



Corporate governance  
Principles for proxy voting



# Corporate governance principles and procedures

Corporate Governance is a key component of our investment process and our commitment to the long-term interest of our clients. Our internal global voting policy summarises our focus on values across a number of governance issues.

Threadneedle operates a global voting policy currently covering 50 markets, which guides our voting decisions across funds. Threadneedle is committed to the UK Stewardship Code and our voting policy is based on the UK Corporate Governance Code and the OECD Corporate Governance Principles. We are fully committed to the comply-or-explain approach and, in making our voting decisions, we take into account individual cultural practices, local market corporate governance codes as well as company size and individual company context. We work with external research partners in analysing corporate governance practices.

Our guidelines provide a powerful and consistent approach to our dialogue with companies and fund managers as well as enabling clients to vote in line with internationally recognised high standards of corporate governance. We have been encouraged by our investee companies' responses to our active engagement and the quality and depth of explanation and dialogue it has stimulated.

The following sections outline in more detail how we approach various corporate governance issues and themes. We are more flexible in the application of some of the principles than others, depending on local market conditions and company circumstances.

## The Board

### Chairman and Chief Executive

- We recognise and encourage the best practice principle of split and clearly defined roles of Chairman and CEO. However, in countries where a combined CEO/Chair is common practice we assess the wider company situation and tend to support or abstain
- The chairman's role is to ensure the effective functioning of the board whilst the CEO focuses on developing and delivering the company's strategy
- The CEO should not go on to become Chairman of the same company
- The Chairman should not be a former executive and should be independent on appointment
- The Chairman should be able to allocate sufficient time to be able to effectively fulfil his role to provide effective oversight of executive management
- We encourage the practice of a Chairman's statement on corporate governance in the annual report and accounts

### Board Independence

- Independence is defined as by the UK Corporate Governance Code, but taking into account local practices
- The majority of the board, excluding the chairman, should be independent non-executive directors (NEDs)
- Some of the instances where we would consider a board member non-independent include:
  - Current or previous employee of the company,
  - Material business relationship
  - Close family ties

- Holds cross-directorships
- Represents a significant shareholder
- We do not consider that variable compensation to NEDs immediately affects the individuals' independence
- In cases of family owned corporations and markets where independent boards are uncommon, we prefer at least 50% independence but consider the circumstances of the companies on a case-by-case basis



### **Board Experience and Structure**

- All board directors should submit themselves to regular shareholder approval. We believe that annual re-election is a sign of a strong board
- We do not agree with directors being elected in a slate
- Non-executive directors (NEDs) should have relevant experience
- The board should focus on efficiency and consider the talent pool with regard to diversity and backgrounds
- The Senior NED has a key communication role and should be available to meet shareholders and other NEDs, when contact through the normal channels is not appropriate.
- We assess commitments with due regard to NEDs' ability to attend board, committee and investor meetings
- The appropriate board size is considered within various industry, company and individual factors
- We view regular meetings of NEDs without the executives present to be critical

### **The Nomination Committee**

- A robust succession plan is considered essential and a key consideration of the strength of the board
- Recruitment and succession processes should ensure a mix of skills and expertise from wider fields
- There should be a formal, rigorous and transparent procedure for NED and executive appointments
- The majority of the committee should be independent, but in our view it can be appropriate for the Chairman to chair the committee

## **Remuneration**

We follow the guidelines of the UK Corporate Governance Code and OECD principles on appropriate remuneration as well as the Financial Services Authority (FSA) code of practice on remuneration policies (2009). We consider this within local market practices.

### **Overall structure**

- Remuneration structure should be clear and transparent to allow proper evaluation of the company's policy and practice by all stakeholders
- Companies should ensure that executive compensation is appropriate given the wage structure in the rest of the company
- In addition to the direct costs of the remuneration package, the company should pay due regard to indirect reputational costs, such as those associated with the public's perception of excessive rewards

- Threadneedle will not support rolling contracts that include severance entitlements in excess of 12 months' salary. We will consider the use of extended terms in exceptional circumstances such as recruitment
- Pension arrangements form an increasingly critical element of remuneration. We will closely monitor any significant differential arrangements as an integral analysis of both remuneration and severance pay.
- We use guideline figures for stock option schemes of a maximum 5% dilution potential for mature companies and 10% maximum dilution potential for growth companies

### **Long-term incentive schemes**

- Long-term incentives should align shareholders and management and encourage long-term value creation
- We focus on the provision of strong reward structures to attract the highest calibre personnel, rewarding management for outperformance and considering the right balance fixed and variable elements:
  - A significant portion of the total package should be dependent upon superior personal and corporate performance
  - We refer to the ABI guidelines that no more than 33% should pay out under any plan for median performance
- Directors should be seeking to obtain a significant shareholding in the company over time. We support a minimum required holding within the incentive structure that is at least equivalent to annual salary and the accrual of dividends for pre-vested share awards
- Long-term schemes should be tested over at least three years against multiple performance criteria
- Performance criteria should be relevant to the business strategy and, where appropriate, include a relative performance metric
- We recognise that local market practices vary but believe that performance conditions should be disclosed for awards made to board-level executive directors
- We encourage companies to employ simple remuneration schemes. As remuneration packages increase in complexity, the burden on stakeholders to assess their value also increases and their motivational impact is eroded as objectives and associated rewards lose clarity

### **Remuneration Committee**

- Majority independent remuneration committee
- No fewer than three non-executive directors (can make exceptions for AIM listed companies)
- The Chairman should not chair the remuneration committee
- The committee should meet regularly and engage external advisors
- We caution against the 'ratcheting up' of pay levels that may be a product of over-reliance on external advice
- We express concerns about remuneration through our vote on the remuneration report and do not tend to vote against the Remuneration Committee members simply because of poor pay practices

## Internal Controls, audit and shareholder protection

The financial crisis of 2007-2008 has caused many to refocus attention across industries on the effectiveness of internal controls, the independence of the external audit process and the effectiveness of the audit committee.

### Audit Committee

- We consider the Audit Committee to be critical to the protection of long-term shareholder value
- The committee should be completely independent and include at least three members (we can make exceptions in terms of number of members for smaller companies)
- At least one member of the Audit Committee should hold significant relevant financial experience and skills. We will assess the ways in which such a director possesses the financial acumen, skills and experience necessary to 'ask the right questions' of the management.
- The committee's terms of reference should be available to all stakeholders.
- We will closely monitor the frequency and level of attendance at all committee meetings but this is particularly vital for the Audit Committee.

### External Auditor Independence

- A key role of the Audit Committee is to ensure the independence and objectivity of the external audit process
- We closely monitor the level of fees earned by the auditor for non-audit work. The incentives faced by the external auditor should not influence their objectivity. The committee should fully disclose its considerations in awarding non-audit work to the auditors and review the impact of such contracts on the external auditors' independence
- The Audit Committee must have the explicit right to seek independent advice

### Shareholder Protection

- We believe that shareholders should be treated equitably and believe in the principle of 'one share one vote'
- We do not support share structures that provide different voting rights on different share classes
- We will routinely oppose "poison pill" resolutions that propose the issuance of shares in the event of a takeover
- Dilution is a critical shareholder issue:
  - We believe strongly that companies should comply with local market practice regarding pre-emptive rights of issuance
  - We will apply careful consideration to requests to move beyond these limits and will consider each case on its merits
  - We consider a maximum discount of 5% to market prices as the threshold
- Share repurchases are considered positive and will be supported, or abstained on if they are allowed during a takeover period
- We believe that proxy voting shareholders should have equal access to information as shareholders that attend in person. We therefore oppose any resolutions stating "other business" as we do not have adequate information on what could be discussed under such provisions

## Monitoring and engagement

- We believe proxy voting is a powerful tool to monitor corporate governance developments
- We discuss contentious votes with fund managers and analysts to make better-informed voting decisions. This dialogue also provides the analyst with corporate governance information. Notes from these discussions are carefully archived in order to include and consider them in future cases
- We actively engage with companies on contentious issues as we believe proxy voting is a tool to promote good corporate governance
- When company practice significantly deviates from our guidelines, we strive to communicate this to the company, either individually or through collaborative channels
- We collaborate with the Association of British Insurers (ABI) on corporate governance engagement
- We welcome the increasing levels of shareholder consultation in policy and new incentive scheme development and engage in active dialogue within the industry on this issue

**For more details on our engagement and proxy voting and integrated ESG research, please see our Governance and Responsible Investment policy at [www.threadneedle.com](http://www.threadneedle.com)**



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