

Voting and Engagement Policy

Listed equities

Last updated 19 February 2021

Introduction

Downing's approach to voting and engagement is aligned to our vision of responsible investment, that is set out in our Responsible Investment Policy. As an investor in companies' shares, we are both entitled and have a fiduciary duty to make use of our voting rights and to engage with these companies to ensure they are run in a way that protects the interests of our investors.

We aim to vote on all proxy proposals, amendments, consents and/or resolutions of general meetings of companies held within our managed portfolios. We have adopted a pragmatic approach to voting, where we evaluate issues on their own merit and under the relevant circumstances, and directly communicate with management as necessary (particularly on any contentious matters), to assist us in determining our vote in accordance with the best interest of Downing Fund Managers and our clients.

There are a number of matters where our expectations cannot be fully reflected through voting. In these instances, as part of our stewardship approach, we will directly engage with the company's management to communicate our views in an effective, honest and constructive way. We believe this approach is likely to result in better outcomes that contribute towards the long-term success of the business.

Notwithstanding our consideration of issues on a case-by-case basis, this document aims to set out Downing's high-level expectations on matters that we vote and engage in. This positioning reflects our responsible investment commitments as a PRI signatory, supporter of TCFD and the UK Corporate Governance Code and current applicant to the UK Stewardship Code. Overall, we believe that companies with a robust corporate governance, and that take proper account of their environmental and social impacts, are more likely to perform better over time.

We also engage with our beneficiaries to understand their priorities and positioning, so that we can better define our voting and engagement strategy. We acknowledge that positioning on different matters may change both internally and for our beneficiaries. Therefore, we are committed to reviewing this Policy regularly.

Voting implementation and Reporting

Our preference is to vote 'For' or 'Against' a resolution. We generally aim to support management, although resolutions that are inconsistent with this Policy or for which we have previously abstained with concerns not suitably addressed, will be voted against.

We understand that disclosure and reporting are becoming increasingly important for our clients and other stakeholders. We disclose our voting records on an annual basis as part of our Voting and Engagement Report which summarises our activity in this respect.

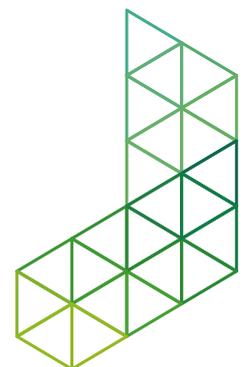


Corporate Leadership

Issue	Position	Voting guideline
<p>Board composition</p>	<p>We acknowledge that board composition varies significantly, but generally we look for boards that are effective, with appropriate accountability to shareholders and stakeholders.</p> <p>Boards should have an appropriate balance of executives and non-executives. There should be an appropriate level of diversity of skills, backgrounds, thought, opinion, gender and ethnicity to provide for optimal decision-making and challenge of management.</p> <p>The board should be large enough to encourage debate, but overly large boards should be avoided.</p> <p>All directors should be subject to annual re-election, with adequate succession plans in place.</p>	<p>We may vote against the chairman or the nomination committee chairman if material concerns persist in respect of board composition, diversity and succession planning. In particular, this will be the case when no non-executive directors have been appointed to the board within a reasonable period of time.</p> <p>We will vote against individual directors where we have significant concerns over their suitability and skills relevant to the company.</p>
<p>Chairman and CEO</p>	<p>Our strong preference is for the figures of the CEO and Chairman to be separate, to avoid concentration of power in one person. Ideally, the Chairman should be independent. Should these positions be combined, we would expect this to be counterbalanced with an increased number of independent directors in the board.</p>	<p>We believe concerns over the Chairman, the CEO and corporate strategy are better addressed via direct discussions with the Senior Independent Director (see below).</p> <p>We will review the suitability of a combined role on a case-by-case basis, particularly if the company has provided the necessary alternative independence assurances.</p>
<p>Independent directors</p>	<p>We would expect larger companies to have at least half of the board made up of independent directors. AIM companies should follow the UK Corporate Governance Code as far as practicable, or explain their reasons for applying a different approach.</p>	<p>We may oppose the election or re-election of a non-executive director who we do not consider to be independent, if we think there are not sufficient independent directors on the board, unless a reasonable explanation is provided.</p> <p>We will not support the re-election of the Chair and other non-executive directors after nine years without good reason.</p>

Corporate Leadership cont'd.

Issue	Position	Voting guideline
<p>Board functioning</p>	<p>There should be an adequate number of board meetings to ensure issues material to the company are addressed in a timely manner. We would regard six in any one year as a minimum.</p> <p>Board members must have enough time to discharge their role properly, taking into account periods where there may be a need for increased time to deal with any emerging issues. Attendance at both board and board committee meetings is important and should be publicly reported.</p>	<p>We will not normally support the re-election of a director with a consistently poor attendance record.</p>
<p>Board committees</p>	<p>Board committees (at least audit, nomination and remuneration) should be established with clear terms of reference.</p> <p>For larger companies, we believe that the nomination committee should be comprised of a majority of independent directors, and the remuneration and audit committees should be wholly comprised of independent directors.</p> <p>For smaller companies that cannot meet the majority independence threshold, we would consider supporting committees where at least two-thirds are independent, provided there is a sufficient rationale.</p>	<p>We may oppose the re-election of committee members where we have concerns about the appropriate functioning of such committee.</p>

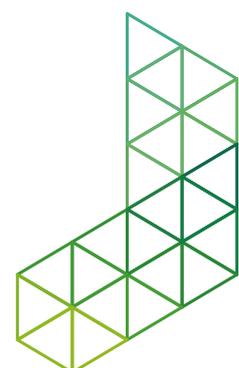


Compensation, Audit and Accountability

Issue	Position	Voting guideline
<p>Remuneration</p>	<p>We believe remuneration should be designed to promote the long-term success of the company. It is the responsibility of the remuneration committee to ensure that remuneration is not excessive and directly linked to the performance of the company, the individual and wider workforce pay.</p> <p>We are in favour of straightforward incentive schemes that can be widely understood and that create alignment between executives and shareholders. Any Long-Term Incentive Plan (LTIP) needs to reflect sustained value creation for the company in the long term, based on clearly defined key performance indicators (KPIs). We expect a minimum of 2 year holding period once options vest. We encourage companies to adopt remuneration policies that incorporate material ESG related performance measures, provided they are linked to objective and, where possible, quantifiable KPIs.</p>	<p>We may oppose the remuneration implementation report if we do not believe there is adequate alignment between remuneration in the year under review and long-term shareholder value.</p> <p>As the purpose of an LTIP is to encourage executives to act in the interests of shareholders, holding periods are important. An insufficient holding period may therefore result in our opposition.</p> <p>We may vote against the remuneration policy if there are concerns with how remuneration is structured, if the policy allows for potentially excessive remuneration in clear disconnect with the overall workforce, the relevant KPIs of the company, or where we believe the independence of the remuneration committee to have been compromised.</p>
<p>Audit and auditor remuneration</p>	<p>We favour the appointment of an auditor recommended by a fully independent audit committee. The independence of auditors may be compromised by the size of their non-audit fee. Full disclosure of the auditor's remuneration should be provided within the annual report. Audit committees should periodically review the independence status of their Auditors.</p>	<p>We may vote against the re-appointment of the auditor when we perceive their independence to have been compromised by the level of non audit fees or the length of their tenure, or any other compromising issue.</p>
<p>Risk identification and management</p>	<p>Risks, including those related to cyber security and climate change, should be identified and effectively managed.</p> <p>When incidents occur, companies should look to be transparent and disclose relevant facts and actions taken to shareholders.</p>	<p>In the case of serious breaches of corporate governance at a company, it might be appropriate to vote against the report and accounts.</p> <p>We may vote against the Chairman, the report and/or accounts where we perceive risks have not been appropriately addressed by the board and where the company has not been responsive to engagement.</p>

Capital Structure

Issue	Position	Voting guideline
Increase in share capital	We acknowledge that companies need to establish and maintain an efficient capital structure. Authority to issue an amount not exceeding two thirds of issued capital on a pre-emption basis is generally acceptable, assuming directors are appropriately accountable.	We will review proposals by companies to increase shares and the purpose of that increase on a case-by-case basis. We may consider opposing any capital raising that involves unequal voting rights.
Pre-emption rights	Pre-emption rights for existing shareholders are important. Shares may be issued for cash without pre-emption or for remuneration purposes, subject to limits. These should not exceed 5% of issued share capital. In some exceptional cases, 10% may be acceptable.	<p>We would generally vote in favour of authorities to issue shares for cash where the proposed issue is limited to 5% of the current issued share capital. We may exceptionally vote in favour of an additional 5%, as long as these are considered as two separate 5% resolutions.</p> <p>We would oppose any waiver of pre-emption rights beyond the 10% limit.</p>
Dividends	<p>A resolution in respect of dividends should be put separately from the resolution to approve the report and accounts.</p> <p>We expect good dividend disclosure, which provides us with an understanding of how capital is being maintained by management.</p>	We will engage directly with management if we have any concerns regarding a company's dividend and level of disclosure. In the event of continued concerns, we may eventually decide to vote against the annual report and accounts.



Sustainability

Issue	Position	Voting guideline
Remuneration	<p>Companies should demonstrate consideration and management of environmental and social issues through appropriate disclosures. Disclosures should incorporate risk and opportunity identification and testing of corporate strategy against scenario-based climate change impacts. Where relevant, disclosures should further incorporate an outline of adequate mitigation action taken on these matters.</p> <p>We favour the publication of dedicated sustainability reports.</p>	<p>We will generally vote in favour of any resolutions which are directed at mitigating environmental and social risks.</p> <p>We would consider voting against the annual report when disclosures are flagrantly inadequate, and where we believe there may be material implications for the business and the interests of our beneficiaries.</p>
Audit and auditor remuneration	<p>We view favourably the appointment of board representation with suitable environmental and sustainability skills. All directors should have awareness of material social and environmental risks facing the company.</p>	<p>When considering board director re-appointment we will view favourably an assessment of whether there are sufficient sustainability skills on the board or whether more are required.</p>
Risk identification and management	<p>Generally, charitable donations should not be made with shareholders' funds. Small amounts are acceptable, with a shareholder approved policy specifying the maximum amount.</p> <p>Political donations should not be made. .</p>	<p>We will consider voting for resolutions authorising appropriate charitable donations. However, we will oppose any political donations.</p>

