

Policy Statement - Corporate governance

1. Preamble

- 1.1.** Corporate Governance is the system by which companies are directed and controlled for the long-term benefit of shareholders and wider stakeholders. It is therefore concerned with the principles of accountability, transparency and probity and with a focus on the long-term sustainable success of the business. It is to be distinguished from the day to day operational management of the company by full-time executives.
- 1.2.** Corporate Governance concerns the arrangements for appointing and remunerating directors and auditors, and the controls in place to enable them to discharge their respective responsibilities with effect. More widely, it concerns the controls in place to effect resilient risk management across the company's range of process, operational and reputational risks.
- 1.3.** We support the view that good governance is about the relationship between investors and the companies in which they invest so as to reassure themselves of the strength and appropriateness of the governance regime in place.
- 1.4.** To that end, companies are expected to provide a transparent account of their governance arrangements in accordance with the 'comply or explain' principles set out in the UK Corporate Governance Code. They are specifically expected to set out the areas in which they depart from corporate governance best practice and the reasons why.
- 1.5.** Investors, equally, have a stewardship role in exercising shareholder voting rights in an informed way that supports high standards of corporate governance best practice.
- 1.6.** This overarching Corporate Governance Policy Statement should be read in conjunction with the CIG (Church Investors Group) Voting Template that controls the mechanism for exercising our proxy voting in the UK and Europe.

2. Key principles

- 2.1.** We support the Principles set out in the UK Corporate Governance Code ¹ (as revised) and the UK Stewardship Code ². We vote proxies in the UK and Europe in accordance with these Codes and in keeping with the overarching objectives set out in this Policy Statement.
- 2.2.** We are a founding member of the CIG proxy voting coalition that has adopted a common voting policy for its supporting members. These members of the CIG seek to promote best practice standards of corporate governance at investee companies by leveraging their combined voting rights in a collective approach.
- 2.3.** The voting template that governs how the CIG coalition votes at each company meeting is updated and refreshed annually. The Policy is administered by ISS ³ on a global basis, executing ballots in a timely way so as to register the voting intentions of CIG members by the due deadline.
- 2.4.** In keeping with our commitments under the UK Stewardship Code, we publish a quarterly summary of voting activity which is available on our website; a full report of votes registered at each investee meeting in the UK and Europe, is available on request.

3. Key policy areas

- 3.1.** The CIG has articulated the key policy areas as:

3.2. Annual Report and Accounts

To reflect our wider stewardship priorities, voting activity will address any concerns about corporate approaches to climate change risk by opposing the adoption of the Annual Report and Accounts. The Annual Report may also be opposed in circumstances where the audited accounts have been qualified.

3.3. Directors

Election of directors will generally follow market norms. However, in line with accepted best practice, we will challenge:

- The re-election of combined Chair and Chief Executives;
- Executive or connected chairs;
- Overcommitted directors; poor Board/Committee attendance, and
- Lack of director responsiveness.
- Additionally, where a controlling or family shareholder exists, there should be sufficient safeguards in place to allow the Directors to operate independently of that shareholder.

3.4. Executive remuneration

We place particular emphasis on executive remuneration so that it incentivises long-term shareholder value without being excessive. With other members of the CIG, we will challenge remuneration if it breaches any of the following four principles:

- Remuneration schemes should not breach accepted local-market good practice;
- Short term incentive awards should not exceed 100% of base salary for 'on target' performance and/or 200% as a maximum award. Companies should disclose 'maximum' and 'target' award levels;
- Possible awards for short term performance should not exceed possible long-term awards;
- Disclosed 'non-financial' metrics should be incorporated into variable remuneration schemes.

3.5. Committee membership

Voting activity will focus on the re-election of the relevant Committee chair. This may extend to the entire Committee where there are multiple or repeated issues over time.

- **Nomination Committee:** The CIG supports efforts to increase the diversity of company boards and senior management. We will vote against the Chair (or members) of the Nomination Committee where insufficient progress has been made to improve diversity in line with the Davies and Hampton-Alexander diversity targets.
- **Audit Committee:** we seek to promote the independence of auditors. We will vote against the Chair (or members) of the Audit Committee where there are concerns over the level of non-audit fees; the lack of a time-specified audit tender process; and/or where there is an historic unresolved accounting issue.
- **Remuneration Committee:** we will vote against the Chair (or members) of the Remuneration Committee where remuneration breaches the principles in 3.4 above and/or where we vote against a Remuneration Report for two or more consecutive years.

3.6. Shareholder proposals

Shareholder resolutions will be considered on a case-by-case basis taking into account our wider investment and stewardship priorities.

3.7. Political expenditure

Voting activity will challenge and oppose donations to political parties. A ceiling of £100,000 has been set for expenditure caught by the 'Political Parties, Elections and Referendums Act 2000', that may fall into the definition of 'political expenditure', but which may otherwise constitute a legitimate business expense. Proposals requesting amounts above this ceiling will be opposed.

3.8. New or amended Articles of Association

We will oppose changes to Articles where this is viewed as detrimental to shareholder rights.

3.9. Investment companies

Investment companies are subject to different governance norms. We vote at these companies based on the Association of Investment Companies (AIC) governance guidelines.

4. Engagement

- 4.1. We routinely engage with company management on a range of issues, which may include corporate governance concerns. We respond constructively to consultation requests from companies on proposed remuneration structures and policies. Where possible, when engaging we take account of the lower paid in an organisation and the gap between highest and lowest paid.

5. Lobbying

- 5.1. Corporate lobbying, whilst often legitimate, may, in certain circumstances, represent undue influence or narrow interests. This can lead to erosion of public trust, and a perception that companies receive favourable policy treatment from government via non-transparent practices. This is an area that is much misunderstood and poorly disclosed; we will seek to engage with companies in respect of their lobbying policies and practices with a view to encouraging greater transparency, disclosure and understanding overall.

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1. The UK Corporate Governance Code (2016) Financial Reporting Council
 2. The UK Stewardship Code (2012) Financial Reporting Council
 3. Institutional Shareholder Services (ISS)