

# Voting policy

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This document describes RPMI Railpen's global voting positions for the 2019-2020 AGM season.

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## Executive summary

The Railways Pension Trustee Company Limited (the Trustee Company) is a UK-based asset owner with a global, long term perspective and GBP 28 billion in assets as at 31 December 2018. Its subsidiary, RPMI Railpen, manages the assets and employs an in-house Sustainable Ownership team which undertakes voting and engagement activities on behalf of the Trustee Company. This document outlines the voting positions which will be applied to the Trustee Company's equity holdings, whether UK or international, for the 2019-2020 AGM season.

The global voting policy reflects RPMI Railpen's three key themes **(i) board composition and effectiveness (ii) remuneration (iii) shareholder rights, risk and disclosure** in a way that is accessible to our portfolio companies, our external managers, members and beneficiaries. It builds on positions held in previous voting policies setting out our expectations for issuers. Further information on our voting and engagement approach can be found on our [website](#).

We are proud supporters of the International Corporate Governance Network (ICGN), whose mission is to promote effective standards of corporate governance and investor stewardship worldwide. The eight ICGN Global Governance Principles (see Appendix) serve as a primary standard for well-governed companies, and we have adopted these as the baseline for our global voting policy.

In this document, RPMI Railpen's three key voting themes are mapped to the eight ICGN principles. The policy is designed to consistently implement our voting approach across the globe. Where poor practice is identified under any of the principles, a negative vote will be considered. Where companies choose to deviate from accepted market practice, we will consider their explanation. Issuers can expect local market and sector norms to be taken into account.

Where there appears to be a significant risk to the long-term value of the investment, we will consider selling our shares in the company. Any decision will take into account how responsive the company is to shareholders' concerns, including their willingness to engage.

RPMI Railpen expects our portfolio companies to disclose their response to climate risk and other long-term trends which are material to the company's business model and operations. We use data from the [Transition Pathway Initiative](#) and other sources to inform our analysis. RPMI Railpen is a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), and we encourage all our portfolio companies to provide enhanced corporate disclosure in line with this framework. Where there is insufficient evidence of a credible response, leading to concerns regarding the quality of oversight, then RPMI Railpen will vote against the re-election of the Chair of the Board, and/or the Chair of any appropriate committees.

RPMI Railpen welcomes enquiries from portfolio companies on any aspect of our voting and engagement approach via [so@rpmico.uk](mailto:so@rpmico.uk).

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# Board composition and effectiveness

## **Principle 1: Board role and responsibilities**

RPMI Railpen acknowledges that directors will be unable to pursue the objective of increasing long-term shareholder value without developing and sustaining broader stakeholder relationships to oversee the effective management of long-term risks and opportunities.

## **Principle 2: Leadership and independence**

Non-Executive Directors (NEDs), or Independent Directors as they are known in certain markets, are a vital safeguard of the interests of shareholders. NEDs should work cooperatively with their executive colleagues and demonstrate objective and independent judgement.

The definition of independence will reflect local market norms. Factors which impact a director's independence, including their length of tenure, should be disclosed. Excessive tenure may also be a cause for investor concern, and boards must make a persuasive case in the annual report for a NED's continuing independence in such cases.

A Chair should be independent on appointment. The appointment of a Senior Independent Non-Executive Director (SID) or Lead Director is also encouraged.

The combination of the Chair and Chief Executive roles is actively discouraged. The elevation of a company's Chief Executive to Chair will generally be discouraged unless it is part of a transitional period at the company or if the company can present a compelling justification for the move.

## **Principle 3: Composition and appointment**

The proportion of independent directors on the board should be in line with local best practice.

In markets where a three committee structure is local best practice, audit, nomination and remuneration committees should be established. The board should establish a majority independent nomination committee. The audit and remuneration committees should be fully independent. Members of all the committees must be identified in the annual report.

Full biographical details, including other directorships, should be disclosed for candidates for the board; this should include their prior education, professional qualifications and work experience including any assignments in a relevant sector, functional specialism or region given the company's operations and strategic priorities.

Detailed information should be provided on the recruitment process, and as evidence of consideration for board effectiveness and succession planning, an explanation of how the nominated candidates complement the existing board of directors.

Diversity is a key component of successful and high performing boards. It enables members to constructively challenge management decisions and to be more open to innovative ideas, reducing the risk of 'group-think'. The nominations committee, or the board where no such committee exists, is encouraged to widen the pool of talent taking into account aspects such as the age, gender, and ethnicity of candidates as well as their educational and professional experience

Where a company provides inadequate disclosure on diversity, including omission of targets to be met, and/or diversity in all aspects has not been sufficiently addressed, RPMI Railpen will withhold support on the re-election of the Chair of the nomination committee, the Chair of the board or other directors standing for election.

All directors should be able to allocate sufficient time to the company to discharge their duties alongside their other commitments. RPMI Railpen will vote against the election or re-election of overboarded directors.

RPMI Railpen will vote against directors with poor attendance records where no satisfactory explanation is provided.

When analysing a contested election of directors, RPMI Railpen will generally focus on two central questions: whether the dissidents have proved that change is warranted, and if yes, whether the dissident board nominees seem likely to drive change to maximize long-term shareholder value.

#### **Principle 4: Corporate culture**

Setting the right “Tone from the Top” is increasingly viewed as a critical leadership skill in leading and growing successful organisations.<sup>1</sup> The Board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values.

Where there is evidence of a director having displayed poor conduct or judgement, then RPMI Railpen will vote against their re-election.

RPMI Railpen expects its portfolio companies to operate within the parameters of widely-accepted business practices, such as the Ten Principles of the UN Global Compact<sup>2</sup> (UNGC.)

Where a company has undergone a severe controversy, which need not be limited to the areas covered by the UNGC, and the company has not shown sufficient responsiveness to shareholder concerns, RPMI Railpen may choose to vote against the re-election of the relevant committee chair, or other directors, depending on the nature of the issue.

#### **Principle 5: Risk oversight**

The board should adopt a comprehensive approach to the oversight of risk, which includes material financial, strategic, operational, environmental, social and reputational risks.

Where a risk has materialised, the company should set out how it has responded and what efforts have been taken to mitigate the risk going forward in the annual report.

Inadequate reporting on environmental, social and reputational risks may warrant a vote against the annual report and accounts, or support for a shareholder resolution.

## Remuneration

#### **Principle 6: Remuneration**

RPMI Railpen expects a company to operate an independent and effective remuneration committee.

The Pensions and Lifetime Savings Association’s “Remuneration principles for building and reinforcing long-term business success” were published in 2013 in conjunction with Hermes EOS, BT Pension Scheme, RPMI Railpen and USS Investment Management. These set out a framework for remuneration committees to use when thinking through, devising and implementing their remuneration policies.

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<sup>1</sup> [https://www.ibe.org.uk/userimages/pwc\\_tone\\_from\\_the\\_top\\_2013.pdf](https://www.ibe.org.uk/userimages/pwc_tone_from_the_top_2013.pdf)

<sup>2</sup> <https://www.unglobalcompact.org/what-is-gc/mission/principles>

- Remuneration committees should expect executive management make a material long-term investment in shares of the businesses they manage
- Pay should be aligned to long-term strategy and the desired corporate culture throughout the organisation
- Pay schemes should be clear, understandable for both investors and executives, and ensure that executive rewards reflect returns to long-term shareholders
- Remuneration committees should use the discretion afforded them by shareholders to ensure that awards properly reflect business performance
- Companies and shareholders should have appropriately regular discussions on strategy and long-term performance.

A company should work within its remuneration policy, and only seek approval to go outside the policy in genuinely exceptional circumstances.

Remuneration practices which are likely to attract support include:

- The quantum is reasonable when compared to peers, and any increase in the level of certainty of reward is accompanied by a material reduction in the size of awards
- Annual pay increases and pension benefits are in line with those awarded to the rest of the workforce
- Performance conditions for all elements of variable pay are clearly aligned with the company's strategic objectives
- Details of the performance targets met during the year, and proposed for the forthcoming year should be disclosed to shareholders
- Post-employment shareholding requirements in line with the UK Investment Association's Principles of Remuneration.

RPMI Railpen expects long term incentive plan (LTIP) arrangements to be subject to shareholder approval when there is a new plan and where there is a material change to an existing scheme.

Performance metrics should be relevant and clearly aligned with business strategy, objectives and key performance indicators (KPIs) which link to long-term value creation. RPMI Railpen will look favourably on the inclusion of appropriate non-financial performance criteria in short and long-term incentives.

Retention payments will attract significant scrutiny, and are unlikely to be supported. Excessive pay may be seen as motivating for the executive, but it risks demotivating the broader workforce. When so much value created is intangible, decreasing employee engagement is not in the interest of either management or shareholders.

Non-standard approaches may be supported, taking in to account the situation of the company and the explanation provided. Restricted share schemes will be reviewed on a case-by-case basis.

Change of control, good leaver and malus/clawback provisions should be in line with good practice in the local market. Malus and clawback provisions should not be restricted solely to material misstatements of the financial statements.

Where a company provides inadequate disclosure on remuneration, or adopts remuneration policies and practices that are not aligned with shareholder interests, RPMI Railpen will withhold support for the remuneration policy or report, other remuneration-related resolutions as appropriate and/or the re-election of Remuneration Committee members.

# Shareholder rights, risk and disclosure

## **Principle 7: Reporting and audit**

RPMI Railpen will vote against the re-appointment of the auditors, and the approval of their remuneration, if the tenure of the audit firm is greater than fifteen years. We will typically vote against the re-appointment of the Audit Committee Chairman if the external audit firm tenure is greater than thirty years.

The non-audit fees paid to the company's statutory audit firm should not exceed good local market practice, in the absence of exceptional circumstances which must be clearly explained.

Where a company provides inadequate disclosure on audit, or adopts policies and practices that are not aligned with shareholders' interests as outlined above, RPMI Railpen will consider withholding support for the reappointment and setting of fees of the external auditors and/or the re-election of Audit Committee members.

## **Principle 8: Shareholder rights**

Bundling of matters for consideration that should be put to separate shareholder votes is strongly discouraged.

RPMI Railpen will normally support share repurchases provided local market regulations and relevant shareholder guidance are met.

Related-party transactions will be assessed on a case-by-case basis. Concerns may arise if the transaction does not seem to be subject to proper oversight, is not undertaken on fully commercial terms in the normal course of business, or the company has not clearly explained how the transaction is in the interests of the company and all shareholders.

Companies should have clear dividend policies which set out the circumstances for distributing dividends and returning capital to shareholders.

RPMI Railpen will vote case-by-case on mergers and acquisitions, taking into account the merits of the proposed transaction.

Resolutions that seek to maintain, or convert to, a one-share, one-vote capital structure can expect support. RPMI Railpen will vote against requests for the creation or continuation of dual-class capital structures, or the creation of new or additional super voting shares without the inclusion of a time-based sunset provision.

RPMI Railpen is not supportive of 'virtual-only' Annual General Meetings (AGMs.) AGMs provide an important mechanism for the Board to be publicly accountable to their shareholders. Removing the in-person element of the meeting impairs the ability of investors to hold Boards to account

Shareholder resolutions, can encompass a wide range of issues and be requisitioned by parties with a varying objectives. RPMI Railpen will consider supporting proposals that will protect or further enhance shareholder rights and contribute to the long-term sustainable success of the company.

Where there is a resolution relating to environmental or social concerns, the item will be addressed on a case-by-case basis taking into account the company's own practices, as well as the specific requirements of the resolution. RPMI Railpen typically votes for shareholder proposals requesting greater disclosure.

# Appendix: The ICGN Global Governance Principles

The Principles serve as ICGN's primary standard for well-governed companies. Detailed guidance on each of the principles is available from the ICGN<sup>3</sup>.

## **Principle 1: Board role and responsibilities**

The board should act on an informed basis and in the best long-term interests of the company with good faith, care and diligence, for the benefit of shareholders, while having regard to relevant stakeholders, including creditors.

## **Principle 2: Leadership and independence**

Board leadership calls for clarity and balance in board and executive roles and an integrity of process to protect the interests of minority investors and promote success of the company as a whole.

## **Principle 3: Composition and appointment**

There should be a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making.

## **Principle 4: Corporate culture**

The board should adopt high standards of business ethics, ensuring that its vision, mission and objectives are sound and demonstrative of its values. Codes of ethical conduct should be effectively communicated and integrated into the company's strategy and operations, including risk management systems and remuneration structures.

## **Principle 5: Risk oversight**

The board should proactively oversee, review and approve the approach to risk management regularly or with any significant business change and satisfy itself that the approach is functioning effectively.

## **Principle 6: Remuneration**

Remuneration should be designed to effectively align the interests of the CEO and executive officers with those of the company and its shareholders to help ensure long-term performance and sustainable value creation. The board should also ensure that aggregate remuneration is appropriately balanced with the needs to pay dividends to shareholders and retain capital for future investment.

## **Principle 7: Reporting and audit**

Boards should oversee timely and high-quality company disclosures for investors and other stakeholders relating to financial statements, strategic and operational performance, corporate governance and material environmental and social factors. A robust audit practice is critical for necessary quality standards.

## **Principle 8: Shareholder rights**

Rights of all shareholders should be equal and must be protected. Fundamental to this protection is ensuring that shareholder voting rights are directly linked to the shareholder's economic stake, and that minority shareholders have voting rights on key decisions or transactions which affect their interest in the company.

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<sup>3</sup> <https://www.icgn.org/policy>