# Voting policy

## Introduction

It is our responsibility to exercise our clients' voting rights in a considered manner, within the context of a positive relationship with a company's management. Situations in which we may not support management are set out under the 'voting principles' section below. Sometimes our instructions may differ from our agreed policy. This could be for company-specific reasons or it may be that we have talked to the company's management and received a satisfactory explanation. We may also need to review resolutions on a case-by-case basis, particularly those which involve mergers, acquisitions or other significant events.

Companies with queries should contact: stewardship@artemisfunds.com.

## Proxy voting research

Our voting is informed and carried out by an independent specialist, ISS. Together, we have developed guidelines which take into account local, national and international standards. This ensures our expectations for corporate governance are appropriate to each business we invest in.

ISS draws on best practice from around the world for its analysis. Artemis' fund managers have access to this in the form of governance reports. ISS also provides them with a summary of all resolutions put forward at company meetings and assesses the extent to which governance arrangements are in line with best practice.

This research is very valuable. But we would emphasise that our fund managers make the final decision on how to vote.

The firm carries out due diligence when outsourcing the processing of votes to third parties such as ISS. Any external service must meet the required standard and demonstrate effective operating controls. We review the services provided by ISS annually.

## Reporting

A summary of our votes and details of those instances in which we have voted against management are included in the standard quarterly investment reports we send to our institutional clients. We also provide a quarterly summary on the Stewardship and ESG page of our website.

## Scope of voting activities

Artemis aims to vote its shares in all stocks in the UK and overseas unless we are restricted from doing so by local market practice. For example, where share-blocking is an issue – that is, voting would bar us from buying or selling a company's stock around the time of the AGM – we prefer to have the option to trade.

At the moment, we do not lend stock for Artemis' funds. If a client's custodian does so, Artemis will not recall it for voting without prior arrangement. We cannot offer investors in our funds the ability to direct voting. Institutional clients with their own segregated accounts can discuss voting requirements with their account director and of course may make their own arrangements to vote.

## Voting principles

Set out below are the principles which direct our votes and the instances in which our clients' interests may override support for management's proposals. Unless otherwise stated, these apply across all regions.

### Board of directors

**Independence**

Every company should be headed by an effective board of directors who take collective responsibility for the company's long-term success. For all companies quoted on main markets, our view is that at least half of the board should be independent. In the UK, companies listed on AIM and companies that are not a member of the FTSE All-Share or FTSE Fledgling indices should have a minimum of two independent directors on the board.

Where the independence of directors does not conform to best practice, we look carefully at the reasons why. When defining 'independence', reference is often made to the length of time a director serves on a board (tenure); whether he or she holds share options in the company; and relationships, both business and personal, which may influence decisions. In our view, failing to satisfy formulaic criteria does not necessarily stop non-executive directors discharging their duties and responsibilities effectively. For instance, we do not feel the holding of options by non-executive directors of AIM companies (also common in the US) automatically undermines their independence. Nor, more generally, does tenure of more than nine years. We believe it is important to consider a director's contribution in the first instance.

In some countries, particularly in Europe, it is a legal requirement or best practice for employees to be represented on the board. In this case we assess the independence of the elected directors only. In Japan, where there is a controlling shareholder we require at least one-third of the board members to be independent directors with at least two independent directors. With no controlling shareholder, boards with an audit committee structure or three committee structure (audit, nomination and remuneration committees) should have at least one third of the board as outside directors.

**Chairman**

In most instances we will vote against combining the roles of CEO and chairman. We believe the two roles should be separate. The chairman leads the board and makes sure it functions effectively. There ought to be a clear division between this and running the business. While it may be necessary for a short time for the same director to perform both roles, we would want to see a clear rationale for this decision, what additional steps have been taken to provide additional independent oversight and to know how and when the anomaly will be resolved.

The combined role is more common in the US and we will view this arrangement in the light of board composition more generally. Where there have been material failures of governance, stewardship, risk oversight or instances of poor pay practices or reductions in shareholder rights for example, we will vote against combining the roles of CEO and chairman. We will generally support shareholders' proposals to separate the two roles and appoint a lead independent director.

In the UK we will vote against the election of a former CEO as chairman unless the company has given a strong justification or the situation is temporary.

**Election of directors**

We believe it is in shareholders' interests for directors to be submitted for regular re-election (as long as they are performing well). Our preference is for annual election by a majority vote and we believe that boards should not be classified (a structure under which directors serve terms of different length). In normal circumstances we will support shareholders' proposals to declassify a board or introduce majority voting.

Where we are concerned about an individual's performance, how the business is doing or the long-term strategy, we will consider voting against the re-election of directors. We may also vote against if we believe someone holds too many directorships and cannot carry out their responsibilities effectively; or if their attendance at meetings of the board or a committee has been poor for at least two years.

**Committees**

All members of the audit and remuneration committees should be independent and the majority independent for the nomination committee. In the UK, companies listed on AIM and other companies that are not a member of the FTSE All-Share or FTSE Fledgling indices should have a minimum of two independent directors on the audit and remuneration committees. The nomination committee should lead the process for appointing directors and make recommendations to the board.

We will consider voting against the re-election of the committee chairman or members of the committee in these situations: where the committee does not conform to best practice; if we believe it has failed in its duties; or when there has been no engagement with shareholders on key issues (see also remuneration section below).

**Succession planning and diversity**

As part of a board's approach to succession planning we expect the report & accounts to contain information on progress towards meeting 'best practice' guidelines on gender diversity at board and senior management levels. For UK, European and US large and mid-cap companies we will consider voting against the chairman of the nomination committee if there are no women on the board and abstain where there is one woman on the board unless there is evidence this issue is being addressed. We will look to include smaller companies in 2021/2. Although we have not set out specific voting intentions on diversity expectations at the level of executive committee and direct reports, this is likely to be a focus in future years. We believe it is important that companies attract and retain a diverse pipeline of talent for leadership roles, which is crucial for business success.

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## Report & accounts and audit

We are likely to vote against resolutions relating to the report & accounts where there are concerns about the presentation of accounts or audit procedures used. We will consider the following issues on a case-by case basis: where the auditors have highlighted fundamental uncertainties within the accounts; or if the company proposes to change auditors after a qualified opinion; or the inclusion of an 'emphasis of matter' (a matter of significant uncertainty) in the audit report. We may also vote against the report & accounts where there are serious governance failings and we are not able to use other resolutions such as election of directors or remuneration reports/policies.

If non-audit fees are more than audit fees for two consecutive years without a good explanation being offered, we will vote against the resolution authorising the board to fix the auditors' remuneration. We will generally support management recommendations for the (re-)appointment of the auditor unless we have serious concerns about the effectiveness of the auditors (including conflicts of interest) or audit practices.

## Remuneration

We believe management should be appropriately rewarded for good long-term performance, however, levels and in particular increases in pay should be justified with a clear rationale. We look for a simple structure to remuneration. This will typically consist of a salary, pension/ benefits (if applicable), an annual bonus partially deferred into shares and a long-term incentive with performance measured over at least three years. We expect additional holding periods for shares following vesting. Performance targets should be challenging and support the strategy of the company. Measures of long-term performance should focus on sustained growth – for instance in earnings, cash generation, dividends, return on capital and a measure linked directly to returns to investors. For short-term incentive plans, a combination of strategic and financial measures is normally appropriate. The remuneration committee should disclose how relevant environmental, social and governance (ESG) factors have been incorporated into incentive plans. We expect bonus targets to be disclosed preferably within one year following payment. Executive directors should own enough shares to link their interests to those of shareholders. We pay particular attention to the dilution effect of share plans.

While our preferred remuneration structure is set out above it may be appropriate for a company to use restricted (time-based) shares without a performance link, as part or all of its long-term incentive arrangements for executives. In order to consider these types of schemes there would need to be a considerable discount (at least 50%) in awards, longer vesting periods versus a traditional performance-based share plan and clear reasons why this structure is the most suitable. However, we expect at least one element of executive pay to be linked to performance.

We will not support the remuneration policy or report if cash payments or vesting of awards under performance-based plans are not conditional on meeting/exceeding set performance targets, if 'long-term' incentive schemes run for less than three years or if dilution levels are excessive. In general we do not support retrospective changes to performance conditions. However, where there have been sizeable corporate actions such as mergers, acquisitions or disposals it may be appropriate to adjust performance targets. In these circumstances, we take a case-by-case approach. We will vote against the remuneration report where we believe discretion has not been used appropriately.

In the UK we are unlikely to support remuneration policies that do not make it explicit that any new appointees will have their pension contributions set in line with the pension contributions provided to the majority of the workforce. Existing executives should move to the same levels as the workforce within a specified timeframe.

Subject to local laws, we are likely to vote against the remuneration policy where a director is on more than 12 months' notice or where severance payments on early termination of the contract are greater than 12 months' salary (pension and benefits). If a bonus is to be paid, this should be calculated pro rata. We are likely to vote against the remuneration report where the award paid to someone on their recruitment is greater than the amount they have forfeited by leaving their previous employment. Awards should be in shares and performance-related. We will consider proposals to pay a success or transaction bonus on a case-by-case basis. Payments to directors following a merger or take-over can be problematic. Any early vesting of awards should be pro-rated for time lapsed and based on underlying performance. We will not support golden parachutes or other similar exit payments which in our view are not justified.

In Japan, we are likely to support the payment of bonuses except to outside directors or where payments are unjustified due to performance.

In the UK and Europe, if we have not supported the remuneration report for two consecutive years we will vote against the re-election of the remuneration committee chairman. We expect boards to respond pro-actively to shareholder concerns where a significant proportion (20%) of shareholders vote against remuneration proposals. An inadequate or no response is likely to result in a vote against the re-election of the chairman of the remuneration committee.

We will support shareholder proposals aiming to improve best practice in remuneration.

## Governance arrangements and shareholders' rights

We will vote against anti-takeover provisions and reductions to voting rights which we do not believe are in the interests of shareholders. We will normally support shareholder resolutions which seek to improve shareholders' rights and are in the best interests of shareholders generally – for instance, 'one-share one-vote'. We will look at proposals to amend articles of association/incorporation and any bundled resolutions on a case by case basis. We do not support resolutions which introduced virtual-only AGMs or allow any other business.

## Corporate actions and capitalisation

A 'corporate action' is any event which materially changes a company and affects its stakeholders, such as a merger, rights issue or restructuring. We consider every corporate action on its own merits. Routine requests for capital should follow guidelines and take account of pre-emption rights.

## ESG resolutions

Supporting shareholder resolutions in areas such as the environment and climate change, consumer and product safety, labour standards, political lobbying, diversity and the workforce is based on whether additional disclosure is likely to enhance or protect shareholder value in both the short and long term.

# Further information

Our website provides more information on our approach to Stewardship including engagement, voting and ESG integration.

**Website** https://www.artemisfunds.com/en/about-artemis/stewardship-and-esg

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