



Introduction

Revd Canon Edward Carter CIG Chair



As Chair of the Church Investors Group (CIG), I'm proud that churches from all denominations have been at the forefront, when it comes to institutional investors' engagement with companies. One of the most important engagement tools we have used to promote responsible business practices in companies which our members invest in are the annual voting guidelines created by the CIG. They have been put into practice by some of our larger church investor members in the UK as they cast their votes at corporate AGMs. This in turn has helped set and raise general standards for voting engagement.

The CIG has consistently increased the emphasis on actions related to climate change, executive remuneration, diversity on boards and good governance practice in general. We strongly believe this is in the best interest for the companies we hold, and their financial benefit in the long term, as well as for our society as a whole.

The CIG exists to bring church investors together, and our network has grown over the years. It now includes more than 65 investors, the majority in the UK and Ireland but with members from other countries too. We have therefore this year decided to publish this new extended and detailed summary of our guidelines so as many of our members as possible can instruct their managers to follow them. This can be done in addition to any existing instructions based on the ethical policies which are relevant, or to serve as a guide for bespoke voting arrangements. We hope this will increase the reach of the actions and outcomes we would like to see.

I hope this document proves useful to all who read it, and we would be delighted to hear about your experience of using it.

Edward Carter.

Voting Guidelines 2022

Director election resolutions

Every public company should be headed by an effective board, which can both lead and control the business in nurturing its long-term success. The corporate governance framework should underpin the board's accountability to its members and its wider stakeholder community. Company board structure varies between jurisdiction and market, although it is typically comprised of a combination of:

An independent chair who oversees meetings and ensures a suitable balance of power between executive and non-executive directors.

Executive directors, with intimate knowledge of the business and responsibility for its day-to-day management.

Non-executive directors, who bring a broader view to the company's activities. Because they are independent of executive responsibility, they have two important roles. The first is to review the performance of the board and executives. The second is to provide a creative and informed contribution and to act as a constructive critic in examining the objectives and plans of the executive team

The Chair

Executive chair voting guideline

We vote AGAINST the election or re-election of the chair where they serve in an executive position. Unless:

- the company adopts a two-tier board structure
- the appointment is being made on an interim basis
- there are other mitigating factors.

Chair independence on appointment voting guideline

We withhold support for a chair's appointment where we have concerns about the individual's independence from management.

Combined chair-CEO voting guideline

We vote AGAINST the re-election of the chair-CEO where there is no intent to separate the combined roles of chair and CEO (unless there are mitigating circumstances).

Voting Guidelines 2022

Director election resolutions

Role of the Board

Director independence and tenure voting guideline

We may vote AGAINST the election/re-election of a director where we have concerns over independence from the board.

When considering the re-election of a chair, we consider factors such as succession planning, diversity, and board independence, in addition to tenure. We assess our voting position on a case-by-case basis.

Overboarding and attendance voting guideline

We may withhold support for board members where:

- we believe they are 'overboarded' and
- where board meeting attendance is less than 75% for the year under review.

Director responsiveness voting guideline

In the UK, we vote AGAINST the company chair where there is a lack of compliance with the UK Corporate Governance Code on director responsiveness.

Elsewhere, we vote AGAINST the company chair where analysis of the previous year's proxy votes indicates a substantial level of support for a shareholder resolution or concern, but where management has closed the issue.

We vote AGAINST a director's re-election where we have had an unsatisfactory outcome to sustained engagement activity.

Alternate directors voting guideline

Because alternate directors are not held directly accountable for their actions, we are wary of such arrangements and consider our voting position on a case-by-case basis.

Companies with controlling shareholders voting guideline

In the UK, a controlling shareholder is defined as shareholder – or group of shareholders acting in concert – with control of 30% or more of issued voting share capital. For this guideline, we apply this definition globally.

We vote AGAINST the election/re-election of a chair if both the chair and the senior independent director are connected to a controlling shareholder. Where there is no designated senior independent director, they will be deemed connected.

We vote AGAINST all directors connected to a controlling shareholder where the proportion of connected directors is greater than the controlling shareholder's proportion of the issued voting share capital (this is our so-called 'proportionality rule').

Voting Guidelines 2022

Committee elections resolutions

Nomination committee and diversity policy guideline

We vote AGAINST the chair of the nomination committee where the composition of the board of directors does not include:

- At least 40% gender diversity for UK FTSE 350 companies
- At least two female directors for overseas companies
- One director from an ethnic minority background for the FTSE 100

We vote AGAINST the chair of the nomination committee where the composition of senior management does not include:

- At least 40% gender diversity for UK FTSE 350 companies
- At least two female directors for overseas companies

Where adequate progress is not made, we escalate our concerns by voting, in addition, AGAINST every nomination committee member.

We will vote AGAINST the re-election of a director if the company does not have adequate gender diversity at board and senior management levels.

Remuneration committee voting guideline

Where we have ongoing concerns over remuneration (see page 6) we vote AGAINST the remuneration committee chair.

Where adequate progress is not made, we will escalate our concerns by voting, in addition, AGAINST every remuneration committee member.

Audit (and risk) committee voting guideline

Where we have concerns over the external auditor's independence or tenure, we vote AGAINST the chair of the audit committee (see page 8).

If our concerns remain unaddressed, we escalate by voting, in addition, AGAINST every member of the audit committee.

Voting Guidelines 2022

Executive remuneration

We assess and vote on all executive remuneration proposals according to the following principles:

- Remuneration schemes should not breach good local practice
- Bonuses should be proportionate and not excessive.
- Remuneration schemes should incentivise good conduct
- Non-financial (as well as financial) performance metrics should be incorporated
- Executive remuneration should not exacerbate inequality within the company

Executive remuneration voting guideline

We vote AGAINST where we identify a breach of good local practice and/or where performance targets are absent from a remuneration report.

We vote AGAINST where a proposed cash bonus exceeds 100% of base salary and/or where the nominal value of retention shares exceed 200% of base salary.

Remuneration schemes should prioritise long- over short-term performance. We vote AGAINST where short-term incentives exceed the value of long-term incentives.

We also vote AGAINST where the total remuneration for a year exceeds 600% of base salary.

We vote AGAINST where remuneration plans are silent on the use of non-financial factors; for example, ESG performance, climate targets, customer satisfaction, fatality rate etc.

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We ABSTAIN where the pension proposed for executive directors appears inconsistent with that of the wider workforce.

We vote AGAINST where the company is not a Living Wage Accredited employer (applies to FTSE 100 constituents in the financial services, communications, and pharmaceuticals sectors).

Other remuneration considerations such as Non-executive remuneration

Unless there is sufficient rationale, we vote AGAINST a non-executive fee proposal where:

- year-on-year proposed fee increase is significantly above inflation, and
- the level of fees is at, or above, top quartile compared to peers/markets.

We vote AGAINST where remuneration plans are silent on the use of non-financial factors; for example, ESG performance, climate targets, customer satisfaction, fatality rate etc.

Unless there is sufficient rationale, we vote AGAINST a non-executive fee proposal where:

- year-on-year proposed fee increase is significantly above inflation, and
- the level of fees is at, or above, top quartile compared to peers/markets.

Voting Guidelines 2022

Climate Change

Shareholder Resolutions

Reporting climate risk voting guideline

We vote AGAINST the re-appointment of the auditors where climate change risk presents a threat to a company's long term-viability, and:

- the auditor's report is silent on the company's plans to address such risks, and/or
- the report does not set out how the company has implemented/committed to strategies supporting climate-related financial disclosures.

Accounting for climate risk voting guideline

Where climate change risk presents a threat to a company's long-term viability, we will vote AGAINST the annual report and accounts, and AGAINST the audit committee chair where:

- accounting assumptions have not been adjusted to reflect climate risks, and/or;
- accounting assumptions are inconsistent with the company's narrative climate risk reporting.

Implementing climate change commitments voting guideline

Where the company is in scope of Climate Action 100+, and where we have concerns about the company's progress on addressing climate change, we will vote AGAINST the re-election of the chair.

Shareholder resolutions general principles

We aim to support all pro-active shareholder resolutions and assess each one on a case-by-case basis. In doing so, we consider the following factors:

1. Whether the proponent's aims are consistent with our ethical and responsible investment policies.
2. Whether the proposal complements one of our existing engagement themes.
3. Whether the proposal is reasonable, not overly prescriptive, realistically implementable.
4. Whether it places undue and disproportionate cost on the company.
5. Specific to common areas of concern

Voting Guidelines 2022

Shareholder Resolutions

Annual report and accounts voting guideline

We will consider voting AGAINST the report and accounts where:

- we have concerns over the accounts presented or audit procedure used
- they fail to address salient social or environmental risks
- there is no disclosure on gender diversity at executive level
- a company's modern slavery statement is in the lower quartile of either Know the Chain or the Business and Human Rights Resource Centre's ranking.

Where the environmental and social risks are reported, but where there are inadequate procedures for managing these risks, we will vote AGAINST the company's chair.

Political donations voting guideline

We will vote AGAINST approving a political donation where one of the following applies:

- the intent is to donate directly to a political party or candidate
- the authority was used during the year and the expenditure was political in nature
- the aggregate authority exceeds £100,000.

Dividends voting guideline

We will consider voting AGAINST a dividend proposal where we believe it contravenes the long-term interests of shareholders.

Auditor appointment voting guideline

We will vote AGAINST the re-appointment of an auditor where:

- we have concerns over the quality or content of the report and accounts
- a report fails to cover all areas that pose a risk to the business (including financial, social, and environmental)
- climate change presents a concern to the company's long-term viability and where the report is silent on the company's approach to addressing the risks.

Where we have concerns over the external auditor's independence or tenure, we will vote AGAINST the chair of the audit committee (see page 5).

Shareholder rights - New or amended articles of association voting guideline

We vote AGAINST new or amended Articles of Association (or equivalent documentation) where the proposed changes have a detrimental impact on shareholder rights.

We vote AGAINST where the company has not provided a marked-up version the new/revised Articles.

Shareholder rights - Corporate actions

We consider proposals on mergers and acquisitions on a case-by-case basis.

Where a corporate action proves destructive to shareholder value, we may vote AGAINST relevant members of the board.

Voting Guidelines 2022

Stewardship work

We use our voting position to complement Members' wider stewardship work.

We can introduce targeted engagement plans where we have concerns about a company's strategy, capital structure, governance, or any unaddressed environmental or social risks. Our voting position also supports wider engagement work. For example, we will not vote to approve a company's annual report and accounts where we have concerns over its approach to modern slavery. In the case of concerns related to tax transparency would there be a vote against the chair. Another area of concern is adherence to industry standards, such as the mining companies with tailing facilities not having endorsed the global tailing standard. Elsewhere, we are generally supportive of proposals that require additional information from a company on the business risks posed by climate change.

Voting Guidelines 2022

Shareholder Resolutions

Further information

www.churchinvestorsgroup.org.uk

or from the CIG Secretary at:

information@churchinvestorsgroup.org.uk

or call 0207 489 6119

The Church Investors Group represents institutional investors from many mainstream charities. Whilst each investor is responsible for its own investment policy our members come together on issues of common concern.

Currently the CIG has 65 members, predominantly drawn from the UK and Ireland, with combined investment assets of over £25bn

The CIG secretariat is provided by

