Nest's voting and engagement policy – UK

February 2023

Contents

Background

Nest owns assets, including shares in UK companies, on behalf of our members. These shares give us a say in how companies are run through voting rights and engaging with companies on how they operate. We believe sound corporate governance and companies that consider their impact on society and the environment have a better chance of sustaining long-term economic success which supports better investment outcomes for our members. Nest believes voting and engaging with companies can help support positive behavioural change and build good relationships and trust with companies. Our responsibilities as a global asset owner and signatory to the **Financial Reporting Council's Stewardship Code** means we execute stewardship across all of our assets globally in the interest of our members. For us to undertake our stewardship responsibilities effectively companies need to exercise their disclosure obligations to a high standard. Comprehensibility of information is a critical input into our stewardship process, and we look for consistency and high-quality explanations on matters that are material to a company.

The changes to the **Occupational Pension Schemes (Investment) Regulations 2005**, which came into effect in October 2019, broadened the definition of stewardship to 'engagement and voting'. We see these two aspects as being linked and complementary. Our policy is drafted with both these functions in mind to demonstrate that Nest applies both voting and engagement to send signals to companies, develop understanding, and drive behavioural change in the long-term interests of our members.

About this document

This document sets out our high-level beliefs on the issues Nest votes and engages on with UK-listed companies we invest in. Every year Nest commits to review its voting and engagement policy to ensure our research, viewpoints and regulatory changes on issues like executive pay and audit are factored into the way we vote and engage with our investee companies.

The following policy outlines Nest's expectations of companies' environmental, social and governance (ESG) practices and approach to voting on the agenda items that are frequently proposed at UK shareholders' meetings each year. They are our view of leading standards of practice on corporate governance and sustainability topics and are complemented by our global voting guidelines, which highlight our baseline expectations of all companies and key differences by jurisdictions.

There are a number of issues where our expectations don't directly translate into an obvious voting outcome or we determine that voting is not the most appropriate method to voice concern. In these instances, we would expect that engaging with the company to communicate our views is more effective. We've highlighted the instances where we're more likely to engage rather than vote on a resolution. We also include engagement guidelines for certain ESG principles to demonstrate how our voting and engagement activity is linked. Nest is supportive of the **UK Corporate Governance Code** and welcomes many of the recent revisions to the Code particularly on workforce, corporate culture and diversity reporting which Nest has long promoted. Nest expects UK-listed companies to adhere to the Code or to provide a reasonable justification for not complying with individual sections of the Code.

Who is this document for?

The main audiences for this document are the companies Nest invests in and the fund managers we work with. The document sets out expectations to company directors on how Nest expects them to be structured and behave and we use it to engage with our fund managers on the issues important to Nest and our members. It may also be of interest to our members, stakeholders and employers with a detailed interest in the means by which Nest acts as a steward of its assets.

We have assumed those reading this document will be familiar with the **UK Corporate Governance Code** and the **Pensions and Lifetime Savings Association voting guidelines** with which our policy is broadly aligned.

How to read this document

The text box at the beginning of each section introduces each policy area where we set out some of our high-level views. We then provide a more detailed summary of the principles we uphold in each area. Under the heading ‘voting/engagement guideline’ we indicate how we would engage and/or vote on each principle. Towards the end of the document we have set out sector specific principles and voting guidelines. These illustrate different or more stringent expectations on ESG risk and performance for companies in certain sectors.

How Nest applies its voting policy

Nest takes its responsibilities as an asset owner seriously. Currently we invest in segregated and pooled funds managed by external managers. As clients and long-term partners, we work closely with our fund managers to help support good corporate behaviour.

Our fund managers exercise our voting rights on our behalf in accordance with their own voting policies. Part of our procurement process for choosing fund managers involves ensuring their voting policies are sufficiently rigorous and voting decisions are executed thoughtfully.

Having our own policy enables Nest to document our position and expectations to our fund managers on good corporate behaviour. We use it to hold our fund managers to account on the decisions they make. It also helps us identify differences in how they vote to how we would vote on a particular issue. Having our own viewpoints in place and having healthy discussion and debate with our fund managers on voting helps us achieve better outcomes collectively.

We would always seek to vote and engage in the interest of our members and encourage our fund managers to consider our policy in their voting decisions. While our views will generally be aligned with our fund managers’, there will be times we adopt a different approach on some areas. Where this is the case, we are able to override a select number of votes for our shares in the global developed and emerging markets companies. This means that we can have a direct say in our investee companies on matters we feel strongly about. Having a clearly articulated voting and engagement policy also support Nest in participating in the wider debates on markets and corporate behaviour.

Policy on key areas

Corporate leadership

The board and executive leadership team are responsible for setting the ‘tone from the top’. This ensures the business is acting in the long-term interests of its shareholders and other stakeholders. We believe companies are more likely to sustain their performance when boards lead their organisations in ways that benefit people in the whole organisation, not just a select few.

Performance is also more sustainable when senior leaders achieve their goals within a framework of professional ethics and integrity.

Boards should have an appropriate level of independence from management. Individual board members should each be competent, persuasive, open-minded, professional and sound in judgement. The board as a whole should be diverse in terms of gender, ethnicity, and experience. We believe diversity of thought contributes to better decision making.

Principle	Voting/engagement guideline
Leadership and conduct	
Sound ethics, values, and professional integrity help to support consistent decision making and behaviour. Attaining high standards of behaviour and ensuring these standards are filtered across organisations should be an ongoing objective of senior leaders. We expect the board to create a reliable and effective decision-making culture. This should include whether the organisation’s objectives and activities are framed in ways that promote ethical behaviour and prevent unethical behaviour.	We support the Chair and board where we see values, ethics and purpose set at senior level and instilled across the company. We support the Chair, chief executive and Chair of the remuneration committee where we see appropriate oversight of key decisions and activities.
We expect the board to monitor, assess and evaluate the organisational culture and ensure it is working to effectively deliver the company’s values, strategy and objectives.	We will engage with boards to encourage reporting on how they assess, monitor and evaluate organisational culture.
In line with the UK Governance Code, we expect companies to seek out the views of their key stakeholders and describe in the annual report how their interests and the matters set out in have been considered in board discussions and decision making.	
For engagement with the workforce, the Code states that one or a combination of the following methods should be used: › A director appointed from the workforce; › A formal workforce advisory panel; › A designated non-executive director. If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.	We may vote against the directors where a company does not have an appropriate workforce engagement mechanism in place.

Principle	Voting/engagement guideline
Separation of Chair and CEO roles	
We do not expect to find combined roles without good reason. When roles are combined, organisations may struggle to offset the risks associated with one individual having this level of power and access to information. Where roles are not separated there could be an over-reliance on one individual to provide this counterbalance, such as the senior independent director. This will take their time and focus away from the matters normally related to their role.	We will vote against the re-election of the Chair of the nomination committee and/or the individual in question if the positions of Chair and chief executive are combined without good reason.
Board Culture	
We expect the Chair to create a constructive culture that facilitates effective non-executive director behaviour. This includes challenging and providing support while remaining independent from the executive board. We expect non-executive directors to look beyond day-to-day issues and provide independent and balanced advice. Powerful and persuasive communication skills are needed, especially when there is shareholder disagreement with the board or during times of company difficulty.	We may vote against re-election of the Chair where there is evidence of poor board culture that impedes the effective discharge of non-executive duties. We may vote against the re-election of one or more non-executive directors where the board fails to appropriately mitigate and respond to significant company events.
Director independence	
We expect to find at least half the board comprising independent non-executive directors. We expect a smaller company to have at least two independent non-executive directors. We support the definition of independence as set out in the UK Corporate Governance Code. Independent non-executive directors are more likely to offer challenging questions and perspectives where there are not relationships or circumstances that could interfere with independent judgement. We support a three-committee structure of nomination, audit and remuneration committee and a fully independent audit and remuneration committee.	We may vote against re-election of the Chair, Chair of the nomination committee, or other board members where we doubt the board's overall independence. We may vote against the Chair of the audit committee where it is not fully comprised of independent members.
The role of the Chair to the overall success of the board is paramount. We believe the Chair's position should rotate after nine years on the board. This should generally be the case for other non-executive directors.	We will not support the re-election of the Chair and other non-executive directors after nine years without good reason.
Effectiveness	
Boards are more effective when all directors play full parts and take collective responsibility. An effective board will be characterised by diversity, including the way they think, their gender and what each can contribute. We support progressive approaches to encouraging difference so as to avoid group-think. The board and its committees have the capacity to discharge their duties more effectively and debate more constructively when there is breadth of	We will vote against re-election of the Chair of the nomination committee or other board members where we have significant doubts about the effectiveness of the board's overall composition. We may vote against the appointment or re-election of any director where we doubt their capacity for focus, contribution, or where the appointment seems not to clearly meet a skill set need.

Principle	Voting/engagement guideline
expertise, knowledge, and skill. Personality and cultural differences can positively impact on the way a group thinks. Individual board members should each be competent, persuasive, open-minded, professional, and sound in judgement. The purpose, priorities and skill contribution of each director should be clear to shareholders. We welcome boards conducting a regular self-assessment and an independent evaluation.	
Nomination	
When there are vacancies, companies should assess the potential need for diversity to increase or maintain a broad mix of thought and flow of ideas that contribute to more effective decision making. The nominations committee should ensure that there is a diverse pipeline of candidates suitable for board and senior management positions.	We will vote against re-election of Chair of the nominations committee if there is no indication of momentum or progress to increase diversity on the board where it is needed.
A focus on succession planning places appointments, retirements and replacement at the heart of long-term board effectiveness. Boards should satisfy themselves that plans are in place for orderly succession for appointments to the board and to senior management, so as to maintain an appropriate culture, balance of skills and experience within the company and on the board and to ensure progressive refreshing of the board.	We will vote against the Chair of the nominations committee and Chair if an appropriate succession plan has not been put forward at the request of shareholders.
Director re-election and commitment	
We do not believe annual contracts are a cause of short-term thinking. Good directors are motivated by the challenge of leadership. This makes us favour annual elections for all directors. Increasing regulation, compliance and complexity has changed the context and tempo of directing. Immersion in directing is now essential for effective stewardship of today's large company.	We do not support non-annual elections without convincing explanation and justification.
Part-time non-executive directors need to allocate significant time to their roles in order to be able to ask challenging questions based on a sound knowledge of the business. They will also need to dedicate the time needed to address the significant information asymmetries between themselves and full-time executive directors.	We are less supportive of part-time non-executive directors with a reasonably high number of significant external roles. We will vote against directors that attend less than 75 per cent of meetings without good justification.
Full-time executive directors with significant external professional commitments are unlikely to be fully effective.	We generally do not support full-time executive directors taking on a chairmanship or more than one non-executive directorship.
Diversity	
A company should have a policy on board diversity. We believe diverse boards in terms of gender, background, experience, education, qualifications,	We may vote against the re-election of the Chair of the nomination committee if a company fails to disclose a meaningful policy on board diversity which

Principle	Voting/engagement guideline
and ethnicity can improve the quality of decision making. Gender, personality, and cultural differences can have an impact on the way a group thinks, and we support progressive approaches to encouraging differences. We are supportive of seeing diversity in all forms encouraged and progressed throughout the executive pipeline and wider workforce. A focus on diversity can also help to legitimise both the board and company. We support further reporting on all aspects of diversity of the board and wider company. As well as ethnicity, we would be interested in understanding the backgrounds, experiences, and skills of people that make up the workforce and hearing from companies on how they think their actions in promoting and achieving a diverse workforce on many levels is contributing to its success.	should include setting targets for gender and ethnic diversity across senior levels of the organisation. We support boards that have a company-wide diversity policy or demonstrate how the board diversity policy filters across the workforce by setting the ‘tone from the top’. We will engage with companies to encourage further reporting on all forms of diversity throughout the company.
Gender diversity	
To help ensure companies develop their female talent in the executive pipeline we expect companies to meet **FCA’s proposed targets** on board gender diversity set out in its **Listing Rules** and report annually on a “comply or explain” basis: › At least 40 per cent of the board are women › At least one of the senior board positions (Chair, CEO, Senior Independent Director, or CFO) is a woman Where companies have not met these thresholds, they should report why they have not achieved this level and publicly state how they plan to further increase women’s representation.	We will vote against the re-election of the Chair and Chair of the nomination committee if a company does not meet the FCA’s proposed targets and listing rules without a reasonable explanation and where there is no indication of positive momentum or progress of electing more women to the board.
Ethnic diversity	
In line with the recommendations of the **Parker Review** and FCA targets on ethnic diversity set out in its Listing Rules, we expect FTSE100 companies to have appointed at least one board director from an ethnic minority background, and demonstrate momentum in appointing ethnic minority directors to the board In addition, we encourage the recognition of gender diversity in the appointment of ethnic minority directors to the board.	We will vote against the re-election of the Chair and Chair of the nomination committee at FTSE100 companies who have no board directors from an ethnic minority background, without reasonable explanation.

Sustainability

We believe a co-ordinated move to improve corporate sustainability can fundamentally change the way companies behave and do business.

Changing geopolitics, globalised workforces, growing public and investor concern over business impacts on environment and public health are increasingly impacting companies' long-term profitability. Many high-profile corporate scandals on issues such as poor pay practices and poor management of health and safety have shone a spotlight on the many other risks that impact companies' performance. There is an imperative for change and a strong case for companies to improve and report on their sustainability practices. We believe this gives companies a higher chance of sustaining long-term economic success.

'Sustainability' concerns a company's environmental, ethical, and social performance. Understanding companies' sustainability builds a more complete picture of the quality of a company's corporate strategy, risk management and general conduct.

Principle	Voting/engagement guideline
Risk oversight	
The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Risk governance should ensure risks are understood, managed, and, when appropriate, communicated. Boards should explain to shareholders how they approach overseeing and managing risks. Boards should confirm in the annual report they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency, or liquidity. This should include environmental, social and governance risks.	We will not support the annual report where the most relevant principal risks are not being disclosed. We may also vote against members of the committee where there is evidence of a lack of risk oversight from the board.

Principle	Voting/engagement guideline
Sustainability reporting	
We believe sustainability factors have the potential to materially impact on a company's future prospects. This means we expect the annual report to include details of material sustainability risks and how these are managed and incorporated into strategic reporting. It is important this information is publicly accessible and independently verified. We are also supportive of companies that participate in stakeholder initiatives that aim to increase quality and transparency around sustainability risk reporting. Companies need to communicate to shareholders how sustainability risks are being managed and the changes relating to these risks in a timely fashion. Where a risk has materialised during the reporting year, the board should communicate how the company is responding. We promote the timely disclosure of sustainability performance through engagement with companies. We support initiatives designed to encourage standardised metrics across sustainability reporting.	We are unlikely to support a resolution to receive the report and accounts where we believe that a company does not disclose information in relation to environmental, employment, social and community risks. This should include the process for assessing, addressing, measuring, and monitoring the present and ongoing nature and development of such risks. We are more supportive of boards that provide disclosures of progress against relevant sustainability key performance indicators (KPIs). We are more supportive of a resolution to receive the report and accounts where there is independent assurance of key sustainability metrics.
Climate change	
We believe that climate change is a systemic risk that affects the whole economy. We have therefore developed a climate change investment policy that sets an ambition to limit warming to 1.5C by reaching net zero emissions by 2050 or sooner. We expect companies in all sectors to disclose how they are managing their contribution to and impacts from climate change and transitioning their business models in line with the goals of the Paris Agreement. We expect companies to be transparent about their approach to addressing climate change risk. We are a signatory of the **Taskforce on Climate-Related Financial Disclosures** and encourage investee companies to report on climate change using this framework which includes how their business model is aligned with the goals of the **Paris Agreement.**. We expect the board to take ownership for climate risk, for example by the risk committee or environmental sustainability committee. We expect companies to incentivise their executives to work address climate change risks and opportunities through appropriate remuneration and welcome the use of specific climate change KPI such as GHG emissions reduction targets as part of executives' variable compensation packages. We also expect companies to be transparent about their lobbying activities with regards to climate change and to regularly assess whether the climate change activities of the industry bodies they are part of are aligned with their own climate change policies.	We will engage with companies on how they are transitioning to meet the goals of the Paris Agreement and how they will manage the impact the transition will have on their stakeholders, employees, and the wider community. We will do this through direct engagement as an investor and a partner, and through our participation in coalitions such as Climate Action 100+. If after a period of engagement companies have not made enough progress on reporting a coherent and robust strategy on climate risk mitigation, we will vote against the Chair and Chair of the sustainability committee. Where companies still do not make enough progress after we have taken voting action, we may consider filing a shareholder proposal or excluding the company from our portfolios. We will not support a resolution to receive the annual report and accounts and will vote against the re-election of the Chair if the company has not disclosed its Scope 1 and 2 GHG emissions. Where a company does not have a strategy for addressing climate change risks and/or where it has not reported on progress, we may vote against the annual report and accounts. We will also engage with companies about including climate change KPI in their executive remuneration policies and may vote against remuneration-related resolutions where we are concerned that companies are failing to appropriately incentivise their executives to meet their climate change goals.

Principle	Voting/engagement guideline
	We will engage and/or vote against directors where we believe that a company's lobbying activities or activities as part of industry bodies are misaligned with their public position on climate change. We will support all shareholder resolutions, where reasonable, that call on companies to disclose more information on how they manage climate change risks.
We welcome boards voluntarily putting forward "Say-on-climate" advisory resolutions that seek shareholder approval of the organisation's climate transition action plan.	We will review say on climate votes on a case-by-case basis. At a minimum, we expect to see the following: › A commitment to net zero emissions by 2050 › A description of the governance and accountability mechanisms › Disclosure of scope 1,2 and material scope 3 emissions › Short-, medium- and long-term targets and milestones, including for scope 1,2, and material scope 3 emissions that are in line with an appropriate scientific pathway for the sector › A description of how targets link to business planning, including capital allocation decisions › A description of the wider environmental and social impacts of the transition plan. Where companies' transition plans do not meet the criteria above, we will vote against the Chair of the sustainability committee, Chair of the audit committee or the Chair of the board. We prefer to see climate transition plans put to a shareholder vote once a year, and at maximum once every three years. We may not support a transition plan where the company has not committed to put forward an update within this timeframe.
Natural Capital	
Natural capital is an umbrella term for different stocks of natural assets which include the air, water, forests, soil, and all living things which provide a wide range of ecosystem services which make human life possible. The loss of natural capital is a systematic risk that will put a drag on economic growth and portfolio returns. Natural capital loss and climate change are closely interlinked. The loss of natural capital is likely to increase the severity and rate of climate change which in turn leads to more natural capital loss.	We expect investee companies to consider and minimise where possible their impacts on natural capital loss. We may engage with companies where their operations or products drive natural capital loss.
Deforestation is a crucial area of natural capital loss. Primary and tropical forests provide crucial ecosystem services, a natural habitat that supports significant biodiversity, and are significant carbon sinks that help to mitigate climate change.	Global Canopy assesses the 350 companies with the greatest impact on deforestation and scores them from 0 (worst) to 100 (best). We will engage with companies in the **Global Canopy Forest 350 list** which have a score below 40.Where progress has not

Principle	Voting/engagement guideline
We encourage high risk companies to disclose meaningful and consistent data on the impact and vulnerabilities to natural capital loss.	been made after one year, we will vote against the Chair or Chair of the sustainability committee.
Cyber security	
With an increasing amount of business taking place online, cyber security is an issue for all companies. Cyber risks are complex in nature and fast changing. We therefore expect boards to have regular and constructive discussions with the Chief Information Security Officer (CISO) or whomever is responsible for cyber security. We support the **National Cyber Security Centre's (NCSC) board toolkit** to help generate the right discussions between board members and CISOs and increase awareness of key topics in cyber security. We expect boards to be well informed and obtain the necessary skills and knowledge to be able to discuss and act upon cyber security information. We expect companies in high-risk sectors to provide assurance in disclosures that appropriate policies are in place to prevent, detect and respond to cyber security within the company and its supply chain.	Where cyberattacks have been proven to have occurred and boards were found not to have acted on information and/or had no relevant expertise we will vote against the Chair and Chair of the audit committees.
Workforce	
The people who constitute a company's workforce are in many cases a firm's most valuable asset. There is evidence that well engaged, stable, and trained workforces operating in a supportive environment are likely to be more committed and productive which drives long-term business success. We are supportive of the **Workforce Disclosure Initiative** (WDI) that asks companies to disclose information about how they manage risks and harness opportunities in their direct workforce and supply chains. Reporting on the following metrics provides investors with an understanding on how a company is maximising the long-term value of its human capital: › the composition of the workforce › the stability of the workforce › the skills and capabilities of the workforce › investment in training and development › employee engagement › health and safety, including both physical and mental wellbeing.	We support companies that provide disclosure on their workforces and are supportive of the WDI. Where we have concerns with a company's reporting on its workforce we may vote against the annual report and accounts. We will engage with companies that have not responded to the WDI. We support companies that follow the **Transparency in Supply Chains Guidance** issued by the Home Office.
We believe the **UK Modern Slavery Act** presents a step forward in promoting transparency in relation to company actions on modern slavery risks in its workforce and supply chains. It also ensures directors consider modern slavery risks by requiring the statement to be considered and signed by a board director.	We may engage with companies that are not disclosing adequately each year what action they have taken to ensure there is no modern slavery in their business or supply chains in accordance with the **UK Modern Slavery Act**.

Principle	Voting/engagement guideline
Charitable and political donations	
In general, we do not support companies making donations to political parties or political candidates. However, we do recognise there are legitimate circumstances where it may be in the interests of a company and its shareholders to support UK and EU political organisations concerned with policy review and law reform, or sector-specific special interest groups. We will consider resolutions that seek authority to make donations to such bodies on a case-by-case basis We believe companies should ask their shareholders to approve donations regardless of whether the political expenditure is for the UK or an overseas jurisdiction. We generally support charitable donations based on there being appropriate justification, including financial soundness of the arrangement.	We will normally vote against any authority that would allow companies to make donations to political parties. We will not support UK and EU 'political' expenditure. where the authorisation: › is longer than four years, however best practice is that approval should be sought on an annual basis › is more than £75,000 › does not provide assurance that no donations to political parties will be made. We do not support resolutions which seek authority for longer than four years or for a material amount in the absence of a clear justification. We will consider voting against the report and accounts where shareholders' funds have been used to make political donations without shareholder approval.
Tax management	
Tax practices of organisations can potentially lead to heightened reputational risk for companies. There are also increasing regulatory and litigation risks as governments take a more active stance on aggressive corporate tax behaviour. Such risks can have material long-term financial implications. The level of tax planning advice provided by the external auditor can indicate a client with an aggressive tax planning focus. A large proportion of non-audit fees can threaten independence and provides an indication of the level of resources spent by the company on tax planning. We do not support boards where tax services form a significant proportion of non-audit fees. We also look out for boards that treat tax as a potential or significant risk for the company.	We support companies committed to tax transparency by following the **GRI 207 tax reporting standards** and presenting to investors and stakeholders a consistent, complete, and accurate profile about their tax operations around the world particularly in jurisdictions with high financial secrecy as highlighted by the **Tax Justice Network**. We also encourage accreditation to the **Fair Tax Foundation**. Where a company's external auditor also provides services in relation to tax and the value of such services is of a significant proportion of the audit fee (25 per cent), we will vote against the audit committee Chair. We do not support proposals that seek reincorporation, or a change of domicile based on lowering investor protection or to protect against being taken over.
Bribery and corruption	
Companies should have a zero-tolerance policy towards bribery and corruption. They should be committed to doing business ethically with proper anti-corruption programmes in place that systematically investigate and report corruption incidents. We also expect the remuneration committee to include bribery and corruption in the malus and clawback policy.	Where a board failed to act on information available to it at the time, and bribery occurred as a consequence, we will vote against any board members who sat on the board at the time the bribery occurred.
A number of indicators can provide an insight into whether the necessary due diligence is in place. This may include communications from senior management, a whistleblowing policy, the use of KPIs and their link to remuneration. The quality of	We may engage with companies where we have concerns about their due diligence or corruption risk management processes.

Principle	Voting/engagement guideline
disclosure to shareholders in the annual report can also provide insight into due diligence.	
Shareholder proposals	
We value the right of shareholders to submit proposals to company general meetings highly. We will review proposals on a case-by-case basis and in accordance with our policy.	We generally support shareholder proposals that enhance shareholders' rights, are in the economic interests of shareholders, or support sustainability and good governance. We are unlikely to support proposals on issues we believe have already been addressed, are being addressing, or where the direction of change is already positive. We are unlikely to support proposals that are not relevant to the ongoing success of the company or for performing at an appropriate level.

Reporting and audit

Investors rely on financial statements and reporting to tell them how companies are doing. Having an independent and unbiased audit helps us trust what we're told by the company. If we can't trust what the company is saying about how it is being run, then we cannot be confident about investing.

Auditors express an opinion on how far a company's financial statements and reporting are 'true and fair'. They also provide a view on effectiveness of the companies' internal controls and governance processes around financial reporting.

Audit committees are made up of members of a company's board and are responsible for overseeing financial reporting. This includes making sure there are appropriate checks on the financial reporting systems in place and that the appointed auditor is independent of the company's management.

Principle	Outcome/voting guideline
Informative and future-orientated reporting	
The annual report is an opportunity for directors to communicate in a meaningful way on their stewardship of the company to investors. We believe high quality and informative narrative reporting supports an improvement in investor: › decision making › voting and engagement with the board › confidence and continued long-term financial investment in the company. We believe the strategic report within the annual report needs to represent: › a balanced and comprehensive analysis of the company's performance and prospects › a forward-looking outlook › an informative description of principal risks and uncertainties facing the business › analysis using appropriate financial and non-financial key performance indicators. We believe the viability statement within the annual report provides boards with the opportunity to conduct a narrative qualitative assessment of the long-term health of the company. It can also integrate business planning with managing the key risks, in addition to the going concern statement. We expect the look-out period to be longer-term but right for the company.	We will vote against the resolution to approve the report and accounts where reporting does not provide accurate or clear guidance on the principal risks and uncertainties. We will vote against resolutions to approve the report and accounts where discussions of internal controls do not include appropriate levels of detail and substantiation.
The board's report on risk management and internal control should provide shareholders with a clear understanding of the processes employed, including strategic, safety, operational and compliance and control risks. 'Boilerplate' statements and simply	We are unlikely to support the resolution to receive the annual report and accounts when we hold concerns with the company's internal controls.

Principle	Outcome/voting guideline
complying with minimum disclosure requirements are unlikely to provide shareholders with reasonable assurance or meaningful information. This is also not enough to give shareholders assurance they are getting a true impression on how the company is managing risk.	
External audit independence	
Auditor independence is essential in order to discharge duties with integrity, objectivity, and professional scepticism. It is also in the interests of the shareholders that the audit process is free from management pressure and commercial conflicts. An independent audit process is one performed in the interests of the shareholders and free from management pressure and commercial conflicts. The financial incentives faced by the external auditor need to be managed so as not to influence their independence.	We may vote against the re-election of the Chair of the audit committee where we doubt the independence of the external auditor.
Competition and re-tendering	
We believe in the re-tendering of the external audit contract at least every 10 years based on the 'comply or explain' approach in order to support robust standards. The introduction of re-tendering based on comply or explain is an opportunity to invigorate wider choice within the audit market. We see this as vitally important. We believe competition in the audit market supports higher standards and encourage companies to look beyond the 'big four' when tendering for audit services.	We will not support the re-election of the external auditor if: › the auditor has been in place for more than eight years and no plans to put the audit service out to tender are disclosed › there is no evidence to suggest that a new appointment was put out to a competitive tender. Where the company's business model is not international, we do not support tenders that limit participation to the 'big four' auditors.
Audit fees	
We believe the level of fees earned by auditors for non-audit work can affect auditor objectivity. We will have significant concerns about external auditor objectivity where the ratio of non-audit to audit fees is close to, or greater than, 0.7 and the absolute financial value of non-audit fees is significant. We believe companies should disclose in the annual report a breakdown of audit and non-audit related fees paid to the external auditors during the year.	We generally do not support resolutions on auditor re-appointments where non-audit fees exceed 70 per cent of audit fees paid to an external auditor in any 12-month period and the absolute financial value of non-audit fees is significant.
Audit committee report	
Audit committees that act independently from management can provide additional confidence in the integrity of the auditing process through the annual report. This could include more information on accounting judgements, on what basis their 'fair and true' assessment was decided, the reliability of the reported performance, and variability either side. We welcome a more critical and transparent approach that includes judgement, assessments and key decisions taken.	We are likely to vote against the re-election of the Chair of the audit committee where the audit committee report fails to provide meaningful information to assist shareholders understand how the audit committee operates and the issues it addresses.

Principle	Outcome/voting guideline
Climate change risk reporting	
We expect auditors to take into account material climate change risks and opportunities in accounting estimates or judgements. We also expect consistency in the discussion of climate change risks in the narrative section of the annual report and accounts and the financial statements.	We may vote against the Chair of the Audit Committee where climate change risks are not considered in the financial statements. We may vote against the re-election of the auditors where the auditors’ report does not indicate how they have taken into account climate-related risks and opportunities in their review of the financial statements.

Reward

We are sceptical about the current level of executive pay in the UK, the link between reward and performance and whether there should be any association at all.

Companies should pay no more than is necessary for the purpose of attracting, retaining and motivating directors of the quality required to run the company successfully. We believe that executives should not be paid more than is necessary to support these goals.

Many of those who step-up to a board role will already be successful financially. Individuals stepping-up to a board director position are likely to be exercised by the puzzle and challenge of leadership and its achievement as much as pay. The heavy linking of pay to performance for already high achievers is unlikely to produce the motivational drivers that investors want executives to be energised by.

In our view, success is the result of the hard work by all workers, not just those within the executive team. We have seen no evidence that wide pay disparity between executives and those lower down creates sustainable economic performance within a company and wider society.

Principle	Outcome/voting guideline
Pay in context	
Executive pay should not be set in a vacuum but should be considered within the context of the overall experience of all workers and long-term success of the company. We expect the remuneration committee to have a high level of awareness and oversight of the remuneration policy of the entire company and understand how that fits with the desired corporate culture. The remuneration committee should be aware of pay levels in equivalent sectors, industries, and wider public concerns.	We may vote against the remuneration policy and the Chair of the remuneration committee if the board does not consider overall worker pay when setting pay for executive directors.
Any potential increases to the level of salary should be considered in tandem with the effect this will have on overall quantum; for the majority of remuneration structures, increasing the salary will have a ‘multiplier effect’ on the overall level of remuneration. The Investment Association Principles advise that where remuneration committees seek to increase base pay, salary increases should not be approved purely on the basis of benchmarking against peer companies.	Annual increases in salary should be ideally lower proportionally than general increases across the broader workforce. We will vote against the remuneration report where this is not the case and reasonable justification has not been provided.
Employee reward and benefits are a significant factor in determining and developing a company’s culture. It is not always clear why directors’ pensions accrue at a preferential rate compared to ordinary workers, or why some executive directors receive pay increases greater than elsewhere in the company.	We will vote against the remuneration report if executives receive preferential pension treatment over other workers.

Principle	Outcome/voting guideline
We want more information on pay, especially on workers lower down in the organisational structure. We are interested in increased disclosure on the proportion of staff on zero-hours contracts and those paid below the living wage upheld by the **Living Wage Foundation** and on the gender and ethnic diversity of the entire UK workforce. We support campaigns that advocate a living wage for low-income earners. We also encourage investee companies to pay at least the Living Wage Foundation's living wage.	We will engage with companies who are not living wage accredited by the Living Wage Foundation without reporting a good enough reason. We will vote against the remuneration report and Chair of the remuneration committee of FTSE 100 companies that do not match the living wage as defined by the Living Wage Foundation.
We expect companies to be mindful of and address gender and ethnic inequality amongst their workforce. We believe that the new reporting legislation requiring companies with more than 250 workers to disclose how much they are paying in salaries and bonuses to their male and female workers, as well as the pay ratio between their CEO and 'median' employee, is a welcome step. We also support companies voluntarily disclosing how people from different ethnic backgrounds are paid. We expect companies to be transparent in their reporting and not report on selective components to deflate their pay ratios.	We will engage with companies that have been identified as failing to address large gender pay gaps. We will also engage with companies to encourage the reporting of ethnic pay gaps. We will continue to monitor and look for explanations on excessively high pay ratios and treat them on a case-by-case basis.
Performance related pay	
The use of some reward metrics for executives makes pay packages more inflated than necessary, complex, less aligned with the interests of the company and contribute towards increasingly large income disparities in a company. In particular, we would like to see Long Term Incentive Plans (LTIPs) reflect sustained value creation for the company in the long term (at least five years).	We will vote against LTIPs that pay out over less than five years. We may also vote against schemes that do not set pre-determined limits on share awards and are unnecessarily complex in design.
We prefer to see reward metrics linked to key performance indicators (KPIs) that help executives meet agreed corporate strategic objectives, and sustainability KPIs which link to long-term value creation. These would align executive director behaviour with real performance and long-term value creation rather than share price or similar measures which may encourage excessive risk taking or poor decision making. We expect companies not to repurpose existing KPIs.	We will vote against the remuneration policy and report where performance related pay is solely linked to share price performance. We will vote against the remuneration policy and report where we there is a lack of transparency in how sustainability metrics are applied, and engage with companies about the need to incorporate sustainability related KPIs in their executive remuneration policies.
Multiple incentive schemes	
Multiple components increase the complexity of executive pay. Where remuneration has more than three core components — base salary, incentive plan, and pension — the remuneration report should explain what this is achieving and why this is needed	We will vote against the re-election of the Chair of the remuneration committee where there are a significant number of incentive schemes in operation resulting in an opaque incentive structure.
Remuneration committee meetings	
On average, UK-listed company remuneration committees meet more times during the year than do	We may vote against the re-election of the Chair of the remuneration committee where the remuneration

Principle	Outcome/voting guideline
audit or nomination committees. This can lead others to form the impression that boards see the remuneration committee as more urgent than other committees. Without supporting explanation from the board, we do not see why the remuneration committee should be meeting more frequently than other committees.	committee meets more frequently than other committees and there lacks suitable explanation.
Aligning business aims and shareholder interests	
Where remuneration is used to align executive director behaviour with objectives, the remuneration committee should formulate objectives based on the aims of the business and shareholder interests. Shareholders differ widely in their characteristics and this potential diversity is likely to lead to a variety of interests.	We are more supportive of the remuneration committee where business aims and shareholder interests are used as objectives to align and reward executive director behaviour.

Capital

Existing shareholders collectively own the company, so companies should go to existing shareholders first for approval before undertaking certain transactions.

Principle	Voting/engagement guideline
Buying own shares	
We generally support proposals to return cash to shareholders that we believe enhance net asset value. We believe that the Investment Association (IA) **Guidelines on Own Share Repurchase** is an appropriate good practice standard for industry.	We generally support buy-back proposals that follow IA guidelines on Own Share Repurchase.
Pre-emption rights	
We believe that pre-emption is an important right. We believe that the pre-emption group **Statement of Principles** and **IA guidance on Directors 'Powers to Allot Share Capital and Disapply Shareholders' Pre-emption Rights** provides a recognised basis of understanding between companies and investors.	We generally support share capital proposals that follow pre-emption group and IA guidelines.
Increase in share capital or preferred stock	
Companies need to establish and maintain an efficient capital structure. The **IA's guidance on Directors' Powers to Allot Share Capital and Disapply Shareholders' Pre-Emption Rights** provides a basis of understanding between companies and investors on changes to share capital.	We generally support share capital proposals that follow IA guidelines.
Mandatory takeover bid Rule 9 waiver	
The requirement that a takeover bid be launched when a substantial percentage of the issued share capital has been acquired by one shareholder, or by shareholders acting in concert, is an important protection for minority shareholders.	We will generally vote against a Rule 9 waiver.
Dividends	
Dividend payments are a valued and relied on source of income for some shareholders and a source of financial discipline for corporate boards. We believe in resolutions to approve the final dividend regardless of size. Good dividend disclosure promotes an understanding of the board's stewardship, including how capital is being maintained. The **Financial Reporting Council's Lab** recommended four ways in which disclosures could be improved:	We are less supportive of the chief finance officer where a separate resolution to approve the final dividend is omitted. If we have concerns with a company's dividend cover and with the company's disclosure we will write to the company asking for them to make appropriate disclosures. If in the following year we consider disclosure to continue to be insufficient we may vote against the report and accounts.

Principle	Voting/engagement guideline
1. Identifying the explicit links between the dividend policy and the potential impact of the company's principal risks and viability; 2. Enhancing the disclosure on any constraining factors to dividend payments; 3. Explaining more fully what the policy means in practice; and 4. Clarifying where profit is generated in the group, how profits might flow to the top of the company and any relevant constraints (current or potential) to that flow. Disclosing the parent company distributable profits balance is very informative. We are more supportive of boards that provide clear disclosure of distributable reserves at the parent level, the portion of profit that is distributable, and the portion of distributable reserves for use as dividends. This is to give us confidence dividends are not being proposed from amounts that might not be distributable.	We are more supportive of the chief finance officer, Chair of the audit committee, and financial statements when the Financial Reporting Council's Lab dividend disclosure recommendations are followed. If a company has had recent compliance issues with UK law in relation to dividends, we will pay close attention to the future disclosure of the company.

Sector specific voting guidelines

We expect all companies in which we're invested to adhere to high standards of business practice. However, the level of ESG risk, business conduct and reputational risk can vary across sectors and the type of issues we address through our voting and engagement approach may be more applicable to some sectors than others.

We have therefore developed sector specific principles and voting guidelines where we have different or more stringent expectations on ESG risk and performance for companies in certain sectors.

UK Banking sector

Principle	Voting/engagement guideline
Conduct and culture	
Appropriate conduct and culture of UK banks is relied upon by people and organisations around the world. The Bank of England has accentuated that UK banks are systemically important. They are regulated by the **Prudential Regulatory Authority. The 2014 Banking Standards Review**, also known as the Lambert Review, concluded that appropriate conduct and culture within UK banks is essential for them to be able to raise trust in the sector and perform at an appropriate level. The **Banking Standards Board** (BSB), established in 2015, aims to help to raise standards of behaviour and competence across the UK banking industry. Membership of the BSB is voluntary. Membership confers positive affirmation of a commitment to high standards of behaviour, competence, and professionalism individually and across the whole of the banking and building society sector. The voluntary annual assessment exercise shines a light on how far a firm demonstrates characteristics associated with any good culture in banking. We also encourage banks to adhere to the **Equator Principles**.	Due to the scale of the nation's interest in long-term UK bank performance and the importance of conduct and culture to that, we believe the role needs to be placed with a dedicated board member as well as rest with the whole board. We will engage with banks that are regulated by the Prudential Regulatory Authority but are not members of the Banking Standards Board (BSB) to encourage them to become members and take part in the Assessment exercise.
Climate Change	
Banks should demonstrate alignment with the goals of the Paris Agreement by aligning all financing activities with achieving net zero emissions by 2050 or sooner. We expect banks to set explicit criteria for withdrawal of financing to all new coal projects.	We will engage with the banks to encourage them to factor in climate-related risk in their financing activities. We will vote against the annual report and accounts if Boards ignore calls from the investor community to reduce fossil fuel financing. We will also vote against the Chair of the sustainability committee, the Chair of the audit committee or the Chair of the board where companies have not disclosed a strategy to manage climate change risks. Where banks finance new coal, oil sands, or arctic drilling projects, we will vote against re-election of the directors of the board.

Carbon-intensive sectors

Principle	Voting/engagement guideline
Climate risk management and reporting	
While climate change is a systemic risk that will impact all companies, highly carbon intensive industries such as energy, utilities, materials, transport and agriculture are particularly exposed to the physical risks of climate change and risks from the transition to a low-carbon economy. We expect these companies to disclose the climate change risks that are material to their business model, a strategy to manage these risks and set short-, medium-, and long-term targets to address them.	We will vote against the report and accounts of companies in highly-carbon intensive sectors where climate change is not discussed as a principal risk. We will vote against the Chair of the sustainability committee, the Chair of the audit committee, or the Chair of the board where companies have not disclosed a strategy to manage climate change risks. We will support shareholder proposals that require a company to report information concerning their potential liability from operations that contribute to climate change or their strategy in reducing these GHG emissions with specific reduction targets. We will not support the executive remuneration policy and executive remuneration report if credible climate KPI’s are not embedded within executive remuneration policies. If after a period of engagement companies have not made enough progress on reporting a coherent and robust strategy on climate risk mitigation including short- and medium-term targets, we will vote against the Chair of the sustainability committee, the Chair of the audit committee or Chair of the board. Where companies still do not make enough progress after we have taken voting action, we may consider filing a shareholder proposal or excluding the company from our funds.
The just transition is the effective and equitable management of the positive and negative social and employment implications of climate action across the economy. The just transition is especially relevant for workers within carbon-intensive sectors as those companies and jobs will likely be the most negatively affected by a transition to a greener economy.	We are likely to support shareholder resolutions that support a just transition and may engage with companies to consider and prepare for a just transition.
The IEA’s net zero by 2050 report states that “beyond projects already committed as of 2021, there are no new oil and gas fields in our [Net-Zero] pathway”. In other words, the development of new oil and gas fields must stop to reach net-zero emissions by 2050. Unless they are aimed at replacing existing, more carbon-intensive fossil fuel reserves, or are coupled with significant carbon capture and storage, new oil and gas fields do not fall under the IEA’s pathway to net zero.	We will engage with companies in carbon-intensive industries with the goal of having them commit to stop developing new oil and gas fields that in line with the IEA’s net zero by 2050 scenario.

Commodity-related sectors such as energy, mining, and agriculture

Principle	Voting/engagement guideline
ESG risk management and sustainability reporting	
Commodity companies are operating in ESG-risky sectors in parts of the world where regulation may be weak. We expect companies to minimise their business impacts on the communities and environments in which they are operating. We expect the annual report to include details of material sustainability risks and how these are managed and incorporated into strategic reporting. It is important this information is publicly accessible and independently verified. Where commodity companies are undergoing merger and acquisitions (M&A) we expect newly formed companies to have factored in climate risk management and have a well thought out strategy on how the business will transition to a low carbon economy.	We will not support a resolution to receive the report and accounts where we believe that a company does not disclose information in relation to environmental, employment, social and community risks. This should include the process for assessing, addressing, measuring and monitoring the present and ongoing nature and development of such risks. If there is no information provided to investors on the potential climate risk or there is evidence that company's environmental performance will deteriorate resulting from M&A activity we may vote against the corporate action.
We expect all concerned companies to be compliant with the **Global Industry Standard on Tailings Management**. We expect operators to take responsibility and prioritise the safety of tailings (waste materials left after the target mineral is extracted) facilities, through all phases of a facility's lifecycle, including closure and post-closure.	We will engage with companies and vote against the re-election of the Chair and the audit committee where companies fail to comply with the Global Industry Standard on Tailings Management.

Digital, technology and financial companies

Principle	Voting/engagement guideline
Keeping businesses safe from cyber crime	
A primary objective of the UK Government's **National Cyber Security Strategy** is to make the UK a safer place to conduct business online. Going digital has brought wide ranging benefits to society, but cybercrime is a business that all companies are at risk from. The credentials of some companies - especially financial, customer, or contract data, are worth more than others, and therefore we expect some companies to have more preparedness than others. We expect companies that host user generated content to manage the dissemination of harmful content, make clear in their terms and conditions what is and is not acceptable on their site, and to remove illegal content. We also expect companies to protect users' freedom of expression and privacy rights.	We support companies in certain sectors like banking to go beyond Cyber Essentials certification and meet International Standards accreditation such as IS027001 We may vote against the Chair of the board of companies where the consequences from cybercrime are likely to be particularly severe and where there is no evidence that the board has deployed controls that an organisation needs to have in place to help defend against Internet-borne threats. We will engage with companies to adopt key recommendations by the "**Ranking Digital Rights**" organisation to improve digital rights corporate accountability.

Listed Asset Management firms

Principle	Voting/engagement guideline
The need for leading governance and sustainability practices in asset management firms	
Listed asset management firms invest money in companies globally on behalf of their millions of clients. We expect these asset managers to hold companies to account on a range of ESG issues through their voting and engagement activities. Given asset management firms' global client base and their ability to positively drive change in companies we expect them to adhere to market leading standards of corporate governance and not hide behind weaker regulatory regimes within their jurisdictions. Such standards may include separation of CEO and Chair, auditor rotation, restrained executive pay and disclosure of climate-related risks and opportunities in their investor portfolios and operations in line with the TCFD framework.	We will vote against the re-election of directors, auditor or executive pay policy if listed asset managers are not adhering to leading standards of practice on a range of environmental, social, or governance issues. We will engage with asset managers if we have concerns about their willingness to hold companies to account on ESG issues through high quality voting and engagement activities.

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DS-GVP-003