

# Voting guidelines

March 2025



**CCLA**  
GOOD INVESTMENT

To generate 'healthy' long-term returns for our clients, we must push for progress at the companies in which we invest.

Achieving progress requires an array of approaches. Voting is one tool in our toolbox and when used well, it can be a powerful driver of change. Voting well requires it to be situated in the wider stewardship work that we undertake.

These voting guidelines are reviewed and updated every year. We aim to be nimble in our approach and seek to step in where we believe corporate practice may be unjust or detrimental to shareholder value.

As institutional investors, we are in a unique position to be able to influence corporate actions, and our voting practice has long supported our wider engagement work. For 2025, we have enhanced our climate-related voting outcomes; in particular, we have strengthened our requirements on the quality of corporate reporting.

There is a vital role for businesses to right the wrongs that exist in the world. Investors hold the key to progress at a global scale.

David Ellis  
Director Governance and ESG Integration

March 2025

## CCLA supports Koestler Arts

Koestler Arts is the UK's leading arts charity. It is nationally respected for its ground-breaking work using the arts as a catalyst for positive change in the lives of people within the criminal justice system and in the public's perception of their potential.

Cover image courtesy of Koestler Arts.  
*Glam Rocks*, HM Prison Low Moss.

**[koestlerarts.org.uk](https://koestlerarts.org.uk)**

# Contents

<b>Introduction and principles</b>	<b>2</b>	<b>Remuneration</b>	<b>14</b>
What is voting? Why is it important?	2	Executive remuneration	14
Connections to our wider stewardship work	3	Other remuneration considerations	16
Vote escalation principles	4	Non-executive remuneration	16
Operational guidelines	5	<b>Climate change</b>	<b>17</b>
<b>Voting guidelines by area</b>	<b>6</b>	Reporting climate risk	17
Director election resolutions	6	Accounting for climate risk	17
Role of the chair	7	Implementing climate change commitments	18
Executive chair	7	Trade association membership	18
Chair independence on appointment	7	Highest emitting companies	18
Combined chair-CEO	7	Say on Climate	19
Role of the board	8	Sector Specific	19
Non-executive directors (NEDs)	8	<b>Shareholder resolutions</b>	<b>20</b>
Director independence and tenure	8	General principles	20
Overboarding and attendance	9	<b>Operational resolutions</b>	<b>21</b>
Director responsiveness	9	Annual report and accounts	21
Alternate directors	10	Political donations	21
Companies with controlling shareholders	10	Dividends	21
<b>Committee election resolutions</b>	<b>11</b>	Auditor appointment	22
Nomination committee	11	Resolutions affecting shareholder rights	23
Policy on diversity	12	New or amended articles of association	23
Remuneration committee	13	Shareholder dilution	23
Audit (and risk) committee	13	Corporate actions	23
		Share repurchases	24
		Cancellation of listing/re-incorporation	24

# Introduction and principles

## What is voting? Why is it important?

CCLA invests money on behalf of over 31,000 non-profit organisations, representing a wide range of missions, as well as funds for private clients via intermediaries. We acknowledge that we are the stewards, not the owners, of the assets that we invest, and take our stewardship responsibilities seriously.

One such responsibility is use of the voting rights that come from being a shareholder, allowing us to have our say at company General Meetings. We believe that it is in our clients' best interests to vote on all company resolutions, both domestic and overseas, and aim to do so whenever possible<sup>1</sup>.

When we vote, we seek to promote exemplary corporate governance and to reflect the underlying values of our client base. The principles and application outlined in this document have been developed following extensive consultation with our clients and are informed by relevant guidelines and codes for the markets in which we invest. In the UK, these include the Financial Reporting Council's UK Corporate Governance Code, the UK Stewardship Code, guidelines provided by the Investment Association, and the Pensions and Lifetime Savings Association's Corporate Governance Policy and Voting Guidelines. For overseas markets, they are informed by other applicable guidelines, including the International Corporate Governance Network's Global Governance Principles, the OECD Principles of Corporate Governance, the Global Stewardship Principles, and the EU Directive on Shareholders' Rights. We adopt a clear conflicts of interest policy, detailed in our response to the UK Stewardship Code Principles.

We endeavour to vote on shareholder resolutions in accordance with the principles and guidelines outlined in this document. Our approach to voting is applied to all portfolios under our management, although clients with discretionary mandates can select alternate voting policies.

The voting guidelines (page 6 onwards) apply to all companies. Unless stated, they also apply to all markets. We do, however, apply discretion where an issue is considered developing in a certain market.

Portfolio managers are responsible for any resolutions not covered by these guidelines. Such decisions are subject to internal control procedures and require the approval of the leading portfolio manager and either the Director: Governance and ESG Integration or the Head of Sustainability. All votes are recorded and stored for a minimum of five years and subject to internal audit and external verification.

Our full voting record is published quarterly on our website in which we disclose rationale for all votes against management, votes out of line with this policy and our voting on shareholder proposals. A high-level summary of voting activity is included in our clients' quarterly reports.

<sup>1</sup> In certain circumstances, for example in markets that adopt the practice of share blocking (banning the sale of shares from the date that the vote is filed until the shareholder meeting), or where power of attorney requirements result in prohibitively expensive associated costs, it may be impractical to vote. In such instances, we may choose not to do so.

Our guidelines are reviewed annually and administered by proxy voting provider, ISS, who works to a bespoke template. Our template is not based solely on governance matters but incorporates both our position on environmental, social and governance (ESG) issues, and our main engagement themes. This ensures consistency across all of our stewardship activity.

Every vote is assessed and verified internally. We retain the right to override our template guidelines where, for example, a company has provided additional information directly to us, or where we are undergoing a multi-year engagement programme. This provides an important qualitative overlay to our voting position.

All changes to these guidelines are subject to approval by CCLA's Investment Committee, which is chaired by our Chief Executive.

## Connections to our wider stewardship work

Casting a vote at a company meeting is not something done in isolation instead it is an extension of our wider stewardship work. CCLA's approach to sustainable investing is to Act, Assess and Align and voting forms a part of each of these core principles<sup>2</sup>.

**Act:** Investment markets can only be as healthy as the environment and communities that support them. We act to bring about positive social and environmental change.

Our votes are an extension of our engagement with companies around Better Health, Better Work and Better Environments. For example, the following voting guidelines are all directly linked to our engagement:

- Voting against the CEO for companies in Tier 4 & 5 of both the CCLA Mental Health and Modern Slavery Benchmarks.
- Assessing resolutions at the highest emitting investee companies (see page 18)
- We will not vote to approve a remuneration related proposal at UK listed large and mid-cap companies that are not living wage accredited.

Before instructing votes at a company that is part of an engagement program there is always conversation with the engagement leads. Where progress is being made voting guidelines can be overridden, where no progress is made additional escalation can be recommended.

<sup>2</sup> See the Better World Sustainable Investment Outcomes Report for further details of CCLA's stewardship work.

**Assess:** We assess environmental, social and governance (ESG) standards because we believe that a combination of legislation, regulation and changing societal preferences will impact negatively upon the most unsustainable businesses.

Many parts of these voting guidelines, such as the sections on director elections, board diversity and auditor appointment, are informed by corporate governance best practices. Ensuring good standards of governance from those who oversee our investee companies supports our aim to deliver consistent long-term risk-adjusted returns to our clients.

**Align:** As the guardians, not the owners, of the assets that we manage we have a responsibility to align investment portfolios with our clients' objectives, values and beliefs.

One area we have heard consistent concerns from clients is over excessive and rising executive remuneration, particularly where this is misaligned with compensation for all staff. As such our approach to voting on executive remuneration (see page 14) focuses on inequality and overall levels of pay as well as more traditional considerations around alignment with shareholder interests.

Additionally, our approach to shareholder resolutions (see page 20) is often informed by our clients' aims and priorities.

## Vote escalation principles

Issuers of equity – and the investors buying those equities – should recognise constructive engagement as both a right and responsibility. The right to vote on company resolutions is a key tool for investors and they should feel duty-bound to use it.

Voting is one tool in the armoury and when used well can be a powerful driver of change. To maximise our positive impact, we follow the following escalation principles.

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**We vote as a house and seek to exercise our clients' voting rights at all investee companies, irrespective of their country of listing.**

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Our voting position is applied to all portfolios under our management. Clients with discretionary mandates, or those in segregated accounts, can select alternate voting outcomes, though this is rarely done; we did not receive any client requests to vote alternately in 2024. Some of our funds have advisory committees. Guidance for some resolutions is discussed by these committees where the issues are specific to certain funds or groups of clients.

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**We aim to write to all companies, prior to a meeting, to explain our voting position.**

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This includes resolutions where our vote may not be counted (for example, where we do not hold a power of attorney). Why? Because in our experience anonymous, unsubstantiated voting has little effect. We place particular emphasis on resolutions where we plan to abstain or vote against management, and always provide companies with a written explanation of our reasons for doing so. Where we have a significant holding, we follow through with the registrars to ensure that our votes have been correctly processed.

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**We hold responsible parties to account for areas within their control; and not for areas that they cannot control.**

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For example, voting against the re-election of an auditor where we have concerns about its independence penalises the wrong party. The audit committee chair is ultimately responsible for selecting an auditor and should be held to account. This is reflected in our voting position.

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**Where progress is found wanting, we are not afraid to escalate.**

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Where we identify a concern, for example, inappropriate executive remuneration, we will first vote against the remuneration policy (or report), stating our rationale in writing to the company secretary. If the problem is not addressed, we escalate our concern by voting against the chair of the remuneration committee. Where we have multiple concerns or an egregious issue persists, we will vote, in addition, against the entire remuneration committee (in extreme cases, we will do so in year one).

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**We expect directors to respond to shareholders.**

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Company directors are accountable to shareholders and have a duty to respond to them. We vote against a director's re-election where we have had an unsatisfactory outcome to sustained engagement and voting activity.

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**We will divest where a company fails to change.**

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Voting is one part of our engagement programme. Should a company fail to make progress on an area of concern over several years, despite persistent targeted engagement dialogue and repeated dissenting votes, we will consider removing our ownership of a company by selling its shares.

## Operational guidelines

**Provider policy development:** we participate in ISS's annual policy review by completing its annual survey and participating in the accompanying policy roundtable.

**External quality control:** we meet with ISS formally twice a year to discuss service quality and staffing changes within the ISS custom team, which is responsible for applying our policy and highlighting any potential conflicts. Separate meetings are arranged to discuss policy developments.

**Stock lending policy:** CCLA retains full control over its voting rights and to that end, does not participate in stock lending.

**Internal quality control:** in addition to the manual review of all votes, various alerts are set up on the ISS system to notify us of any new ballots inserted, votes due within five days of a vote deadline and rejected ballots, all of which will prompt additional action.

# Voting guidelines by area

## 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.
- **Senior independent (or lead director)** an alternative point of contact for directors and shareholders where there are concerns that cannot be resolved via the normal channels.
- **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.

Shareholders are responsible for electing board members (directors and the chair) and it is in their interests to see that the boards of their companies are properly constituted. Board composition should be guided by three principles:

1. The roles of chair and chief executive officer (CEO) should generally be held by separate individuals. If one person fills both roles, the board's ability to exercise judgment independent of management is diminished.
2. The board should have an appropriate level of independence from:
  - a. A company's management team. Its ability to be objective and challenging is considered more credible where independent non-executive directors hold the majority of seats on a company's board.
  - b. Any controlling shareholders. 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. We apply this definition globally. See 'Companies with controlling shareholders' (see page 10).
3. Board members should have a clean track record, with proven competence, appropriate expertise, and should stand for re-election annually. They should also have the time and energy to be able to discharge their responsibilities effectively.



## Role of the chair

The primary role of a chair is to ensure that the board is effective in setting and implementing the company's direction and strategy. The chair is influential in determining the composition and structure of the board, including regular reviews of its size, the balance of power between executive and non-executive directors, and the spread of age, experience and personality. The chair should also be at the forefront of leading CEO succession planning and nomination discussions.

Given the influence and sway that a chair's role encompasses, it is important that he or she is fully independent of involvement in day-to-day leadership and decision-making (the domain of the CEO and executive directors).

### Executive chair

The role of executive chair implies involvement in day-to-day in decision-making, which should be the domain of the CEO.

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#### 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.
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### Chair independence on appointment

The chair of a company should be independent from management upon his/her appointment.

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#### VOTING GUIDELINE

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

Where the roles of chair and CEO are carried out by one person, it represents a considerable concentration of power. The board's ability to exercise judgment independently of management is also weakened.

The chair should lead the board and there should be a clear division of responsibilities between the chair and the CEO. Separating the two roles ensures a balance of power and authority, such that no one individual has unconstrained decision-making powers.

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#### 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).
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## Role of the board

A board of directors is a group of individuals elected to represent shareholders. Responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

Boards of directors are accountable to their shareholders, and both have a part to play in making the accountability effective. Directors should do so through the quality of the information that they provide to shareholders; shareholders through their willingness to exercise the responsibilities afforded to them as the ultimate owners of the company.

The size of a company's board – as well as the frequency of board meetings – should be proportional to the size and complexity of the business that they oversee.

### Non-executive directors (NEDs)

The 1992 Cadbury Report<sup>3</sup> initiated a debate about the main functions and responsibilities of non-executive directors. Today, it is widely accepted that NEDs have an important contribution to make to the successful running of companies and, indirectly, to the wider economy.

Since NEDs are usually free of management duties, they can have a clearer view of external forces affecting a company and its business environment, particularly when compared to their executive counterparts.

The purpose of a non-executive director is to provide an objective and impartial view of a company's activities, independent of its day-to-day management. The role is to bring an informed and balanced view of the objectives devised by the CEO and executive team – and to monitor progress towards them.

### Director independence and tenure

A company's board must be able to act objectively and exert authority over management. This is best achieved by ensuring that the board is independent of management.

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#### VOTING GUIDELINE

- We may vote AGAINST the election/ re-election of a director where we have concerns over independence from the board.
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We support the UK Corporate Governance Code's view on independence and expect companies to provide a clear explanation where a director is considered independent.

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#### VOTING GUIDELINE

- 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.
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<sup>3</sup> <https://ecgi.global/sites/default/files//codes/documents/cadbury.pdf>

### Overboarding and attendance

Where directors have multiple board appointments, it may compromise the time and energy that they are able to dedicate to each company.

We classify a person as ‘overboarded’ if they hold more than five mandates at listed companies. A non-executive directorship counts as one mandate, a non-executive chair as two mandates and a position as executive director (or equivalent) is counted as three.

Any person who holds the position of executive director (or equivalent) at one company and a non-executive chair at a different company is also deemed ‘overboarded’.

Directors should attend all board and committee meetings and prepare in advance. Directors who do not regularly attend board meetings cannot effectively discharge their duty to shareholders.

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#### 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.
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### Director responsiveness

A company’s board should be responsive to the views of shareholders, expressed through either engagement or voting at a general meeting.

The UK Corporate Governance Code states that when 20% or more votes have been cast against the board recommendation for a resolution, the company should explain (when announcing vote results) the action it intends to take in understanding the reasons behind the result. It must then respond fully at the next shareholder meeting.

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#### 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.
  - Additionally, we may 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 on an issue which they have board level responsibility.
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### Alternate directors

An alternate director is someone who attends, speaks, and votes at board meetings and can otherwise act in all respects in the place of the appointed director when he or she is unable to do so.

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#### 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.

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### Companies with controlling shareholders

In the UK, a controlling shareholder is defined as shareholder – or group of shareholders acting in concert – with control of 30% or more of the company's voting rights. We apply this definition globally.

There should always be sufficient safeguards in place to allow a company's directors to operate independently of any controlling shareholders.

A circumstance under which this independence could be compromised is where a senior independent director is connected in a personal capacity to a controlling shareholder. This could be a long-term friendship, family member or business partner, for example.

Where a company has no controlling shareholder, board and committee composition should comply with local market best practice.

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#### VOTING GUIDELINE

- 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').
  - 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.
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# Committee election resolutions

Sub-committees within a company's board, namely the nomination, remuneration, and audit (and risk) committees, are crucial if a company is to be effectively governed. To ensure independence from management, these should be composed entirely of independent non-executive directors.

Board committee members should be responsible and held accountable for the actions of the committee on which they sit. Where we have concerns, we begin by voting against the chair of the committee in question. If no progress is made, we will escalate our concern by voting, in addition, against every individual on the committee in question.

## Nomination committee

The purpose of a company's nomination committee is to propose any new appointments at board (both executive and non-executive directors) and senior management level. Members are responsible for identifying, recruiting, screening, and interviewing candidates to attract and secure the best leaders for their business.

The nomination committee is responsible for ensuring a spread of age, experience, background, and personality and for ensuring that members are representative of wider society.

Because the nomination committee is responsible for board as well as management leadership positions, it has a crucial role to play in both the composition of the board, as well as its future pipeline.

Our voting position consequently takes account of both board and sub-board composition.

## Policy on diversity

We believe that shareholders' interests are best represented by a diverse board of directors. We also believe that promoting diversity of leadership is the right thing to do.

A demographically and cognitively diverse board is more likely to represent the composition of a company's employees, customers, and suppliers. It may also help a company to identify and respond to market shifts and changes in consumer expectations more effectively than a homogenous board.

Where boards lack adequate diversity, the risk of groupthink rises, debate is stifled, and the status quo remains unquestioned. It also increases the likelihood that new appointments are based on factors other than merit.

A company's nomination committee is responsible for ensuring a diverse board. On gender, this is defined in the UK by the respected Hampton-Alexander Review<sup>4</sup> as minimum 33% female. We take the view that 33% is insufficient and require at least 40% female directors for UK FTSE 350 companies. On ethnicity, we follow the recommendations of the Parker<sup>5</sup> and McGregor-Smith<sup>6</sup> reviews in the UK and require at least one director from an ethnic minority background.

## VOTING 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 FTSE-AllShare, SP500, TSX60, FTSE Developed Europe, SP/TSX Composite, SP ASX 200 or an SP NZX 50 constituents
    - Outside these indexes where there are not at least two female directors on the board (minimum board size six)
  - FTSE350 and SP500 where at least one of the following positions is not occupied by female: an Executive Position; and/or chair of at least one of the audit, remuneration or nomination committee.
  - One director from an ethnic minority background for the FTSE 100 and SP500
- We vote AGAINST the chair of the nomination committee where the composition of senior management does not include at least 40% female for UK FTSE 350 companies
- Where adequate progress is not made or there is no female representation at board level, we will consider escalating our concerns by voting AGAINST every nomination committee member.

4 [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/613085/ftse-women-leaders-hampton-alexander-review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/613085/ftse-women-leaders-hampton-alexander-review.pdf)

5 Department for Business, Energy and Industrial Strategy (2017) 'A Report into the Ethnic Diversity of UK Boards: The Parker Review Committee.' Online at [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/news/2020/02/ey-parker-review-2017-report-final.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2017-report-final.pdf)

6 Department for Business, Energy and Industrial Strategy (2017) 'Race in the Workplace: The McGregor-Smith Review.' Online at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/594336/race-in-workplace-mcgregor-smith-review.pdf)

## Remuneration committee

The role of the remuneration committee is to set an appropriate reward policy that attracts and motivates executives to achieve the long-term interests of shareholders. It is responsible for determining the company's overall remuneration policy and for the specific remuneration packages rewarded to the chair and each individual executive director.

To ensure that the remuneration policy (and its implementation) is seen through by individuals with no personal interest in the outcomes, the remuneration committee should be comprised entirely of non-executive directors.

Remuneration policies/reports should be put to shareholder vote annually and the board should be responsive to the outcome.

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### VOTING GUIDELINE

- Where we have ongoing concerns over remuneration (see page 14) we vote AGAINST the remuneration committee chair.
  - Where adequate progress is not made, or there are multiple concerns, we will escalate our concerns by voting, in addition, AGAINST every remuneration committee member.
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## Audit (and risk) committee

The audit committee is responsible for recommending the appointment of the external auditor, setting the auditor's fee, and overseeing the audit process.

The committee is also responsible for reviewing the clarity and completeness of disclosures made by the auditor in a company's financial statements, and for ensuring that these are placed in context.

Ultimate responsibility for reviewing and approving the annual report and accounts sits with the board. The presence of an audit committee provides assurance that a key duty of the board – true and fair accounting – is discharged.

We hold the audit committee responsible for areas within its control. This includes the auditor's independence, tenure, and conflicts of interest. We do not hold the audit committee responsible for areas outside its control; namely, the content and quality of the accounts, which is the domain of the auditor (see page 22).

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### 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 22).
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# Remuneration

## Executive remuneration

An executive director's remuneration package should be structured such that their interests are aligned with the long-term interests of the company (and that of its shareholders). While pay should be sufficient to attract, motivate and retain accomplished executives, excessive remuneration can deplete shareholder value. It is important that pay packages are structured to incentivise good conduct.

To prevent interest misalignment, pay structures should be simple and explicitly linked to the long-term objectives of the company. Including an element of share ownership within a pay package is one tool for aligning executives' interests with that of shareholders. To be effective, those shares should represent a significant proportion of the executive's reward and be held at least until retirement.

Executive remuneration should be linked to long- as well as short-term performance targets. These targets should be easy to understand, straightforward to measure and disclosed in the remuneration report. Under-performance against the targets should not be rewarded.

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

### **1. Remuneration schemes should not breach good local practice.**

Remuneration policy and practice should adhere to the corporate governance standards of the stock market on which the company is listed, and the country in which the company is headquartered.

We pay particular attention to the Remuneration Committee's use of discretion during the year, both positive and negative; the use of malus and clawback provisions; the timeframe applied to joining awards; and the value of individual directors' shareholdings.

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#### **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.

### **2. Bonuses should be proportionate and not excessive.**

We do not expect executive directors in receipt of competitive salaries to be offered annual bonuses of more than 100% of base salary for on target performance. Awards of a greater magnitude can only be justified if an executive director has delivered extraordinary results through exceptional performance to the significant benefit of shareholders.

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#### **VOTING GUIDELINE**

- We vote AGAINST where the target cash bonus exceeds 100% of base salary and/or where the nominal maximum value of cash/retention shares exceed 200% of base salary.
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### 3. Remuneration schemes should incentivise good conduct

Short-term maximum potential bonus rewards should not exceed the maximum potential long-term incentive rewards, as this can incentivise short-term (even reckless) behaviour.

Long-term incentive plans should cover periods of five to seven years and should normally be paid in shares held over several years. We expect the vesting period of any deferred compensation to be commensurate with company's own business cycle. We consider each proposal on a case-by-case basis, mindful of the Investment Association's recommended five-year holding period. Awards should not vest, under any circumstances, before the agreed period, even on cessation of employment.

Long-term incentive plans that offer excessive rewards should be challenged.

#### VOTING GUIDELINE

- 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.

### 4. Non-financial (as well as financial) performance metrics should be incorporated

As well as traditional financial metrics, all variable remuneration schemes should reward executive directors for their ethical, social, and environmental performance, appropriate to the individual company.

#### VOTING GUIDELINE

- 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.

### 5. Executive remuneration should not exacerbate inequality within the company

Companies should approach remuneration and reward in a holistic way for all staff. They should disclose the extent to which schemes offered to executive directors are offered exclusively to executive directors or, where appropriate, to other staff.

They should disclose pay ratios and the way in which they monitor and manage internal pay differentials and trends.

#### VOTING GUIDELINE

- We will withholding support where the rate of increase in executive salaries is greater than that of the average employee
- We vote AGAINST where the company is not a Living Wage Accredited employer (applies to companies in the MSCI UK IMI.).
- We also vote AGAINST where the total potential incentive remuneration for a year exceeds six times base salary.

## Other remuneration considerations

We take note where:

- A remuneration committee proposes a restricted scheme; these are not suitable for all businesses, and we expect a company to provide good reasons for choosing this structure.
- An executive does not draw a salary (or draws only a token salary), instead receiving substantial variable remuneration, skewing the ratio to salary.
- There are local regulations or tax regimes which distort executive remuneration practices.
- There is insufficient information to judge whether there has been compliance with one or more of the principles; or where other special circumstances apply.

### Non-executive remuneration

Non-executive directors provide independent oversight and oversee the pay of the executive directors and other senior managers. Non-executive directors are typically paid a fee for their services.

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#### VOTING GUIDELINE

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- 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.
-

# Climate change

Climate change is a critical issue for investors. We view it as the single largest threat to our planet, ecosystems and communities.

We expect all boards to make an explicit commitment to align company strategy with the Nationally Determined Commitments associated with the Paris Agreement, as a minimum.

## Reporting climate risk

A company's report and accounts should include how the company will deliver on its climate commitments, including any changes in operations and associated capital expenditure or operations. Interim targets should be set, and progress reported against those targets.

Shareholders should expect full disclosure of material climate risks, both physical and regulatory. These should be set out in narrative form and in figures within the audited financial statements. Narrative and numbers should be consistent.

## Accounting for climate risk

Where climate risks result in material impacts for a company's financial outlook and accounting assumptions, these should be reflected – in numbers – in the financial statements. These could include impairments or asset retirement obligations, for example.

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### VOTING GUIDELINE

- We vote AGAINST the re-appointment of the auditors at companies that are key to driving global net zero emissions transition where climate change risk presents a threat to a company's long term-viability.

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### VOTING GUIDELINE

- We vote AGAINST the chair of the audit committee where:
  - climate change risks are not considered in the financial statements.
  - the financial statements do not disclose the quantitative climate related assumptions and estimates and/or;
  - the financial statements are not consistent with the company's other reporting matters.

## Implementing climate change commitments

A company's CEO is ultimately responsible for ensuring that climate change policy is implemented.

### VOTING GUIDELINE

- We will vote AGAINST the CEO of carbon intensive companies that do not have a projected decarbonisation pathway, at least, in line with a below 2 degrees scenario.

## Trade association membership

Companies in high climate risk sectors are sometimes members of trade associations. The aims of the associations may run counter to a company's stated aims on climate change. We expect companies affected to report to shareholders on all climate change lobbying.

### VOTING GUIDELINE

- Where the company is in a high impact sector, and where there is no evidence that the company ensures consistency between its climate change policy and the positions taken by trade associations of which it is a member, we will vote AGAINST board chair.

## Highest emitting companies

In order to reduce real world carbon emissions CCLA has prioritised engaging with the 30 companies in our portfolio with the highest combined absolute scope 1, 2 and 3 emissions. At the AGM of each of these companies the engagement lead provides input into the voting decisions to ensure alignment between our engagement and our voting.

In addition to the above, at companies in high climate risk sectors we will apply the following vote outcomes.

### VOTING GUIDELINE

- Where a company is seeking to expand its fossil fuel dependency, we will vote against all board members seeking re-election.
- Where CCLA believes the company's approach to addressing climate change is poor, we will vote AGAINST the CEO, otherwise we will consider lodging an ABSTAIN vote.
- We will vote AGAINST the remuneration report if a credible climate related KPI is not embedded within executive remuneration.

## Say on Climate<sup>7</sup>

A 'Say on Climate' vote allows shareholders to vote on the quality and scope of a company's climate transition plan and related climate disclosures.

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### VOTING GUIDELINE

- We will only vote FOR a company's 'Say on Climate' proposal if the following apply:
    - The annual report is aligned with a recognised disclosure format such as the Task Force on Climate-related Financial Disclosures (TCFD) or equivalent that encompasses governance, strategy, risk management of climate issues, metrics, and targets.
    - The company publishes an overall emissions reduction target that is consistent with the goals of the Paris Agreement.
    - The company sets out intermediate targets governing the pathway to achieving their overall emissions reduction goals.
    - The company reports on its progress against its intermediate and overall emissions reduction targets.
    - The company demonstrates actions consistent with achieving the goals of its climate transition plan.
    - The company discloses its carbon dioxide (CO<sub>2</sub>) emissions in accordance with Scope 1 and 2 of the GHG Protocol Corporate Standard.
    - The company discloses its indirect CO<sub>2</sub> emissions, including Scope 3 emissions, in accordance with the GHG Protocol Corporate Standard.
- 

## Sector Specific

We expect all companies in which we invest to adhere to high standards of business practice. However, ESG risk, business conduct, and reputational risk can vary across sectors and the type of issues we address through our voting and engagement is more applicable to some sectors than others. The finance sector has a special role to play; we expect banks and insurance companies to disclose how they are managing their contribution to and impacts from climate change and how they are transitioning their business models in line with the goals of the Paris Agreement.

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### VOTING GUIDELINE

- Vote AGAINST both the CEO and the audit committee chair where the company does not disclose a policy on fossil fuel financing, including a commitment to phase out financing for thermal coal by 2030 in OECD countries and 2040 globally and/or does not score at least 5 (five) on Reclaim Finance's Oil&Gas Policy tracker (Expansion).
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<sup>7</sup> <https://sayonclimate.org>

# Shareholder resolutions

Shareholder resolutions are a meaningful way for shareholders to encourage improved corporate responsibility and often reflect our clients' aims and priorities. Where a shareholder proposal is consistent with the aims and objectives of these guidelines, we will apply the stated vote outcome. Otherwise, we will review the resolution through our proprietary corporate governance and sustainability lens and vote accordingly.

We will support all resolutions where we believe that the long-term interests of shareholders stand to gain. Our default position is to vote FOR any shareholder resolutions filed by Principles for Responsible Investment (PRI) signatories.

In line with our position on director responsiveness, we expect companies to adopt resolutions that have obtained the necessary level of support, irrespective of the advisory nature of the proposal.

## General principles

We aim to support all pro-active shareholder resolutions specifically those that align with our Better World Policy. In doing so, we consider the following factors:

1. Whether the proponent's aims are consistent with our sustainable 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. Where the ask is consistent with either fund or client values.

Specific to some common areas of concern:

- **Environmental and social reporting**  
We support efforts to persuade companies to provide shareholders with a vote on the quantity and quality of a company's climate transition plan (a so-called 'Say on Climate' vote) (see page 19). We also support resolutions asking companies to take greater consideration of environmental and biodiversity risks, and proposals that request the company to report on the implementation of social and environmental initiatives.
- **Public health and workplace safety**  
We are supportive of resolutions relating to greater disclosure on public health impacts. Also, of proposals designed to limit the number of workplace accidents or to improve reporting on the issue.
- **Human rights**  
We are supportive of resolutions that seek greater disclosure on a company's global labour practices, including its supply chain. We will also support resolutions that seek to establish minimum standards for a company's operations. We will support requests for independent monitoring of overseas operations.
- **Gender and race diversity**  
We are supportive of resolutions that demand greater transparency on gender/racial pay disparity, and of those requesting a racial equity audit.
- **Lobbying and political expenditure**  
We are supportive of resolutions that seek greater disclosure on a company's support for trade associations that have extensive lobbying and political expenditure – particularly where such lobbying is in conflict with the company's stated policies,

# Operational resolutions

## Annual report and accounts

A company's annual report and accounts contains vital information for shareholders. In addition to meeting legal requirements, it should also provide a clear review of management performance, and a reliable overview of the company's financial position.

The board should establish formal and transparent arrangements for assessing financial and non-financial risks to the business and how it intends to control and manage those risks.

It is increasingly recognised that environmental and social risks, if mismanaged, can pose a material threat to the long-term viability of a business. Where losses or liabilities are foreseen, these should be disclosed in the financial statements, along with procedures for managing those risks. This is an essential tool for investors to be able to assess their likely impact.

Shareholders should have full confidence in company reporting.

### VOTING GUIDELINE

- We may vote 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
  - the company appears in tiers 4 & 5 of the CCLA Modern Slavery benchmarks.
  - the company appears in the lowest tier of the CCLA Mental Health Benchmark
  - the Votes Against Slavery initiative assesses a company's Modern Slavery Statement to be non-compliant with legislation.
- We will vote AGAINST the company's chair where the environmental and social risks are reported but where there are inadequate procedures for managing these risks.

## Political donations

It can be both legitimate and beneficial for companies to take an active role in helping to inform public policy debate. However, there is the potential for abuse when corporate resources are used to seek political influence.

### 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.

Management resolutions in this area are mostly found at UK listed companies. Where data allows we apply similar principles in other markets and vote in favour of resolutions that seek greater transparency in this area.

## Dividends

The company should ensure that the level of distributable reserves is fully disclosed (consistent with local laws). It should be clear to shareholders that the company is viable, with sufficient capital strength, and distributable reserves consistent with the dividend policy.

### VOTING GUIDELINE

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

## Auditor appointment

An audit provides shareholders with an independent opinion on the financial statements of a company. Its purpose is to verify the company's capital position, ensure consistency between the accounts and management's forward-looking narrative, and to make sure that effective internal controls and financial reporting systems are in place.

Importantly, companies should establish and report on the environmental and social risks that are most likely to affect their business (see page 21). Where losses or liabilities are foreseen, these should be disclosed in the financial statements.

The auditor is accountable to shareholders and is responsible for the content and quality of a company's accounts.

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### 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.
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Good corporate governance requires an external auditor that is independent. If the same firm has audited a company for a long time, or if the audit firm earns large fees for non-audit services, then their independence may be called into question.

Shareholders should know about potential conflicts of interest affecting the audit. These could include the value of any non-audit work; the length of audit firm tenure; and other relationships that could influence the auditor's objectivity. We hold auditors to account for any undisclosed conflicts of interest. We hold the audit committee responsible for auditor independence.

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### VOTING GUIDELINE

- Where we have concerns over the external auditor's independence or tenure, we will vote AGAINST the chair of the audit committee (see page 13).
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## Resolutions affecting shareholder rights

### New or amended articles of association

A company's articles of association govern the relationship between the directors and the shareholders. It is a key mechanism for exerting influence over management.

Shareholders should pay particular attention to proposed changes to a company's articles of association to ensure that shareholder rights will not be compromised.

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#### VOTING GUIDELINE

- We will vote AGAINST new or amended Articles of Association (or equivalent documentation) where:
  - the proposed changes have a detrimental impact on shareholder rights
  - the company has not provided a marked-up version the new/ revised Articles

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### Shareholder dilution

The use of new shares dilutes existing shareholders and therefore reduces their value, which has a direct impact on pension and retail savers. Therefore, appropriate dilution limits for the company should be adhered to.

Within the UK we are not supportive of the recent Investment Association decision to remove the 5% dilution limit applicable for discretionary share schemes over rolling 10 year periods, and will not support proposals seeking to implement the change.

### Corporate actions

Some of the most important rights awarded to equity investors relate to votes on changes to a company's capital structure. The way that a listed company is financed – notably the relative balance between equity and debt – influences the risks it faces and alters the claim on the wealth that it generates.

As a key source of capital to a company, shareholders should take note of proposals to alter a company's capital structure and vote to protect their long-term interests.

Mergers, acquisitions and other forms of restructuring can create significant value for companies but when done badly, they can be highly destructive. All corporate restructuring proposals should be assessed considering the interests of shareholders, rather than those of directors or management.

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#### VOTING GUIDELINE

- 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.
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### Share repurchases

Companies should only repurchase shares in the market when it is commercially advantageous to do so, and with shareholder approval.

Repurchasing outstanding shares can help a business to reduce its cost of capital. However, it can also have the effect of concentrating ownership.

Shareholders should be aware of so-called 'creeping control', where a company is slowly taken under control by a reduced pool of investors.

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#### VOTING GUIDELINE

- We will vote AGAINST a share buy-back proposal where there is a controlling shareholder or where only some shareholders can offer shares for repurchase.
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### Cancellation of listing/re-incorporation

Changing a company's country of incorporation can result in reduced shareholder rights. While companies often provide assurances, this should not be taken for granted.

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#### VOTING GUIDELINE

- We consider our voting position on a case-by-case basis, taking note where a company seeks to change its country of incorporation or place of listing.
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### **Important information**

This document is not a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. We strongly recommend you seek independent professional advice prior to investing.

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### **WANT TO KNOW MORE?**

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