure in line with the TCFD recommendations on climate governance and transition plans; disclosure on management of risks related to climate change including financial, reputational, and regulatory as well as physical and transition risks. We may also support proposals calling for the reduction of GHG emissions when the company is facing material climate risks and has not set meaningful targets, particularly in relation to scope 1 and 2 emissions, and including scope 3 depending on our assessment of the feasibility of the request.
- **Nature:** We will generally support enhanced disclosure on governance of nature-related risks and opportunities, and issues related to biodiversity loss drivers (e.g. land or water use change, deforestation, over exploitation, climate change, pollution, and invasive species), as well a geographical awareness of supply chains.
- **Human rights, including labour standards:** We will generally support proposals that call on companies to respect internationally recognized human rights, comply with relevant international agreements regarding the protection of those rights, and provide relevant disclosure.
- **Diversity, equity and inclusion:** We will generally support proposals that request enhanced disclosures on diversity, equity and inclusion across the workplace including recruitment policies, working conditions and equal pay, and meaningful pay ratios, such as median pay gap for gender and ethnicity.
- **Equal pay and living wage:** RBC Brewin Dolphin is a Living Wage employer, and we would support other companies to adopt, where possible, the same principles across their entire value chain. We will generally support disclosures relating to equal pay and pay gaps, especially when we have identified areas of improvement or inconsistencies.
- **Cyber security and artificial intelligence (AI):** We will generally support requests for enhanced disclosure on policies and governance, and how companies apply best practice risk mitigation for their region and their approach to controversies relating to breaches or the use of AI. Furthermore, the ethical use of data for AI and the respect for data privacy.
- **Lobbying and political engagement:** We will generally support proposals that call for enhanced disclosures of a company's political engagement activities and how these align with company strategy, policies and commitments. These disclosures could cover issues such as political donations, trade association memberships and other lobbying activities in general or focused on specific issues such as climate.
- **Tax transparency:** We will generally support proposals that call for strong tax governance, risk management and disclosures aligned with internationally accepted standards such as the Global Reporting Initiative (GRI).

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