



Quarterly Stewardship Update

As we head into proxy voting season, our analysts continue their in-depth research and carefully considered voting and engagement activities. This update highlights our commitment and expertise in this area, aiming to provide enhanced value for our clients.

Activity snapshot

This quarter we have:

- Considered regional context when engaging with companies on issues such as drug pricing and climate lobbying
- Pushed for fairer CEO pay increases in light of the ongoing cost of living crisis
- Supported better governance through the division of the CEO and Chair roles

Our voting statistics

This quarter we voted at a total of 12 company meetings.

Votes for the quarter 01/01/23 – 31/03/23



This quarter, we voted at 12 meetings; at seven we voted with management on all resolutions. In five meetings we voted against management on at least one resolution. 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 informed by our engagement with companies. For this quarter, this meant we decided to not follow ISS recommendations at least once in three meetings.



Signatory of:



Regional context is key

We often engage with global companies, both directly and via third party fund managers. In doing so, we must consider not only what we deem best practice here in the UK but how this differs in other jurisdictions. This quarter, our controversy tracking process highlighted two issues where knowledge of the regional context proved invaluable.

Our controversy tracking philosophy

Real-time analysis of ESG leadership

- ESG leadership is often assessed by a collection of factors, such as policies, reporting or committees. However, we believe that you only truly know how a company treats stakeholders when controversies emerge.
- We evaluate a fund's ESG integration predominantly by analysing its past investment actions. Monitoring their response to corporate controversies can build evidence or provide challenge to our conclusions.

Monitor funds' stewardship processes

- Our controversy tracking process allows us to monitor their activities as they are happening, as well the initial due diligence we undertake with each fund.
- We will escalate matters within a fund house where we feel their engagement is not of a sufficient standard.

Volkswagen

Recently, our controversy tracking process highlighted German carmaker Volkswagen (VW) as the subject of legal action. A group of six institutional investors accused VW of withholding crucial information on its climate lobbying activities, despite repeated requests.

Climate Action 100+, the world's largest collaborative investor initiative on climate change, considers corporate climate lobbying a key disclosure area. It recommends target companies, which includes VW, provide enhanced disclosure to ensure that climate-related lobbying activities are consistent with the goals of the Paris Agreement and/or the company's own climate strategy.

VW refused to include climate lobbying as an agenda item at the 2022 AGM, which Climate Action 100+, claimed creates financial risk by undermining the company's public stance on climate change.

We asked seven fund managers holding VW on our behalf for their views on the issue and potential impacts, both financial and non-financial. As always, we were keen to know if they had engaged with VW and if it had impacted their decision to continue owning the stock.

From the responses received, we understand that while this issue is seen as having limited financial implications, the potential non-financial implications are greater. Other German carmakers have been more forthcoming, and responsible climate lobbying is a key element of achieving the goals set out in the Paris

Agreement. There is therefore risk to VW's reputation, already tarnished by the emissions scandals of the past decade.

Since the end of the quarter, VW has published its first review of climate-related lobbying, calling it "a good instrument for evaluating the alignment between our positions and those of associations on the subject of climate protection". We see this as a positive step and the first of many towards greater transparency and accountability around corporate lobbying.

Furthermore, should the litigation be successful, it would set a precedent on two broader governance aspects. First, the implication is that shareholders in Germany should be given the right, in certain circumstances, to add items to AGM agendas. Secondly, that acting in concert rules do not prohibit effective collaborative shareholder engagement. This has been enforced by a clarification on the rules issued by BaFin, the German regulator, which offers case studies and explains how each does or does not breach the rules. Both aspects should be positive for increasing transparency around ESG issues.

Regarding the issue of climate lobbying disclosure, this is something that we will continue to monitor at VW and beyond. As a member of Climate Action 100+, we recognise its importance in the fight against climate change.

Insulin drug prices

Many responsible investors consider access to medicine important. This subject, like many others that fall into the 'S for social' of ESG, has likely been exacerbated by the Covid-19 pandemic and the increased attention vaccine makers received. With everyday costs, including medication, rising rapidly and trust in the pharmaceutical industry at historic lows, the states of California and Kansas are suing pharmaceutical companies for violating competition law to raise insulin prices.

The discovery of insulin won a Nobel prize 100 years ago, and synthetic insulin has been marketed since 1982. As an old drug with little new research and development investment required, lawmakers claim the 'skyrocketing' prices cannot be justified. With a complicated and expensive healthcare system, and only a segment of the population benefiting from the Medicare price cap at \$35 per month, up to 20% of diabetics in the US claim to ration their insulin to keep costs down.

We reached out to around 20 fund managers flagged as owning companies facing this legal action, including UnitedHealth Group, Cigna Corp, Sanofi, Novo Nordisk and Eli Lilly & Co.. Many of them have already engaged directly with the affected companies. The responses we received were detailed and considered, citing the complexity of the US healthcare system and diabetes-specific factors such as chronicity. Some noted that certain impacted companies are actually very active in insulin affordability programmes.

Most managers noted the lawsuit has so far provided no tangible evidence to suggest material financial or reputational risk to the companies and highlighted that insulin prices have in fact remained static over the past five years. This differing of opinion is due to the complex system of prices and rebates in the US.

In summary, we feel comfortable that fund managers are aware of the issues, have been engaging proactively with their investee companies and continue to monitor the situation closely as more details of the lawsuits emerge.

Remuneration in the context of the cost of living crisis

Executive pay is a topic often covered in these updates. We believe it is a cornerstone of good governance, as well as key to incentivising performance. In our view, it is important that increases to executive pay are sensitive to the increases received by the broader workforce. It was on this point that we engaged with Law Debenture Corporation prior to a vote on proposed remuneration changes.

Having consulted with the company on this topic previously, it was our opinion that the originally proposed increase in the CEO's salary over a period of three years was justified. Performance has been strong and the change would bring the company in line with market norms. However, a 15% pay rise in the first year, far above the rest of the workforce and during a cost-of-living crisis, made us uncomfortable.

We fed back to the board, suggesting that the stepped increase in salary should start with a more modest rise and grow thereafter based on good performance. We also recommended greater transparency around the performance indicators for the bonus awards.

The board welcomed our suggestions and those of other investors. We were pleased to see most of them reflected in the final proposal which we ultimately supported. The vote at the AGM in March passed with c.96% support, indicating the changes made satisfied the vast majority of shareholders.

We plan to engage further on the transparency issues in good time before next year's AGM. We feel more could be done to help shareholders assess performance-related rewards; however, we were comfortable to vote in line and support the board's remuneration proposals.

Good governance at Visa

A shareholder resolution, submitted by the National Legal and Policy Center in the US, requested that Visa adopt a policy whereby the Chair of the Board must be an independent director. Currently, the role of Chair is held by the CEO.

In principle, we are in favour of separating the roles of Chair and CEO. Our view is that it maximises accountability and reduces potential conflicts of interest. However, we also believe that individual company circumstances should be taken into account, particularly through a transition period.

Leadership roles at Visa are changing. The current CEO/Chair is stepping down as CEO yet remaining as Chair. While there is still a lack of independence, the split is more aligned with good governance expectations and could ensure a smoother transition.

Therefore, after careful consideration, we decided to vote against the shareholder resolution, which also went against the recommendation of ISS to support it. We will continue to monitor the situation for conflicts of interest that could be detrimental and, going forward, we plan to engage with Visa on this issue to discuss the finer details of the new executive structure and future plans.

Sources: <https://hls.harvard.edu/today/could-a-california-lawsuit-lower-the-cost-of-insulin-in-the-us/>
<https://www.nobelprize.org/prizes/medicine/1923/summary/>

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 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.