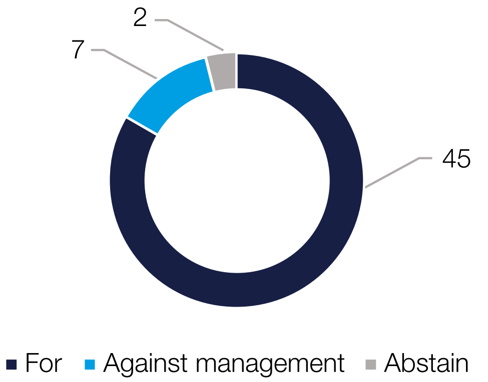
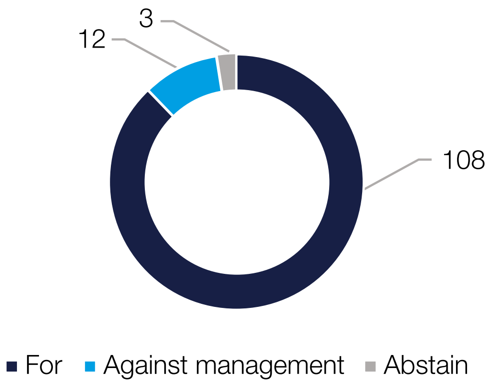
Quarterly Stewardship Update

At the height of AGM season, we are seeing large investors around the world becoming increasingly transparent about their voting and engagement practices, which has underlined the impact they can have on company performance and behaviour. This is important because it ensures companies are well governed and shareholder interests are met.

Our voting record over the past quarter 01/04/21 - 30/06/21



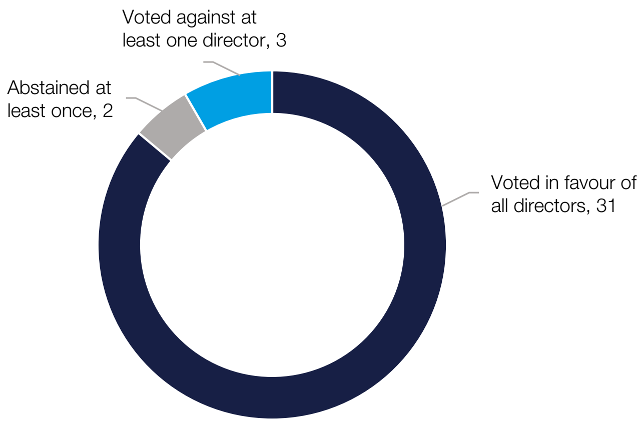
Our voting record over the past year 01/07/20 - 30/06/21



Over the past quarter, to 30 June 2021, we voted at 54 meetings. Of this total number, we voted against management at least once at 7 meetings and abstained at 2 meetings.

In addition to the usual voting statistics provided in these updates, this edition seeks to introduce further information to give a clearer picture of stewardship at Brewin Dolphin.

Director elections



Voting against the election or re-election of directors is an effective way to express dissatisfaction with issues such as a board's performance or makeup. Investors may choose to vote against directors or against management recommendations for a number of reasons. A vote against management does not mean that we believe the company is a poor company, or a poor investment. At times we will vote against management or directors of companies which we consider to be high quality with a strong investment case. In these cases, we may believe that the company, or the board, could be doing more to ensure the investment case for the company remains strong.

Of the 54 meetings our analysts voted on over the quarter, in 3 cases we voted against the election or re-election of at least one director. In the two cases of abstentions, it is standard practice to abstain from voting for/against a director who has resigned prior to the AGM, which happened in both instances.

Voting against directors

Some decisions to vote against directors are clear cut and easy to reach, such as the LVMH director sentenced to five years in jail for corruption. Some require more consideration. For example in the case of over-boarding, which occurs when a director has too many other commitments and raises concerns around how much value they can add. In one case this quarter, we decided the external commitments of a director on the board of Alphabet were too great and did justify a vote against their re-election. Sometimes we need to examine if the need for diversity, and all the benefits it brings, justifies voting against a director. In such situations, we also need to consider the strengths of the individual. They may not improve diversity but may bring strengths to the role that other candidates do not, such as industry expertise. In the case of RIT Capital Partners, we decided to vote against the re-election of the director in question, the current chair of the nominating committee. He was re-elected, but we were pleased that we made a statement about the importance of diversity with our vote.

Voting in favour of the CEO

Votes in favour of re-electing a director requires serious thought too. ISS, our proxy voting research provider, recently recommended voting against the re-election of Jeff Bezos, chairman and CEO of Amazon. While usually we agree that the chairman and CEO roles should be separate in mature companies to ensure good corporate governance, Amazon is still in the early phases of growth and Mr Bezos makes an exceptional contribution to the company strategy. Therefore, on this occasion we disagreed with ISS as we believe keeping the current situation and monitoring it closely is in the best interest of shareholders. Since this vote, Mr Bezos has stepped down from his CEO role but will remain as executive chairman. We are comfortable with this outcome and while we supported his re-election this does not change the investment case for us.

Shareholder resolutions

Some notable votes this quarter have included shareholder resolutions. Any investor with shares in a company has the right to submit a shareholder resolution, asking other shareholders to agree with them in their requests to management for change. These are often, but not exclusively, based on ESG issues (environment, social and governance) and therefore often may have financial impacts as well as implications for society or the planet. Making decisions on how to vote on shareholder resolutions require significant knowledge of both the company and the context in which it operates. Throughout the quarter, we voted in favour of seven out of 28 shareholder resolutions.

Voted against 21 shareholder resolutions	Voted for 7 shareholder resolutions

Of the 28 shareholder resolutions on which we voted, eight took place at the Alphabet (Google's parent company) AGM. At this particular meeting, we voted in favour of three resolutions, and against the other five. All of these resolutions failed to attract enough support to pass, however they still serve to send a message to management about shareholder priorities.

Share-class structure change

We supported the proposal to alter Alphabet's share-class structure to a more equitable 'one share, one vote' structure, compared to the existing structure whereby 'B' shares have ten times the voting power of 'A' shares. This concentrates 51% of voting power in two shareholders, creating a chasm between economic interest and control, which in our opinion is not in the interests of public shareholders.

Sustainability metrics in executive pay

A good example of a resolution we voted against at the same meeting was the request to introduce sustainability metrics into performance related pay for executives. While we are wholly in favour of holding management to account when it comes to sustainability, Alphabet has been a leader in corporate sustainability, including environmental, social, and diversity considerations for some time. Their achievements include carbon neutrality at Google since 2007, the largest issuance of green bonds by any company in history, and in 2020 the announcement of their Racial Equity Commitments. After a detailed assessment of the company's performance and plans, we decided that the proposal was unnecessary and not in the interest of shareholders. Sustainability issues are covered by Alphabet's existing practices, and the compensation programme as it generates effective alignment between management and shareholder interests.

In depth study: Berkshire Hathaway shareholder resolution

One AGM and shareholder resolution of particular significance this quarter was Berkshire Hathaway. It involved a vote on climate change, which we believe to be important to clients and beneficial for protecting shareholder value. Furthermore, last year we joined the Climate Action 100+ (CA100+) engagement group focused on influencing Berkshire Hathaway, which is one of the 167 companies on CA100+'s list. CA100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

Earlier in 2021, several members of the CA100+ engagement group put forward a shareholder resolution to be voted on at the AGM. This resolution recommended that the board should provide more information to shareholders around their approach to climate change. Specifically, it requested they publish an annual assessment of the climate-related risks and opportunities, plus an examination of the feasibility of setting emission reduction targets, for each underlying subsidiary. CEO Warren Buffet recommended shareholders should not support this resolution.

As part of our voting process, our analysts seek to understand the resolutions they are voting on and how they could impact on the performance of the company in question. Berkshire Hathaway is an investment favoured by Brewin Dolphin and has served our clients well. It is well diversified and has a long history of impressive financial performance, which is in part due to its de-centralised business model, whereby management have little involvement in the day to day running of the underlying companies.

We debated the extent to which this recommendation goes against Berkshire Hathaway's decentralised business model, and the potential impact on profits. We discussed if this proposal put our clients at a disadvantage. It was also highlighted that many of the underlying subsidiary companies are already taking actions to reduce emissions and fight against climate change.

We decided to vote in favour of this resolution, which happened to be in line with our proxy vote research provider ISS. Our position was that as a listed equity, Berkshire Hathaway could and should do more to release climate related information. We felt this would be beneficial in financial analysis, outweigh any impacts to the business model and support efforts to reduce emissions.

Ultimately, with only 25.1% of shareholders voting in favour the resolution did not pass. However, given that Mr Buffet's shareholding gives him almost 33% of the voting rights, and an estimated additional third of the company is owned by loyalists who always follow his recommendations, this does represent a bigger show of discontent than the company has seen in the past[1], so we hope that the message has been heard by management. We will continue to monitor Berkshire Hathaway's approach to climate change and will continue to work with CA100+ to encourage the company to engage and take action.

Controversies tracking

We do not limit our stewardship activities to the companies in which we invest directly, as we often have significant indirect company exposure via the third-party funds we buy for our clients. As part of the stewardship processes within our funds research team, we monitor corporate controversies and important votes and, when appropriate, look to engage with funds that hold the stock in question. We do this on an ongoing basis through the use of ESG data providers, and ongoing economic and market analysis. The motivation is to understand the levels of ESG integration and stewardship expertise of each fund and ensure that we remain comfortable with their processes, ultimately to protect and enhance the value of our clients' assets.

For the Berkshire Hathaway AGM, we knew the vote on climate disclosures would be an important one and wanted to understand the position of the managers of funds on our covered list. We asked managers tell us how they voted on the Berkshire Hathaway resolution and share any views that they might have on the subject and company. We were encouraged to see that many voted in favour of the resolution as we did, and that they shared the same concerns around the current lack of reporting. This outcome supported the confidence we already have in the managers of the funds in which we invest, and opened the door for future collaborative engagement in this area.

[1] www.reuters.com/business/sustainable-business/berkshire-shareholders-reject-climate-change-diversity-proposals-that-buffett-2021-05-01/

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