

Veritas Investment Partners (UK) Limited

Voting Policy

Overview

We act as responsible owners of the companies in which we invest. We spend time developing relationships with these companies, aiming to build long-term partnerships and to use our influence as shareholders to contribute to the overall success of the businesses. We regard shareholder voting as an important means of communicating with companies and we therefore exercise our right to vote on behalf of clients.

Process

We consider the central tenets of good corporate governance to be universal, as outlined in the G20/OECD Principles of Corporate Governance (2015) and ICGN Global Corporate Governance Principles (2017). However, we recognise the existence of different global cultures and approaches. Accordingly, we seek to understand each company's individual circumstances and history, enabling us to apply our voting principles flexibly, where appropriate, and consistently while supporting a company's long-term success.

We assess the quality of company management teams and Boards prior to investment and the strength of this leadership is central to our decision-making. We seek to invest only when we are satisfied that appropriate governance structures are in place. Therefore, we typically expect to vote in accordance with the recommendations of company management at company meetings.

We subscribe to a proxy voting service provided by Institutional Shareholder Services (ISS), a global leader in corporate governance and responsible investment advice. ISS provides in-depth analysis of shareholder meeting agendas and voting recommendations. Investment managers consider ISS reports (the ISS Sustainability Policy reports), alongside their own analysis, experience and dialogues with the company concerned and apply their independent judgement when reaching each voting decision. When necessary, we will engage with company management to improve our understanding prior to voting and we will follow up afterwards, should we decide to oppose their recommendations.

As set out above, we regard shareholder voting as an important means of communicating with companies and we follow our voting principles on all core portfolio holdings. When clients hold assets that are not part of this core list, for example because of capital gains tax constraints or because assets are transferred to us from other portfolios, we exercise voting rights on a best endeavours basis. For these assets, we would generally expect to vote in accordance with the voting recommendations set out in the ISS Sustainability Voting Policy unless the recommendations appear controversial or in contradiction to our voting principles, at which point we would seek additional input from members of the investment team.

Policies

Voting Rights

Our approach to voting rights can be summarised as 'one share, one vote'. Therefore, we prefer simple capital structures and do not support anti-takeover devices. The best defence against a hostile takeover is good operational performance and a strong strategy for the future, in which case we would vote to support existing management against such an offer.

Board of Directors

We believe that Boards should have a majority of non-executive directors able to hold executive management to account. We encourage Board diversity in all forms: gender, ethnicity, professional skills, experience and age, as this brings varied perspectives, creativity and insights in a rapidly changing modern world. We also take into account the number of public and non-public Board positions held by directors. Directors should be re-elected with sufficient frequency to provide shareholders with the opportunity to support those performing their role responsibly and to remove those not promoting best practice.

We would expect significant Board sub-committees (e.g. the Audit Committee and Remuneration Committee) to be chaired by truly independent directors. We follow the European view that directors can no longer be considered independent once they have been on a Board for 12 years. We acknowledge that this contrasts with the view held more widely in the US that directors are independent if they have never held an executive role at the company. We are, however, constructive on Boards with an appropriate mix of tenured and recently appointed directors, so long as the sub-committees are chaired by truly independent directors. In addition, where companies have a combined CEO/Chair role, we would want to see an independent Lead Independent Director (i.e. with tenure under 12 years).

Remuneration

We aim to hold our investments for many years and believe management should be motivated over a similar long-term horizon. As a consequence, we support the alignment of shareholder and management incentives through share rewards and ownership plans. However, we are cautious of overly dilutive schemes and those that vest over short time periods.

When reviewing remuneration packages, we look for awards based on a range of financial and non-financial targets (as appropriate to the individual business), with high pay-outs only available for exceptional performance. We encourage companies to adopt simpler schemes with logical benchmarks and support those choosing to include relevant social and environmental targets, relating to material risks and opportunities where relevant.

Amongst other things, we would be particularly concerned to see the resetting of targets to meet minimum thresholds for performance-linked pay, the awarding of options in market lows, and significant one-off payments. We also monitor fair pay metrics with regard to diversity.

Auditor tenure

The appointment of auditors is a key shareholder responsibility, and one we take seriously given several high-profile failures. Auditors should be re-appointed annually and the audit re-tendered on a periodic basis, ideally every 10 years in line with European best practice. We believe non-audit fees should be minimised and we regard high payments for non-audit work as a red flag, bringing auditor independence into question.

Capital Allocation

We prefer that resolutions to approve dividends and share repurchase programmes are proposed separately, as both represent a meaningful tool for efficient capital allocation. In general, we invest in companies that have attractive organic growth prospects over many years, as this is typically a lower risk route to value creation. However, we would expect to vote in support of management on significant mergers and acquisitions where the financial rationale is compelling.

Shareholder proposals

As with all other voting decisions, we review shareholder proposals on a case-by-case basis. Generally, we support shareholder proposals that increase shareholder rights or improve company disclosure. We are unlikely to support proposals that could prove too onerous for the Board or could allow excessive influence of larger shareholders.

Reporting on Voting

We provide our clients with an annual stewardship report, detailing our voting and engagement activities carried out on their behalf. This report is also publicly available on our website.

Our report includes a breakdown of our voting record during the year in review and, in line with the Shareholder Rights Directive II, detailed case studies of any significant votes. Given that we only make an investment when we are satisfied that appropriate governance structures are in place and we therefore typically expect to vote with company management, we define significant votes as those where we voted against company management or abstain.

We also set out our approach to voting, our voting record and detailed case studies in our annual Stewardship Code report. Our latest report can be found on our website: [Stewardship Code Report 2021 | Veritas Investment](#)

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