



Every year, the first quarter paves the way for proxy voting season when most company meetings take place. Our voting activity typically happens between April and July.

This quarter has been another busy one. We've updated our stewardship policy, refined our voting approach and wrapped up engagement campaigns about investment trusts and alignment with the Paris Agreement.

### Activity snapshot

This quarter we have:

- Completed our assessment of the stewardship capabilities offered by our passive providers
- Worked with a pioneering new provider of child labour data
- Welcomed the start of proxy season.

### Our voting statistics

This quarter we voted at a total of 25 company meetings.

**Votes for the quarter 01/01/24 to 31/03/24**



Over the past three months, we voted at 25 meetings. At the majority of meetings, we voted with management on all resolutions. In five meetings we voted against management on at least one resolution and there were no abstentions. 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 informed by our engagement with companies. For this quarter, this means that in 5 meetings, we decided not to follow ISS recommendations for at least one resolution.



## Improving governance standards at investment trusts

In our last quarterly update, we reported on the letter that we sent to investment trusts where we consider our holding to be significant. This letter outlined our expectations surrounding good corporate governance and welcomed further engagement.

We received a response from the majority of the trusts we contacted. Some to simply acknowledge receipt, others with meeting requests or letters from the chair explaining how they currently meet our expectations (which are aligned with best practice). We therefore enter proxy season confident that we've clarified our expectations to the boards and have pre-emptive answers to some issues we know will come up when voting decisions are made.

We value open dialogue with investee companies and funds, which we believe leads to better outcomes for our clients.

## Child labour in supply chains: supporting innovation in the industry

Human rights is one of our four stewardship priorities, and an important aspect of this is child labour. This is often defined as work that deprives children of their childhood, their potential and their dignity, and work that's harmful to a child's physical and mental development. With over 160 million children affected worldwide (79 million of whom work in hazardous conditions) and with long supply chains and consumer demands squeezing workers everywhere, a number of controversies have occurred over the past year that have warranted further engagement.

As part of our commitment to protecting human rights within the companies we own, we were delighted to support HACE in their proof-of-concept phase. HACE is a provider of the Child Labour Index, a specialised benchmark powered by artificial intelligence (AI). The index scores companies and portfolios in relation to three performance indicators in the specific area of child labour: company disclosure, public perception and supply chain. It also provides a stewardship toolkit to support meaningful engagement. The insights we gained during this work will help form the basis of our engagement on the subject going forward.

## Passive providers in the spotlight

Passive funds, with their low-cost and broad market coverage, are widely held by our clients. These instruments track indices, such as the FTSE 100, without taking active investment decisions. They aim to perform in line with the index they track rather than beat its performance. As owners of entire indices and without the option to divest, engagement and voting activity from these big market players can be extremely influential. This is particularly true for very large companies, where the top institutional shareholders tend to be one or more of the biggest passive providers.

<sup>1</sup> The TPI is a global, asset owner-led initiative which assesses companies' preparedness for the transition to a low carbon economy.

We hold annual meetings with our biggest passive providers to assess their stewardship practices.

We discuss their voting activity, approach to key issues such as climate, and question them on specific engagement case studies. This year, we designed a scorecard so that we can track the best and worst performing fund houses, provide feedback and track progress.

Providers were scored on a relative basis, and we saw clear differentiators between those with the highest and lowest scores, with clear failings amongst those providers at the bottom of the rankings. Over the first half of 2024, our attention will be focused on providing feedback to these providers. We'll be encouraging change where possible and will consider changes to our allocations where we don't see a path forward, whilst being mindful of costs to clients and constraints such as tax.

## Shareholder proposals on our radar

Once again this year we anticipate a number of shareholder resolutions, but expect lower shareholder approval for what we would consider environmental, social and governance (ESG) resolutions. The anti-ESG trend set in motion last year is set to stage its return at this proxy season, and we've already seen a lawsuit against investors filing shareholder resolutions on issues such as climate and social issues.

In terms of our voting activity, the first notable example was the Apple AGM, where we supported two shareholder requests for reports, one on gender and racial median pay gaps, and the other on the use of AI. We felt that this information could be useful in decision making. We need to start measuring the use and impact of AI, and we hope that more disclosure around pay gaps will improve social equality.

There were other shareholder proposals in the same meeting that we chose not to support, for example, a request for a report on the alignment of human rights policies and actions. In our view, this replicates information that's already available.

## Multi-year engagements: moving to escalation

Climate change is one of the biggest challenges facing our investee companies. We're cognisant of the potential risks involved if no action is taken and how this might affect the value of our clients' assets. For the past three years, we've engaged with our recommended external fund managers regarding their exposure to companies taking inadequate action.

The Transition Pathway Initiative (TPI<sup>1</sup>) is a global, asset owner-led initiative which assesses companies' preparedness for the transition to a low-carbon economy. Using the TPI and via our fund managers, we've identified our indirect exposure to companies flagged as 'unaligned' with the goal of the Paris Agreement. This goal aims to keep global temperature rises to 1.5°C, to avoid the worst effects of climate change.

We reached out to 44 fund houses, covering 103 funds, which hold approximately 96 companies showing as non-aligned. We asked managers to comment on various parts of their process, including how they've assessed the attempts of these companies to reduce emissions and the financial implications of failing to comply with global pledges.

We were pleased that all fund managers responded and we've detailed our analysis in our upcoming Annual Stewardship Report. It's clear we need to escalate our concerns with the fund managers scoring the lowest marks and push for a better, more thorough approach.

## Significant votes for Q1

Company	Proposal	Disagree with management or ISS	Voting decision	Voting rationale
<b>Polar Capital Global Healthcare</b>	Re-election of directors	ISS	FOR	ISS recommended a vote against the incumbent chair due to a lack of gender and ethnic diversity. However, we felt that the company sufficiently explained their approach and commitment towards meeting diversity targets in future. We also noted that the board member in question is female and voting against her re-election for diversity reasons would be counterproductive. We'll continue to monitor board composition and succession plans to ensure that the board meets its future commitments.
<b>Apple</b>	Report on median gender and racial pay gap	Management	FOR	We voted in favour of the shareholder proposal of requesting reports on the median gender and racial pay gaps, against the recommendation of management. We feel that revealing these pay gaps will help achieve greater social equality.
<b>Apple</b>	Report on use of artificial intelligence	Management	FOR	We voted in support of a shareholder proposal requesting a report on the use of AI, against the recommendation of management. We believe that we should start measuring the use and impact of AI.
<b>Kone</b>	Approve remuneration report (advisory vote)	Management	AGAINST	We voted against approving the remuneration report given the lack of disclosure in performance metrics for short and long-term incentive plans. In addition, we believe the CEO exit pay is out of line with Finnish corporate governance.
<b>Kone</b>	Approve remuneration policy and other terms of employment for executive management	Management	AGAINST	In the same vein as the above, we voted against the remuneration policy due to the lack of a cap on the short-term incentive plan.
<b>Kone</b>	Re-elect Matti Alahuhta as director	Management	AGAINST	We voted against the re-election of several directors who we don't consider to be independent. While we're aware of the large family ownership of Kone, in our view this doesn't warrant a lack of independence in key decision-making roles across the board.
<b>Kone</b>	Re-elect Antti Herlin as director	Management	AGAINST	
<b>Kone</b>	Re-elect Jussi Herlin as director	Management	AGAINST	

Company	Proposal	Disagree with management or ISS	Voting decision	Voting rationale
<b>Kone</b>	Approve issuance of shares and options without pre-emptive rights	Management	AGAINST	We voted against the share issuance because we don't support inclusion of super voting rights on top of an already skewed voting structure with the A shares.
<b>Novartis</b>	Re-elect director	ISS	FOR	ISS recommended a vote against the incumbent chair of the Nomination Committee due to a lack of diversity. We felt the objection by ISS was based on arbitrary percentages and we were happy to re-elect the director in question.
<b>Novartis</b>	Re-appoint member of compensation committee	ISS	FOR	ISS recommended a vote against the incumbent chair of the Nomination Committee due to a lack of diversity, and in this case to object to their reappointment as a member of the Compensation Committee. We felt the objection by ISS was based on arbitrary percentages and we were happy to re-elect the director in question.
<b>Chrysalis Investments Ltd</b>	Re-elect director	ISS	FOR	ISS recommended a vote against the incumbent chair of the Nomination Committee due to a lack of gender and ethnic diversity. However, we felt that the company sufficiently explained their approach towards board refreshment, post continuation vote. We also noted that the board member in question is female and voting against her re-election for diversity reasons would be counterproductive. We intend to engage after the AGM on a refresh of board members and compliance in terms of the Listing Rules' diversity reporting targets.

The value of investments, and any income from them, can fall and you may get back less than you invested. Neither simulated nor actual past performance are reliable indicators of future performance. Information is provided only as an example and is not a recommendation to pursue a particular strategy. We or a connected person may have positions in or options on the securities mentioned herein or may buy, sell or offer to make a purchase or sale of such securities from time to time. In addition we reserve the right to act as principal or agent with regard to the sale or purchase of any security mentioned in this document. For further information, please refer to our conflicts policy which is available on request or can be accessed via our website at <http://www.brewin.co.uk>. Information contained in this document is believed to be reliable and accurate, but without further investigation cannot be warranted as to accuracy or completeness. We will only be bound by specific investment restrictions which have been requested by you and agreed by us.

The criteria for a sustainable investment are still under development and can change. Please make sure you understand the objective and environmental, social and governance ("ESG") characteristics of the product or service you invest in. Be aware a strategy, based on securities of companies which maintain strong ESG credentials, may result in a return that compares unfavourably to similar investments without such focus.