Brewin Dolphin

October 2022

Quarterly Stewardship Update

With the busy shareholder voting season winding down, this quarter we had an opportunity to ramp up our engagement efforts. In September, we were proud to be included in the list of signatories to the Financial Reporting Council's UK Stewardship Code for the second year running.

Activity snapshot

This quarter we have:

- Looked at shareholder dissent for remuneration issues at two of our holdings
- Maintained our strong focus on diversity engagement when voting at company meetings
- Engaged on supply chain issues highlighted by our controversy tracking process
- Welcomed the results of our successful application to remain signatories to the UK Stewardship Code

Our voting statistics

This quarter we voted at a total of 19 company meetings.

Votes for the quarter 01/07/22 – 30/09/22

19	18	1	0
meetings	with management	against	abstentions

This quarter we voted at 19 meetings; at 18 we voted with management on all resolutions. In one meeting, we voted against management and there were no abstentions this past quarter. While we appreciate the insights lent to our analysis by Institutional Shareholder Services (ISS), our proxy voting provider, we continue to take a more nuanced approach to voting, which is informed by our engagement with companies. For this quarter, this meant we decided not to follow ISS recommendations in ten meetings.

UK STEWARDSHIP CODE

Signatory of:

PRI Principles for Responsible Investment

Case studies

Remuneration: significant shareholder dissent is on our radar

Remuneration related controversies are never absent from our voting analysis. We take a thoughtful approach towards remuneration, considering best practice but also looking into each contentious vote on a case-by-case basis. Significant shareholder dissent on remuneration votes is a further aspect of our analysis, with a focus on understanding what action companies are taking to consult shareholders on their concerns; the UK Corporate Governance Code mandates that companies must consult shareholders if 20% or more of them vote against the board.

This quarter, ISS recommended a vote against the remuneration report and the reappointment of the incumbent chair of the remuneration committee for two of our holdings: **Halma plc and Ashtead Group plc**. Both companies received significant shareholder dissent on remuneration at their 2021 AGM (approximately 39%) and were not perceived by ISS as having taken sufficient action to address these concerns, leading to escalation with a vote against the remuneration committee chair.

Prior to casting our votes, we considered our own prior views on the companies' remuneration arrangements, confidence in the committee chair and appropriate escalation processes.

At **Halma plc** we agreed with the concerns raised by ISS in terms of the remuneration report based on significant and unwarranted increases to both fixed and variable pay. The company did not address these concerns as it pertains to remuneration outcomes, awarding these significant increases in full. Despite our concerns, we decided to not vote against the chair of the remuneration committee which was recommended as an escalation step. While we understand this is a vote on accountability rather than competency, we decided to allow the chair more time to address shareholder concerns and we will be engaging further on this topic. This is also based on our previous experience undertaking fruitful conversations with the chair in her capacity as chair of the remuneration committee at another of our holdings.

We took a slightly different approach at **Ashtead Group plc.** While there was also significant shareholder dissent in the prior year to both the remuneration report and policy votes, attributed to the one-off award made under the Strategic Plan Award as well as a significant increase to the CFO's salary and target-setting under the bonus, we did not share the same concerns. We engaged with the company last year on remuneration issues and examined potential risks carefully. In our view, the remuneration policy creates sufficient alignment with shareholders both in its nature and its time frame. We consider total compensation more in line with the company's key US listed peer and others in the sector, noting that the US is its primary region of operation and where it earns 90% of its profits. We also noted management's track record of delivering very strong results, and the company has generated significant long-term shareholder value. Therefore, we also supported the re-election of the remuneration committee chair at this AGM. Going forward, we will be engaging further with the company to understand their plans to address shareholder concerns and any associated risks from the implementation of the policy.

Ethnic diversity: continued engagement with a strong message

During the quarter, approximately three quarters of our voting discussions revolved around ethnic diversity at investment trusts.

The Parker Review has set a target for FTSE 250 companies to have at least one person from a minority ethnic group on their boards by December 2024. However, we believe that good governance would see boards embrace the ambition and the benefits of improved diversity set out in the review well in advance. This quarter we focused on seven investment trusts which were highlighted by ISS as not having met this target yet.

We noted a range of approaches, with some companies actively recruiting for a candidate from a minority ethnic group to high level statements and generic disclosures. Following further research and engagement we decided to continue supporting boards this year, encouraging ongoing efforts and improved disclosure, while providing feedback when we felt that no concrete steps had been highlighted. We also noted that we will be taking a stronger stance at the next voting season for all companies in our portfolio.

Engagement on supply chain issues at Marks & Spencer (M&S)

Our Research team continually tracks news flow for controversies in the companies to which we are indirectly exposed and, if significant enough, will reach out to the buy-list funds that hold the company in question.

As part of this process, our controversy tracking initiative highlighted M&S for persistent involvement in several labour rights violations in its supply chain across several regions, with the most recent ones earlier this year. We believe that supply chain risks are particularly pertinent for the company, and can be quite detrimental from an operational and reputational perspective for companies such as M&S. Therefore, this quarter we engaged with eight fund managers to understand the potential impact of these allegations to their investment case for M&S, while also reviewing their ESG processes and stewardship approach.

Some of the responses we received were particularly positive, with managers already being in dialogue with the company over some of these allegations or engaging on the back of our questions. Encouragingly, a few of our managers secured detailed responses by the company that provided reassurance on the level of importance placed on these allegations, the efforts to understand their validity, and steps taken to remedy any issues that were indeed identified. We provided feedback to all our managers, either to positively acknowledge their efforts or, where needed, challenge their approach towards supply chain risks and the depth of their engagement.

RBC Brewin Dolphin successfully maintains UK Stewardship Code signatory status

In early September, we welcomed the successful outcome of our application to remain signatories to the UK Stewardship Code. This was based on the submission of our Stewardship & Engagement Report for the year to 31 December 2021 to the Financial Reporting Council (FRC). The FRC's annual review process proved once again to be thorough, with reports that one third of applicants were unsuccessful in this round[1]. We were particularly pleased to receive positive feedback on our improved disclosures, while noting the FRC's increased emphasis on reporting of outcomes related to stewardship activities for next year's assessment.

[1] https://www.responsible-investor.com/uks-frc-adds-new-signatories-to-stewardship-code-switches-focus-to-outcomes/