



EdenTree SRI Expert Briefing – January 2016

Corporate Governance: the how and why of proxy voting

Introduction

Proxy voting is a key part of exercising investor stewardship on behalf of our clients. Whilst our voting policies and voting action are all published, we are sometimes asked about the mechanics of voting, how it works, and why we do it. This SRI Expert Briefing seeks to answer some of these questions.

Q Why is voting so important?

A. When we buy shares in a company, we become part owners in the business with certain rights and responsibilities. Shareholders are encouraged to be active owners in the companies in which they invest so that they are operated and managed to the highest standards. It is the duty of managers to manage, and the Board to oversee the management, but the Board is ultimately accountable to the owners – you. The most obvious way our rights as shareholders are exercised is through voting at company meetings. Proxy voting is the most visible, and sometimes the only means of influencing and affecting corporate behaviour; it is about accountability and responsibility.

Q Do you vote at every meeting?

A. Yes. Our policy clearly states that we will exercise our voting rights at all meetings, in the UK and overseas. The only exception is in 'share-blocked' markets, where we would otherwise have to waive our right to trade in the stock for a period prior to the meeting. We have taken a House view that we will not do this, and in these situations we will not vote. This is increasingly rare however, and only occurs in a few European markets such as Norway.

Q Is voting compulsory?

A. No. Voting has never been compulsory in the UK, although turnout is fairly high. In 2015, average UK voter turnout amounted to 72.5%, with the European average, 67.2%. The UK Stewardship Code, to which we are a signatory, has had some effect in raising voting levels. The Code requires considered use of proxy votes as part of its framework.

Q What else does the UK Stewardship Code say about voting?

A. The Code asks signatories to:

- Publicly disclose their policies on voting and disclosure of voting activity
- Periodically report on their stewardship and voting activities

EdenTree (EIM) complies with the requirements of the Code by publishing its UK and Overseas Voting Policies and our proxy Voting Reports on a quarterly basis at www.edentreeim.com

Q How is voting undertaken? Is it contracted out?

A. All of our UK voting (243 meetings in 2012) is conducted in house. Our overseas voting is contracted out to our service partner, Glass Lewis & Co., who executes our ballots in accordance with an agreed voting template. In 2012 they voted at 213 meetings on our behalf, in over 25 different markets.

Q How are voting decisions taken?

A. We receive notice of a forthcoming meeting and consider background research provided by our partner the IVIS voting service. This is the corporate governance proxy voting service of the Investment Association (IA).

The research considers every resolution and provides a traffic light warning system indicating if there are controversies. A 'red topped' report indicates that shareholders should be aware of serious breaches to best practice. IVIS does not provide voting recommendations per se.

This information is for investment professional only and should not be relied upon by private investors.

We apply our published voting policy and template to the specific circumstances of each company and make our decisions based on a qualitative assessment of the prevailing governance. We believe it is vital to apply the policy flexibly so that the circumstances of each company are properly reflected in the voting decision. Proxy voting recommendations are made by the corporate governance team at EIM and 'signed off' by Fund Managers. Voting is thus fully integrated into the investment management process. The votes are then lodged on a voting platform which registers our proxies.

Q How does it work for overseas companies?

A. Glass

Lewis & Co. has delegated authority to vote all EIM ballots, other than the UK, Guernsey, Jersey and IOM. Glass Lewis applies the EIM voting template which is based on OECD best practice guidelines. Corporate governance culture and practice varies from market to market, so it is impractical to develop a 'one size fits all' policy that covers every eventuality. For that reason, Glass Lewis has discretion to apply its own best practice model for each jurisdiction, subject to applying the EIM policy and template first. EIM staff monitor forthcoming and instructed ballots on a daily basis in the peak season, and at least three times a week in the off-peak season. Voting instructions can be overridden and occasionally are.

Q When is the peak season for voting?

A. It is fairly consistent across the globe. The peak season is April to July, which reflects the fact that most companies have their financial year ends in December or March. For instance, in the fourth quarter in the UK there were only 42 meetings, compared to 131 in the second quarter. In some markets, such as Japan, most meetings happen on a single day, which is a particular challenge for investors.

Q Why do you sometimes abstain rather than oppose?

A. Abstentions, or withheld votes are not counted in law, and so some investment managers have a policy not to abstain. At EIM, we take the view that withholding our vote sends a message that all is not well, and which then acts as an amber warning light for future years. Abstentions are often employed where we view the issues as being of concern, but perhaps insufficiently material to warrant our opposing. In practice we abstained just 3% of UK and overseas resolutions in 2015, compared to 18% opposed, so we do not employ them extensively.

Q Isn't the voting chain quite complex?

A. Yes. In spite of billions of votes being registered and cast every year, the actual mechanisms involved are quite complex, and in spite of new technology, often archaic in execution. Once we have decided how to vote, these are recorded on a proxy voting platform as a 'registered' vote. Once the cut-off date has passed (usually 48 hours prior to the meeting), these votes are aggregated by the fund manager's custodian bank (where the shares are held), for onward referral to the company registrar (the 'issuer'). It is the job of the issuer to account for all the ballots submitted in order for the vote outcome to be published, at or just after, the company meeting. Electronic voting has helped streamline the system so that votes are less likely to go missing, but it remains unwieldy. If you attend the meeting in person, the Chairman will normally call a ballot however, this is usually academic, as proxies lodged in advance always pre-determine the result.

Q Does EIM stock-lend and does this affect your ability to vote?

A. No, we do not stock lend. All stock held at the time a meeting is called is available to be voted except in isolated cases where the stock is share-blocked.

Q Can clients instruct Ecclesiastical how to vote?

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A. No. Our client Funds are managed under delegated authority; that is, clients delegate their shareholder rights in respect of proxy voting to the manager. We publish our voting policies and detailed voting templates so that clients can understand where and in what circumstances we will take action. Our quarterly voting reports are then published in full for clients to consult. We do encourage questions and comments and we would be delighted to hear from you at ifa@edentreeim.com

Ecclesiastical's Amity SRI Team

We have a specialist in-house Socially Responsible Investment (SRI) team who carry out thematic and stock-specific research to identify ethically responsible investment ideas for our range of [Amity Funds](#). Headed up by Neville White, Head of SRI Policy & Research, and supported by Associate Fund Manager Ketan Patel and Responsible Investment Analyst Esmé van Herwijnen, the team is also responsible for creating an on-going dialogue with companies, allowing us to engage on a wide variety of ethical and socially responsible investment concerns. For investors, it's an added layer of assurance that client money is being invested in companies that are operating in a responsible and sustainable way. Our ethical and responsible investment process is overseen by an independent Amity Panel that meets three times a year, and comprises industry and business experts, appointed for their specialist knowledge.



EdenTree – The Ethical Investment Specialist



Since launching the [Amity UK Fund](#) in 1988, EdenTree has taken a leadership role in managing ethical investments through our research, engagement and strong fund performance. Consequently, we were delighted to receive the Moneyfacts Award for Best Ethical Investment Provider 2015, the seventh consecutive year of winning this award. We were particularly pleased to win as it is voted for by the Adviser community. In 2013, the [Amity UK Fund](#) was rated 'Highly Commended' in the Investment Week Climate Change and Ethical Investment Awards. We were also awarded Money Observer Best Ethical-SRI Bond Fund for the [Amity Sterling Bond Fund](#); the [Amity UK Fund](#) won Best Equity Fund in the 2014 Money Observer Ethical/SRI category, and we were nominated for an award in the category of Best Thought Leadership Paper on Sustainable Investing, in the Investment Week Sustainable Investment Awards 2014. Today we offer six SRI funds under our Amity brand, four retail funds and two for charity investors, covering the major markets and investment classes

Further information

For further information on EdenTree's SRI range of Amity Funds please contact your EdenTree Business Development Manager, visit www.edentreeim.com or call our IFA support team on 0800 011 3821.

Please note that the value of an investment and the income from it can fall as well as rise as a result of market and currency fluctuations, you may not get back the amount originally invested. EdenTree Investment Management Limited (EIM) Reg. No. 2519319. This company is registered in England at Beaufort House, Brunswick Road, Gloucester, GL1 1JZ, UK. EIM is authorised and regulated by the Financial Conduct Authority and is a member of the Financial Ombudsman Service and the Investment Management Association.