Monitoring Review of Shareholder Voting 2022

Prepared for:

National Employment Savings Trust

Prepared by: Minerva Analytics Ltd

August 2023

TABLE OF CONTENTS

LIST OF TABLES AND FIGURES

OVERVIEW

1.1 Introduction

This is the tenth shareholder voting review undertaken by the National Employment Savings Trust (Nest). The report provides an overview of the trends and tendencies of Nest's fund manager voting behaviour in a
1 comparative and wider context alongside key governance issues identified by Nest's bespoke voting policy. The analysis points to a considered implementation of Nest's voting policy and active oversight of Nest's external fund managers.

The aim of the report is to provide further understanding of:

- Voting activity taken on behalf of the fund; and
- Wider voting issues and governance standards at companies.

Responsible Investment

Nest owns equities, corporate bonds, and other asset classes on behalf of its members. Investing in and owning stakes in companies and other investments brings rights, responsibilities, and obligations. Nest believes that in order to fulfil this commitment and to protect and enhance the value of the investments over the long term the fund must act as a responsible asset owner and market participant.

As a long-term investor, Nest believes that integrating environmental, social and governance (ESG) considerations into the investment management process improves risk-adjusted returns. Long-term returns to investors are likely to be more sustainable if companies consider the interests of wider stakeholders – customers, employees and the wider public as well as shareholders and lenders.

Nest therefore exercises its ownership rights, including voting and engagement rights, in order to protect members' interests. Nest currently gives discretion to its external fund managers to vote on behalf of Nest, however the fund remains responsible for monitoring and overseeing external managers on behalf of its members.

Nest support and follow various codes of good practice and actively participates in initiatives and reporting requirements for the UN-backed Principles for Responsible Investment[1] (PRI) and other groups. Acting as part of a coalition of like-minded investors gives collective clout and gives a clearer voice to the millions of members Nest acts on behalf of.

Nest is a signatory of the UK Stewardship Code. The Stewardship Code is a set of good practice principles for investors and aims to improve the way that companies and shareholders work together in the long-term interests of shareholders[2].

Nest is an affiliate member of UK Sustainable Investment Finance (UKSIF)[3]. The UKSIF offers affiliation to occupational pension funds that own shares in companies but don't sell products or services or manage their own funds. This is intended for schemes that are interested in sustainable and responsible finance as owners of shares in companies. These affiliate schemes are not full members of UKSIF and do not play a formal role in governance.

---

[1] The six principles for responsible investment can be located on the PRI website: https://www.unpri.org/

[2] The 12 principles of the 2020 UK Stewardship Code can be located on the FRC website: https://www.frc.org.uk/investors/uk-stewardship-code
NEST's statement of compliance with the UK Stewardship Code is available online: https://www.frc.org.uk/getattachment/d6f50673-a241-4d08-a16a-8d39617ab4bb/responsible-investment-report-2021-22-(4).pdf

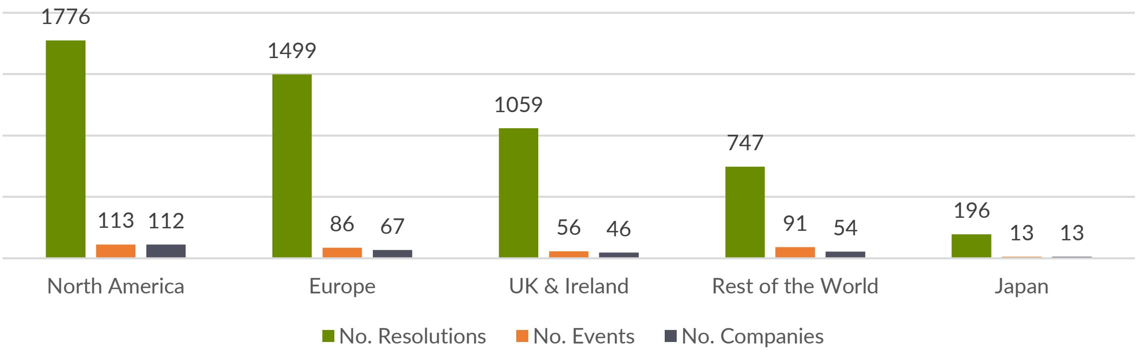
[3] More information on the UKSIF can be found on the association's website: http://uksif.org/

Scope of this report

The report analyses 292 companies which are specified as part of an active monitoring subset by Nest officers. The monitoring subset comprises a list of Nest's largest holdings, companies that Nest are currently engaging with and companies identified as having ESG issues in the past. Focussing on a pre-defined set of companies helps Nest scrutinise how fund managers are exercising votes on the most significant issues in its largest holdings. Ahead of the 2022 voting season, Nest updated the constituents of its active monitoring list based on the fund's ESG priorities: climate change, human capital, cyber security, digital rights, diversity, and food[4].

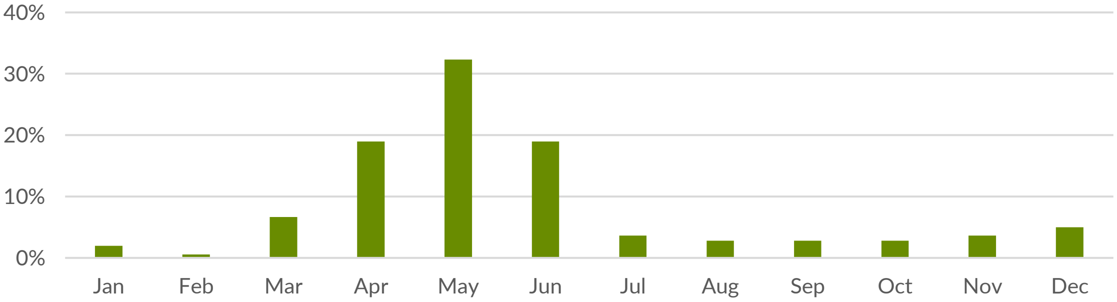
The period covered by this report encompasses the period of 1st January to 31st December 2022. The reporting period bought about a total of 359 meetings and 5,277 resolutions.

Figure 1: Number of Companies, Resolutions and Shareholder Meetings by Region



Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the majority of companies aligning their financial years to the calendar year end of the 31st of December, and many others using the traditional April to March financial year, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years. This means the majority of meetings are concentrated in the period between April-June (Quarter 2). For this reason, Quarter 2 is referred to as 'peak season'.

Figure 2: Spread of Shareholder Meetings in the Monitoring Subset by Month



Recent voting seasons have been impacted by the coronavirus pandemic. The pandemic caused companies to rethink their arrangements for corporate meetings due to restrictions and guidance on movement, travel, public gatherings and self-isolation; this resulted in companies going digital and holding virtual meetings.

Historically, investors have been opposed to the use of virtual meetings and view the AGM as an important forum at which the board is publicly available. Virtual meetings make it more practical for institutional investors to take part in multiple shareholder meetings without having to travel—including the possibility to attend AGMs in different jurisdictions on the same day. But there are also potential disadvantages that could weaken shareholder rights if virtual meetings are structured or managed poorly. Some organisations have started to develop practical suggestions on how virtual meetings can be held in a way that leverages technology to enfranchise shareholders[5].

[4] For more information on the Nest's ESG priorities see: https://nestviews.org.uk/our-responsible-investment-priorities/

[5] https://www.icgn.org/icgn-insights-article-shareholder-meetings-new-virtual-normal

1.2 Fund Manager Monitoring

As direct owners of shares, Nest's fund managers can have a positive influence on the running of the companies they invest in on Nest's members' behalf. Most shares give their owners a right to vote on some company decisions, including things such as whether to take over another company or approve the amount senior executives are paid. Voting usually takes place at each company's AGM.

Nest generally invests via pooled funds, which means the fund manager has responsibility on behalf of numerous investors for any voting rights associated with the shares held in the fund. Most of the votes associated with Nest's shareholdings are therefore not voted directly by Nest itself.

Nest actively monitor a subset of companies during voting season. This focus helps Nest to prioritise important issues and understand how its fund managers are exercising votes in its largest holdings, companies in high-risk sectors, and companies identified as having governance issues in the past.

Nest has established its own voting policy enabling Nest to document its viewpoints and expectations to fund managers on how companies should be governed and managed[6]. Nest use the policy to hold fund managers to account on the decisions they make and to identify variances in how fund managers vote to how Nest might have voted on a particular issue. It helps facilitate healthy discussion and debate and allows Nest to fully participate in the wider dialogue on good corporate governance.

During the voting season Nest also expresses its views publicly on important issues. Nest does this to gather wider support for particular votes, publicly represent the interests of members, and to send direct signals to companies about changing their approach.

For each company in the active monitoring subset Nest receives voting intentions from its fund managers UBS, HSBC, NT, and BMO prior to shareholder meetings. This allows "real-time" analysis of fund manager voting intentions during the voting season and allows Nest to identify any differences of opinion and talk to its fund managers about them.

Nest use Minerva Analytics as a proxy advisor. In advance of each shareholder meeting in the portfolio, Minerva analyses the governance and disclosures of the company and the meeting business proposed to be voted on by shareholders and applies Nest's voting policy to produce bespoke policy guidance.

Nest believes it can have the most impact by engaging with fund managers about their voting policies, voting decisions, and approaches to voting and engagement more generally. By engaging in dialogue with fund managers and challenging their decisions on issues such as high executive pay and decarbonisation strategy, Nest can encourage them to hold companies to account in the way members would expect.

[6] More information on Nest's voting policy can be found on:
https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatisnest/contents/Responsible-investment.html

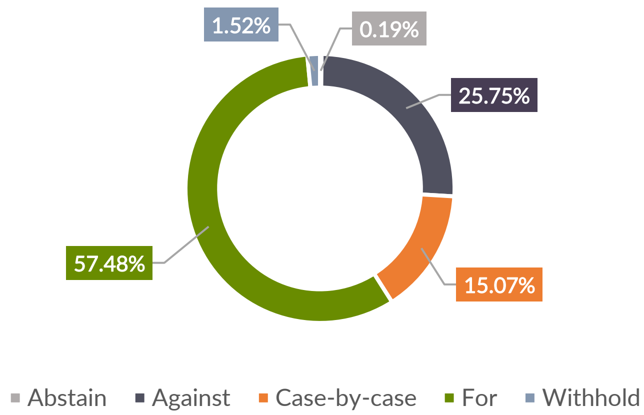
Nest's VOTING POLICY

2.1 Nest Policy Guidance

Where this report refers to policy guidance ("guidance"), this is guidance that reflects Nest's bespoke voting policy, rather than generic guidance provided by Minerva. The guidance is generated by expert analysis of
2 governance disclosures and the meeting business proposed to be voted on by shareholders in advance of each shareholder meeting of a company. The guidance consists of a set of agreed policy points of view and potential actions that could be taken in the event of any resolution having triggered specific policy criteria, if theoretically Nest were actively voting shares themselves.

Nest's policy takes a robust and objective approach to the guidance that it generates in order to ensure a consistent application of its principles. Where the resolution in question is in line with the Nest policy standards, the guidance is to vote 'For'. Where a concern is identified, the policy guidance will be determined by the voting policy system settings chosen by Nest: most commonly 'Against', but sometimes 'Case-by-Case', while 'Abstain' is rarely used. The below chart shows Nest's policy guidance across the 5,277 active monitoring list resolutions.

Figure 3: Nest Policy Guidance Direction



Nest does not follow a 'one-size fits all' approach and explores the structure, conduct and performance of a company as a whole. Therefore, Nest's policy acts as a robust, repeatable and consistent triggering mechanisation to instigate further review by Nest's officers when a potential policy concern is identified.

When Nest's policy flags a potential issue or concern with a company, not only is guidance produced as described above, but a transparent audit trail is produced which outlines the specific policy criteria that triggered the alert. The audit trail can be used to analyse the governance criteria identified by Nest's policy to identify the most frequent governance concerns the companies within the subset have.

The guidance is read alongside company explanations before the Nest team comes to an informed view. When Nest assumes direct control of their voting, they will be able to override the guidance directly on the basis of the company explanation or other contextual issues including direct engagement with the company rather than, as at present, delegating the voting task to the fund managers. The apparent divergence between the guidance and actual vote outcomes should be considered in this light. This approach is consistent with the 'comply-or-explain' basis of the UK and other corporate governance codes. Therefore, the guidance on its own is not designed to be a substitute for detailed understanding of the individual circumstances of the company and any associated engagement[7].

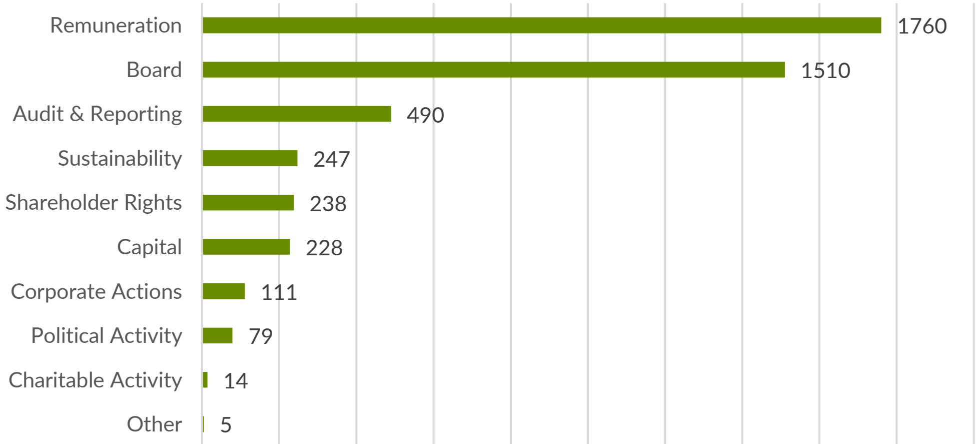
[7] The FRC has published a discussion paper on what is a meaningful explanation: https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/What-constitutes-an-explanation-under-comply-or-ex.pdf

2.2 Governance Issues Identified

Nest's governance and voting oversight project involved a detailed review of each company in the active monitoring subset. Some resolutions were subject to multiple policy criteria[8]; therefore, there were 2,244 unique resolutions with a potential governance concern and 4,682 different potential governance concerns identified, meaning 42.52% of the 5,277 resolutions in the portfolio had at least one potential policy issue identified.

When considering the most common policy issues identified in the monitoring subset, comparison with last year's analysis shows that, in general, there is proportionally more issues of concern identified (4,237 in 2021). This is explained in part by the fact there was a larger number of resolutions in the dataset this year (5,277 in 2022 compared to 4,908 in 2021), there was a larger number of resolutions with a governance concern identified, and Nest's voting policy was reviewed and amended ahead of the 2022 season resulting in a greater number of environmental, social and governance factors being considered for the first time in Nest's voting template. Overall, the proportion of resolutions with a policy flag has increased from 40.24% in 2021 to 42.52% in 2022.

Figure 4: Spread of Policy Issues by Resolution Category



For many of the issues identified in the analysis, portfolio companies will have provided explanations for non-compliance, in-line with "comply-or-explain". These explanations may in some cases be accepted by shareholders, although some shareholders may have 'red lines' on certain governance matters.

Remuneration and board issues were the most frequently identified concerns. These two general themes, taken together, raise questions about the significance with which many companies view the quality of board input, as well as their approach and attitude towards pay for performance.

These questions are on-going general concerns for shareholders and continue to spark debate and regulatory initiatives. In 2022, these themes continue to have heightened focus due to expectations on the corporate response to the coronavirus pandemic recovery and the stakeholder experience. It should be noted that key themes such as remuneration practices and board composition should be assessed over the longer term when looking for changes in company practices and should be considered to be an evolution process over time.

These concerns are the substantive issues, and the prevalence of these issues are not synonymous with fund managers voting records due to different tactical approaches, for example issues may be raised during engagements which are not reflected in voting.

[8] For example, a resolution to approve a company's remuneration report was subject to multiple policy criteria including considerations of disclosure of performance targets, the length of performance periods, the existence of clawback provisions etc. Accordingly, a single resolution may have multiple potential governance issues identified. Additionally, one single policy concern may be flagged on multiple resolutions – for example, remuneration committee independence may be flagged on resolutions to elect directors and resolutions to approve remuneration.

Table 1: Nest Policy Flags and Shareholder Dissent[9]

Resolution Category	Number of Resolutions	Number of Flagged Resolutions	NEST Policy Flags %	Average Shareholder Dissent %
Audit & Reporting	559	292	52.24%	2.62%
Board	2919	867	29.70%	4.28%
Capital	554	138	24.91%	3.54%
Charitable Activity	21	13	61.90%	3.28%
Corporate Actions	117	92	78.63%	3.30%
Other	4	4	100.00%	-
Political Activity	58	56	96.55%	15.82%
Remuneration	498	380	76.31%	9.93%
Shareholder Rights	331	192	58.01%	7.38%
Sustainability	216	210	97.22%	20.91%
Total	**5,277**	**2,244**	**42.52%**	**5.57%**

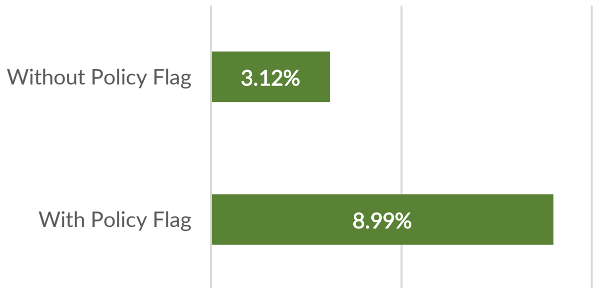
As the average dissent levels from the meeting results data shows, shareholder support of management is overwhelming in favour, even on the most contentious issues. Average dissent across all resolutions was 5.57% - in other words, an approval rating of more than 94%.

As was the case in previous years, remuneration-related resolutions proved to be the consistently contentious resolution category of those routinely and predominantly proposed by management. These figures often grab the headlines and consequently attract a relatively high level of opposition from shareholders. When considering the Political Activity, Sustainability and Shareholder Rights categories, the high level of average shareholder dissent is explained by the large number of resolutions proposed by shareholders in the categories.

There is a noticeable difference between the level of average general shareholder dissent and the number of resolutions with a Nest policy flag. The policy flags act as a consistent and objective screen to ensure that potential policy issues are reviewed in depth and engagement undertaken if necessary. Nest believes this approach allows for a greater individual understanding of each investee company. Nest considers corporate governance not purely in numeric terms but also with a strong focus on qualitative assessments of companies. This approach is consistent with the "comply-or-explain" basis of the UK Governance and Stewardship Codes.

The Nest policy flags can be used as a proxy for considering the governance quality of the companies within the fund manager portfolios and their compliance with good practice as according to Nest's voting policy. Resolutions with a policy flag received more than double the average shareholder dissent of those without a policy flag, demonstrating Nest has a robust policy consistent with other investors' governance concerns.

Figure 5: Average Shareholder Dissent on Resolutions with a Nest Policy Flag



[9] Where we use the term 'Dissent', this is the result of having added up all votes not supporting management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where management recommended is 'For' and 'For' and 'Abstain' votes where management recommended 'Against'). Where there was no clear recommendation from management, we have not counted any votes cast on those resolutions as dissent.

GOVERNANCE & VOTING

Corporate governance is important to investors because it defines the system of checks and balances between the directors of the company and its owners. Hence, good governance is the first step to effective risk management and sustainable long-term returns. Without appropriate levels of independence, accountability, incentive, experience, and oversight on the part of the board, corporate governance would offer shareholders
3 little protection from the risk that their investment in the company is badly managed. The effectiveness and credibility of corporate governance may largely depend on how institutional investors exercise ownership.

3.1 Board

The board of directors is responsible for the long-term mission and strategy of the company. Nest expect boards to act in the long-term interests of the company and its shareholder and other stakeholders.

Board related resolutions constituted over half of all the resolutions voted by Nest's fund managers. This is due almost entirely to the high number of director election resolutions on a typical AGM agenda; most director elections are now conducted on an individual basis (i.e., one resolution per director) and regularly form part of the common or mandatory business for an AGM. Nest believes directors should stand for re-election on a regular basis, to ensure the accountability of board members to shareholders.

The election of directors, and the governance structures which they constitute, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders and other stakeholders vital to the success of the company. It therefore follows that they are held accountable and that a wide number of considerations are taken into account.

Board quality and composition is important in ensuring effective oversight of management and long-term material risks. 32.25% of the potential governance concerns flagged by Nest's policy related to the functioning of boards and their committees. The most common board-related policy flags were:

- A key board committee was considered insufficiently independent.
- There were concerns regarding the independence of the board.
- The chair of the board was considered non-independent, such as by serving in an executive capacity or as combined CEO and chair.
- A director held a significant number of other directorships ("over-boarding") raising concerns with their capacity and time commitments.
- There were legal concerns identified (such as outstanding litigation) at a company and approval was sought to discharge the directors from liability.
- There were concerns with the audit committee's oversight on audit independence and tenure.
- There board had an insufficient level of female representation.

In recent years a number of institutional investor guidelines have called for greater director accountability for governance failings in shareholder voting. For example, if concerns are held with executive remuneration or climate strategy, then a shareholder could oppose the election of the chair of the remuneration committee and the sustainability committee chair to send a stronger signal.

3.2 Remuneration

Remuneration on average is the most contentious issue at a company's AGM. This is perhaps partly because the disclosure regime which applies to remuneration is so demanding that there is an abundance of information about how much directors get paid. These figures therefore often grab the headlines and consequently attract a high level of shareholder scrutiny. Although, on the other hand, the disclosure regime in certain markets it is not as advanced, for example in Japan remuneration will usually be disclosed on an aggregated basis rather than on an individual basis. Typically, executive remuneration is composed of salary; benefits; pension; annual bonus; long term incentives; and contract termination provisions.

Remuneration packages are increasingly complex, with both fixed and variable elements. Variable pay performance is measured over annual and (typically) three-year periods with multiple performance metrics often utilised. Voting decisions are based on the absolute levels of pay for the past year, the size of any increases proposed for the coming year and the alignment between performance targets and company strategy.

During the coronavirus pandemic, shareholders have expected executive remuneration to be aligned with the overall experience of the company, its shareholders, employees, and other stakeholders, and for remuneration committees to exercise discretion to ensure appropriate pay outcomes. It remains to be seen whether the easing of coronavirus-related restrictions will result in less pressure on executive remuneration. Whilst shareholders will recognise the need to retain and incentivise executives in the pandemic recovery, they may pay special attention to outcome-aligned performance. In particular, shareholders will need to remain vigilant in checking that incentive pay does not provide windfall gains for wider post-pandemic market performance.

The most common Nest policy flags on remuneration-related resolutions were:

- No clear link between the performance measures used in variable pay and a company's key performance indicators; ("pay for performance").
- A lack of transparency on the performance targets used in incentive pay.
- Concerns regarding the termination provisions allowing for potential rewards for failure.
- Awards granted to executives which vest without reference to performance.
- Concerns with the length of the vesting and/or performance period for long-term incentive awards.
- Concerns with the stretch of performance targets, such as the provision for partial vesting of awards for below median TSR performance.
- A lack of incorporation of material environmental, social and governance issues in executive incentive pay.

Companies held to account on executive pay:

Six companies in Nest's active monitoring list had their remuneration report voted down by shareholders in 2022:

- Bayer AG
- Halliburton Co
- Intel Corp
- JPMorgan Chase & Co
- Koninklijke Philips NV
- Stellantis NV

Executive pay continues to be a high-profile issue for companies, shareholders and stakeholders. The primary drivers behind shareholder dissent on executive pay appear to be remuneration complexity, base pay increases larger than the wider workforce and/or unjustifiable high levels of executive pay, the continuing impact of COVID-19 concerning the use of discretion and/or adjustments, and the alignment of the executive pay with the stakeholder experience.

During the 2022 voting season, companies have granted one-off awards more frequently than they had before the coronavirus pandemic, citing retention and recruitment challenges as the rationale for such awards. Nest is generally unsupportive of the use one one-off awards as in its view they can undermine the company's existing incentive schemes and can be an indicator of poor succession planning and remuneration governance.

The grant of one-off awards were key factors for the remuneration report defeats at Intel Corp and JPMorgan Chase & Co. At Intel, the remuneration committee granted incoming CEO Patrick Gelsinger a one-time new-hire equity award to replace forfeited incentives at his former employer. The award consisted of performance stock units, performance-based stock options, and restricted stock unit awards with an aggregate target value of $110m. As part of JPMorgan's long-term executive retention and succession planning, the board granted a special award worth $52.6m to CEO and Chairman Jamie Dimon in the form of stock appreciation rights. Nest's fund managers voted against the remuneration reports at both companies.

3.3 Sustainability

'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, governance, risk management and general conduct.

Resolutions categorised as Sustainability received over 20% average general shareholder dissent. This can be explained by the fact that shareholder proposals accounted for the majority (69.10%) of sustainability resolutions. Shareholder-proposed resolutions in general received on average a much higher dissent level than management-proposed resolutions. The shareholder proposals generally asked companies to either **improve sustainability reporting and/or performance** overall or on a specific sustainability issue e.g., climate change.

Say on Climate:

Climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Climate change remains a strong topic of debate between shareholder, companies, and lobbyists discussions at company AGMs. Despite controversies such as the crisis in the energy market and windfall profits, support for climate ambition remains strong.

In recent years, companies have come under increasing pressure to align their business models with the Paris Agreement Climate Goals, which call for global warming to be capped at 1.5°C compared with pre-industrial levels. The emergence of say on climate is a clear indication of the increasing relevance of this issue to investors and companies.

2021 was the first time in which companies put forward resolutions seeking shareholder approval of their climate transition plans, spurred on by the 'Say on Climate' initiative. The initiative calls on companies to provide annual disclosure of emissions, present a detailed climate action transition plan to reduce emissions and to put forward a resolution at the AGM seeking shareholder approval of the climate transition action plan. The number of companies holding a say on climate vote increased in 2022, increasing from 12 in 2021 to 28 in 2022.

Nest welcomes boards voluntarily putting forward advisory resolutions that seek shareholder approval of the organisation's climate transition action plan. Nest expect companies to be transparent in their approach to addressing climate change, their GHG emission reduction targets, and their TCFD disclosures and will review say on climate votes on a case-by-case basis.

28 companies in Nest's active monitoring list voluntarily held a say on climate vote at their 2022 AGM. The resolutions received average shareholder support of 84.55% and eight companies received dissent of 20% or more. In comparison, no company received significant dissent in the previous reporting period. The resolutions to approve the climate transition action plans at Australian oil and gas majors Woodside Energy Group Ltd and Santos Ltd received the highest dissent rates, of 49.68% and 40.35% respectively.

The voting results suggest that in 2021 companies were rewarded for being first movers on the adoption of say on climate, rather than for the strength of their transition plans. For example, Glencore and Shell both saw the level of shareholder support on their say on climate votes fall to below 80% in 2022. This suggests that shareholders are now expecting companies to go beyond commitments and outline the detail underpinning their targets. Although shareholder dissent has increased, no company has yet to suffer a say on climate defeat and investors need to be cautious on climate transition plan votes due to the risk of rubber-stamping plans that are not sufficiently aligned with the Paris Climate Agreement goals.

3.4 Shareholder Resolutions

The **overwhelming numbers of resolutions were proposed by management, with only 6.06% of resolutions proposed by shareholders**. The vast majority of shareholder resolutions were proposed in North America (261), where in the absence of an independent national corporate governance code (as in, for example, the UK Corporate Governance Code), shareholders use resolutions as a tool to try and improve corporate governance practices at companies. The remaining shareholder resolutions took place in Europe (30), Rest of the World (20), UK & Ireland (5) and Japan (4).

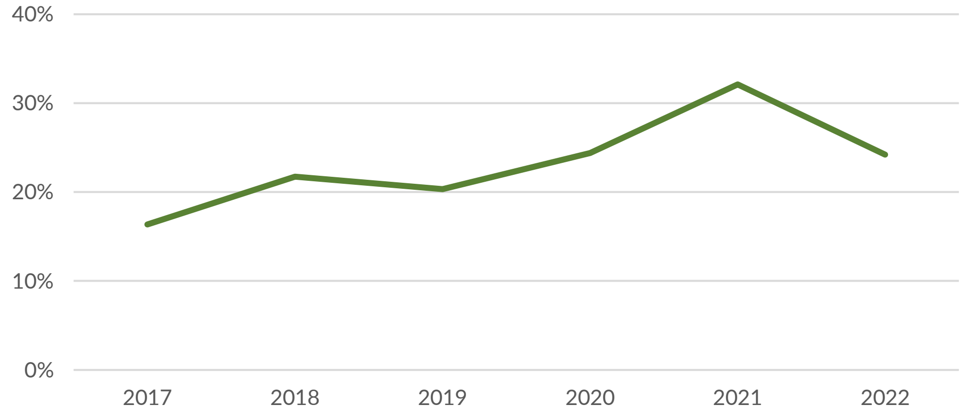
Shareholder resolutions are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change. A minority are binding, such as proposals to amend the articles of association (rather than requesting the board to do so) and thus may be subject to a higher majority to pass.

Nest value the right of shareholders to submit resolutions to company general meetings highly. Nest's policy is to support shareholder resolutions that enhance shareholders' rights, are in the economic interests of shareholders, or support sustainability and good governance. Due to the subjective nature of shareholder resolutions, Nest's policy generally refers shareholder resolutions to case-by-case considerations to individually assess the merits of each proposal. Nest assess the request of a shareholder resolution in the context of the company's existing practice and policy as well as wider market and international trends.

The majority of shareholder resolutions related to **sustainability reporting and/or performance, and shareholder rights.** At US companies the **separation of the Chair and CEO roles** and the **shareholder right to take action by written consent and call special meetings** were also key themes in shareholder proposals.

Average shareholder dissent on management-proposed resolutions was 4.32% (2021: 6.88%), while it stood at 24.22% (2021: 32.11%) on shareholder-proposed resolutions. This shows that shareholders are more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution. As the chart below shows, in 2022 there has been a reversal to the upward trend in shareholder support on shareholder resolutions in the monitoring subset[10].

Figure 6: Average Shareholder Dissent on Shareholder Proposals



Due to the decline in support, it is important consider the context for shareholder voting on shareholder proposals in 2022:

- Due to changes in the US Securities and Exchange Commission guidance, fewer shareholder resolutions were excluded by boards, resulting in new types of proposals and more proposals being voted on in the market.
- Shareholder activists may have been emboldened by success in 2021 resulting in more ambitious proposals filed in 2022, particularly on climate change, with more requests for targets and policy rather than greater transparency, and more sustainability-related proposals filed than ever before.
- First-time proposals tend to receive low levels of support until boards and investors become more comfortable with them.
- Due to the increase in volume of proposals, some institutional investors clarified their voting approach on proposals that are considered overly prescriptive or constraining on management.
- There was a different political and economic environment with the war in Ukraine and crisis in the energy market impacting voting decisions around climate strategy and the need to ensure short-term energy security.

Reflecting the trend in support, there were 25 successful shareholder resolutions in the active monitoring list during the year, a lower number than the 39 successful proposals in 2021.

[10] For example, see the International Corporate Governance Network's viewpoint on shareholder proposals https://www.icgn.org/sites/default/files/2021-12/ICGN%20Shareholder%20Proposal%20Viewpoint%20review%20021221%20Final.pdf

Some of the most notable successful shareholder resolutions during the year were:

Proxy Contest	AGL Energy Ltd's board was overhauled at its 2022 AGM due to concerns over its climate risk management and a shareholder campaign by the Galipea Partnership. Galipea, a 11.28% shareholder, nominated four director candidates for election to AGL's board and despite the board only backing one of the candidates, all four were elected. Galipea had called for a refreshment of the board in order to drive the company's response to the decarbonisation and strategic challenges facing AGL.
Racial Equity	In the 2022 voting season, several companies received shareholder proposals asking boards to commission an independent racial-equity or civil-rights audit to examine how their policies, products and practices affect the civil rights and equality among employees, customers, and stakeholders. Proposals asking for a racial equity audit filed at Johnson & Johnson Inc, Home Depot Inc and McDonald's Corp received majority support from shareholders. Nest believes social and human rights risks can have adverse impacts on shareholder value and are supportive of initiatives that seek to encourage greater transparency and good practice.
Pay Gaps	At The Walt Disney Company a shareholder proposal requesting enhanced reporting on both the median and unadjusted pay gaps across race and gender passed with majority support. Nest expect companies to be mindful of and address gender and ethnic inequality amongst their workforce. Nest expect companies to be transparent in their reporting and not report on selective components to deflate their pay ratios and will engage companies that have been identified as failing to address large pay gaps.
Climate Change	Shareholder proposals concerning climate change were successful at Boeing Company, Caterpillar Inc, Chevron Corp, Costco Wholesale Corp, Dominion Energy Inc, and Exxon Mobil Corp. The proposals covered a variety of topics to asking for strengthened emission goals to enhanced reporting on methane emissions and scenario analysis. The votes highlight the importance for companies to provide public disclosures to allow investors to evaluate how boards oversee management's approach to addressing material climate risk in the company's business model and to track the progress made in meeting climate objectives.
Deforestation	Shareholders passed a resolution at The Home Depot Inc asking the board to prepare a report on the company's efforts to eliminate deforestation and the degradation of primary forests in its supply chains. 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. Nest encourage high risk companies to disclose meaningful and consistent data on the impact and vulnerabilities to natural capital loss.
Governance	There were several governance-related shareholder proposals seeking to enhance shareholder rights and governance practices at companies that received majority support. Successful governance-related proposals included a request for a shareholder say on severance payments at AbbVie, the de-classification of the Ansys board and introduction of annual director elections, the lowering of the threshold required for shareholders to call a special shareholder meeting at ConocoPhillips, and enhancements to the shareholder right to nominate directors ('proxy access') at Tesla. Nest is supportive of shareholder resolutions that enhance shareholder rights and encourage good governance practices.

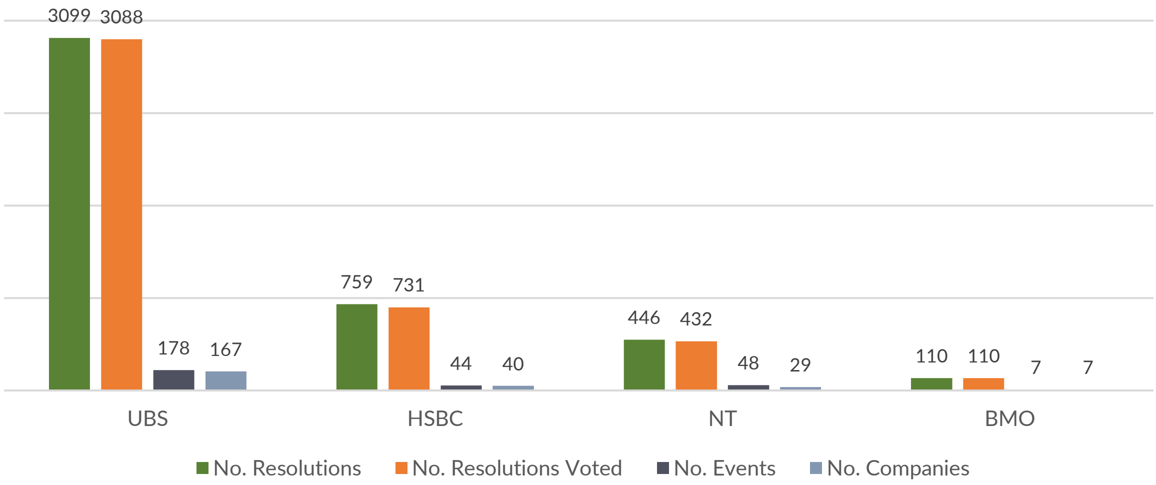
MEETINGS AND RESOLUTIONS VOTED

4.1 Fund Manager Voting

There were 359 company meetings and 5,277 resolutions in the monitoring list during the review period. Some companies were not held in a fund manager portfolio, or a fund manager held a particular class of shares that
4 provided for limited or no voting rights, meaning no votes were cast by a fund manager on behalf of Nest for such companies. Nest also includes companies in the subset that are not directly held by a fund manager if the company is in the Climate Action 100+ list, declined participation in the Workforce Disclosure Initiative or if Nest want to take a close look at the governance practices of a particular company. Additionally, certain companies were held in more than one fund manager portfolio.

In aggregate, Nest's fund managers were entitled to vote at 277 meetings and 4,414 resolutions during the reporting period. This compares to 293 meetings and 4,095 resolutions in 2021.

Figure 7: Total Number of Meetings & Resolutions Voted by Fund Manager



Notes on Data:

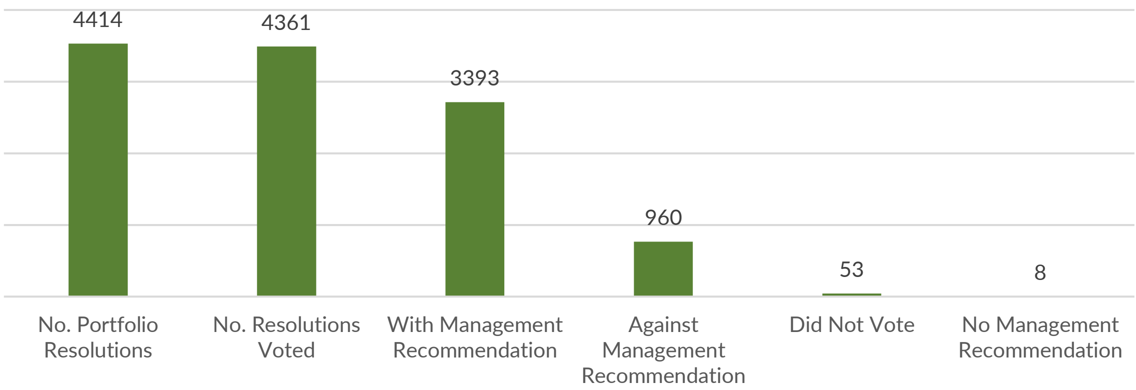
There is a difference between the total number of meetings and resolutions in the fund manager portfolios and the number of meetings and resolutions voted. This is due to a number of reasons. For example, some resolutions cannot be voted on by all classes of shares; a meeting have been adjourned meaning no voting directions were reported, or where a do no vote instruction was given because of technical issues. Do not vote instructions were issued due to specific local market documentation requirements or market regulatory sanctions e.g., Russia or Iran. Only events which fund managers reported voting actions have been included.

See the following guidance for more information:
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685308/financial_sanctions_guidance_march_2018_final.pdf

This snapshot looks at a targeted subset of holdings rather than Nest's fund managers' total global voting activity. The governance and vote-monitoring project aims to provide a detailed and engaged oversight of stewardship activities, rather than enforcing compliance with any particular policy position. It allows for a comparison and understanding of fund manager activities, general shareholder voting behaviour, and fund expectations.

The number of companies and resolutions in the active monitoring subset is relatively small in comparison with the total number of meetings and resolutions voted by Nest's fund managers. Therefore, no inferences or conclusions should be drawn about voting patterns overall.

Figure 8: Aggregate Votes Cast by Nest 's Fund Managers



Notes on Data:

This data is an aggregate of all the votes cast by Nest's fund managers. Some securities are held in multiple portfolios which means that some meetings have been counted two or more times. Votes against management may indicate votes in favour of shareholder sponsored resolutions on issues such as, for example, climate change reporting, a key pillar of Nest's voting policy. "Did Not Vote" represents meetings or resolutions which, due to technical reasons, could not be executed. On certain resolutions management provide no recommendation leaving the decision to shareholders.

4.2 Shareholder Meetings

Companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are AGMs, at which there is legally defined mandatory business which must be put to shareholders. These items will vary by market and are a function of local company law. Regular business includes voting on:

> Receiving of the annual report and accounts; Director (re)elections; Director remuneration; Approval of annual dividend; and Reappointment and remuneration of auditors.

What counts as mandatory business varies between jurisdictions. For example, the discharge of board members from liabilities for their acts or omissions in the past financial year is a regular item on the agenda of AGMs of German companies but is not a feature of UK AGMs.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (for example in the UK this is usually two thirds of current issued share capital, along with an accompanying request for the dis-application of pre-emption rights). Therefore, as noted above, AGMs have a significantly larger number of resolutions on average than other types of meetings.

Table 2: Meeting Types by Fund Manager

Fund Manager	AGM	Class	Court	EGM	GM	OGM	SGM	SSM	Total
UBS	167	1	0	4	5	0	1	0	**178**
NT	26	1	1	15	2	3	0	0	**48**
HSBC	40	0	0	2	2	0	0	0	**44**
BMO	7	0	0	0	0	0	0	0	**7**
Total	**240**	**2**	**1**	**21**	**9**	**3**	**1**	**0**	**277**

ENGAGEMENT

5.1 Vote Overrides

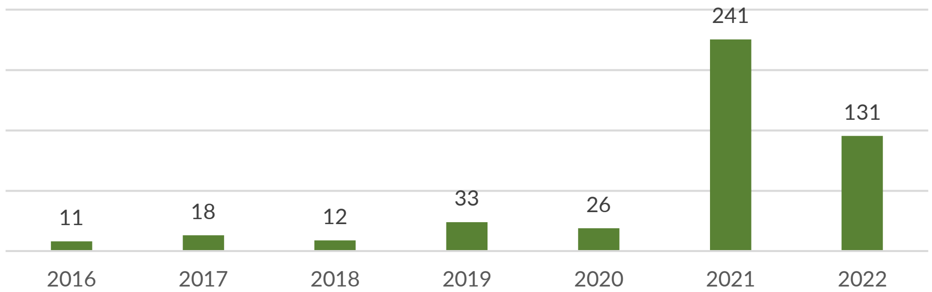
In 2016 Nest secured an agreement with its global developed equities fund manager UBS allowing Nest to
override certain votes on issues it feels are strongly at odds with member interests. In 2020 Nest extended this
5 vote override ability to its emerging markets fund manager, Northern Trust. The ability to override voting
intentions demonstrates Nest's hands-on approach to fund manager oversight and provides Nest with the
opportunity to directly exert influence on investee companies through share voting.

While Nest's views will generally be aligned with its fund managers, there will be times Nest adopt a different approach on some areas. Where this is the case, Nest override a select number of votes for its shares in the global developed and emerging markets companies. This means that Nest can have a direct say in investee companies on matters it feels strongly about.

Nest engages directly with some companies if it votes against management recommendations and its view is different from that of its fund managers. In 2022 Nest wrote letters to several companies to explain its voting decisions and areas of concern, seeking resolution or ongoing dialogue.

During the 2022 voting season, Nest overrode its fund managers' voting intentions 131 times to better align with its voting policy and beliefs, highlighting Nest's commitment as an active owner. Typically, this involved voting against a resolution that the fund manager would have voted for.

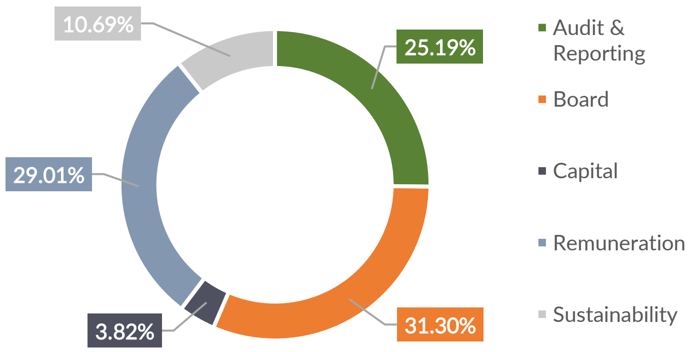
Figure 9: Nest Vote Overrides by Year



Over 30% of these overrides were related to the re-election of directors due to concerns with the composition of the board. Factors for the vote overrides included independence issues, board diversity, director overcommitment and where the roles of CEO and Chair were combined.

Another 29% of the vote overrides were related to executive remuneration, where Nest believed remuneration was not structured in a way that most effectively aligned management and shareholder interests. Additionally, 25.19% of the vote overrides concerned audit & reporting matters, primarily the election of the external auditor. Nest requested a vote override where an external auditor had served for more than 20 years and/or when the auditors' report did not indicate how the auditor had taken into account climate-related risks and opportunities in their review of the financial statements.

Figure 10: Nest Vote Overrides by Resolution Category



Key vote overrides

Some of the votes Nest overrode this year that particularly stood out included:

- **BP**: AGAINST the management-proposed resolution to approve the company's net zero report and FOR the shareholder resolution asking BP to set and publish quantitative targets covering short-, medium- and long-term GHG emissions that are consistent with the goals of the Paris Climate Agreement. Nest also requested an AGAINST on the remuneration report.
- **Shell**: AGAINST the management-proposed resolution to approve the company's energy transition progress report and FOR the shareholder resolution asking BP to set and publish quantitative targets covering short-, medium- and long-term GHG emissions that are consistent with the goals of the Paris Climate Agreement.
- **Amazon.com**: FOR the shareholder resolution asking for a report on how the Company could reduce its plastics use in alignment with the 1/3 reduction findings of the Pew Report and other authoritative sources. The proposal only narrowly failed to pass receiving 48.62% votes in favour.
- **TotalEnergies SE:** AGAINST the management-proposed resolution to approve the company's sustainability & climate progress report. In addition to concerns over the strength of the company's climate ambitions, Nest was disappointed with the board's decision to exclude a resolution filed by shareholders asking for the adoption of targets aligned with the goals of the Paris Agreement. The board stated that the resolution was not admissible because it encroaches on the public policy competence of the board to define the company's strategy, however the board had allowed a near-identical shareholder resolution was allowed on the 2020 AGM agenda.
- **Bayer AG:** AGAINST the resolutions to approve the discharge of the management board and supervisory board from liability due to concerns regarding the acquisition of Monsanto and associated legal and reputational risks. As a result of the Monsanto acquisition, Bayer has faced various lawsuits concerning the acquisition and loss of shareholder value, injury, including cancer, from exposure to glyphosate-based products, and the manufacturing of PCB chemicals amongst others.

Public policy engagement

One of Nest's responsible investment objectives is to help ensure markets function better. To do this, Nest identify key market-wide risks from internal research, external information sources such as industry bodies and investor forums, news flow, fund managers and external service providers. Nest discuss the materiality of each potential risk and agree an action plan for addressing it, including:

- **Responding to consultations**: During the reporting period Nest engaged with several government and industry bodies on various topics, such as climate change risk disclosure, tax transparency, sustainability disclosure requirements and diversity & inclusion data disclosure.
- **Direct dialogue**: Nest engaged directly with policymakers, including a roundtable with DWP to talk about value for money and ESG in pensions.
- **Collaborative initiatives**: This includes Nest's membership of ShareAction's Good Work coalition and Investor Alliance for Human Rights.
- **Advocating for better standards through thought leadership**: During the reporting period, Nest produced diversity reporting guidance for companies, helping to raise reporting standards.

FUND MANAGER VOTING ACTIVITY

6.1 Fund Manager Voting Comparison

Overall, Nest’s fund managers were less active in expressing concerns through their votes at corporate meetings than Nest’s voting policy might suggest. This is to be somewhat expected given the nature of the “comply-or-
6 explain” regime which requires subjective decisions to be made versus the more objective policy guidance. In addition, it should be recognised that the small dataset means that a lower number of variances will have a greater impact in calculating percentages.

Table 3: Fund Manager Overall Voting Patterns

Fund	Number of Resolutions Voted	Fund Manager Dissent %	NEST Policy Flags %	Average Shareholder Dissent %
BMO	110	19.09%	39.09%	6.72%
HSBC	731	22.30%	47.56%	7.98%
NT	432	18.98%	40.58%	4.00%
UBS	3,088	22.47%	43.43%	6.04%
Total	**4,361**	**22.01%**	**43.75%**	**6.23%**

Overall, in aggregate, Nest’s fund managers were **less active than Nest** in expressing concerns through their votes at corporate meetings than Nest’s Voting Template suggests might have been the case. However, Nest’s fund managers were **more active than the average shareholder** in expressing concerns through their votes at corporate meetings.

Whereas general shareholder dissent in 2022 stood at 6.23% (2021: 7.76%), Nest’s fund managers opposed management on 22.01% of resolutions (2021: 23.72%). Accordingly, both Nest’s fund manager’s dissent level and average shareholder dissent have decreased from last year meaning shareholders were less active in voting against management at meetings in the 2022 proxy voting season. However, the analysis shows that **Nest’s fund managers opposed management more than three times as often as general shareholders**.

As noted earlier in the report, The Nest policy flags data can be used as a proxy for compliance with corporate governance good practice and shareholder dissent is higher on resolutions with a flag than on resolutions without a flag. This is also true when considering that fund managers were more likely to vote against management on a resolution with a Nest policy flag than a resolution without a policy flag – **85.63% of fund managers’ dissenting votes occurred on resolutions with a Nest voting policy flag demonstrating an alignment in environmental, social and governance considerations and voting concerns.**

There were 138 exceptions where a fund manager voted in opposition to management recommendation and Nest’s Voting Template did not flag a policy issue for review. The occurrence of resolutions where management was opposed without the identification of a governance concern suggests Nest’s fund managers are also not afraid to apply their own investment judgement, even where this implies a vote against management.

At an aggregate level, it is difficult to make thematic observations about why fund managers are more likely to support management than Nest, less likely to support management than the average shareholder, or for the difference between fund managers, other than to say that the use of voting rights may play a different part in the investment process for fund managers. There could be a number of reasons for this including, for example, engagement strategy or even resourcing, as it could be taken as a measure of shareholder advocacy per se.

Accordingly, measuring stewardship by the number of votes for or against management may oversimplify the issues that fund managers must contemplate. The binary nature of voting records does not reflect the complexity of the factors that are considered when voting; including company disclosure, engagement, the policy issue identified, and the unique circumstances of the company. However, the use of voting rights remains an important tool for shareholders in influencing the behaviour of companies and protecting the interests of shareholders and stakeholders.

The analysis shows:

- In aggregate 960 (2021: 944) resolutions were voted contrary to management recommendation, comprising:
  - → 689 (2021: 743) management sponsored resolutions; and
  - → 271 (2021: 201) shareholder sponsored resolutions.
  - → 14.38% of instances where fund managers opposed management did not have a Nest policy flag.
  - → Management provided no recommendation on eight resolutions.
- Nest's fund managers were more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution. Fund managers voted against management on 17.42% of management resolutions and 66.75% of shareholder resolutions.
- Fund managers voted against seven defeated management-proposed resolutions, consisting of six remuneration report approvals and one director election.
- Fund managers voted in favour on 19 successful shareholder proposals (2021: 16). Whilst there were 26 successful proposals in the monitoring subset, Nest's fund managers did not vote on every proposal which explains the lower number.
- BMO's level of dissent has increased by 5.76 percentile points. BMO's dissent continues to be higher than the average general shareholder dissent, by 12.37 percentile points in 2022.
- HSBC's dissent has increased by 5.74 percentile points. HSBC's dissent is notably higher than the average shareholder, by 14.32 percentile points.
- NT's level of dissent has decreased in comparison to 2021's dissent level, by 2.11 percentile points. However, NT's dissent rate is significantly higher than average shareholders, by 14.98 percentile points.
- UBS's dissent has decreased in 2022, by 3.61 percentile points. However, UBS continues to oppose management to a higher degree than the average general shareholders, by 16.43 percentile points, and has the highest dissent rate across the fund managers.

Key Votes:

Koninklijke Philips NV: Nest's fund managers voted against the remuneration report of the technology company due to concerns over the alignment of executive remuneration with the wider stakeholder experience. The key concern related to the remuneration committee's use of discretion to adjust the outcomes under the annual bonus and long-term incentive plans. The remuneration report was defeated, receiving only 20.55% shareholder support. As a result of the vote, the remuneration committee amended its approach to applying discretion to incentive pay for members of the management board to ensure a stronger alignment with the interests of shareholders.

Costco Whole Corporation: At Costco's AGM, Nest's fund managers supported a shareholder resolution requesting the company to adopt short, medium, and long-term science-based greenhouse gas emissions reduction targets, inclusive of emissions from its full value chain, in order to achieve net-zero emissions by 2050. The proposal received 66% votes in favour highlighting shareholder support for credible science-based emission targets.

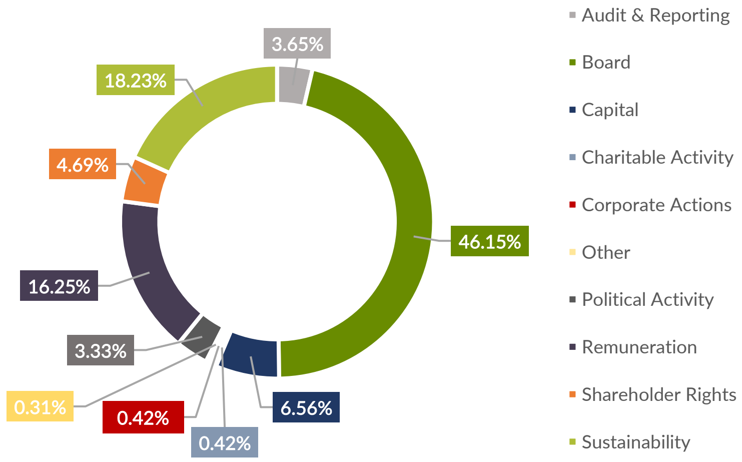
Chevron Corp: Over 96% of shareholders voted in favour of a shareholder proposal asking the oil and gas major to issue a report analysing the reliability of its methane emissions. The Chevron board had recommended shareholders to vote in favour of the resolution.

J Sainsbury plc: As part of Nest's engagement on pay with UK supermarkets through ShareAction's Good Work Coalition, Nest co-filed its first ever shareholder resolution at Sainsbury's alongside other institutional investors. The resolution called for the company to accredit as a real Living Wage employer. This would see the company commit to paying all its workers essential to the success of their business a wage that meets the cost of living and to ensure its third-party contractors are paid a real Living Wage by 2026. Nest's fund managers supported the proposal and although the 16% support for the resolution does not constitute high dissent, it was a notable level of support for the first resolution of its kind. As society deals with the continued effects of the cost-of-living crisis, the conversation round low pay isn't going to go away, and both companies and investors have a role to play.

6.2 Fund Manager Dissent by Resolution Category

NEST's fund managers voted against management on 960 resolutions in aggregate. Nest's fund managers were more likely to vote against management recommendation on a board-related resolutions than any other resolution type – 46% of all dissenting votes were board-related. Sustainability-related resolutions accounted for the second largest proportion of dissenting fund manager votes followed by remuneration-related resolutions.

Figure 11: Spread of Fund Manager Dissent by Resolution Category



Key Fund Manager Dissent Resolution Categories:

In aggregate, Nest's fund managers voted against 321 director elections. A variety of governance issues contributed to the opposing votes, including board and committee independence, combined CEO and Chair roles and an insufficient independent counterbalance, board diversity, and director time commitments. Director independence was the most common factor for oppositional votes. A company's senior executives are accountable to the board of directors, who in turn are accountable to shareholders. Board directors must be independent to hold senior executives to account, effectively monitor and challenge management decisions and consider the best interests of shareholders first - especially when those directors are part of the audit and remuneration committees.

Nest 's fund managers voted against 79 director discharge resolutions due to material concerns over internal controls, financial statements, or outstanding litigation and regulatory investigations. For example, UBS voted against the director discharge resolutions at Deutsche Bank. The bank is involved in litigation, arbitration and regulatory proceedings and investigations in Germany and in a number of jurisdictions outside Germany, including the United States. The litigations include, but are not limited to, mortgage transactions, money laundering, interest rate manipulations, embargo violations, relationship with Jeffery Epstein, and Danske Bank.

Votes cast against the remuneration report accounted for 60.90% of fund manager dissenting votes in the remuneration category. Nest's fund managers also opposed resolutions concerning remuneration policy, long-term incentive plans, non-executive remuneration and various other miscellaneous remuneration items. Executive remuneration structure is an important tool used to drive long-term sustainable value creation by incentivising and rewarding the successful delivery of strategic goals. Nest's fund managers voted against remuneration where executive compensation was not sufficiently aligned with shareholder interests and/or where disclosure did not allow shareholders to make an informed voting decision.

Over 80% of fund manager dissenting votes on capital-related resolutions came from UBS opposing share issue authorities due to concerns with the size of the authority requested and potential dilution to existing shareholders.

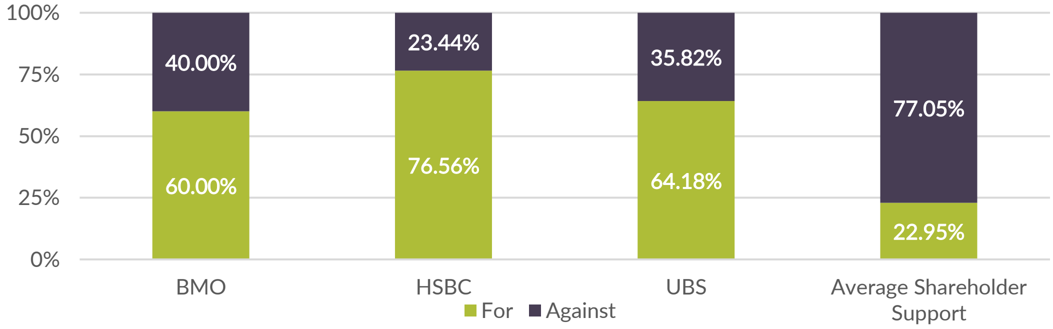
95% of Nest's fund manager's dissenting votes in the sustainability category were votes cast in favour of shareholder proposals requesting enhanced reporting/policy on various environmental and social issues. All opposed management-proposed sustainability related resolutions were say on climate votes. Nest's fund managers voted against companies where the climate transition action plan was assessed as insufficiently aligned with the goals of the Paris Climate Agreement.

6.3 Fund Manager Voting on Shareholder Proposals

During 2022, Nest's fund managers voted in support of 276 shareholder resolutions and against management on shareholder resolutions 66.75% of the time, on a broad range of topics, including ESG issues such as climate change, diversity, and human rights. Management recommended voting against the vast majority of shareholder proposed resolutions. Northern Trust did not vote on any shareholder proposals in 2022.

Although shareholder resolutions represent a small proportion of the total number of resolutions voted by Nest's fund managers, they often garner significant attention due to the non-routine topics that they seek to address and reputational impacts they can have. Nest's fund managers voted in favour of shareholder resolutions to a higher degree than the average shareholder.

Figure 12: Proportion of Shareholder Proposals Supported by Fund Managers



ESG Shareholder Proposals

The filing of resolutions is an important tool for shareholders in influencing a company's policies, practices on environmental, social and governance issues and addressing shortfalls in board strategy and oversight. In 2022, over half of the shareholder proposals voted by Nest's fund managers concerned sustainability issues, with shareholders showing a keen focus on climate change, human rights and diversity & inclusion.

Nest consider voting on shareholder resolutions to be an important part of stewardship and engagement on ESG issues and closely monitor how fund managers vote on these resolutions. Nest's fund managers supported a broad range of these sustainability-related resolutions. For example, Nest's fund managers voted to support shareholder resolutions requesting:

- A report on climate risk management, including on climate-lobbying and the just transition, as well as proposals seeking strengthened emission reduction targets and and on bank policies on lending and underwriting to new fossil fuel developments.
- A report on workforce and human capital management issues. Topics included reporting on worker health & safety, workforce diversity, gender and ethnic pay gaps, efforts to prevent discrimination against employees, the protection of employee reproductive rights and the adoption of a policy formally recognising employees' rights to the freedom of association and collective bargaining.
- The commissioning of an independent third-party racial-equity audit to examine how a company's policies, products and practices affect the civil rights and equality among employees, customers and society.
- Enhanced reporting on political donations and/or lobbying activity, including assessing how lobbying undertaken by trade associations on public policy aligns with a company's stated policies and values.
- A report on animal welfare practices and policies.
- Additional reporting on the risks associated with the use of employee concealment clauses in the context of harassment, discrimination, and other unlawful acts.
- Additional reporting on human rights policy and practices, including requests for a human rights impact assessment and reporting on the use of forced labour in supply chains, digital & privacy rights and the use of emerging technologies by governments (such as facial recognition technology).

- Reporting on whether and how the receipt of public financial support for development and manufacture of vaccine or therapeutics for COVID-19 is taken into account when making decisions that affect access to such products, and/or how intellectual property rights impact vaccine access in low- and middle-income countries.

6.4 Concluding remarks on fund manager voting

This report provides the reader with a snapshot of Nest's fund manager voting at the fund's active monitoring subset of priority companies. The analysis of the monitoring subset entailed the policy guidance generated, an analysis of the underlying triggers for the policy guidance, and how fund managers voted within this context.

As direct owners of shares, Nest and its fund managers can have a positive influence on the running of the companies it invests in. Most shares give their owners a right to vote on some company decisions, such as whether to take over another company or approve executive remuneration. Voting usually takes place at each company's AGM.

Voting shares is therefore a pivotal tool through which shareholders can voice their opinion and act as good stewards. Should an investor use its governance preferences purely as a means of selecting companies in which to invest, the choice would be between compromising the investible universe of companies (not a choice which sits comfortably alongside the fiduciary obligation to maximise returns on investment) or compromising the values of the investor.

There is therefore a fiduciary duty for investors, especially pension funds who hold shares on behalf of thousands of individual members, to hold management to account for the corporate culture of some of the largest companies as economic actors and for their social and environmental impact. Many of the voting rights shareholders have today have been granted over time with company law developments, often in response to public policy problems caused by failures of governance.

The challenges presented by the continued fallout from the coronavirus pandemic, the war in Ukraine and an uncertain macroeconomic and geopolitical environment has increased awareness that companies must consider long-term sustainability factors and demonstrate active oversight of material ESG risks and opportunities. These factors are complicating board decision-making, challenging the shareholder-centric model of governance and emphasising to companies the need for the social licence to operate. These strategic challenges highlight the importance of sound governance and the effectiveness of boards and management in navigating risks and ensuring the protection of the long-term interests of shareholders and stakeholders. It is anticipated that the design of remuneration structures, board composition and diversity, shareholder-proposed resolutions and oversight of ESG risks and opportunities, will be prominent themes in proxy voting in 2023.

Climate risks have tangible financial implications for institutional investors, which gives them a key role to play in driving progress in the transition to a low-carbon world. As the risk of climate inaction becomes clear, investors have begun calling for proactive climate-related disclosures. Companies have come under increasing pressure to align their business models with the goals of the Paris Agreement, which call for global warming to be capped at 1.5°C compared with pre-industrial levels.

There have been two recent developments in climate stewardship that aim to give shareholders a direct say over a company's climate stewardship:

- More prominent use of climate-related shareholder proposals.
- The emergence of the Say on Climate initiative.

As a result of these developments, shareholders have found themselves voting on a record number of climate-related resolutions in 2022 and it is likely that 2023 will continue this trend. At the same time, there has been a proliferation in the number of shareholder resolutions filed on environmental and social issues highlighting the increased importance of ESG in stewardship activities. However, whist there has been an increase in the number of ESG-related shareholder resolutions put forward for a vote, there has been a decline in support for these resolutions. This may be attributed to the volume of shareholder resolutions coming to a vote, changes to legal guidance in the US market limiting company ability to exclude shareholder resolutions from meeting agendas, and the increased disclosures being provided on companies on environmental and social issues resulting in more requests for changes to policy and strategy than enhanced reporting as such institutional investors vote against resolutions which are perceived to be overly prescriptive or unduly constraining on management decision-making.

In terms of issues specific to this report, the analysis identifies:

- Policy concerns regarding the structure and disclosure on executive remuneration and the composition of boards are the most commonly identified issues in Nest's voting template.
- Nest's fund managers oppose management on a significantly higher proportion of resolutions than general shareholders with board, remuneration and sustainability related resolutions the resolution types Nest's fund managers oppose management on most often.
- Identifies that Nest's fund managers in aggregate were more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution. Fund managers voted contrary to management recommendation on 17.42% of resolutions proposed by management and 66.75% of resolutions proposed by shareholders and also supported 19 successful shareholder proposals.
- Nest's fund managers opposed seven defeated management-proposed resolutions, including six remuneration reports and one director election. Although a total of six remuneration defeats is still only a fraction of the total votes, there have been high-profile corporate casualties, including Intel and JPMorgan.

Whilst the proportion of resolutions where potential issues were identified by Nest's policy, but the fund managers supported management seems relatively high, this is ultimately evidence to support the significance of the word 'potential'. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights. It is understood that investment managers voting will differ from the Nest's voting policy guidance, due to variances in views on governance and voting issues, investment strategy and the role of voting within ongoing engagement strategy.

Conversely, the proportion of resolutions where management was opposed without the identification of governance concerns (14.38% of all instances where management was opposed) would suggest that fund managers are increasingly also not afraid to apply their own (investment) judgement on governance issues.

When considering the level of variance with Nest policy flags, readers should note the objective nature of the Nest template (largely suggesting either "For" or "Against"), which does not refer to company explanations. Hence the policy guidance is intended to be read alongside the research produced by Nest's proxy advisor, and not a recommendation to vote automatically in-line. The decisions of the funds will reflect their acceptance (or otherwise) of company explanations.

This is a core element of the "comply-or-explain" approach in the UK Corporate Governance Code, Stewardship Code, and other guidelines. While companies should disclose explanations for divergences from code provisions, investors must make a judgement on their validity. It is recognised that an alternative to following a provision may be justified in certain circumstances if good governance and principles can be achieved by other means. Explaining deviations (as well as compliance and application) properly is an essential part of demonstrating to investors why a company's governance approach supports its business model and is aligned with shareholder interests, although some investors may determine not to consider any explanation acceptable on certain minimum governance standards.

In addition, one should avoid falling into the trap of using voting records as a substitute for understanding whether a fund manager is an 'active' owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement.

Therefore, the analysis provides a general snapshot of voting within a specific monitoring subset of Nest's global portfolio rather than an analysis of wider global voting activity or other engagement and stewardship activities. This report should be seen as a positive indicator of a well-defined process with which Nest tackles the co-ordination of establishing a voting policy and monitoring fund managers voting activity.

Prepared by:

MINERVA ANALYTICS

August 2023

Glossary

Meeting Types:

AGM	The Annual General Meeting of shareholders, normally required by law.
Class	A Class Meeting is held where approval from a specific class of shareholders is required regarding a business item.
Court	A Court Meeting, where shareholders can order an annual meeting or a special meeting from a court or where a meeting is called by a Court of Law to approve a Scheme of Arrangement.
EGM	An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extra-ordinary nature. Such business may require a special quorum or approval level.
GM	A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the company in question.
OGM	Ordinary General Meeting: term often used interchangeably with the term EGM, GM, SGM, depending on the term used by the company in question
SGM	A Special General Meeting of shareholders, where a meeting is required to conduct special business. Often business which requires a special quorum or approval level.
SSM	A Scheme Meeting, a meeting of shareholders ordered by Court at which a scheme will be considered and voted on by shareholders.

Vote Types:

Abstain	Shareholder's vote not in favour or against the proposed resolution, but shareholder demonstrates lack of confidence towards the rationale behind the resolution.
Against	Shareholder's vote against the resolution proposed.
For	Shareholder's vote in favour of the resolution proposed.
Withhold	For North America auditor and director election resolutions, shareholders vote not in favour of the resolution proposed.

Fund Managers:

BMO	BMO Global Asset Management
HSBC	HSBC Global Asset Management
NT	Northern Trust Asset Management
UBS	UBS Asset Management