



Corporate Governance and Voting Guidelines



1. Introduction

Lincolnshire Pension Fund (LPF) believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner LPF will, through its managers and Border to Coast, exercise its voting rights at company meetings, and, through membership of the Local Authority Pension Fund Forum (LAPFF), engage with companies on environmental, social and governance (ESG) issues. When used together, voting and engagement can achieve greater results.

An investment in a company not only brings rights but also responsibilities. The shareholder's role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship.

LPF requires all appointed investment managers to vote on its behalf, in line with best practice guidelines. As both a shareholder and a client of Border to Coast, LPF can influence its policies, and continues to monitor their voting policy and guidelines to ensure that they are aligned with the principles of LPF and reflect current best practice. Border to Coast has been appointed by LPF to oversee the voting undertaken by the Fund's appointed passive equity manager, to identify any areas unaligned and report back to the Fund. Managers are required to report their voting and engagement activity on a quarterly basis.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the best practice framework which is used to assess how the external managers are voting.

LPF discloses its voting activity as part of its regular quarterly reporting, which is available on the Lincolnshire County Council website.

LPF will expect managers to support incumbent company management wherever possible but recognises that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

It will expect managers to vote **For**, **Abstain** or **Oppose** on the following basis:

- supporting management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- abstaining when a resolution fails the best practice test but is not considered to be serious enough to vote against.



- voting against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of a company's board is crucial to determining corporate performance, as it oversees the running of the company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, LPF believes that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience, and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice), have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. A maximum tenure of nine years is the optimum, however resolutions with tenures greater than that, but under twelve years, should be reviewed on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies, and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example in the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenures greater than nine years will be assessed on a case-by-case basis.



The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Served on the board for over nine years.
- Has had a material business relationship with the company in the last three years.
- Has been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, LPF expects managers to vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO of the company whose board is being chaired. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day-to-day management of the business: that responsibility rests with the CEO. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, it is recognised that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the Chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the Chair present at least annually to appraise the chair's performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, LPF expects managers to vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they



need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

LPF supports the government-backed FTSE Women Leaders Review and Parker Review which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and in leadership positions. The Financial Conduct Authority (FCA) has also set targets on diversity for certain companies for boards and senior board positions. Therefore, in the UK boards are expected to be composed of at least 40% female directors. For developed markets without legal requirements the threshold will be 33%. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, it is generally expected that emerging market and Japanese companies should have at least one female on the board. LPF expects managers to vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, LPF expects managers to vote against the Chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, and from 2024, to also vote against the Chair of the nomination committee at FTSE 250 companies unless there are mitigating circumstances or plans to address this have been disclosed. In the US LPF expects managers to generally vote against the nomination committee chair at Russell 1000 companies that fail to disclose sufficient racial and ethnic board demographic information.

Succession planning

LPF expects the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the Chairmanship of such a



company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality voting standard without a resignation policy, it is expected that managers will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should



engage with shareholders ahead of the AGM in order that a high number of votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% of votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. Managers are expected to take a case-by-case approach for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members should be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systemically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.



The compensation provided to non-executive directors should reflect the role and responsibility in question. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although participation in Long-term Incentive Plans (LTIPs) is not expected, there could be some exceptional instances where non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards, and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

- **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious, and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, it is expected that the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. Managers are expected to encourage other companies to take this approach.

- **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. LPF therefore expects managers to encourage companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. Performance should therefore be measured over a period in line with the company's strategy; this should be at least three years but preferably longer. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual



performance achieved against the same targets. Clawback or malus provisions are expected to be in place for all components of variable compensation. Executive Directors should be encouraged to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions, and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. Managers are expected to encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

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Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. The audit



committee should consist of at least three members who are all independent non-executive directors. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported unless there are plans in place to address this.

For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is in the best interest of the company and shareholders. Where these conditions are not met political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. Shareholder proposals regarding lobbying should be assessed on a case-by-case basis; however, it is expected that managers will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.



Shareholder rights

As a shareowner, LPF is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy, and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval should elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which allow different voting rights are disadvantageous to many shareholders and should be abolished. LPF expects managers not to support measures or proposals which will dilute or restrict its rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

LPF expects managers to support the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

LPF does not necessarily expect a manager to oppose a company re-purchasing its own shares, but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of LPF, presented as separate resolutions for each change, and the reasons for each change provided.



If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, LPF would expect managers to oppose the changes.

Mergers and acquisitions

LPF will normally expect managers to support company management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that LPF would expect managers to oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when it might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. An electronic meeting would be expected to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, the company would be expected to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting were protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards should not be supported.

Shareholder Proposals

Shareholder proposals should be assessed on a case-by-case basis. Consideration should be given as to whether the proposal reflects LPF's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders. Shareholder proposals are an important tool to improve transparency. Therefore, it is expected that managers will, when considered appropriate, support resolutions requesting additional reporting on material business risk, ESG topics, climate risk and lobbying.

LPF will expect managers to generally vote in favour of shareholder resolutions that are aligned with the objectives of the Paris climate agreement, taking a 'comply or explain' approach, publicly disclosing their rationale if they vote against.

Human rights

When considering human rights issues, LPF believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. It is expected that companies exposed to human rights issues to have adequate due diligence



processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, LPF expects managers to vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. LPF believe it is vital to fully understand how companies are dealing with this challenge, and to hold the boards of our investee companies to account.

The primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas considered include climate governance; strategy and alignment with the Paris agreement; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, LPF expects managers to oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI), the Climate Action 100+ (CA100+) Net Zero Benchmark and the Urgewald Global Coal Exit List. LPF expects managers to use TPI scores and to vote against the Chair (or relevant agenda item) where companies are scored 2 or lower, and for Oil and Gas companies scoring 3 or lower unless more up to date information is available. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, short, medium and long-term emission reduction targets, and decarbonisation strategy, managers should also vote against the Chair of the Board.

Managers should have frameworks in place to identify companies with insufficient progress on climate change and not covered by the industry benchmarks. Where company management put forward a 'Say on Climate' resolution, LPF expects managers to vote against the agenda item if, following analysis, it is not aligned with the Paris Agreement.

Banks will play a pivotal role in the transition to a low carbon economy, and LPF therefore expects managers to include the sector when voting on climate-related issues. LPF expects managers to assess banks using the IIGCC/TPI framework and to vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, in the case where there are significant concerns regarding the bank's transition plans to net zero.

LPF support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. It is recognised that not all countries are at the



same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition, LPF expects managers to assess the implications when considering our voting decisions on a case-by-case basis.

Investment trusts

LPF expects managers to acknowledge that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards and should not necessarily be required to report on such matters as environmental issues. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager should not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

LPF may expect managers to oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.