Monitoring Review of Shareholder Voting 2023

Prepared for:

National Employment Savings Trust

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1 OVERVIEW

1.1 Introduction

This is the eleventh 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 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 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 its behalf , however, the fund remains responsible for monitoring and overseeing external managers on behalf of its members.

Nest supports and follows various codes of good practice and actively participates in several initiatives.

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[1].

Nest is an affiliate member of UK Sustainable Investment Finance (UKSIF)[2]. The UKSIF offers affiliation to occupational pension funds that own shares in companies but do not 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 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://media.frc.org.uk/documents/responsible-investment-report-2022-23_1.pdf

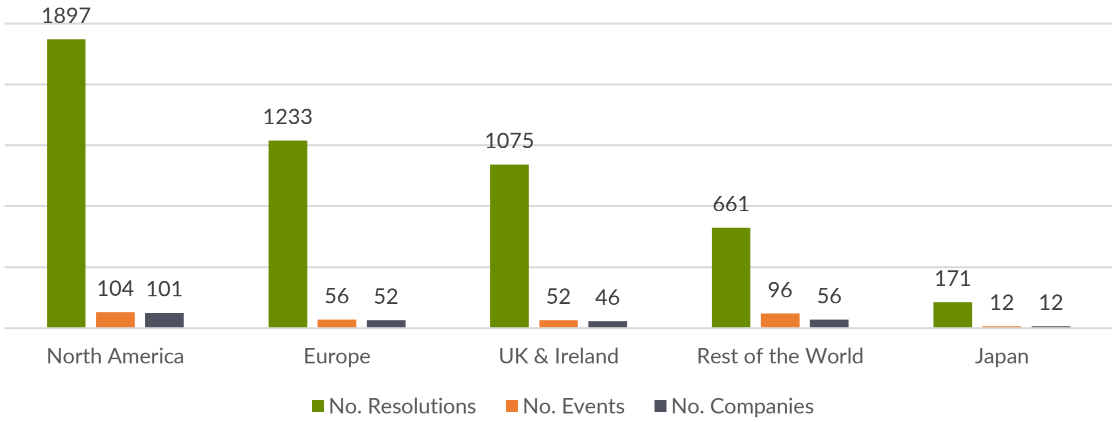
[2] More information on the UKSIF can be found on the association's website: http://uksif.org/

Scope of this report

The report analyses 268 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 is 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 2023 voting season, Nest updated the constituents of its active monitoring list based on the outcomes of engagement efforts on cyber security, company responses to the Workforce Disclosure Initiative and removal of Russian-listed companies due to sanctions[3].

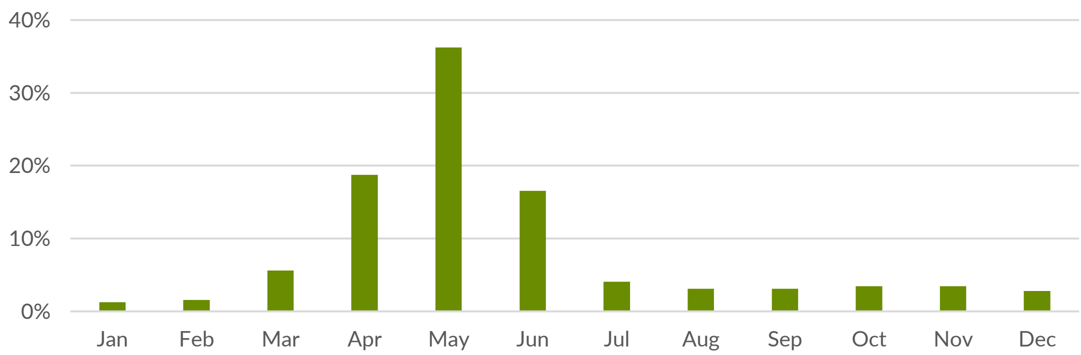
The period covered by this report encompasses the period of 1st January to 31st December 2023. The reporting period brought about a total of 320 meetings and 5,037 resolutions.

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 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 that 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



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

The occurrences of meetings within the monitoring subset fall in line with ‘peak season’, with 71.56% of shareholder meetings taking place between April-June. AGMs (which constitute virtually all meetings voted upon by Nest’s fund managers) have far more resolutions on average than other types of corporate meetings. During the review period, the average number of resolutions was 18.44 per AGM and 2.15 per non-AGM. The net effect is an extreme concentration of voting decisions in one very short space in the year.

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 the ability to override some of its fund managers voting intentions for these particular companies.

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[4]. 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 Asset Management, HSBC Global Asset Management, Northern Trust Asset Management, and Columbia Threadneedle Investments[5] 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 uses 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.

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

[5] On 4July 2022 BMO Global Asset Management (EMEA) was rebranded to Columbia Threadneedle (CT) Investments (CT acquired BMO’s EMEA asset management business 8th November 2021).

2 NEST'S VOTING POLICY

2.1 Nest Policy Guidance

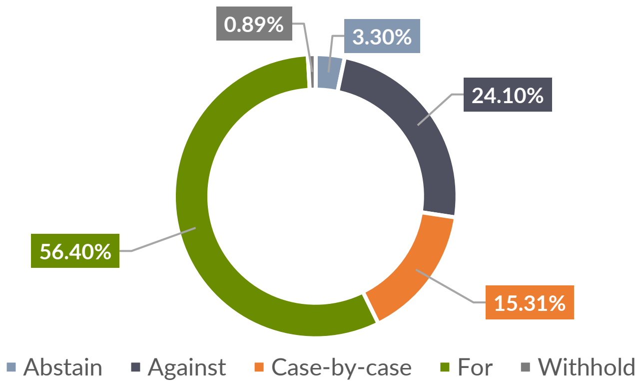
Nest's voting policy sets out Nest's views and expectations of best practice corporate governance and sustainability reporting and guiding principles for voting and engagement for all companies. Whilst Nest advocates that all companies it invests in adhere to progressive standards of behaviour and reporting, it is recognised that the regulatory framework and business culture in other regions may promote different standards requiring a more tailored approach to stewardship.

Nest regularly reviews its voting and engagement policy to ensure it reflects its responsible investment objectives, research and regulatory developments. Ahead of the 2023 voting season, Nest strengthened its policy in a number of areas such as by setting stricter minimum requirements for say on climate votes and setting out engagement and voting expectations for companies in the Forest 350 list[6].

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 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.

Nest's policy takes a robust and objective approach to the guidance 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.

[6] The Global Canopy Forest 350 list is a list of the 350 companies with the greatest exposure to tropical deforestation risk with scores from 0 (worst) to 100 (best). For more information see: https://forest500.org/

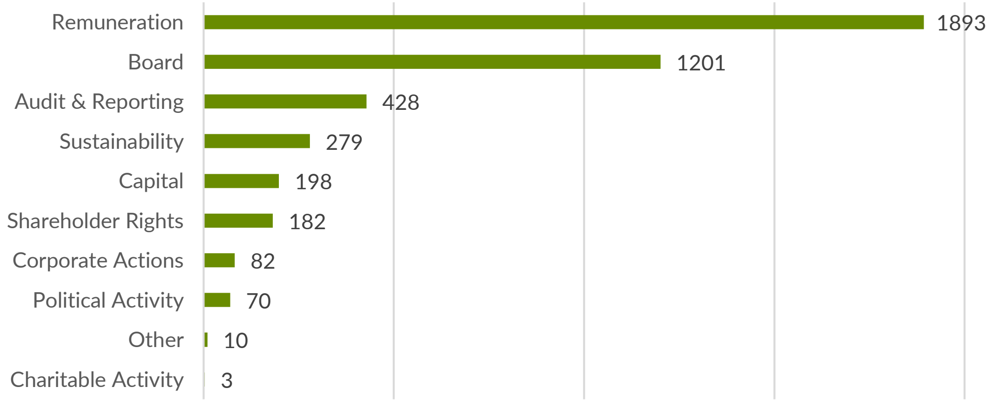
The guidance is read alongside company explanations before the Nest team comes to an informed view. For a subset of companies Nest is able to override the guidance directly on the basis of the company explanation or other contextual issues including direct engagement with the company. The apparent divergence 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].

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 2,196 unique resolutions with a potential governance concern and 4,346 different potential governance concerns identified, meaning 43.60% of the 5,037 resolutions in the portfolio had at least one potential policy issue identified.

When considering the most common policy issues identified in the monitoring subset, a comparison with last year's analysis shows that, in general, there are proportionally fewer issues of concern identified (4,682 in 2022). This is explained in part by the fact there was a smaller number of resolutions in the dataset this year (5,037 in 2023 compared to 5,277 in 2022). Whilst the number of issues fell, overall, the proportion of resolutions with a policy flag increased, from 42.52% in 2022 to 43.60% in 2023.

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.

In part due to various external factors, including macroeconomic and geopolitical uncertainty, there has been a return to a focus on the G in ESG in 2023, and a back-to-basics approach as companies seek to protect the bottom line in an uncertain operating environment. Investors are looking for companies to demonstrate sound governance and are re-examining board composition, skills and diversity. They want to ensure companies are

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[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

[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.

positioned to provide effective oversight of material long-term financial and sustainability risks and opportunities. The election of directors and approval of directors' remuneration are important shareholder rights in this context. Investors can vote to encourage sound governance that supports long-term sustainable value creation and effective risk management.

These concerns are substantive issues, and their prevalence is 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.

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	503	259	51.49%	1.98%
Board	2641	739	27.98%	4.19%
Capital	521	162	31.09%	4.31%
Charitable Activity	8	2	25.00%	2.22%
Corporate Actions	90	71	78.89%	2.71%
Other	10	10	100.00%	-
Political Activity	61	60	98.36%	12.30%
Remuneration	726	533	73.42%	7.12%
Shareholder Rights	259	148	57.14%	7.96%
Sustainability	218	212	97.25%	16.57%
Total	**5037**	**2196**	**43.60%**	**5.26%**

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 5.26% - 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, Shareholder Rights and Sustainability 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 is 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 dissent of 7.91%, more than double the average shareholder dissent of those without a policy flag (3.20%). This highlights that Nest has a robust policy which is consistent and aligned with other investors' governance concerns.

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[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.

3 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 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, its shareholders 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.

An effective and well-functioning board with the appropriate governance structures to facilitate oversight of a company's management and long-term financial and sustainability risks is critical to the long-term financial success of a company and the protection of shareholder and stakeholder interests. 27.63% of the potential governance concerns flagged by Nest's policy are 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.
- The chair of the board was considered non-independent, such as by serving in an executive capacity or as a combined CEO and chair.
- There were concerns regarding the independence of the board.
- A director held a significant number of other directorships ("over-boarding") raising concerns with their capacity and time commitments.
- There were concerns with the range and level of detail of reporting on the management of material sustainability risks and opportunities provided by a company.
- 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.
- A 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.

Director elections allow investors to express their own voting policy views through votes cast against routine governance items, rather than having their vote tied to a particular ESG-related shareholder proposal. However, there remains a difference in views on what issues warrant a vote against and who on the board should be held accountable, potentially resulting in mixed messaging and dilution of shareholder impact.

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.

Remuneration is an important mechanism for aligning the interests of shareholders and management and various factors are considered when voting on executive pay. Important issues for shareholders are whether the right metrics are being used to drive behaviour, the level of disclosure provided and the alignment of pay outcomes with corporate performance, together with overall quantum.

Executive pay continues to be a hotly debated topic in the UK, particularly with recent discussions over the ability of UK companies to attract and retain executive talent when competing with US companies who can offer much higher packages. This executive concern needs to be sensitively balanced with the social context of firms, notably the consideration of reputational risks in the light of the cost-of-living crisis, the struggles rank-and-file workers face with rising inflation and windfall gains driven by market momentum, such as rising energy prices.

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.
- There was a high ratio between the pay received by the CEO and company employees.
- 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:

Three companies in Nest's active monitoring list had their remuneration report voted down by shareholders in 2023:

- **Fortum Ojy**: the defeat was primarily due to controlling shareholder the Government of Finland withholding its support on the resolution. The Government of Finland owns over half of all shares in the Company and its votes effectively decide the outcome of resolutions.
- **Qantas Airways Ltd**: 83.17% of the shareholder ballot withheld support on the approval of the airline's remuneration report due to concerns over the alignment of executive pay with corporate performance. The Company had faced a series of customer services and workplace controversies, including an investigation by the Australian Competition and Consumer Commission for allegedly selling tickets for flights that had already been cancelled, raising concerns over board accountability and oversight.
- **Unilever plc**: around 60% of the shareholder ballot withheld support on the consumer goods group's remuneration report due to concerns over the remuneration package for incoming CEO Hein Schumacher. Schumacher's fixed pay had been set at €1.85m, almost a fifth higher than the €1.56m rate for outgoing CEO Alan Jupe.

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 the highest level of average general shareholder dissent across all categories of 16.60%. This can be explained by the fact that shareholder proposals accounted for the majority (90.83%) 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.

While it is possible to reduce the financed emissions from our portfolios simply by selling the most carbon-intensive assets, this does not necessarily lead to a reduction in real-world emissions as other investors may purchase the assets. Instead, many investors want to stay invested and work with other investors to encourage companies to commit to net zero. Companies that aren't responding to engagement, or are progressing too slowly, are most likely to be financially impacted by a transition to a low-carbon economy

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 the Say on Climate initiative in 2020 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.

Nest welcomes boards voluntarily putting forward advisory resolutions that seek shareholder approval of the organisation's climate transition action plan. Nest expects 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.

The number of companies in the monitoring list holding a say on climate vote in 2023 fell by 50% from 2022 levels; with 14 companies holding a say on climate vote compared to 28 in 2022. The fall in number is partly due to companies opting to hold a vote every three years rather than annually, as well as loss of momentum for the say on climate initiative and mixed support from investors for its adoption. Companies may have also been hesitant to put forward a vote given the increase in dissent and associated reputational risks. The lack of established standards, regulations, or good practice guidance for say on climate votes may also be impacting wider adoption by boards, as well as shareholders' ability to implement consistent voting strategies

In 2023, say on climate resolutions received average shareholder support of 83.78% and three companies received dissent of 20% or more. The resolutions to approve the climate action plans at UK majors Shell and Glencore received dissent of 23.44% and 31.79% respectively whilst Credit Suisse's climate plan received 46.93% shareholder dissent. In the case of Glencore and Shell, both companies also received high levels of dissent in 2022, indicating ongoing shareholder concerns with their climate strategy and a lack of board responsiveness.

Overall, the voting results on say on climate resolutions seem to suggest that companies were initially being rewarded for being first movers, rather than for the strength of their climate plans in 2021. Shareholders are now expecting companies to go beyond pledges and commitments and outline the details and strategy underpinning their targets. Consequently the 'first mover advantage' has been lost and shareholder dissent on say on climate has increased year-on-year.

However, the effectiveness of climate stewardship efforts was called into question in 2023 after oil majors, including BP and Shell, scaled back climate commitments stating a need for increased investment in oil and gas to meet energy demands due to current economic and energy instability.

3.4 Shareholder Resolutions

The **overwhelming number of resolutions were proposed by management, with only 6.29% of resolutions proposed by shareholders**. The vast majority of shareholder resolutions were proposed in North America (280), 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 (21), Japan (6), the UK & Ireland (6) and the Rest of the World (4).

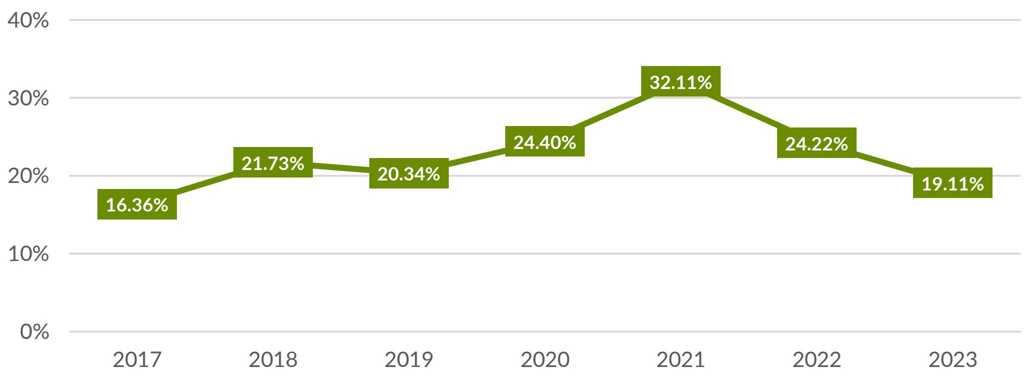
Shareholder resolutions are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change 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 were related to **sustainability reporting and/or performance, and shareholder rights.** At US companies the **separation of the Chair and CEO roles,** the introduction of a **shareholder say on severance pay,** and the **shareholder right to take action by written consent and call special meetings** were also key themes in shareholder proposals in 2023.

Average shareholder dissent on management-proposed resolutions was 4.26% (2022: 4.32%), while it stood at 19.11% (2022: 24.22%) 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, recent years has seen a reversal to the upward trend in shareholder support on shareholder resolutions in the monitoring subset.

Figure 5: Average Shareholder Dissent on Shareholder Proposals



When reviewing voting trends on shareholder proposals, it is important to consider the context for shareholder voting on shareholder proposals in 2023:

- Due to changes in the United States of America Securities Exchange Commission's legal guidance, fewer shareholder proposals have been 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 being filed, with more requests for targets than for greater transparency. The higher pass-rate for disclosure requests indicates shareholders are more supportive of pushing for additional information from companies than asking for the adoption of specific policies. At the same time, with increasing ESG disclosure regulatory requirements, companies may become more transparent, resulting in less support for proposals.

- Some institutional investors have clarified their voting approach on proposals that are considered too prescriptive or constraining on companies.
- There is a different political and economic environment with the war in Ukraine and the crisis in the energy market, impacting voting decisions around climate strategy and the need to ensure short-term energy security.
- The number of 'anti-ESG' proposals has increased. Whilst they receive low levels of support (less than 5% on average), they bring the overall average support down. The increased rhetoric and legislation around ESG may also be contributing to lower levels of support for pro-ESG proposals due to institutional investors being more cautious with their votes, wishing to avoid attention and targeting by politicians and lobby group.

Reflecting the trend in support, there were 10 successful shareholder resolutions in the active monitoring list during the year, a lower number than the 25 successful proposals in 2022. Some of the most notable successful shareholder resolutions during the year were:

Worker Rights	Shareholders filed a resolution at Starbucks asking the coffee chain to commission an independent third-party assessment of Starbucks' adherence to its stated commitment to workers' freedom of association and collective bargaining rights. The requested assessment would apply to Starbucks' direct and licensed operations and address management non-interference when employees exercise their right to form or join a trade union, as well as any steps to remedy practices inconsistent with Starbucks' stated commitments. The proposal was filed following allegations from employees over the treatment of unionised employees. Nest believes companies should adopt respect for fundamental labour rights in line with their responsibilities under international norms and frameworks, including the freedom of association and the right to collective bargaining.
Racial Equity	At Wells Fargo's AGM, a shareholder proposal was filed asking the Board to prepare an annual public report describing and quantifying the effectiveness and outcomes of Wells Fargo's efforts to prevent harassment and discrimination against its protected classes of employees. Wells Fargo had faced recent attention for allegations of discrimination in the workplace and enactment would provide greater transparency on how the company is managing this risk. The proposal received a majority vote in favour 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 Kroger Co's 2023 AGM a shareholder proposal requesting enhanced reporting on both the median and unadjusted pay gaps across race and gender passed with majority support. Nest expects 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.
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 Delta Air Lines Inc, the lowering of the threshold required for shareholders to call a special shareholder meeting at ConAgra Brands Inc, and requests for the replacement of supermajority voting provisions with the simple majority voting standard at American Airlines Group Inc, Duke Energy Corp, Marathon Petroleum Corp and Wells Fargo & Co. A proposal to elect a director to the board of Engie SA nominated by the French Government, Engie's controlling shareholder. Nest is supportive of shareholder resolutions that enhance shareholder rights and encourage good governance practices.

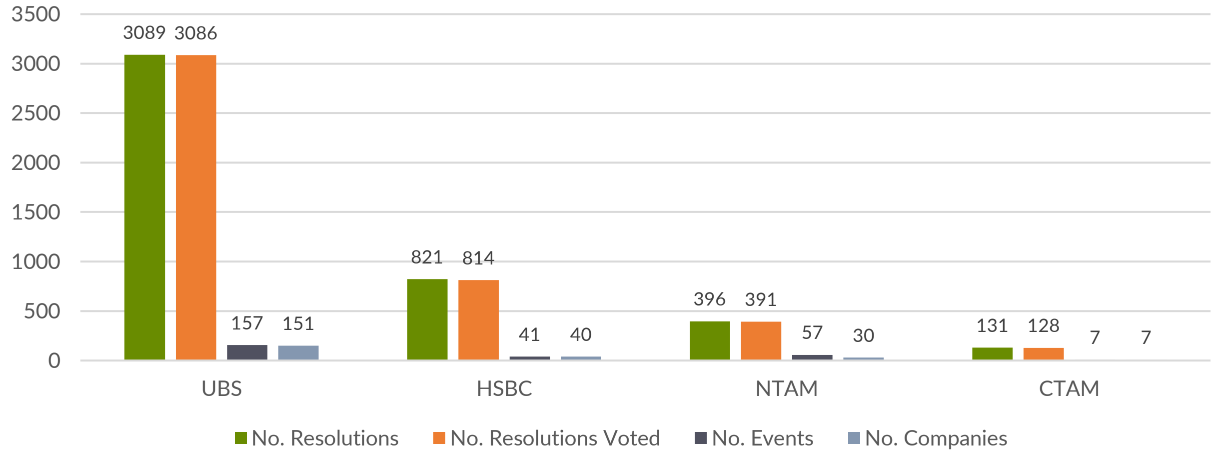
4 MEETINGS AND RESOLUTIONS VOTED

4.1 Fund Manager Voting

There were 320 company meetings and 5,037 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 provided for limited or no voting rights, meaning no votes were cast by a fund manager on behalf of Nest for such companies. Nest may include 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 262 meetings and 4,437 resolutions during the reporting period. This compares to 277 meetings and 4,414 resolutions in 2022.

Figure 6: Total Number of Meetings & Resolutions Voted by Fund Manager



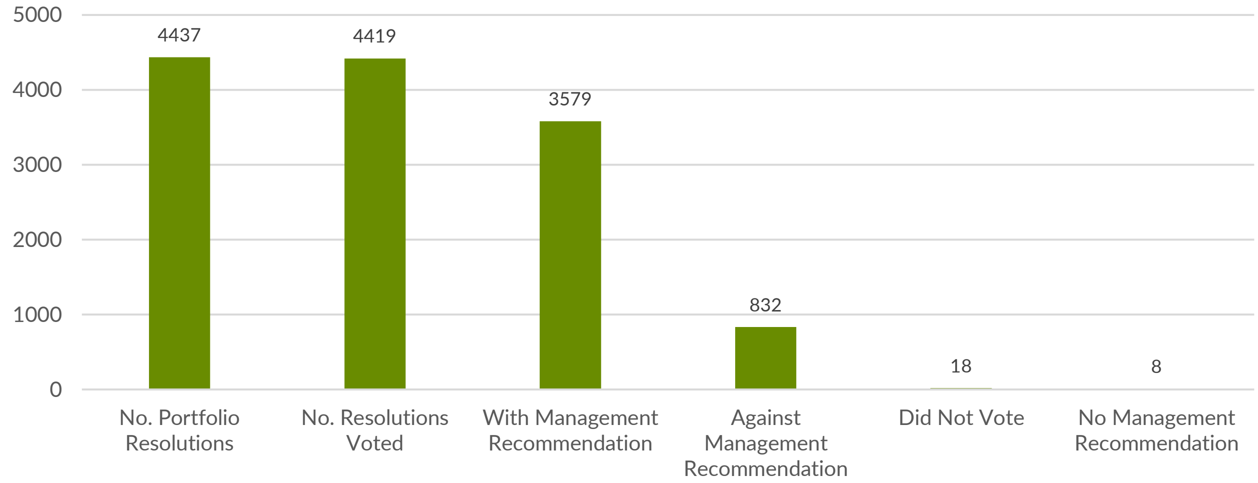
Notes on Data:

There is a difference between the total number of meetings and resolutions in the fund manager portfolios and the number of meetings and resolutions managers reported voting directions for. This is due to a number of reasons. For example, some resolutions cannot be voted on by all classes of shares; a meeting has 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 in 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 7: 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 provided 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
CTAM	7	0	0	0	0	0	0	0	**7**
HSBC	39	0	0	2	0	0	0	0	**41**
NTAM	28	5	3	14	1	5	1	0	**57**
UBS	150	1	0	2	2	0	1	1	**157**
Total	**224**	**4**	**3**	**18**	**3**	**5**	**2**	**1**	**262**

5 ENGAGEMENT

5.1 Vote Overrides

Nest has the ability to override fund managers' votes for companies in the monitoring subset in its developed and emerging markets equity funds managed by UBS and Northern Trust.

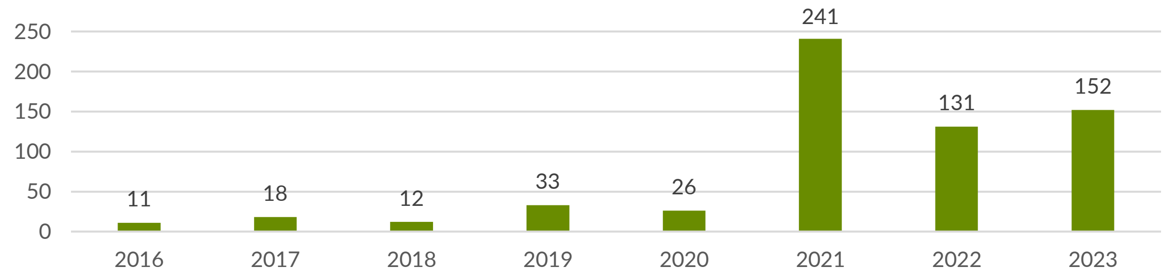
While Nest's views will generally be aligned with its fund managers, there will be times Nest adopt a different approach on some areas. Where this is the case, Nest override a select number of votes for its shares. This means that Nest can have a direct say in investee companies on matters it feels strongly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

When deciding to override votes, Nest often engages with the fund managers to understand their rationale for voting differently and what research and engagement they have undertaken to inform their voting decisions.

If Nest overrides fund managers to vote against management recommendations, Nest engages with the company directly. In 2023, Nest wrote letters to several companies to explain its voting decisions and areas of concern, seeking resolution or ongoing dialogue. Many of these engagements were part of Nest's broader active ownership approach for addressing and making progress on its ESG priorities.

During the 2023 voting season, Nest overrode its fund managers' voting intentions 152 times to better align with its voting policy and beliefs, highlighting Nest's commitment as an active owner.

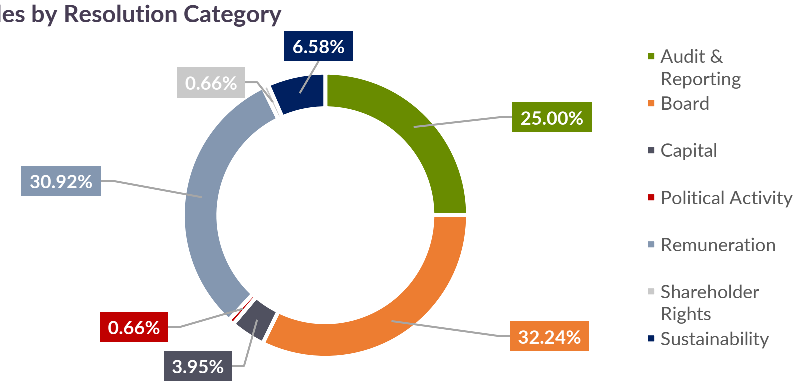
Figure 8: Nest Vote Overrides by Year



Just under a third – 32.24% - of these overrides were related to the re-election of directors due to concerns with the composition and functioning of the board of directors. Common factors for the vote overrides included independence issues, board diversity, director overcommitment and where the roles of CEO and Chair were combined – all important issues in ensuring effective board oversight of material long-term financial and sustainability risks and opportunities.

Another 30.92% 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% 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 considered climate-related risks and opportunities in their review of the financial statements.

Figure 9: Nest Vote Overrides by Resolution Category



Key Vote Overrides

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

- **BP**: 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 re-election of the board chairman Helge Lund due to concern over BP's board oversight of climate risk management and on the remuneration report.
- **Amazon.com**: FOR the shareholder resolution asking for a report on how the Company is addressing the impact of its climate change strategy on relevant stakeholders, including but not limited to employees, workers in its supply chain, and communities in which it operates, consistent with the "Just Transition" guidelines of the International Labor Organization and indicators of the World Benchmarking Alliance. The proposal received notable support with 26.99% votes in favour. The just transition is the effective and equitable management of the positive and negative social and employment implications of climate action across the economy and Nest is supportive of proposals that support a just transition
- **Chevron Corp:** FOR the shareholder resolution asking for a report on the social impact on workers and communities from closure or energy transition of the Company's facilities, and alternatives that can be developed to help mitigate the social impact of such closures or energy transitions. The just transition is especially relevant for workers within carbon-intensive sectors as those companies and jobs will likely be the most negatively affected by a transition to a greener economy. FOR the shareholder resolution asking for the Board to issue a tax transparency report prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative's (GRI) Tax Standard. Nest support companies committed to tax transparency by following the GRI 207 tax reporting standards and presenting to investors and stakeholders a consistent, complete, and accurate profile about their tax operations around the world particularly in jurisdictions with high financial secrecy as highlighted by the Tax Justice Network. We also encourage accreditation to the Fair Tax Foundation.
- **Microsoft**: FOR the shareholder resolution asking for a report on risks associated with mis- and disinformation generated and disseminated via Microsoft's generative Artificial Intelligence (AI) and the Company's plans to mitigate these risks. Given the potential widescale impact of AI technologies, we believed it was in shareholders' interest to more fully understand how Microsoft will proactively address the risks of its AI technology and transparently disclose this information to investors

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 the UK Government's update to its Green Finance Strategy, private sector transition plans, and sustainability reporting standards.
- **Direct dialogue**: Nest engaged directly with policymakers, including joining a new industry working group convened by the Financial Conduct Authority to develop a comprehensive framework and template for vote reporting
- **Collaborative initiatives**: This includes Nest's membership of ShareAction's Good Work coalition, ClimateAction 100+, Workforce Disclosure Initiative and Investor Alliance for Human Rights.
- **Advocating for better standards through thought leadership**: During the reporting period, Nest worked with 12 other pension schemes to develop principles for a just transition in emerging markets. The guiding principles were published in November 2022 to coincide with COP27.

6 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-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 %
CTAM	131	6.11%	38.93%	4.03%
HSBC	821	24.48%	51.16%	6.50%
NTAM	394	15.23%	50.25%	5.54%
UBS	3089	18.23%	45.00%	5.36%
Total	**4435**	**18.76%**	**46.43%**	**5.55%**

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.

Whereas general shareholder dissent in 2023 stood at 5.55% (2022: 6.23%), Nest's fund managers opposed management on 18.76% of resolutions (2022: 22.01%). 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 2023 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 – **86.90% 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 109 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 on governance issues and raise different concerns or interpretations of concerns to those contained within Nest's Voting Policy.

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 832 (2022: 960) resolutions were voted contrary to management recommendation, comprising:
    - → 571 (2022: 689) management sponsored resolutions; and
    - → 261 (2022: 271) shareholder sponsored resolutions.
    - → 13.10% of instances where fund managers opposed management did not have a Nest policy flag.
- Nest's fund managers were more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution. In aggregate, fund managers voted against management on 14.22% of management resolutions and 62.14% of shareholder resolutions.
- Fund managers voted against two defeated management-proposed resolutions, consisting of the approval of Unilever's remuneration report and Tesla's proposal to set the frequency of say on pay votes to every three years, rather than the investor preferred annual basis. Fund managers also voted in favour on seven successful shareholder proposals (2022: 19)[10].
- Overall, 2023 was a quieter year than 2022 with lower overall shareholder dissent, less management-proposed resolutions voted down by management and less successful shareholder-proposed resolutions.
- CTAM's level of dissent has decreased by 12.98 percentile points. CTAM dissent continues to be higher than the average general shareholder dissent, by 2.08 percentile points in 2023. CTAM only voted at seven shareholder meetings in the active monitoring subset in 2023, meaning the dissent rate can change significantly year-on-year due to low number of resolutions voted and changes in holdings.
- HSBC's dissent has increased by 2.18 percentile points. HSBC's dissent is notably higher than the average shareholder, by 17.98 percentile points. HSBC were the only manager to vote against a higher proportion of resolutions in 2023 compared to 2022 and also had the highest dissent rate across the fund managers.
- NTAM's level of dissent decreased in 2023, by 3.75 percentile points. However, NTAM's dissent rate is significantly higher than average shareholders, by 9.69 percentile points.
- UBS's dissent decreased in 2023, by 4.24 percentile points. However, UBS continues to oppose management to a significantly higher degree than the average general shareholders, by 12.87 percentile points.

Key Votes:

Glencore: At mining firm Glencore's AGM, Nest's fund managers supported a shareholder resolution requesting the company to provide greater transparency on how its thermal coal production plans compare to pathways for limiting global temperature rises to 1.5C. The proposal received 28.93% votes in favour highlighting shareholder support for additional reporting. Additionally, Nest's fund managers also voted against the company's climate transaction plan due to concerns over the strength of the company's climate ambitions and the plan received 31.79% shareholder dissent. With shareholder dissent on both resolutions surpassing the 20% threshold considered significant under the UK Corporate Governance Code, the Glencore board will have to engage with shareholders to understand the cause for the results and publish an update summarising its response.

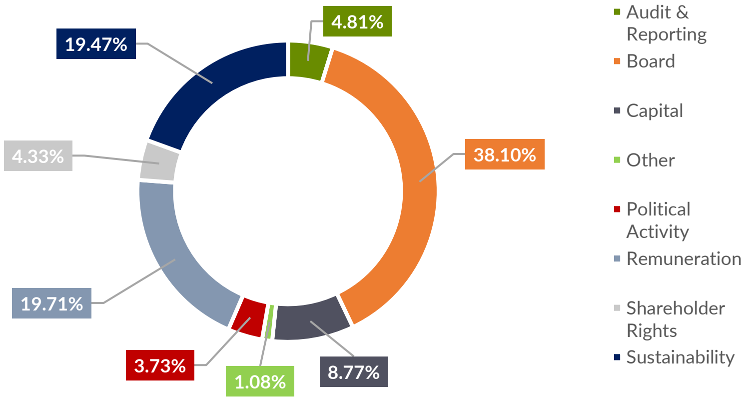
Ocado: Nest's fund managers voted against the approval of the grocery firm Ocado's remuneration report due to concerns over the structure of executive remuneration and the alignment of pay with performance. The remuneration report received 30.39% shareholder dissent and the company has now received significant shareholder opposition on remuneration in consecutive years, suggesting a lack of responsiveness to shareholder concerns. Additionally Nest is interested in pay practices in the food sector due to concerns over low pay for workers in the context of the cost-of-living crisis, large pay packets for the executive directors, and Ocado yet to accredit as a Living Wage employer.

[10] Whilst there were three defeated remuneration reports and 10 successful proposals in the monitoring subset, NEST's fund managers did not hold shares in every company in the subset which explains the lower number.

6.2 Fund Manager Dissent by Resolution Category

Nest's fund managers voted against management on 832 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 – 38% of all dissenting votes were board-related. Remuneration-related resolutions accounted for the second largest proportion of dissenting fund manager votes followed by sustainability-related resolutions.

Figure 10: Spread of Fund Manager Dissent by Resolution Category



Key Fund Manager Dissent Resolution Categories:

In aggregate, Nest's fund managers voted against 269 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.

Votes cast against the remuneration report accounted for 59.15% 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 75% 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. Share issuance can dilute the holdings of existing shareholders and only reasonable requests for an authority to issue with the disapplication of pre-emption rights should be supported.

The majority of votes case against management in the shareholder right category were votes cast in favour of shareholder proposals seeking enhancements to shareholder rights, such as the removal of supermajority voting provisions. Additionally, Nest's fund managers voted against 16 resolutions seeking shareholder approval to amend the articles of association. The most common case for opposition to an article amendment was where a board sought to amend the articles to introduce the ability to hold virtual-only shareholder meetings and there was a lack of undertaking given that physical meetings will continue to be held where possible and that virtual-only meetings will only be used for reasons such as health and public safety.

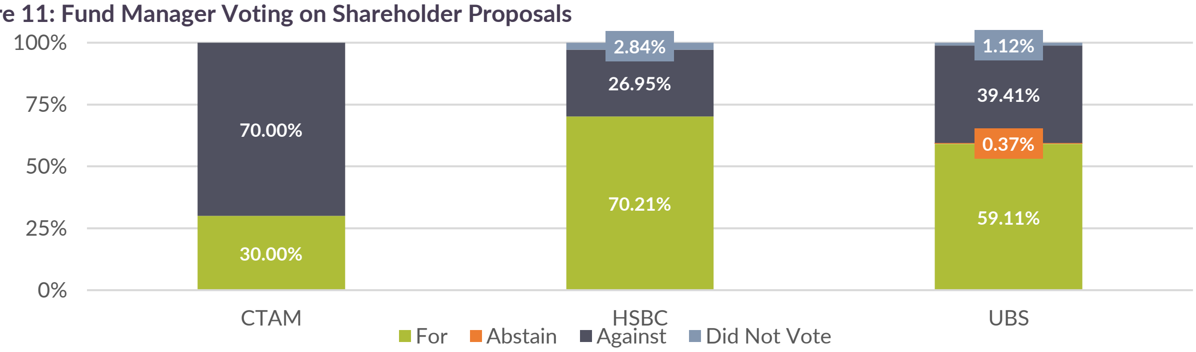
98% of Nest's fund manager's dissenting votes in the sustainability category were votes cast in favour of shareholder proposals requesting enhanced reporting/policy on various environmental and social issues. Nest's fund managers also voted against the approval of Glencore and Shell's climate transaction plans due to concerns over the strength of the companies' climate commitments and alignment with the goals of the Paris Climate Agreement.

6.3 Fund Manager Voting on Shareholder Proposals

During 2023, Nest's fund managers voted in favour of 261 shareholder resolutions on a broad range of topics, including ESG issues such as climate change. Management recommended voting against the vast majority of shareholder resolutions.

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. Average shareholder support on the shareholder proposals voted on by the fund managers, i.e. votes cast in favour of the proposal, was 16.55%. Accordingly, Nest's fund managers voted in favour of shareholder resolutions to a higher degree than the average shareholder.

Figure 11: Fund Manager Voting on Shareholder Proposals



***Notes on Data**: Fund managers did not report voting intentions for shareholder proposals that were withdrawn ahead of the meeting or where a proposal was raised from the floor of the meeting meaning investors voting by proxy in advance of the meeting were unable to vote on the proposal.*

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 2023, 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, fund managers voted on 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, emission disclosure 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 and the adoption of a policy aligned with World Health Organization ("WHO") Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animal:
- Additional reporting on human rights policy and practices, including requests for a human rights impact assessment and reporting on the use of child labour and/or forced labour in supply chains, digital & privacy rights and the risks associated with use of emerging technologies (such as facial recognition technology and artificial intelligence).
- 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 possess today have been granted over time with company law developments, often in response to public policy problems caused by failures of governance.

Recent AGM seasons have been impacted by major external events, including the coronavirus pandemic, the war in Ukraine, and the energy crisis. Consequently, boards and investors are facing new and challenging decisions. Nest believes the impact of the coronavirus crisis and pandemic recovery also presents an opportunity for businesses to focus on their environmental, social and governance impact and performance.

Shareholders and stakeholders have been paying close attention to the governance of ESG issues and expect boards to demonstrate how they oversee the management of material ESG risks and opportunities. This is reflected in the large number of ESG-related shareholder proposals voted on in recent AGM seasons, the increasing number of companies incorporating ESG issues into executive remuneration and establishing dedicated ESG oversight committees, a changing regulatory environment, and growing expectations about the role companies play in society.

Shareholder proposals have become a prominent part of stewardship, and proposals on diversity & inclusion, human rights, reproductive rights, pay equity, environmental considerations, and political activity continue to be key areas of focus. In particular, climate change continues to be a prominent area for shareholder activism

In recent years, shareholders have found themselves voting on a record number of climate-related resolutions – both proposed by shareholders and by management. However, there has been a decline in general shareholder support on climate-related shareholder proposals, and ESG proposals more widely. The decline can be attributed to changes in SEC rules allowing for more prescriptive shareholder proposals to reach the ballot; and the impact of the war in Ukraine on the global economy leading investors to give companies more leniency on their climate initiatives.

Another contributing factor to the fall in shareholder support has been the rise of anti-ESG activism. There has been an increase in "anti-ESG shareholder proposals" which are similar to "pro-ESG" proposals but involve different rationales, motivations, and consequences if they are approved. These proposals tend to receive low support (less than 10% on average) and therefore drag the overall average support on shareholder proposals down. Whilst the anti-ESG proposals themselves have not attracted material support, the increased rhetoric and legislation action around ESG, such as the passing of state laws in the US prohibiting the use of ESG factors in making investment and business decisions, may be contributing to the lower levels of support seen on pro-ESG shareholder proposals. Due to the changing political environment, institutional investors may be being more cautious with their votes, wishing to avoid attention and targeting by politicians.

It is anticipated that shareholder proposals will continue to be a contested arena going forward. Climate-related proposals are likely to continue to be a dominant theme, but with a growing number of proposals on certain other environmental topics, such as deforestation and water risk, and social issues and worker rights. At the same time, shareholders are increasingly willing to hold individual directors accountable for perceived failures in ESG risk management and strategy.

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

- Policy concerns regarding the structure and disclosure on executive remuneration and the composition and effectiveness 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 14.22% of resolutions proposed by management and 62.14% of resolutions proposed by shareholders and also supported seven successful shareholder proposals.

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 (13.10% 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.

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

May 2024

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 or GM, 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.
Did Not Vote	Where a fund manager actively did not vote at a shareholder meeting or resolution, such as due to market restrictions.

Fund Managers:

CTAM	Columbia Threadneedle Investments
HSBC	HSBC Global Asset Management
NTAM	Northern Trust Asset Management
UBS	UBS Asset Management