

Surrey Pension Fund Voting Policy

As approved at the committee meeting on 16 June 2023

Surrey Pension Team



Providing our customers with
a better tomorrow

Surrey Pension Fund Voting Policy - 22 June 2023

1 Introduction

1. Surrey Pension Fund (the Fund) aims to be an informed and responsible long-term shareholder of the companies in which it invests. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long-term value and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries.
2. The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.
3. The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the 12 principles of which are shown below at section 5.

2 Scope

1. The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.
2. The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code) and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.
3. Corporate governance principles and standards vary from market to market and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

3 General Principles

1. In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting

principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management, it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.

2. In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

4 Voting Policy

4.1 Audit & Accountability

The robustness of financial controls and the integrity of financial statements are the basis for the healthy functioning of companies. Companies should provide their report and accounts as complete by an independent, competent, and qualified auditor sufficiently ahead of the Annual General Meeting (“AGM”) in accordance with high-quality accounting standards. Such audit reports provide an external and objective assurance to shareholders that the financial statements fairly represent the financial position and prospects of the company. The audit process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Approval of Financial Statements

Where there is a qualified audit statement, or restatements of annual results made in the previous year (apart from where adapting to new regulations), or where there are concerns of fundamental significance, the Fund will generally oppose the resolution to approve the report and accounts.

Auditor Appointments

Auditor independence may be compromised if the same firm has audited the company for a long time (three years or more) or where the firm earns significant fees from non-audit services. In order to help maintain auditor objectivity we would expect companies to consider submitting the audit function to periodic tender and to disclose their policy on tendering, including when the audit was last put to tender.

There is a concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies should provide full disclosure where such a conflict of interest arises and provide a clear breakdown of the fees paid for audit and non-audit services.

If an auditor has been in place for more than 20 fiscal years, Surrey Pension Fund will normally vote against the resolution to re-appoint the auditor. Additionally, Surrey Pension Fund will not support the re-appointment of auditors where non-audit fees exceed the audit fees in the year under review or exceed 70% of the audit fees on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case-by-case basis.

Extra Financial Reporting

The board is responsible for presenting a balanced and understandable assessment of the company's position and long-term prospects in the annual report and accounts. This extends to sustainability-related factors that impact company performance and long-term value creation, such as human capital and natural capital.

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on exposure and management of material "Extra Financial" or "Environmental, Social and Governance" ("ESG") risks and opportunities. Disclosure should be aligned to sector, industry, and company specific indicators. To support consistency and comparability in sustainability disclosure, we encourage companies to adopt an internationally recognised sustainability reporting standard and to implement independent verification procedures of their sustainability disclosures.

Surrey Pension Fund encourages 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. The Fund also encourages companies to assess the relevance of the United Nations Sustainable Development Goals (SDGs) to their business and to incorporate material goals into their strategies and to report on how they are responding to SDGs. The Fund recognise that the SDGs are an articulation of the world's most pressing sustainability issues and, as such, function as a globally agreed sustainability framework.

Where we consider that disclosure on ESG risks is inadequate the Fund will generally vote against the approval of the annual report or, where available, the sustainability report.

4.2 The Board & Committees

A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should comprise a sufficient mix of directors with relevant knowledge, independence, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the company's purpose, long-term strategy and relevant stakeholders.

Composition and Independence

The board should be of sufficient size that the requirements of the business can be met and that changes to the composition of the board and its committees can be managed without undue disruption. Conversely, the board should not be so large as to be unwieldy.

The board should include an appropriate combination of executive and non-executive (particularly independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should also be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Surrey Pension Fund regard independent non-executive directors comprising half of the board as best practice, although we note that practice may legitimately vary from this standard. The criteria that may impair a director's independence varies market to market.

The Fund will generally not consider a director to be independent if they:

- Are currently or have been an employee of the company or a subsidiary and there has not been an appropriate cooling-off period between ceasing such employment and serving on the board.
- Have or have had, within an appropriate time period, a material business relationship with the company.
- Received or have received additional remuneration from the company other than director's fees.
- Have close family ties with any of the company's advisers, directors or senior management.
- Hold cross-directorships with other directors.

- Represent a significant shareholder.
- Have served on the board for such a period that his or her independence may have become compromised.

If the board is assessed as having less than 50% independent representation, the Fund will generally vote against the election or re-election of a non-independent non-executive director.

Nomination & Succession Planning

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company's annual report.

Committee Independence

Audit, Remuneration and Nomination Committees are key components of effective governance for companies. We expect the Audit Committee to be comprised entirely of independent non-executive directors and to have relevant accounting or financial expertise. We also expect the Remuneration Committee to be wholly independent and for the Nomination Committee to be at least 50% independent. The Fund may therefore vote against a director's election if they are an executive or non-independent director on a Committee which is considered insufficiently independent.

Separation of Chairman & CEO

The Fund believes the roles of Chairman and CEO should be separate to avoid unfettered powers of decision-making in any one individual. The Board should be chaired by an independent director who should be independent on the date of appointment. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time in which case, we will take account of the explanations provided. Where the roles are combined, the board should appoint a senior independent director to ensure a structure that provides an appropriate balance between the powers of the CEO and the independent directors.

Where the roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role.

Board Balance & Diversity

Companies should seek to ensure that their boards comprise a sufficient mix of directors with relevant knowledge, independence, appropriate skills, competence, industry experience and diversity of perspectives to generate effective challenge, discussion and objective decision-making in alignment with the company's purpose, long-term strategy and relevant stakeholders.

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 adopt and disclose a policy on diversity and inclusion which references gender, ethnicity, age, skills and experience.

We support the UK Government-backed Davies, Hampton-Alexander and Parker reviews which set goals for companies regarding their representation of women and ethnic minorities on boards, executive teams and senior management.

Whilst the Fund recognises different market and legal practice on board diversity, we expect companies in developed markets to have boards with at least 33% female representation. We expect companies in emerging markets to have at least one female director on the board. The Fund will vote against the Nomination Committee Chair where we have concerns with the board's progress on gender diversity.

For large UK companies, we will generally support voting against the nomination committee chair if the board does not have at least one racially diverse director, in line with the Parker Review. We encourage all companies globally to consider board ethnic diversity.

Board Evaluation

There should be a formal and rigorous annual evaluation of the performance of the board, its committees, the chair and individual directors. The annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively. Boards are expected to undertake an internal evaluation annually and to seek external assistance at least every three years. The board should disclose the process for evaluation and, as far as reasonably possible, the outcome of the evaluation and if applicable, any steps taken as a result.

Director's availability and attendance

All directors should be able to allocate sufficient time and attention to the company to discharge their duties alongside their other commitments. Overcommitment is a governance risk as it could potentially compromise the quality of the board and,

where directors hold full-time executive director positions, it can impact the discharge of their executive responsibilities.

Surrey Pension Fund considers that a full-time executive director should not take on more than two external roles at publicly listed companies. With regard to non-executive directors, a director should not hold more than four other directorships in listed companies outside the group.

The number of meetings attended by each director should be disclosed in the annual report. The Fund will generally vote against a director whose attendance rate is less than 75% of board and committee meetings, unless we receive an appropriate explanation from the company.

Director Elections

Surrey Pension Fund supports the re-election of directors at regular intervals to ensure the effectiveness of the board and accountability to shareholders. Directors should be elected to the board preferably on an annual basis or stand for election at least once every three years. The Fund considers it good practice for directors to stand for election on an individualised basis rather than by slate.

Directors in uncontested elections should be elected by a majority of the votes cast. In contested elections, plurality voting should apply. An election is contested when there are more director candidates than there are available board seats.

The Fund considers it essential for companies to provide detailed biographical information on each director candidate before the vote at the meeting to ensure shareholders can make an informed voting judgement.

4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership should have written terms of reference and receive independent advice which is wholly separate from other corporate activities such as, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives. When looking at executive remuneration arrangements, we consider the linkage between the performance measures used in the incentive pay elements and the key performance indicators (“KPIs”) as defined by the company. Where companies are potentially subject to high levels of environmental and social risks as part of its business, the

remuneration committee should consider the inclusion of relevant material ESG performance metrics in incentive pay.

Annual Bonus Plans

The terms of the annual bonus plan must be understandable to shareholders, and clear and comprehensive information provided each year in the remuneration report. The bonus opportunity should be set at an appropriate level of base salary and should be capped. We expect companies to disclose the performance conditions used under the annual bonus plan, along with the targets set and the performance achieved for the year under review. Provisions should be in place to reclaim the annual bonus where the company has experienced a significant negative event. We encourage companies to operate a bonus deferral mechanism to enhance alignment of interests with long-term shareholders.

Long Term Incentive Schemes

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long-term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other Long Term Incentive Plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- Where executive directors are encouraged to build a significant shareholding in the company to ensure alignment with shareholders. These shares should be held for at least two years post exit.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance, and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company, including disclosure of the achievement of performance targets and vesting outcomes at the end of the performance period of awards.

- Where the performance and/or vesting period for any long term scheme is five years or more and at a minimum, three years. Companies should consider adopting post-vesting holding periods to enhance alignment,
- Where the participants are not eligible for multiple share-based incentives.
- Where malus and clawback provisions apply to long-term incentive awards.
- Where there is a limit on award size and the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

Non-executive Remuneration

Remuneration for non-executive directors should be structured in a way that aligns their interests with the long-term interests of shareholders and does not compromise their independence. To this end, we are not in favour of non-executive directors receiving performance-based pay.

The introduction of all-employee share plans within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. The Fund will generally vote against the introduction of an all-employee share scheme where non-executives are also permitted to participate.

Executive Contracts

Director notice periods are an important corporate governance consideration. The notice period and severance provisions for the executive directors should be disclosed in the annual report. The Fund is generally opposed to an executive director's notice period exceeding 12 months or severance pay exceeding 12 months' fixed pay or may withhold support in such circumstances.

Double-trigger change in control arrangements, which require both a change of control and termination, are considered good practice. Vesting of equity awards on a change of control should be on a pro-rata basis that considers the time elapsed and attainment of any performance targets between the grant date and the transaction.

The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. Incentive pay should not be pensionable.

4.4 Shareholders' Rights & Capital Structures

The rights of shareholders should be equal and protected. The following outlines the principles that Surrey expect investee companies to adhere to:

Pre-emption right for issues of new capital

Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify amounts involved, the time periods covered and whether there is any intention to utilise the authority. The Fund does not support resolutions that are inconsistent with the Pre-emption Group Guidelines.

“One Share One Vote”

Surrey Pension Fund supports the principle of “one-share, one-vote.” The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it. Where dual class structures are in place, they should be kept under review and accompanied by appropriate protections for minority shareholders.

Share Repurchases

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company’s cash resources. Companies should adopt equal financial treatment for all shareholders. The Fund therefore supports measures that limit the company’s ability to buy back shares from a particular shareholder at higher-than-market prices.

Dividends

Companies should have clear dividend policies that set out a sustainable approach to distributing dividends and returning capital to shareholders. Shareholders should have the chance to approve a company’s proposed distribution and the resolution should be separate from the resolution to receive the report and accounts. Where a company has paid a final dividend without seeking shareholder approval, Surrey may vote against the resolution to approve the report and accounts.

Article Changes

It is common for management to put forward a resolution seeking shareholder approval to amend and/or update the Articles of Association. Proposals to change the Articles of Association should be clearly outlined in the meeting materials and presented as separate resolutions for each change.

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights or do not reflect generally accepted good governance practices or where there is insufficient disclosure on the proposed changes to make an informed voting decision.

Voting at Meetings

Meeting materials (including the notice of meeting, proxy card and annual report) should be published sufficiently ahead of the meeting to enable shareholders to vote in an informed manner. Each substantive resolution should be voteable in its own right; therefore, the bundling of two or more matters for consideration under one resolution is discouraged.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

Surrey Pension Fund views the AGM as an important forum at which the board is publicly accountable. Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual meeting where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. We generally believe an online AGM should not be held without also offering a physical AGM where the company's board and shareholders attend in person (known as a 'hybrid meeting').

We recognise that in exceptional circumstances a physical AGM may not always be possible and in such circumstances, a virtual-only AGM may be supported on a temporary basis. If a virtual meeting is to be held, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. The Fund will generally oppose article amendments seeking to introduce the ability to hold virtual-only meetings if the proposed articles do not include a caveat that virtual meetings will only be held in exceptional circumstances, such as a result of a pandemic or national emergency, or where geographical barriers prevent physical travel.

4.5 Investment Decisions

Surrey supports mergers and acquisitions that enhance shareholder returns in the longer term and encourages companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider

issues on a case-by-case basis. Schemes of arrangement, and significant transactions are also considered on a case-by-case basis.

Surrey believes shareholders should be consulted in takeover situations and should not have their rights curtailed. Accordingly, the board should not attempt to counter a takeover bid by making decisions which will prevent the shareholders from deciding on the takeover bid themselves, without first gaining the acceptance of the shareholders. Anti-takeover devices should not be used to shield management and the board from accountability. The Fund will generally vote against the introduction or renewal of an anti-takeover provision.

4.6 Sustainability

Board Oversight

We believe companies that consider ESG factors as part of their business strategy generate enhanced shareholder value over the long term. We are therefore more supportive of companies with board-level responsibility for reviewing ESG risks and where a specific director or committee has been charged with responsibility for this area. The Fund may vote against the resolution to approve the report and accounts or the board chairman if there is a lack of disclosure to evidence board oversight of ESG issues.

Donations

Surrey expects companies to provide full disclosure and justification for political expenditures. The Fund considers that making of donations to political parties is not an appropriate use of shareholder funds and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

Lobbying

A company should be transparent and publicly disclose director lobbying, and any indirect lobbying through its membership of trade association. Boards should address instances where there are significant inconsistencies between a company's publicly stated policy positions and potentially conflicting views of trade associations of which the company may be a member, such as on climate change policy.

Climate Change

Climate change presents material financial risks for businesses, investors, and stakeholders, as well as opportunities. Companies should disclose their exposure to the physical and transition risks of climate change and explain the material impacts on the business model and operations. Companies should work towards mitigating climate change by making efforts to reduce emissions and to adapt their business strategy in order to align with a low carbon economy in order to reach net zero by 2050 or sooner.

Companies are expected to provide disclosure on climate-related issues, including on governance, strategy, risk management, climate accounting, and metrics and targets. In particular, we encourage companies to provide reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Companies are encouraged to publish a Just Transition Strategy, detailing the steps the company will take to guarantee their workforces and the communities in which they operate, are central to any net zero transition plans as we recognise there will be no successful decarbonisation without wider stakeholder support.

We will generally withhold support from the resolution to receive the annual report and accounts if a company has not disclosed its Scope 1 and 2 GHG emissions or set any emission reduction targets.

Where a board voluntarily puts forward an advisory resolution that seeks shareholder approval of the company's climate transition action plan, we will vote against where:

- The Company has not made a clear commitment to achieve net zero emissions by 2050 or sooner across all material GHG emissions (scope 1, 2 and material scope 3).
- The Company has not set and disclosed appropriate short- and medium-term GHG (Scope 1, 2 and material Scope 3) reduction targets.
- The Company has not demonstrated that its GHG reduction targets are science-based and aligned with the net zero by 2050 scenario, such as by verification by the Science Based Targets initiative.

We will also consider climate governance; strategy and Paris alignment; board oversight and incentivisation; TCFD disclosures; capital allocation alignment, climate accounting, and just transition disclosure when assessing company climate transition action plans.

4.7 Shareholder Resolutions

Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around ESG or sustainability practices.

We value the right of shareholders to submit proposals to company general meetings. While we recognise different jurisdictions have different rules in place for the filing of shareholder proposals, we are generally supportive of initiatives that seek to introduce and/or enhance the ability to submit proposals.

Shareholder proposals will generally be reviewed on a case-by-case basis. We will support requests for improved corporate disclosure, notably relating to sustainability reporting, including climate change, and enhancements to governance practices and/or shareholder rights. In other circumstances the fund will generally vote against shareholder resolutions if the proposal is considered overly prescriptive and constraining on management or assessed as not in the best interests of the company and its shareholders.

5 The Principles of the UK Stewardship Code

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey Pension Fund, should:

1. Explain the purpose of the organisation, investment beliefs, strategy and culture and how they enable effective stewardship that creates long-term value leading to sustainable benefits for the economy, the environment and society.
2. Disclose the governance, resources and incentive structures in place supporting stewardship.
3. Disclose a policy on managing conflicts of interest in relation to stewardship.
4. Explain how market-wide systemic risks are identified and responded to.
5. Review their policies, assure their processes, and assess the effectiveness of their activities.
6. Take into account client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.
7. Systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

8. Monitor and hold to account managers and/or service providers.
9. Engage with investee companies to maintain or enhance the value of assets.
10. Where necessary, participate in collaborative engagement to influence issuers.
11. Establish clear guidelines on when and how they will escalate stewardship activities to influence issuers.
12. Actively exercise their rights and responsibilities. on voting and disclosure of voting activity.

A future Board report will set out how the Surrey Pension Fund intends to satisfy the UK Stewardship Code requirements.

Effective date of policy	16 June 2023
Approved date	16 June 2023
Next review	June 2026 or sooner if required

Version	Nature of Change	Implemented
V1	Initial Creation	16 June 2023