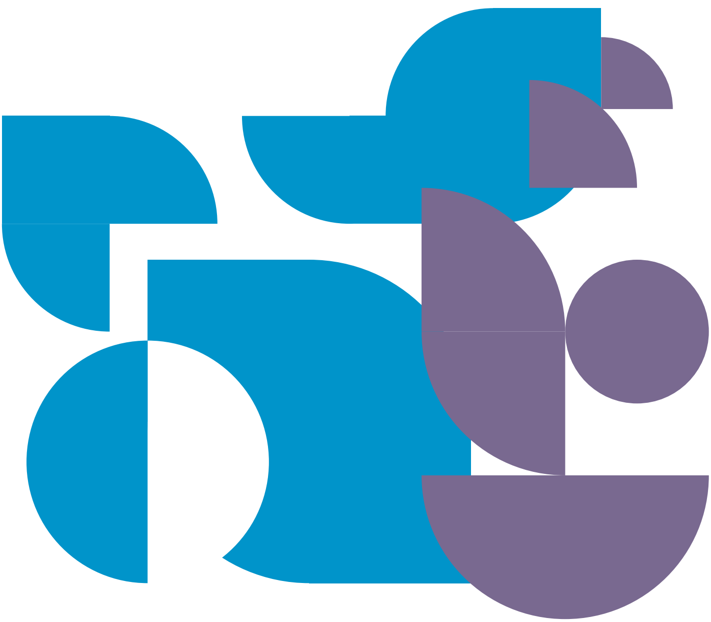
Voting policy 2022

A framework for how we achieve our governance goals



Rathbones
Look forward

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Guidance on voting outcomes

Our responsible investment policy defines responsible investment as:

"The purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance."

Our approach to proxy voting is informed by our responsible investment policy, which includes the following one of four principles:

Voting with purpose

Responsible investment principle:

We actively vote across over 95% of the value of our votable equity holdings in line with our responsible investment commitments. This may involve voting against management to help drive positive change.

Background

As proponents of responsible investment, we aim to lead by example, act with integrity and promote the desired culture within our investee companies. We believe it is in the best interests of our clients for the companies in which we invest to adopt best practice in corporate governance, and through our voting activities we will:

– be long-term stewards for a more sustainable world: mindful of our responsibilities to our clients, we seek to be good, long-term stewards of investments that we manage on their behalf, as expressed in our stewardship policy. Active, informed voting is a fundamental expression of investor stewardship.

– protect returns: our major responsibility is to make full use of shareholder votes and ownership rights to influence companies to adopt more long-term, sustainable practices. We aim to ensure that company boards provide appropriate and independent oversight of management strategy and company activities.

– ensure ESG integration across investments: we will also encourage companies to identify and manage ESG risks to protect long-term asset values, and as a result produce robust ESG disclosures.

Voting framework

Rathbones will vote for, abstain or oppose a resolution on the following basis.

For

- where the proposal is judged to be in the interests of Rathbones' clients and meets best practice guidelines

Abstain

- where the concern is not regarded as sufficiently material to warrant opposition
- where an oppose vote could have a detrimental impact on corporate structures

Oppose

Where the proposal:

- is judged not to be in the interests of Rathbones clients
- the directors have failed to provide sufficient information to support the proposal
- is significantly short of best practice

Refer

- the item/s in question require further debate between the stewardship team and the largest internal holders of the company

This policy has been developed with due reference to relevant codes and standards, including:

- the UK Corporate Governance Code (2018 revision)
- the AIC Corporate Governance Code for Investment Companies
- relevant legislation in the US (the Investment Advisers Act 1940)

Standard outcomes

1. Routine proposals

Resolution and issues	Voting outcome	Comment/exceptions
Routine business proposals	Follow ISS Sustainabillity	Proposals that are not outlined in Rathbones' policy document but can be regularly seen in specific markets and/or are usual market practice/routine proposals, are to be voted in line with the recommendation of our independent proxy voting adviser.

2. Report and accounts vote

Resolution and issues	Voting outcome	Comment/exceptions
Serious breaches of corporate governance best practice	Oppose	Combined board chair/CEO if s/he is not up for election. The failure of a board to form an Audit, Nomination or Remuneration Committee (the lack of one of these three committees is enough to trigger a vote against).
Auditor qualified opinions	Abstain	Where an auditor has made qualified opinions on a company's audited accounts.

Resolution and issues	Voting outcome	Comment/exceptions
Stakeholder relations	Abstain	Where a FTSE350 company has failed to explain in the annual report how its directors engage with the workforce through one, or a combination of: – a director appointed from the workforce – a formal workforce advisory panel – a designated non-executive director (NED) – other arrangements that meet the circumstances of the company and provide effective engagement.
Stakeholder relations	Abstain	No environmental policy disclosed.

3. Dividend vote

Resolution and issues	Voting outcome	Comment/exceptions
Rathbones will support all dividend approval resolutions.	For	The aim is to ensure that the company's dividend policy is transparent, not to second guess the board's judgement on dividends.

4. Director (re-)election

Resolution and issues	Voting outcome	Comment/exceptions
Material ESG failures and/or poor corporate governance practices	REFER Board Chair, and if the Chair is not up for election REFER Directors responsible for the issues (following Sustainability targeting)	When Sustainability recommends against a director or director's discharge for material ESG failures and/or poor corporate governance practices, REFER the election of the Board Chair (if the Chair is not up for election, then REFER Executive directors) and REFER discharge of directors. This includes corporate failures in relation to director duties to appropriately manage environmental and social risks and to manage relationships with stakeholders on material environmental or social concerns.
Attendance	WITH ISS Sustainability	Follow ISS Sustainability on attendance issues.
Other reasons not included in RIM policy that may trigger a vote against a director for Sustainability Policy	REFER if ISS Sustainability is AGAINST	Other reasons not included in RIM policy that may trigger a vote against a director for Sustainability Policy are to be referred to RIM for internal consideration.
Cumulative voting	WITH ISS Sustainability	Russia: Russian board elections are quite different from board elections in other countries. Not only does Russian commercial law require cumulative voting for directors at all companies, but most firms further complicate the process with contested board seats, offering many more candidates than the size of the board allows. Brazil: Brazil election are very complex. Follow ISS Sustainability on both operational/technical items and cumulative voting.
Cumulative voting	APPLY RIM POLICY	For markets other than Brazil/Russia, apply RIM custom rules.

Resolution and issues	Voting outcome	Comment/exceptions
Chair		
Independence	Oppose	Oppose chair facing election for first time and is not deemed independent upon appointment. Oppose combined roles of chair and chief executive (on an ongoing basis). Note: for controlled companies (defined as a company in which an individual or a group collectively owns a majority of a firm's voting stock, or is entitled to elect a majority of directors, e.g. Carnival), Rathbones will ABSTAIN. However, if there is a fully independent deputy chair and/or a senior/lead independent director (SID/LID), REFER. Rathbones may exceptionally support a temporary combined chair if the role is fully justified and balanced by the presence of independent and effective NEDs, as well as a fully independent deputy chair or SID.
	Oppose	Where a chair has been on the board for more than nine years, we will oppose the re-election of the chair. Rathbones may make exceptions to the nine-year rule in the case where the chair was an existing NED on appointment. Rathbones will also consider if the board has failed to communicate an adequate succession planning strategy. Note: we will refer this provision with regard to investment trusts. We will again consider this on a case-by-case basis to determine whether the chair is still deemed independent, in line with our collectives voting policy.
	Oppose	The election of a chair who has served as CEO of the same company within the last 10 years.

Resolution and issues	Voting outcome	Comment/exceptions
Executives		
	Oppose	Rolling notice period in excess of one year – exceptions can be made for an initial appointment of up to two years reducing down to one. Post is insulated from future election.
NEDs		
Independence	Oppose	If a NED is not independent and less than one third of the board is independent. Note: the chair is not included in the calculation. For controlled companies such as Carnival, Rathbones will abstain if the only reason for the non-independence is due to family connections. Rathbones will use ISS's ratings when determining the independence of a director. For independence criteria, please see appendix.
Time commitments / Overboarding	Oppose	Where there are serious concerns about the director's aggregate time commitments.
Tenure – concurrency	Oppose	If a director has served concurrently with an executive director for more than nine years on or after the date of the AGM (based on appointment date). If concurrent tenure is fewer than nine years (from the date of appointment) on the date of the AGM they will be considered independent, but with a warning that they will be considered non-independent next year.
Tenure – absolute	Oppose	If a director has served for more than 15 years before or on the date of the AGM (based on appointment date).
	Abstain	If a director has served fewer than 15 years but greater than 14 years (from date of appointment) on the date of the AGM they will be considered independent, but with a warning that they will be considered non-independent next year.

Resolution and issues	Voting outcome	Comment/exceptions
Racial diversity – Incumbent nomination committee Chair (or Chair if no such role exists)	Against	Where the board of an S&P 500 and/or Russell 3,000 company have no ethnically diverse directors. Rathbones will oppose the re-election of the Nomination Committee Chair where the board of an S&P 500 and/or Russell 3,000 company have no ethnically diverse directors. N.B Rathbones will use ISS' definition of ethnic and racial diversity.
	Against	Where a FTSE 350 company has an all-male board, we will vote against the re-election of the nomination committee chair (or where no such role exists, we will vote against the re-electon of the Chair of the board).
	Abstain FTSE 350 board size >5 directors	Where a FTSE 350 company has less than 33% female representation on its board but a commitment has been made by the company to improve by the next AGM.
	Against FTSE 350 board size >5 directors	Where a FTSE 350 company has less than 33% female representation on its board and no commitment has been made by the company to improve by the next AGM.
	Refer FTSE 350 board size ≤5 directors	Where a board consisting of five or fewer directors has less than 33% female representation.
	Abstain	For FTSE350 companies: If nomination committee reports to fail to include details of the external board evaluator's contact with the board and individual directors.
Diversity – Nomination committee Chair (or Chair where no such position exists)	Refer	For non-FTSE350 companies, REFER the Nomination Committee Chair where non-male directors do not hold at least one position on the board or fail to make up at least 10% of the board in our international holdings.

Resolution and issues	Voting outcome	Comment/exceptions
Diversity – Incumbent nomination committee Chair (or Chair where no such position exists)	Follow ISS Sustainability	For non-FTSE350 companies, diversity issues are to be voted with ISS. However, ensure to vote AGAINST where there is no woman on the board. N.B This will be implemented from February 1st 2022.
Racial/Ethnic diversity – Nomination committee Chair (or Chair were no such position exists	Oppose	Where a FTSE100 company has failed to meet the requirement of the Parker-Review and has provided no timeline as to when the company will meet this requirement. N.B This will be implemented from January 1st 2022.
	Abstain	Where a FTSE100 company has failed to meet the requirement of the Parker-Review but has provided a timeline as to when the company will meet this requirement. N.B This will be implemented from January 1st 2022.
Remuneration committee chair	Abstain / Refer	If the company received a vote in excess of 25% against the remuneration report or remuneration policy in the previous year and no explanation has been provided of how the board has engaged with shareholders and responded to shareholder feedback, Rathbones will abstain the re-election of the chair of the remuneration committee at the time of the vote against management, should they be up for re-election to the board. Note: this provision only applies to a director who served as a remuneration committee chair both in the run up to, and period following, a major shareholder rebellion on pay.
Remuneration committee chair experience	Abstain	Before appointment as chair of the remuneration committee, the appointee should have served on the company's remuneration committee for at least 12 months. If this is not the case, we will abstain the director's election.

Resolution and issues	Voting outcome	Comment/exceptions
Audit committee chair	Oppose	The re-election of the chair of the audit committee when they have been implicated in a public inquiry for accounting errors, or the company where they were previously audit committee chair is under investigation with regard to its accounting activities.
Non-independent audit committee and remuneration committee	Oppose	The re-election of the non-independent NED who sits on one or both of the audit committee and remuneration committee, whose presence on one or both committees causes them to become non-independent.

5. Executive remuneration

Since 2015 we have followed the advice of our independent consultants (ISS) on matters of executive remuneration. ISS's framework analysis is fully aligned with best practice and regulation. The following tables summarise the factors and issues which shape our voting behaviour in this area. Rathbones will be guided by the following principles when considering the approval of remuneration policies, but reserves the right to amend the recommendations of ISS on remuneration as we see fit, in the best interests of the underlying shareholders.

Our approach is guided by the remuneration principles for building and reinforcing long-term business success developed by the Pensions and Lifetime Savings Association originally published in 2013. The principles state that:

- remuneration committees should expect executive management to make a material long-term investment in shares of the businesses they manage
- pay should be aligned to the long-term strategy and the desired corporate culture throughout the organisation and aligned with workforce remuneration
- pay schemes should be clear, understandable for both investors and executives, and ensure that executive rewards reflect returns to long-term shareholders
- remuneration committees should use the discretion afforded them by shareholders to ensure that rewards properly reflect business performance
- companies and shareholders should have appropriately regular discussions on strategy and long-term performance

The following policy also makes reference to the Investment Association Principles of Remuneration, the Directors' Remuneration Reporting Guidance produced by the GC100 and Investor Group, and the remuneration section of the UK Corporate Governance Code.

In addition to concerns about pay for performance and excessive pay, our approach has recently evolved to begin encouraging the adoption of simpler, less complex remuneration structures.

Remuneration policy

Remuneration policies address the scope of executive pay arrangements in the company in question, covering issues such as the potential awards available to executives, the circumstances under which these rewards can be granted and under which conditions, and the level of policy the remuneration committee will have under the policy.

General recommendation

Vote on the resolution to approve the remuneration policy on a case-by-case approach, paying particular attention as to whether:

- the overall remuneration policy or specific scheme structures are not overly complex, have an appropriate long-term focus and have been sufficiently justified in light of the company's specific circumstances and strategic objectives
- the remuneration policy has a correct alignment of incentives and rewards with culture
- the company's approach to fixed remuneration is appropriate
- the award levels for the different components of variable pay are capped, the quantum is reasonable when compared to peers, and any increase in the level of certainty of reward is accompanied by a material reduction in the size of awards
- increases to the maximum award levels for the long-term incentive plan (LTIP) and bonus have been adequately explained
- performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives, and vesting levels are in line with UK good practice
- change of control, good leaver and malus/clawback provisions are in line with standard practice in the UK market
- the shareholding requirement for executive directors is a minimum of 200% of base salary
- service contracts contain notice periods of no more than 12 months' duration and potential termination payments are linked to fixed pay with no contractual entitlements to unearned bonus on termination

- NEDs do not receive any performance-related remuneration beyond their standard fees
- the treatment of new joiners is appropriate, with particular attention paid to the use of buy-out awards, and that the potential for any additional awards is capped
- the remuneration committee seeks to reserve a degree of discretion in line with standard UK practice
- there are no issues in the policy which would be of concern to shareholders
- the pension contributions for new executive directors is aligned with that of the wider workforce – we expect the same to apply to incumbent executive pension contributions, but appreciate this may take the form of a phased reduction

Where a policy contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a 'For', whereas a single, serious deviation may be sufficient to justify an 'Against' vote recommendation.

In cases where a serious breach of good practice is identified, and typically where issues have been raised over a number of years, the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) may receive a negative voting recommendation.

The binding vote on the remuneration policy is forward-looking and, in most cases, will apply for three years. Therefore, many shareholders will want to ensure that the policy takes into account good market practice in a number of key areas.

Policy component	Good market practice
The start and end date of the policy	The GC100 and Investor Group guidance states that investors are generally in favour of the remuneration policy coming into effect immediately following approval at the general meeting. It also notes that investors generally expect to see companies put forward their policy for approval every three years. ISS will consider the start date of each policy and its duration based upon the explanation provided by the company.
Base salaries	The remuneration committee should explain its policy for setting and reviewing salary levels. The GC100 and Investor Group guidance states that there is a requirement to disclose the maximum that might be paid. This must be explained in monetary terms or any other way appropriate to the company (for example, a percentage of salary).

Policy component	Good market practice
Benefits and pensions	Companies must describe the benefits provided to directors, which are expected to be not excessive and in line with standard UK practice. The maximum participation should be stated, and not be uncapped. Companies must give a clear explanation of pension-related benefits, including the approach taken to making payments in lieu of retirement benefits or defined benefit arrangements. The Investment Association Principles note the pension provision for executives should, where possible, be in line with the general approach to the employees as a whole. As of 2020, we have taken the same stance as ISS of voting against a remuneration policy where the pension contribution rate for new executive directors is not aligned with that of the wider workforce. No element of variable pay should be pensionable.
Annual bonus	As set out in the Investment Association Principles, annual bonuses exist to reward contribution to the business during the year above the level expected for being in receipt of a salary. They should be clearly linked to business targets, ideally through the key performance indicators (KPIs) reported in the strategic report. Companies should explain the performance measures chosen. The GC100 and Investor Group state that the maximum amount of the short-term incentive that might be earned must be disclosed, as well as the amounts that could be paid for reaching certain thresholds or targets. In cases where a remuneration committee increases the maximum bonus opportunity, the performance targets should be made sufficiently more challenging to justify the additional reward that can be earned. Any increase in this limit from one policy period to another should be fully explained. ISS does not typically support uncapped bonus schemes. Deferring a portion of the bonus into shares can create a greater alignment with shareholders, particularly where there is no long-term incentive, although the introduction of deferral should not of itself result in an increase to the overall quantum of the bonus. Dividends may be credited on deferred bonus shares held during the deferral period, but no further dividends should be paid on undelivered shares or options after the end of the designated deferral period. Provisions to pay a guaranteed annual bonus will attract a negative vote recommendation.

Policy component	Good market practice
Long-term incentive plan (LTIP)	In line with the Investment Association Principles, scheme and individual participation limits must be fully disclosed, and any change to the maximum award should be explained and justified. Any matching shares will be considered as part of the overall quantum. Performance periods longer than three years and compulsory post-vesting holding periods are encouraged. Firms should avoid operating multiple long-term schemes. We do not typically support uncapped LTIPs in line with the Code recommendation that upper limits should be set and disclosed. The fact that the remuneration committee will not be able to grant share awards higher than the limits set out in the remuneration policy is not a sufficient reason for removing individual limits from the rules of the relevant incentive scheme. Performance conditions, including non-financial metrics where appropriate, should be relevant, stretching and designed to promote the long-term success of the company. The Investment Association Principles state that comparator groups used for performance purposes should be both relevant and representative. Remuneration committees should satisfy themselves that the comparative performance will not result in arbitrary outcomes. ISS prefers to see vesting levels at no more than 25% for threshold performance. Vesting should not occur for below median performance. Dividends relating to the duration of the performance period may be paid retrospectively on shares that the executive retains after the performance targets have been measured, but no dividends should be paid on any part of the award that lapsed. The practice of crediting dividend payments on undelivered shares or options after the end of the performance period or beyond a compulsory post-vesting holding period is opposed.

Policy component	Good market practice
Malus and/or clawback	Malus means to forfeit some or all of a variable remuneration award before it has vested, while clawback allows the company to recover payments already made through the LTIP or annual bonus schemes. When designing schemes of performance-related remuneration for executive directors, the Code states that schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which the committee considers it would be appropriate to do so. The Pensions and Lifetime Savings Association advises that such provisions should not be restricted solely to material misstatements of the financial statements.
Good leavers	Where individuals choose to terminate their employment before the end of the service period, or in the event that employment is terminated for cause, the Investment Association Principles suggest that any unvested options or conditional share-based awards should normally lapse. In other circumstances of cessation of employment, some portion of the award may vest, but always subject to the achievement of the relevant performance criteria and with an appropriate reduction in award size to reflect the shortened period between grant and vesting. In general, the originally stipulated performance measurement period should continue to apply. However, where in the opinion of the remuneration committee, early vesting is appropriate, or where it is otherwise necessary, awards should vest by reference to performance criteria achieved over the period to date.
Change of control	The Investment Association suggests that scheme rules should state that there will be no automatic waiving of performance conditions in the event of a change of control. Any early vesting as a consequence of a change of control should take into account the vesting period that has elapsed at the time of the change of control, with a consequent reduction in the size of the awards that vest. ISS does not support special one-off payments to executives on a change of control event.

Policy component	Good market practice
Shareholding requirement	The Code advises that the remuneration committee should consider requiring directors to hold a minimum number of shares. The Pensions and Lifetime Savings Association argues for minimum shareholding guidelines of 200% of basic salary. Unvested holdings in share incentive plans do not count towards fulfilment of the requirement.
Executive directors' service contracts, including exit payments	Executive directors should have service contracts in place with notice periods set at one year or less. If it is necessary to offer longer notice or contract periods to new directors recruited from outside, such periods should reduce to one year or less after the initial period. All termination payments should be subject to phased payment and mitigation. Exit payments should be linked to the fixed pay due for the notice period, with no guaranteed entitlement to any unearned variable pay. The vesting of outstanding long-term awards should be pro-rated for time and performance. Guidance from the Investment Association and the Pensions and Lifetime Savings Association states that severance payments arising from poor corporate performance should not extend beyond fixed pay and benefits.
Arrangements for new joiners	The GC100 and Investor Group suggests that companies may wish to consider a statement that new directors will participate in short-term and long-term incentive plans on the same basis as existing directors. If companies wish to have the ability to make sign-on payments or awards, they must ensure the remuneration policy covers such arrangements. When describing their sign-on policies, companies must disclose the type of awards that could be made, the potential use of performance criteria and holding periods, and any application of recovery or withholding policies. The potential to offer sign-on payments or awards should not be open-ended. Remuneration of this nature should be subject to specific caps. Where remuneration committees offer buy-out awards to compensate executives for awards foregone at their previous employer, the cost is expected to be kept to a minimum and not exceed the realistic value of rewards forfeited by changing employer. Remuneration policies will be opposed if the door is left open to potential 'golden hellos' or other non-performance related awards which do not clearly align with shareholders' interests.

Policy component	Good market practice
Discretion	Recognising that payments cannot be made outside of the framework voted on by shareholders, there is a balance to be found between a committee having scope to make appropriate changes within the policy, and a committee having broad flexibility to go outside the standard policy in certain circumstances. The GC100 and Investor Group advise against including a general statement that the remuneration policy may be amended at the complete discretion of the remuneration committee. ISS will recommend a vote against any policy which gives the remuneration committee the ability to make open-ended changes to the policy.
NED pay	Additional remuneration, other than fees, including participation in a share option scheme, pension scheme and/or performance-related pay is likely to impair a NED's independence, and for that reason it is usually looked upon unfavourably by Rathbones.
All-employee schemes	Rathbones generally supports all-employee schemes, such as Save As You Earn (SAYE) schemes and Share Incentive Plans (SIPs) as a way of promoting employee ownership. We follow the Investment Association position that if newly issued shares are utilised, the overall dilution limits for share schemes should be complied with.

Remuneration report

The annual non-binding remuneration report is essentially backwards-looking, assessing the implementation of the remuneration policy in the past year.

In considering the remuneration arrangements in place in the previous year, Rathbones will have regard to the following principles:

General recommendation

Vote the resolution to approve the remuneration report on a case-by-case approach, where relevant taking into account the European Pay-for-Performance model[1] outcomes with the qualitative review of a company's remuneration practices, paying particular attention as to whether:

- any increases, either to fixed or variable remuneration, for the year under review or the upcoming year were well explained and not excessive
- the bonus received and/or the proportion of the LTIP that vested was a fair reflection of the performance achieved
- performance targets are measured over an appropriate period and are sufficiently stretching
- targets for the bonus or the LTIP are disclosed in an appropriate level of detail
- any exit payments to good leavers were reasonable, with appropriate pro-rating (if any) applied to outstanding long-term share awards
- any special arrangements for new joiners were in line with good market practice
- the remuneration committee exercised discretion appropriately
- there are no issues in the report which would be of concern to shareholders

[1] Definition of Pay-for-Performance evaluation: ISS annually conducts a pay-for-performance analysis to measure alignment between pay and performance over a sustained period. With respect to companies in the European Main Indices, this analysis considers the following:

- Peer group alignment:
  - the degree of alignment between the company's annualised total shareholder return (TSR) rank and the CEO's annualised total pay rank within a peer group, each measured over a three-year period
  - the multiple of the CEO's total pay relative to the peer group median
- Absolute alignment: The absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualised TSR during the period

Where the report contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a ‘For’, whereas a single, serious deviation may be sufficient to justify an ‘Against’ vote recommendation.

Report component	Good market practice
Base salaries, benefits and pensions	Remuneration committees are required to justify salary levels and increases in basic salary with reference to their remuneration policy. Annual increases in salary are expected to be low and in line with general increases across the broader workforce. Post-freeze ‘catch-up’ salary increases or benchmarking-related increases are not generally supported. Exceptions may be made for promotions, increases in responsibilities and new recruits to the board. Changes in pay levels should take into account the pay and conditions across the company. The Investment Association Principles advise that where remuneration committees seek to increase base pay, salary increases should not be approved purely on the basis of benchmarking against peer companies. Pension contribution payments for executives should be clearly disclosed. Any compensation to executives for changes in the tax treatment of pensions is not considered to be acceptable.

Report component	Good market practice
Annual bonus	The annual bonus earned for the year under review should be explained in a fashion that allows shareholders to clearly link performance with pay. Any increases in the maximum from one year to the next should be explicitly justified. The lowering of targets should generally be accompanied by a reduction in the bonus potential. There is an increasing expectation among investors that bonus targets will be disclosed retrospectively. Targets for both financial and non-financial targets should be disclosed in an appropriate level of detail, preferably with a full target range (such as threshold, target and maximum) set out. If a remuneration committee believes that bonus target disclosure – even on a retrospective basis – is difficult for reasons of commercial sensitivity, it should explain the rationale for its decision, when such considerations will fall away and provide a commitment to disclosure at that time. We may vote against a remuneration report where bonus targets are not disclosed retrospectively, and there is no commitment to disclosure in the future. It is now standard market practice for retrospective disclosure to be provided no more than one year after the end of the relevant performance year. Where consideration of commercial sensitivities may prevent a fuller disclosure of specific short-term targets at the start of the performance period, shareholders expect to be informed of the main performance parameters, both corporate and personal. The payment of a 'one-off' special bonus is likely to attract a negative vote recommendation. ISS will not typically support transaction-related bonuses.

Report component	Good market practice
Long-term incentive plan (LTIP)	Under the resolution to approve the remuneration report, we consider both the LTIP awards granted and those vested or lapsed during the year under review. When assessing the awards that vested, the Investment Association Principles advise that remuneration committees should ensure that the result does not produce outcomes that are out of line with the overall performance of the company, its future prospects or the experience of its shareholders over the performance period. The definition of any performance measurement should be clearly disclosed. For awards granted in the year under review, the Investment Association Principles note that companies should disclose the potential value of awards due to individual scheme participants on full vesting, expressed by reference to the face value of shares or shares under option at point of grant, and expressed as a multiple of base salary. The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.
Dilution limits	The operation of share incentive schemes should not lead to dilution in excess of the limits acceptable to shareholders. Rathbones supports the limits recommended as good practice by the Investment Association. The rules of a scheme must provide that commitments to issue new shares or to re-issue treasury shares, when aggregated with awards under all of the company's other schemes, must not exceed 10% of the issued ordinary share capital, adjusted for share issuance and cancellation, in any rolling 10-year period. Commitments to issue new shares or re-issue treasury shares under executive (discretionary) schemes should not exceed 5% of the issued ordinary share capital of the company, adjusted for share issuance and cancellation, in any rolling 10-year period.
Any exit payments to departing directors	Exit payments to departing directors should not go beyond those to which the director is entitled under the terms of their service contract or the rules of the relevant incentive schemes. Ex-gratia or special payments on termination are not supported. 'Good leaver' treatment should only apply to those who are genuinely good leavers. Appropriate pro-rating should be applied to outstanding long-term share awards.

Report component	Good market practice
Arrangements for new joiners	For new joiners, where an executive is appointed at an 'entry-level' salary point which the remuneration committee expects to increase to a higher level once the individual has proved him or herself in the role, the roadmap for increases should be disclosed at the time of appointment. In general, Rathbones does not support special awards for new joiners (such as sign-on bonuses or one-off share awards) except in exceptional situations and only if accompanied by an appropriate explanation. Pay for new joiners during a year should match the period of the year for which they served.
The pay of the NEDs	Any increases to NED pay during the year under review will be considered alongside pay increases to executive directors, the broader workforce and the alignment of incentives and rewards with culture.
The company's disclosure as to the use of remuneration consultants	The annual remuneration report must name any person who provided material advice or services to a relevant committee in the reported year, and set out additional details in respect of some of them. The GC100 and Investor Group suggest these persons may include principal internal providers of material advice and services, remuneration consultants or external lawyers who provided any material advice other than advice on compliance with the relevant legislation.
Discretion	In cases where a remuneration committee uses its discretion to determine payments, it should provide a clear explanation of its reasons, which are expected to be clearly justified by the financial results and the underlying performance of the company. It is relatively rare that a remuneration committee chooses to amend the targets used for either the annual bonus or the LTIP following the start of the performance period, but where this has occurred, it is good practice for the company to demonstrate how the revised targets are in practice no less challenging than the targets that were originally set.

Report component	Good market practice
COVID-19	Rathbones will REFER all remuneration policies and reports where a company made redundancies in FY2021 and no discretion has been applied to reduce executive remuneration in 2021. We expect all remuneration committees to apply discretion to variable remuneration outcomes in order to bring the experiences of senior management in line with the rest of the workforce. Rathbones will not approve bonus awards for companies that made use of UK Government payment facilities in the calendar year 2021. This will also apply to long-term incentive schemes where a company has failed to implement discretion to awards granted for calendar year 2021, despite making redundancies or utilising UK Government payment facilities. Rathbones will assess LTIPs in lower/volatile share price environments as a result of COVID-19.

Approval of a new or amended LTIP

General recommendation

Vote the resolution to approve a new or amended LTIP on a case-by-case approach, paying particular attention as to whether:

- the LTIP is aligned with the company's strategy, is not overly complex, aligns with workforce remuneration and fosters an appropriately long-term mindset
- the proposed award levels are appropriate, and, in the case of an amended plan, any increases to the previous award levels are well-explained
- any increase in the level of certainty of reward is matched by a material reduction in the size of awards
- the maximum pay-out is capped
- the vesting levels for threshold and on-target performance are in line with market norms, with threshold vesting no higher than 25%
- the LTIP is in line with the current remuneration policy
- change of control, good leaver and malus/clawback provisions are present and the terms are in line with standard practice in the UK market
- the remuneration committee seeks to reserve a degree of discretion in line with standard UK practice
- the company is operating within the dilution limits of the company's share-based incentive schemes
- there are no issues with the plan which would be of concern to shareholders

Where the plan contains multiple areas of non-compliance with good practice, the vote recommendation will reflect the severity of the issues identified. A small number of minor breaches may still result in an overall recommendation of a flagged 'For', whereas a single, serious deviation may be sufficient to justify an 'Against' vote recommendation.

The Investment Association Principles emphasise that all new incentives or any substantive changes to existing schemes should be subject to prior approval by shareholders by means of a separate and binding resolution. When a new or amended LTIP is presented to shareholders for approval, ISS considers the points listed above, plus others that are relevant to the specific plan. Relevant issues are discussed in more detail in the earlier sections on the remuneration policy and report.

6. Auditor (re-)election

Resolution and issues	Voting outcome	Comment/exceptions
Non-audit fees – Materiality		Non-audit fees below £200,000 for FTSE350 companies will be deemed immaterial, as will the equivalent fees for small-cap companies of £200,000 to any of the 'Big Four', or £100,000 for other audit firms. Statutory audit fees of £1 million are required in order to trigger consideration of an oppose vote against appointment of the auditors.
Non-audit fees	REFER if ISS Sustainability IS AGAINST/ ABSTAIN	Where ISS Sustainability recommends AGAINST/ABSTAIN for excessive fees.
	For	Where non-audit fees are equivalent to 100% or less of the statutory audit fees. Note: non-audit fees below £200,000 for FTSE350 companies will be deemed immaterial, as will the equivalent fees for small-cap companies of £200,000 to any of the 'Big Four', or £100,000 for other audit firms.

Resolution and issues	Voting outcome	Comment/exceptions
	Abstain	Where non-audit fees are more than 100% but less than 110% of the statutory audit fees for the year under review. Note: non-audit fees below £200,000 for FTSE350 companies will be deemed immaterial, as will the equivalent fees for small-cap companies of £200,000 to any of the 'Big Four', or £100,000 for other audit firms. Where non-audit fees exceed 110% statutory audit fees of less than £1 million for the year under review. Note: in the case of a merger or acquisition, Rathbones may disregard this policy if a satisfactory explanation is provided by the company in question (will be decided on a case-by-case basis).
	Oppose	Where total audit fees exceed £1 million and non-audit fees are more than 110% of the statutory audit fees for the year under review. Note: in the case of a merger or acquisition, Rathbones may disregard this policy if a satisfactory explanation is provided by the company in question (will be decided on a case-by-case basis).
Tenure	Abstain – the Audit Committee Chair re-election	Where a company does not have a policy in place requiring the retendering of the external audit contract at least every 10 years.
	Oppose – the Audit Committee Chair re-election	The re-election of the chair of the audit committee when the external audit firm has exceeded 20 years with an audit engagement and no explanation has been provided on when the audit will next be put out to tenure. Note: this provision applies in its full force to operating companies; with regard to investment trusts, we will exercise more caution.
Audit quality and accountability	Abstain	The re-election of auditors where the named lead partner has been implicated in a public inquiry for accounting errors.

7. Share issues and purchases – general authorities

Our stance in this area is guided by the Pre-emption Group principles of 2015.

Resolution and issues	Voting outcome	Comment/exceptions
Share issuances and purchases – volume	FOLLOW ISS Sustainability	Follow ISS Sustainability on volume concerns for markets other than UK and Ireland.
Share issues and purchases – concerns other than volume	REFER if ISS Sustainability IS AGAINST	REFER to Rathbones for internal consideration when ISS Sustainability is recommending against for concerns other than volume.
Issue with pre-emption rights	Oppose	The proposed issue is not limited to one third of the issued share capital except where a two-thirds limit applies and the company has explicitly stated in writing that all directors will seek annual election if the authority is exercised.
Disapply pre-emption rights	Oppose	If the authority represents more than 5% of the issued share capital (or exceeds a 7.5% threshold in any three-year period).
Disapply pre-emption rights	For	Rathbones will vote for requests to authorise the issuance of equity without pre-emption rights above the usual 5% threshold, up to 10% only in the event of: – an acquisition or specified capital investment – being fully in line with the 2015 Statement of Principles issued by the Pre-emption Group **The Pre-Emption Group Guidelines state that for closed-ended investment companies, share issuances at a premium to NAV would not normally raise any concerns. These companies may therefore exceed the stated limits if issuing at a premium to NAV.*

Resolution and issues	Voting outcome	Comment/exceptions
Purchase for cancellation	Oppose	If the authority represents more than 14.99% of the issued share capital (the maximum that can be purchased under the listing rules).
Duration of authority	Oppose	If the authority sought is for a duration of greater than 18 months.
Capital/issuance-related requests other than as noted above	FOLLOW ISS Sustainability except apply the 18-month duration limit.	Capital and issuance requests other than as noted above are to be voted in line with ISS Sustainability. Apply ISS Sustainability rationale.
Creeping control/Rule 9 waivers	Oppose	Rathbones will oppose any change in share capital which may allow a party to control more than 30% of a company's shares in issue. However, if the proposal is connected to an acquisition which Rathbones is supporting, do not oppose (i.e. follow ISS Sustainability).

8. Article changes

Resolution and issues	Voting outcome	Comment/exceptions
General guideline	REFER if ISS Sustainability is AGAINST	Rathbones will generally follow ISS's recommendation. Note: any proposed oppose vote to be referred to Rathbones for a case-by-case decision.
Name change amendment	For	Name change amendments are supported.
14-day notice period	For	Change of notice period for general meetings to 14 days are supported, except where companies have abused this privilege in previous years (such as issuing 14 days' notice on an EGM to approve a remuneration scheme).

9. Authorities for political donations/expenditure

Resolution and issues	Voting outcome	Comment/exceptions
Authority for political donations/ expenditure	In line with ISS recommendations	**General recommendation** Generally vote for the resolution to authorise EU political donations and expenditure, unless: – the company made explicit donations to political parties or election candidates during the year under review – the duration of the authority sought exceeds one year and the company has not clarified that separate authorisation will be sought at the following AGM should the authority be used – no cap is set on the level of donations Companies that have no intention of making donations to political parties or incurring obvious political expenditure may consider it prudent to seek shareholder approval for certain types of donation or expenditure which might be considered to fall within the broader definition of 'political' under the Companies Act 2006.

10. Miscellaneous items

Resolution and issues	Voting outcome	Comment/exceptions
Merger and acquisition proposals – including M&A related proposals	Refer	Where ISS Sustainability has recommended against voting with an M&A proposal, Rathbones will REFER pending consultation with the largest holders.

Resolution and issues	Voting outcome	Comment/exceptions
Shareholder proposals – General	Refer	Rathbones will generally support management against shareholder resolutions. However, all such resolutions are to be flagged for referral by the committee.
Shareholder proposals – Environmental, Social & Governance Disclosure	For	Rathbones will generally support shareholder resolutions making reasonable requests for increased transparency regarding ESG matters.
Shareholder proposals – Environmental, Social & Governance Performance	Refer	All decisions regarding shareholder proposals on ESG topics going beyond mere disclosure are to be referred to the committee.
Failure to respond to shareholder dissent	Abstain (Chair)	Where more than 20% of votes are cast against a resolution at the previous AGM or a company proposal is withdrawn and either: – no explanation of what action the board intends to take to consult with shareholders has been provided; – an update was not published within six months of the vote; and/or; – no final summary was included in the annual report noting the impact of shareholder feedback on actions taken.
	Refer (Chair)	In cases where ISS Sustainability does not comment on any action taken by the board in response to such dissent.
Modern Slavery Act reporting	AGAINST on the approval of the report and accounts	Where a FTSE 350 company has failed to meet the reporting requirements of Section 54 of the Modern Slavery Act 2015, we will vote against the approval of the report and accounts for the year in question and engage with the company.
Tailings Safety Standard	AGAINST (Chair)	Where a company has not committed to implement the new tailings safety standard developed by the investor tailings safety initiative.

11. Climate-related shareholder resolutions

Resolution and issues	Voting outcome	Comment/exceptions
Shareholder proposals – Reporting standards	For	Shareholder proposals asking companies to commit to the implementation of a reporting program based on the Sustainability Accounting Standards Board's (SASB) materiality standards or a similar standard within a specified time frame. Proposals asking companies to report in line with guidance of the Taskforce on Climate Related Financial Disclosures (TCFD), including stress-testing business models and assets against various climate policy scenarios.
Shareholder proposals – Target setting	For	Shareholder proposals requesting the reduction of GHG or adoption of GHG goals/targets in products and operations.
	For	Shareholder proposals requesting companies to set a climate ambition and strategy aligned to Paris, in particular a 1.5-degree temperature rise target.
Shareholder proposals – climate lobbying	For	Shareholder proposals asking companies to disclose their public policy engagement activities, whether this be individual engagement, or collaborative engagement as part of an industry association, including climate-related lobbying disclosure. Proposals requesting a report on how a company's direct and indirect lobbying aligns with the Paris Climate Agreement goals.
Climate disclosure	Refer	Where a company has submitted a 'say on climate' or say on transition' for advisory vote at the AGM.

TCFD Pillar	CA100+ Net Zero Alignment Indicators
Governance	The company discloses evidence of board or board committee oversight of the management of climate change risks. The company has a Paris-Agreement-aligned climate lobbying position, with disclosure of trade associations memberships.
Strategy	The company has a net zero commitment by 2050 or sooner backed up by interim targets (short and medium term) in alignment with the Paris Agreement goals to limit global warming to well below 2°C and verified by the Climate Action 100+ Net-Zero Company Benchmark. The company employs climate-scenario planning to test its strategic and operational resilience. It includes a 1.5° Celsius scenario, covers the entire company, discloses key assumptions and variables used, and reports on the key risks and opportunities identified. Scenarios and transition plans must not be heavily reliant on Negative Emissions Technologies (NETs) such as Carbon Capture and Storage (CCS) or offsetting, as advised by the IPCC. The company acknowledges the relevance and commits to use the new IEA Net Zero by 2050 scenario as a minimum standard, and update their sectoral policies, targets, and capital allocation to reflect its findings.
Risk Management	Capital Allocation Alignment: – The company explicitly commits to align future capital expenditures with its long-term GHG reduction target(s) in line with the Paris Agreement's objective of limiting global warming to 1.5° Celsius. – The company discloses the methodology it uses to align its future capital expenditure with a 1.5°C scenario, including the year in which capital expenditures in carbon intensive assets is expected to peak.

TCFD Pillar	CA100+ Net Zero Alignment Indicators
Metrics and Targets	Targets are science-based and set on an absolute basis in recognition that intensity-based targets do not guarantee a reduction in absolute emissions. Targets encompass Scopes 1, 2 and 3 emissions calculated in a credible way. This means that, in the case of Scope 3 emissions, it must cover all relevant categories for the company's sector, with clear disclosure of the methodology used to establish any Scope 3 target. Aim to have targets independently validated by the Science-Based Target Initiative (SBTi)

12. Investment companies

Please refer to our collectives voting policy which focuses on issues specific to investment trusts, and builds on best practice guidelines issued by the Association of Investment Companies (AIC) with regard to the specific governance situations encountered at investment trusts. This policy has also been reviewed and updated following the latest revisions to the UK Corporate Governance Code, as many of the issues raised in this revision require special consideration with regard to good governance at investment trusts.

13. Other rules not covered above

Resolution and issues	Voting outcome	Comment/exceptions
Lack of information	OPPOSE	Oppose if ISS Sustainability recommends against because the directors have failed to provide sufficient information to support the proposal.
Resolutions not included in RIM policy	REFER if ISS Sustainability IS AGAINST	Resolutions that are not included in Rathbones' policy and that ISS Sustainability is recommending against are to be referred to RIM for internal consideration
Valid Vote Option (VVO)		When an ABSTAIN instruction is triggered but is not a valid vote option – REFER the proposal; When an AGAINST instruction is triggered but is not a valid vote option (e.g. the Nordics) – ABSTAIN the proposal

Appendix — Non-executive director independence criteria

NEDs are not employees of the company. Their main responsibility is to provide their independent judgement on board discussions and to challenge constructively the performance of the executive management.

A NED may be considered as non-independent if one (or more) issues below apply:

- has been an employee of the company or group within the last five years (for a former executive, if there was no break between the director being an executive director and becoming a NED, then this remains an independence issue even if more than five years has passed)
- has or had within the last three years a material business relationship with the company
- has a 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 a director's fee, participates in the company's share option or performance-related pay scheme, or is a member of the company's pension scheme
- represents a significant shareholder in the company
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- has close family ties with any of the company's advisers, directors or senior employees
- tenure (not applicable to investment trusts)
- has a substantial shareholding of greater than or equal to 1%
- has previously served as board chair

Important information

Unless otherwise stated, the information in this document was valid as at March 2021. Rathbones Group Plc is independently owned, is the sole shareholder in each of its subsidiary businesses and is listed on the London Stock Exchange.

Rathbones is the trading name of Rathbone Investment Management Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Registered office: Port of Liverpool Building, Pier Head, Liverpool L3 1NNW. Registered in England No. 01448919.

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RIM INF 039 VOTING POLICY – CR858 – 09-21

Rathbones

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