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PLSA Corporate Governance Policy and Voting Guidelines 2019

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Introduction

The Pensions and Lifetime Savings Association (**"PLSA"**), representing the occupational pensions industry, has published guidance on market best practice to assist its members when exercising their vote at AGMs in 2019. The revised version of its Corporate Governance Policy and Voting Guidelines (**"Guidance"**) reflects the introduction of the 2018 UK Corporate Governance Code which applies to financial years beginning on or after 1 January 2019 (**"Code"**). Interestingly, the Guidance does not follow the format and order of a typical AGM agenda but instead highlights those issues which the PLSA believes are significant to investors. In particular, this change has resulted in greater prominence for resolutions regarding approval of the remuneration policy and remuneration report, and the principle of sustainability.

UK Corporate Governance Principles

Whilst the PLSA's corporate governance principles remain largely unchanged, the Guidance includes the following additions:

- **Companies should take capital structure decisions which balance the financing needs of the firm with the interests of broader stakeholders**: a new principle which encompasses striking the right balance between dividend payments to shareholders and

paying deficit repair contributions to any defined benefit pension scheme as well as undertaking share buybacks only when doing so is the best way to achieve long-term value.
- **Pension schemes should consider explicitly setting out their expectations for outsourced engagement and stewardship activities in their contracts or mandates**: a new principle which identifies that stewardship responsibilities remain when asset owners outsource engagement to asset managers and contracts should be set up to allow their service providers to be accountable. This principle recommends the International Corporate Governance Network's Model Mandate as a starting point for ensuring this.

UK Voting Guidelines

The PLSA encourages shareholders to make systematic use of all of the powers at their disposal, particularly their voting powers, at AGMs. The Voting Guidelines have been updated in light of the revised Code and the following are new items introduced in the Guidance:

- **Section 1 – Board Leadership and Company Purpose**: the Code introduces a greater role for inclusion of the workforce voice in corporate governance, which the PLSA has welcomed. The Guidance suggests that shareholders may wish to undertake closer analysis of the narrative used in company statements to ensure this is captured and to assess a company's corporate purpose, culture and values.
- **Section 2 – Division of Responsibilities**: the Guidance describes the roles of the chairman of the board and CEO as distinctly different and recommends that the CEO should only become chair in exceptional circumstances following significant engagement with shareholders. Shareholders should also ensure they have a clear sense of other demands on directors' time, including knowledge of any significant developments following a director's appointment which could impact on their ability to commit sufficient time to the company. The Guidance further recommends that the annual report should set out details of other current appointments, including any changes over the previous year, and that shareholders should clearly observe the relationship between the independent non-executives and the company that could compromise the directors' ability to hold management to account.
- **Section 3 – Succession, Composition and Evaluation**: the PSLA states that shareholders should expect organisations that undertake external board effectiveness reviews to be in a position to take an independent and rigorous approach.
- **Section 4 – Audit, Risk and Internal Control**: the PLSA strongly supports the recent focus on audit committees, encouraging shareholders to pay close attention to the composition, skills and experience of the audit committee and that any committee member's connections with the current or potential auditor be clearly disclosed.
- **Section 5 – Remuneration**: the Code states that executive remuneration should be reviewed in line with overall workforce remuneration, which includes the pension contribution rates for executive directors. The Guidance recommends that investors should continue to express concerns regarding pay increases of senior executives and should always press companies for clear justification and rationale behind any increases.

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