

# Artemis Voting policy

## 1 Introduction

Securities, particularly equities held within segregated mandates and funds which we manage on behalf of clients often come with voting rights. Where we have been given authority, these rights allow us to elect directors to boards, approve dividends and financial statements, approve certain transactions and various other matters as set out in this policy.

### 1.1 Purpose

It is our responsibility to exercise our clients' voting rights in a considered manner, within the context of an open and constructive relationship with a company's management. Situations in which we may not vote in support of management are set out in this policy. Occasionally our instructions may differ from this 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 or items on the agenda on a case-by-case basis, particularly those which involve mergers, acquisitions, or other significant events.

### 1.2 Scope

This policy applies to Artemis Investment Management LLP ("AIM LLP") and any holding company or subsidiary thereof as defined in Section 1159 of the Companies Act 2006 (collectively "Artemis" or the "firm" for the purposes of this policy).

This policy applies to all funds and segregated mandates managed by Artemis where the authority to vote has been given through investment management agreements or similar arrangements.

Artemis aims to vote its shares for all stocks in the UK and overseas unless we are restricted from doing so by local market practice, laws or regulation. 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. In some markets we are prevented from using our voting rights as overseas investors.

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 decisions. 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.

### 1.3 Policy compliance

This policy sets out guidelines for voting decisions in specific circumstances based on national, and international best practice. Portfolio managers are responsible for the decisions on how to vote and can depart from the recommended guidelines in this policy by providing reasons for this decision. We aim to vote as a firm. On the rare occasions where we have split voting across our different strategies and have a sizeable holding, we will discuss this outcome with the company.

### 1.4 Policy governance

This policy is reviewed at least annually or more frequently if required. As part of the review process, the Stewardship team will recommend amendments to the Investment Committee for discussion and approval before any changes are implemented. Voting activity is reviewed twice a year by the Investment Committee.

## 2 Proxy voting research

Our voting is informed and carried out by an independent specialist, ISS. Together, we have developed guidelines which consider 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' portfolio managers have access to this in the form of governance reports, summaries of all resolutions put forward at company meetings and the extent to which governance arrangements are in line with best practice.

This research is very valuable. But we would emphasise that our portfolio managers make the final decision on how to vote based on a range of inputs, for example internal research, stewardship team guidance, engagement with companies and other external research in addition to that provided by ISS.

We carry 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.

## 3 Reporting

Voting intentions will not be declared publicly prior to the vote. 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. On a monthly basis, we also provide information on our voting activity on the Stewardship and ESG pages of our website.

## 4 Voting guidelines

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.

### 4.1 Board composition

#### 4.1.1 Independence

- *Our preference is for at least half the board to be independent.*
- *We do not take a uniform view when assessing the independence of individual directors. We will also consider local best practice.*

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. 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 believe 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. Those companies with a statutory auditor structure should have at least two outside directors.

#### 4.1.2 Chairman

- *Our preference is for the roles of CEO and chairman to be separate.*
- *Where the combined role is more common, good governance practices will be considered in order to support this arrangement.*

We believe the role of CEO and Chairman 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.

Where the role is combined, as is more common in the US and Canada, we will view this arrangement in the light of board composition more generally. Where we believe 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.

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.

We will generally support shareholders' proposals to separate the roles of chairman and CEO and appoint a lead independent director.

#### 4.1.3 Election of directors

- *Our preference is for directors to be elected to the board on an annual basis.*

- *Performance, independence, number of outside directorships and governance practices are key factors we will consider when deciding whether to support election/re-election.*

We believe it is in shareholders' interests for directors to be submitted for regular re-election. 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. However we accept that in some countries, for example in continental Europe directors may be elected every three years.

We will consider voting against the re-election of directors:

- where we are concerned about a director's performance, overall business performance, the long-term strategy or poor governance practices (see also Sections 4.1.1 and 4.1.5 on director independence and diversity).
- if we believe someone holds too many directorships and cannot carry out their responsibilities effectively. We consider a director to be overboarded if they hold over five mandates or are an executive at a company and a non-executive Chair at another.
- if their attendance at meetings of the board or a committee has been poor for at least two years.

We may also vote against the chairman or chair of the relevant committee where there are serious governance failings, and we are not able to use other resolutions such as election of directors or remuneration reports/policies.

#### 4.1.4 Committees

- *Our preference is for board committees to be majority independent except for the audit committee, which should be fully independent.*

All members of the audit committee should be independent and the majority independent for the nomination 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 chair 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
- when there has been no engagement with shareholders on key issues (see also Section 4.3 on remuneration below).

#### 4.1.5 Succession planning and diversity

- *We will reference national and international guidelines when assessing board diversity.*
- *Reliable data on ethnicity is not yet available in some markets and this continues to impact our ability*

*to incorporate this information into our voting decisions. This is an area we continue to monitor.*

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 diversity at board and senior management levels.

We will consider voting against the chair of the nomination committee or other relevant director in the following circumstances:

**- UK' mid and large cap**

- FTSE 350 companies - board gender diversity is less than 33%.

**- UK small cap (including AIM), ISEQ 20 (20 largest companies listed on Euronext Dublin)**

- where there is no gender diversity on the board and
- abstain where there is only one member of the board from the under-represented gender.

**- Europe ex UK**

- where there is less than two members of the board from the under-represented gender or less than 30% for larger boards.

**- Canada**

- S&P/TSX Composite Index:
  - board gender diversity is less than 30%
  - where the board has no apparent racially or ethnically diverse members. An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member.

- TSX companies not included in the S&P/TSX Composite Index where there is no gender diversity on the board.

**- US**

- Where there is no gender diversity on the board and abstain where there is only one member of the board from the under-represented gender.
- For companies in the Russell 3000 or S&P 1500 indices, where the board has no apparent racially or ethnically diverse members. An exception will be made if there was racial and/or ethnic diversity on the board at the preceding annual meeting and the board makes a firm commitment to appoint at least one racial and/or ethnic diverse member.

**- Japan**

- Where there is no gender diversity on the board.

We believe it is important that companies attract and retain a diverse pipeline of talent for leadership roles, which is crucial for

business success. We review the composition of the executive committee and direct reports where it is possible to incorporate this information into our assessments.

**4.2 Board accountability on climate change**

- *We will focus on those companies where we believe climate is a material risk and there is insufficient evidence that this is being addressed or there is insufficient progress following engagement.*
- *We expect our approach to voting on climate-related matters will evolve overtime, as reporting on transition plans improves.*

Climate change is a global issue and many investors around the world are seeking to better integrate climate risk considerations into their investment, engagement, and voting processes.

Artemis became a signatory of the Net Zero Asset Manager's initiative (NZAMi) in October 2021. As part of this, we have committed to support the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C. An important aspect of this is voting and holding companies to account on their climate action plans, particularly in material sectors<sup>2</sup>.

Factors that could determine our voting decisions are:

- whether the company has a material contribution to our firm-wide financed emissions
- a company's response to our engagement
- disclosures in accordance with a framework such as the Taskforce on Climate-related Financial Disclosures (TCFD)
- ambition to align with net zero by 2050 or sooner or
- decarbonisation targets over the medium-term. Targets should cover the vast majority of the company's direct emissions (scopes 1 & 2).

**4.3 Say on Climate Management Proposals**

- *Best practice on transition plans is evolving and therefore our approach is likely to change over time. We will consider the completeness and rigour of the transition plan but also its feasibility within the context of current government policies and the economic environment.*

For companies in material sectors, we expect a climate transition plan to include short, medium- and long-term Scope 1 & 2 carbon reduction targets; reduction targets for material Scope 3 emissions and a set of actions which are intended to contribute to progress on the targets.

**4.4 Environmental and social shareholder proposals including climate change**

- *Shareholder proposals are considered on a case-by-case basis, primarily on whether the proposals support disclosure and action which in our view will enhance or protect shareholder value in either the short or long term.*

We believe it is important to allow directors the freedom to set an approach which is proportionate and relevant for the company's particular circumstances.

Climate change proposals will be assessed from the perspective of whether they fulfil our expectations of the company on the transition to net zero with appropriate disclosure.

Proposals on other environmental and social issues including biodiversity, human rights, the workforce and artificial intelligence will be assessed on whether we believe they are likely to enhance or protect shareholder value in both the short and long term.

Should a shareholder resolution receive significant support, and we believe the issue is material we will monitor the actions taken by the company and engage should progress not be forthcoming.

#### 4.5 Report & accounts and audit

- *Concerns on audit processes and audit fees are areas which may lead to withdrawing support for proposals relating to the 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.

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.

#### 4.6 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 and clear structure to remuneration with a clear justification for the approach that is appropriate and supportive of the company's strategy.*

Remuneration 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. In general, increases in executive salaries should not be out of line with the general increase at the company.

- 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.
- Material environmental, social and governance (ESG) factors should be incorporated into incentive plans.
- Performance targets including those related to ESG should be quantifiable with a clear link to the company's strategy.
- 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.

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 with 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 are unlikely to 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
- 'long-term' incentive schemes which run for less than three years and do not have additional holding periods or if dilution levels are excessive
- there are retrospective changes to performance conditions. However, where there has 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 believe discretion has not been used appropriately by the remuneration committee.
- new appointees do not 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
- 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/incentive plan is to be paid/vest, this should

be calculated pro rata. However local laws and best practice vary globally and these awards will be taken into consideration when accessing severance payments

- 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
- golden parachutes or other similar exit payments in our view are not justified. 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
- proposals recommend the payment of bonuses to outside directors in Japan.

We expect boards to respond pro-actively to shareholder concerns where a significant proportion of shareholders vote against remuneration proposals. In the UK, US and Europe, if we have not supported the remuneration report for two consecutive years, we may vote against the re-election of the remuneration committee chair.

We will support shareholder proposals which in our view aim to improve best practice in remuneration.

#### 4.7 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 introduce virtual-only AGMs or allow any other business.

#### 4.8 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 corporate actions on their own merits. Routine requests for capital should follow best practice guidelines and take account of pre-emption rights.

## 5 Further information

The Artemis website provides more information on our approach to stewardship including engagement, voting and ESG integration.

Website: <https://www.artemisfunds.com/en/gbr/investor/stewardship-and-esg/stewardship>

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<sup>1</sup> We note the FCA Listing Rules with respect to board diversity which apply to accounting periods on or after 1 April 2022. Companies must disclose annually whether they meet specific board diversity targets on a comply or explain basis. A review of disclosures for both gender and ethnic board diversity is incorporated into our broader work on diversity in portfolios.

<sup>2</sup> Material sectors as defined by Paris Aligned Investment Initiative Net Zero Investment Framework