2020 AGM Season Voting Review

The active manager is in the detail

Leonardo Da Vinci said that details make perfection, and perfection is not a detail. We are not claiming that our approach to analysing AGM resolutions is perfect however our pursuit of it includes meticulous attention to detail. This is particularly important in relation to voting where simply voting in favour of or against a single issue fails to address the detail of each vote. Voting outcomes are obviously important but should not be viewed in isolation. How that outcome has been reached is as important as the outcome itself.

Our approach

We adopt a nuanced approach to our voting research and outcomes. We review resolutions and engage with stakeholders, including the filers of resolutions, proxy advisors, and investee companies before reaching a decision. We collaborate in order to harness a wide range of expertise and include all material factors in our decision-making process. We recognise that voting issues are often complex and require thorough investigation to ensure the best outcome for clients and investee companies while considering the interests of wider stakeholders.

The peak of the 2020 AGM season coincided with the coronavirus pandemic and national lockdowns in the UK, European and US markets. A number of companies withdrew dividends, delayed their meetings and adopted virtual meetings. Despite the disruption, we continued to fulfil our responsibility as stewards of our clients' capital.

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Corporate governance

To account for the challenges created by the coronavirus pandemic, we adjusted our voting approach to corporate governance matters. We continued to promote best practice in remuneration and board gender diversity through our voting and engagement. However, we refrained from casting votes against individual directors in all but the most serious cases. This was to avoid contributing to corporate instability.

We have long believed that it is important to have a strong link between executive pay and performance. In the UK, we voted against remuneration policies that didn't align the employer's pension contributions of executive directors with the wider workforce by 2022. In cases where new executives had rates higher than those available to the workforce, we also voted against the remuneration report. We have voted against 67 remuneration resolutions on this basis so far in 2020.

The gender diversity of boards is an important part of our voting policies in the UK, Western Europe, Australia and North America. ASI supports the Hampton-Alexander Review's target of at least one-third representation of women on the boards of FTSE 350 companies by the end of 2020. We take voting action against companies that do not meet this. For smaller companies, we took voting action if there were no females on the board. This reflects the fact that these boards are typically smaller, with a lower turnover of directors. We followed the same approach in Western Europe. In the US, we expect females to make up at least 25% of the board in larger companies. Where the gender diversity of a company's board was inadequate, we voted either against the re-election of the chair of the nomination committee or the resolution to approve the annual report and accounts.

Our policies relating to board gender diversity led us to take voting action against 38 companies in the UK, 60 in the US, 4 in Canada, 5 in Switzerland and 3 in other European markets.

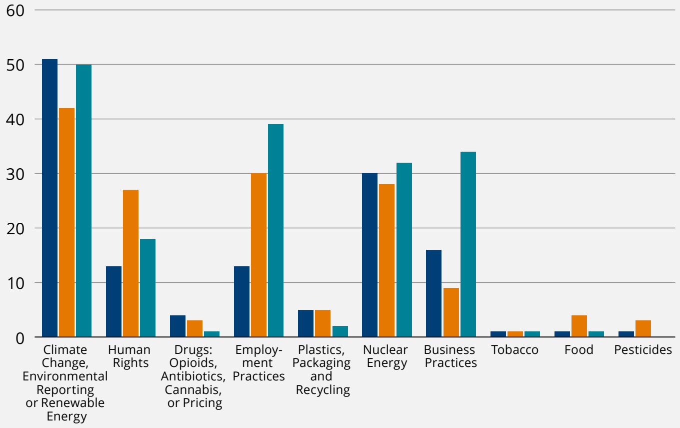
In Australia we have also called for a number of measures to address gender diversity for the upcoming voting season. Including a clear position calling on company boards within the ASX100 to achieve a 40% female and 40% male, with 20% of any gender by the end of 2023. We expect the equivalent for companies outside the ASX100 by 2025.

* Measurements of votes as at 30th September 2020.

Environmental and social issues

The number of resolutions focused on environmental and social (E&S) issues filed by shareholders continues to grow. The majority of E&S resolutions arose in the US market, but there were also notable concentrations in Canada, Australia and Japan. There were fewer votes in UK and European markets, but voting and engagement activities contributed to significant outcomes at several companies. Overall, the number of E&S themed votes was 13% higher in 2020 than in the same period of 2019. Over three years, the number of E&S resolutions tabled at company meetings has grown by more than 20%.

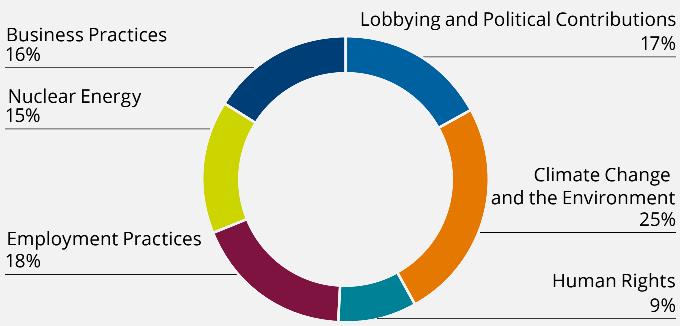
2018-2020 Votes by Theme



Source: Aberdeen Standard investments, October 2020.

To date we have voted on over 200 resolutions related to E&S. As 2020 progressed, important E&S resolution themes emerged: employment practices related to diversity and inclusion, corporate lobbying, climate change, and human rights. The chart below details the percentage of these issues over the period and the number of resolutions tabled which we voted in favour of. Our voting on nuclear energy was focused on a number of resolutions in Japan which we believed were inappropriate to achieve the best outcomes.

E&S Resolutions in 2020[1]



How ASI Voted (% Votes in Favour)

Lobbying and Political Contributions	95%	Employment Practices	44%
Climate Change and the Environment	62%	Nuclear Energy	0%
Human Rights	61%	Business Practices	38%

Source: Aberdeen Standard investments, October 2020.
[1] Measure of 214 votes in total as at 30 September 2020.

Diversity and inclusion

We believe it is essential to promote a diverse and inclusive workforce. It attracts talented employees, harnesses their potential, generates innovation, better serves customers, and supports long-term shareholder value.

Many US companies submit an EEO-1 form to the US Equal Employment Opportunity Commission. These forms outline the racial and gender balance of employees across 10 employment categories in the organisation. We encourage all companies to make this information public. Widespread disclosure would provide standardised and comparable information for US operations. This would offer investors the opportunity to assess diversity and exposure to associated risks over time and across sectors. We voted in favour of all resolutions that requested public disclosure of the EEO-1 report within the US. This included those proposed at the AGMs of The Charles Schwab Corporation and The Home Depot. However although supportive of the spirit of this disclosure we voted against several resolutions that called for global disclosure in line with EEO-1. Our research found that such steps would be impossible for companies for a variety of reasons including differing legislative requirements by geography.

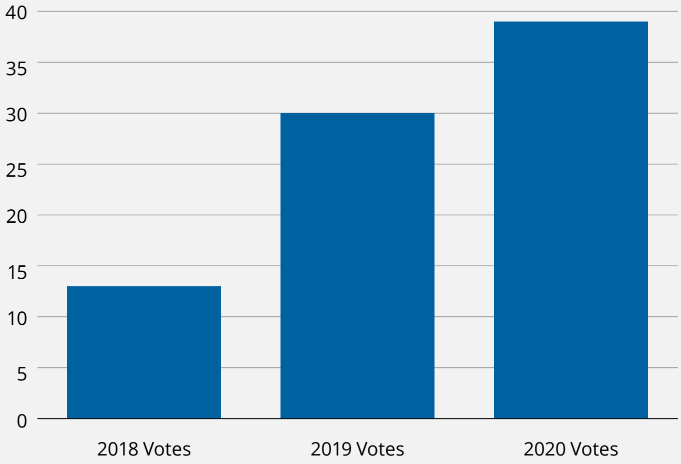
Gender pay gap reporting in the UK is mandatory for employers with 250 or more employees. We consider standardised gender pay gap disclosure to be an important tool for assessing how companies are addressing gender inequality. Reporting on the gender pay gap across global operations ensures that companies remain ahead of the regulatory curve. It enables them to offer better opportunities and remuneration for women around the world. As such, ASI supports resolutions calling for gender pay gap reporting wherever they arise. In 2020, we voted in favour of such resolutions at Pfizer and Cigna.

During the 2020 AGM season, a number of resolutions sought reports on global median gender and racial pay gaps. Though we support the intended outcomes of these resolutions, their efficacy would be limited at present. Established gender pay gap methodologies allow comparison between peers. But it is unclear how racial pay gap statistics would be calculated. Variations in demography and in the ability to collect racial identity information would limit the robustness of the data. This led us to vote against a number of resolutions tabled on the issue. In our view, consistent disclosures at the national level, like the EEO-1 in the USA, provide more meaningful data for investors and other stakeholders.

In addition to diversity and inclusion, the number of resolutions tabled relating to employment practices increased in 2020 and this is and area we believe is key to the success of any company.

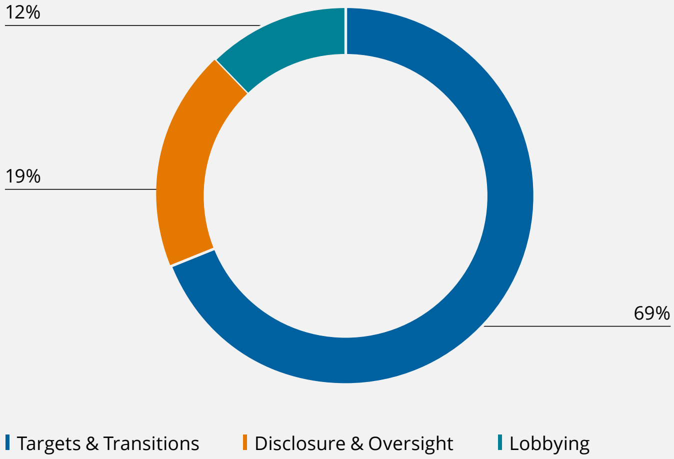
* Measurements of votes as at 30th September 2020.

Employment Practices



Source: Aberdeen Standard investments, October 2020.

Climate Change topics in 2020



Source: Aberdeen Standard investments, October 2020.

Corporate lobbying

It is important that companies' public statements are consistent with their actions and those undertaken on their behalf. Lobbying expenditures and trade association membership fees may be substantial. However, a lack of transparency can make it difficult to hold companies to account for these activities. As such, we voted in favour of 94% of resolutions that tried to improve corporate lobbying disclosures. Failure to align lobbying activities with public statements exposes companies to unnecessary reputational risk. Once earned, a reputation for duplicity is difficult to overcome.

Lobbying that runs contrary to the aims of the Paris Agreement on climate change is particularly relevant for investors. Such lobbying can be highly effective in creating climate policy inertia, which is a major and immediate impediment to the transition to net zero carbon economies by 2050. Failure to implement effective governance of lobbying activities threatens to undermine the integrity of companies' climate change positions. This can lead to accusations of 'greenwashing'.

We supported all resolutions on climate change lobbying on which we could vote. Our votes at the AGM of Chevron contributed to such a resolution receiving majority support of shareholders for the first time.

Climate change

Climate change continues to feature actively in our engagement and voting practices. Resolutions we voted on during the period broadly focused upon, board oversight of environmental practices, alignment with the Paris Agreement and disclosure of companies' approach to climate change, specifically GHG emission reduction targets. We voted in favour of the majority of resolutions related to climate change however, after detailed analysis of certain proposals we found that a vote in favour of management (and against the resolution) was warranted as companies transition to a low carbon economy. We have voted on fifty resolutions related to climate change so far this year up from 42 in 2019; details of two specific examples of such resolutions are given below.

We engage with companies about aligning their strategies with the Paris Agreement and setting appropriate greenhouse gas (GHG) emissions targets. We do this independently and collaborate with other investors as an active member of Climate Action 100+ (CA100+). Total, the French oil and gas company, faced a resolution to establish GHG emission targets in the bylaws. Prior to the AGM, Total announced new commitments and reduction targets for Scope 1, 2, and 3 GHG emissions. We voted against the resolution, after engaging with the company. Through CA100+, we have urged Total to provide regular updates on its progress towards achieving the targets.

A resolution filed at the AGM of Japan's Mizuho Financial Group illustrated the global growth of ESG investing. The resolution was the first to target climate change at a Japanese company and focused on the Group's role in financing fossil fuel companies and projects. Our support for the resolution placed us in the minority. But we will continue to push companies in which we invest to adapt their business to the global demands of climate change and the energy transition.

Human rights and technology

Human rights comprises many diverse issues and epitomise the need to take an active approach to voting and engagement as the areas being assessed are often open to interpretation. Over the period to date we have voted on 18 resolutions on human rights ranging from the creation of a Human Rights Policy to ensuring human rights are respected in the supply chain. An emerging area we are seeing with regards to human rights is in the digital space.

The growing impact of technology on human rights is becoming increasingly important in the media and the investment community. As a supporter of the UN Guiding Principles on Business and Human Rights, we expect companies to ensure their products and services don't adversely affect human rights.
The rise of electronic surveillance technologies and facial recognition software are a particular cause for concern. Companies must undertake thorough customer due diligence and retain appropriate responsibility for the ethical use of the technology. These concerns are higher in countries with a poor record in human rights and high levels of censorship.
We supported several resolutions at the AGM of Amazon asking the company to improve its disclosure around the human rights impact of its high risk products.

* Measurements of votes as at 30th September 2020.

Conclusion

Voting is an important aspect in the stewardship of our clients' capital. It is a vital means of expressing our views to companies and encouraging best practice. But AGMs take place only once a year. The connection between our voting, research and engagement capabilities is what enables us to drive change and hold companies to account consistently. We publicly disclose all of our voting decisions and rationales for those decisions, which are available at:
aberdeenstandard.com/en/responsible-investing/voting

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