Monitoring Review of Shareholder Voting 2020

Prepared for:

National Employment Savings Trust

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1 OVERVIEW

1.1 Introduction

This is the eighth 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 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 part of this duty Nest integrates considerations of environmental, social and governance (ESG) issues across all asset classes and markets where practical. 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 supports and follows various codes of best practice, actively participating 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 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. Being an affiliate of the UKSIF enables Nest to join co-operative efforts to influence policymakers on behalf of sustainable and responsible finance.

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[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: http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/Stewardship-code-statement,PDF.pdf

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

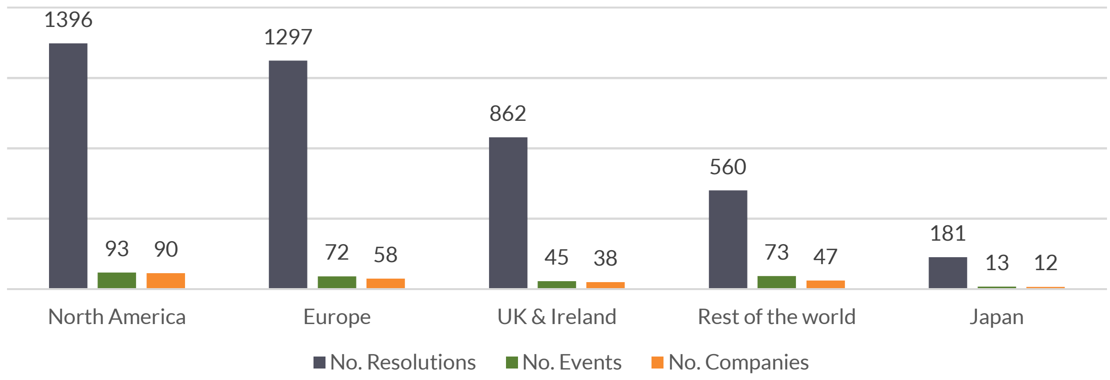
Scope of this report

The report analyses 245 companies which are specified as part of an active monitoring subset by Nest officers. Due to the increasing focus on climate[4], Nest expanded the active monitoring subset ahead of the 2020 voting season to include companies that are targeted by the Climate Action 100+ list[5].

The period covered by this report encompasses the period of 1st January to 31st December 2020. The reporting period brought about a total of 296 meetings (excluding 25 postponed meetings) and 4,296 resolutions.

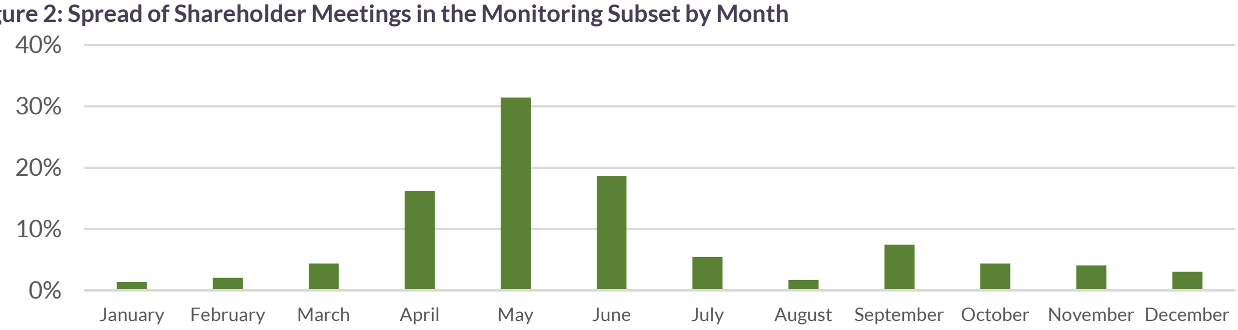
The 2020 voting season took place in unprecedented times with the coronavirus pandemic causing severe economic and social costs globally. Around the world companies switched to online only meetings due to coronavirus related restrictions and social distancing rules, with some also postponing shareholder meetings. Additionally, a number of companies took action to preserve cash resources including the suspension of dividends and buybacks and reducing executive and employee remuneration. During the reporting period, one EGM and 24 AGMs in the monitoring subset were cancelled and postponed to a later date to ensure compliance with measures introduced in connection with containing the virus and the health of employees, shareholders, and service providers.

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 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



[4] Nest launched a new climate policy in 2020: https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/climate-change-policy.pdf

[5] Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. More information can be found at: https://www.climateaction100.org/

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.

In 2017, Nest worked with UBS, its global equity fund manager, to set up its first climate-aware fund. It seeks to reduce the amount of money put in shares of highly carbon-intensive companies and invest more in companies that are well positioned to meet the goals of the Paris Agreement. Following the publication of Nest's climate change policy, Nest is now investing all of its developed equities through this fund – this is nearly 50% of Nest's total investment portfolio. In 2020 Nest also transitioned to a segregated mandate for this fund, allowing Nest to increase the tilt towards companies successfully managing the transition to a low-carbon economy.

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 uses it 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 (UBS), HSBC Global Asset Management (HSBC), Northern Trust Asset Management (NT), and BMO Global Asset Management (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 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, Nest can encourage them to hold companies to account in the way members would expect.

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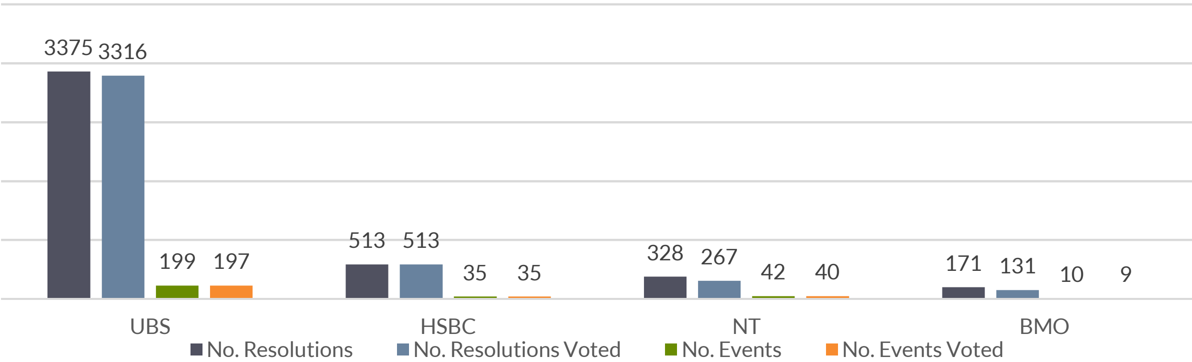
[6] More information on Nest's voting policy can be found on: https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatisnest/contents/Responsible-investment.html

2 MEETINGS AND RESOLUTIONS VOTED

2.1 Fund Manager Voting

There were 296 company meetings and 4,296 resolutions in the monitoring list during the review period. Some companies were not held in a fund manager portfolio meaning no votes were cast by a fund manager on behalf of Nest for such companies. Nest includes companies in the subset if they are in the Climate Action 100+ list or if Nest want to take a close look at the governance practices of a particular company even if it is not held by a fund manager. Companies that are under engagement are also included in the monitoring subset. Certain companies were held in more than one fund manager portfolio resulting in 3,375 resolutions and 286 meetings voted by fund managers.

Figure 3: Total Number of Meetings & Resolutions by Fund Manager



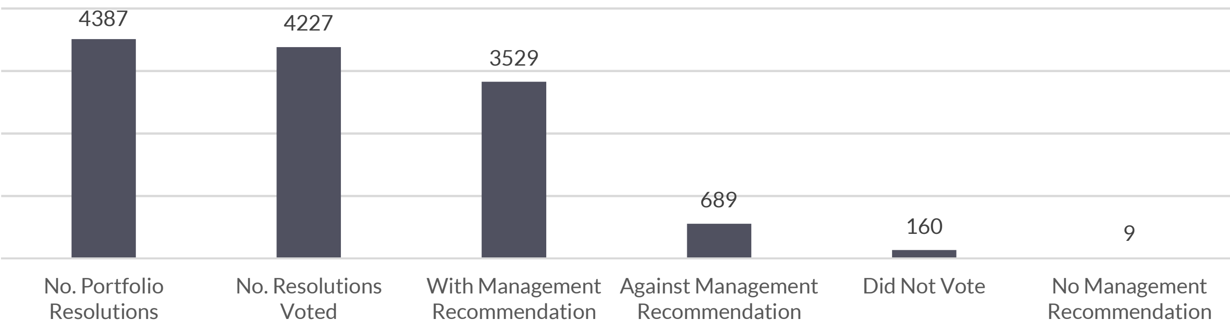
Notes on Data:

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 may be withdrawn before the AGM; where resolutions do not apply to all classes of shares; 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. 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 4: 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.

2.2 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 1: Meeting Types by Fund Manager

Fund Manager	AGM	Court	EGM	GM	OGM	SGM	Total
UBS	187	1	6	4	0	1	199
NT	25	0	15	1	1	0	42
HSBC	31	1	2	1	0	0	35
BMO	10	0	0	0	0	0	10
Total	**253**	**2**	**23**	**6**	**1**	**1**	**286**

In all tables:

AGM	The Annual General Meeting of shareholders, normally required by law.
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.
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.
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.

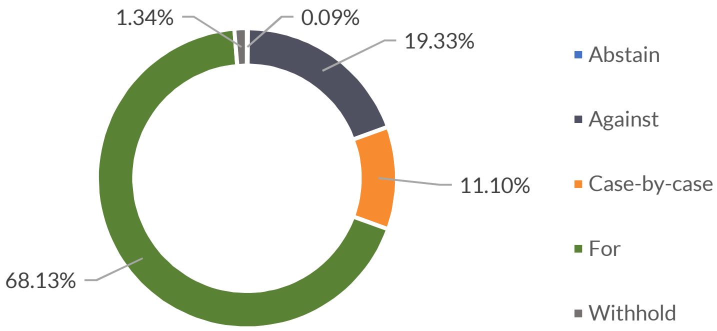
3 NEST'S VOTING POLICY

3.1 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 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 4,387 portfolio resolutions.

Figure 5: 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 governance 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.

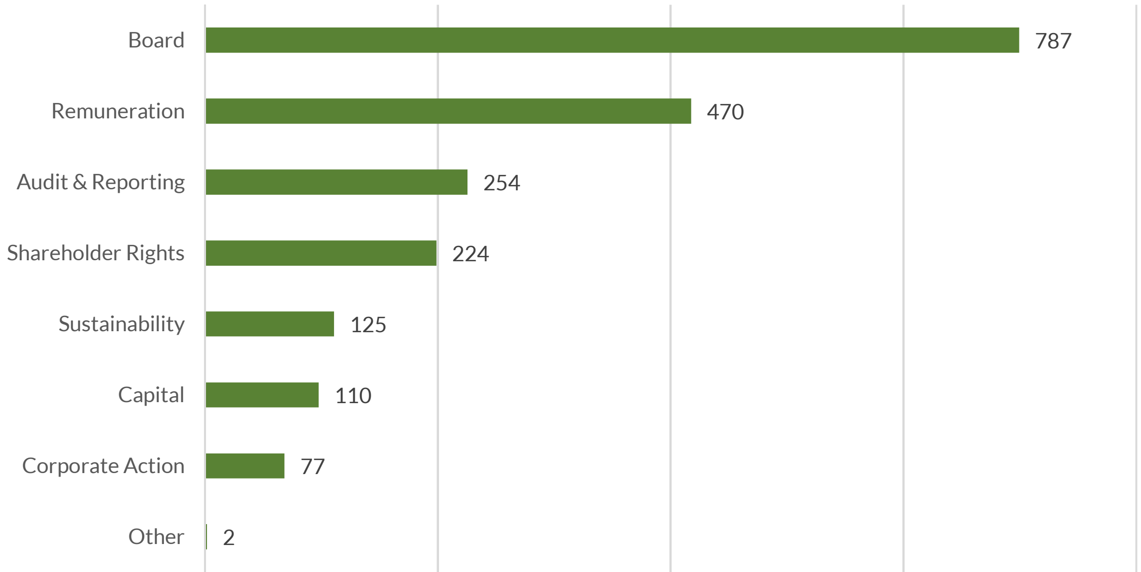
The guidance is read alongside company explanations before the Nest team comes to an informed view. When Nest assumes direct control of their voting, they will be able to override the guidance directly on the basis of the company explanation or other contextual issues including direct engagement with 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.

3.2 Governance Issues Identified

Nest's governance oversight project involved a detailed review of each company in the active monitoring subset. Some resolutions were subject to multiple policy criteria[7]; therefore, there were 1,383 unique resolutions with a potential governance concern and 2,049 different potential governance concerns identified, meaning 32.2% of the 4,296 resolutions had at least one potential policy issue identified.

When considering the most common policy issues identified in the subset, comparison with last year's analysis shows that, in general, there is proportionally slightly more issues of concern identified (1,532 in 2019). This is explained in part by the fact there was a larger number of resolutions in the dataset this year (4,297 in 2020 compared to 2,883 in 2019). The proportion of resolutions with a policy flag has slightly increased from 31.4% in 2019 to 32.2%.

Figure 6: Spread of Policy Issues by Resolution Category



Many of the issues were consistently identified in this analysis in the prior year. Many of these instances will have seen portfolio companies provide 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.

Board and remuneration 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. 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 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.

[7] 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.

Table 2: Nest Policy Flags and Shareholder Dissent[8]

Resolution Category	Number of Resolutions	Number of Flagged Resolutions	Nest Policy Flags %	Average Shareholder Dissent %
Audit & Reporting	461	161	34.92%	1.67%
Board	2,473	513	20.78%	5.63%
Capital	448	85	18.97%	4.03%
Corporate Actions	75	55	73.33%	2.61%
Other	4	2	50.00%	0.07%
Remuneration	432	261	60.42%	8.12%
Shareholder Rights	272	190	69.95%	9.61%
Sustainability	131	115	87.79%	18.15%
Total	**4,296**	**1,383**	**32.19%**	**5.94%**

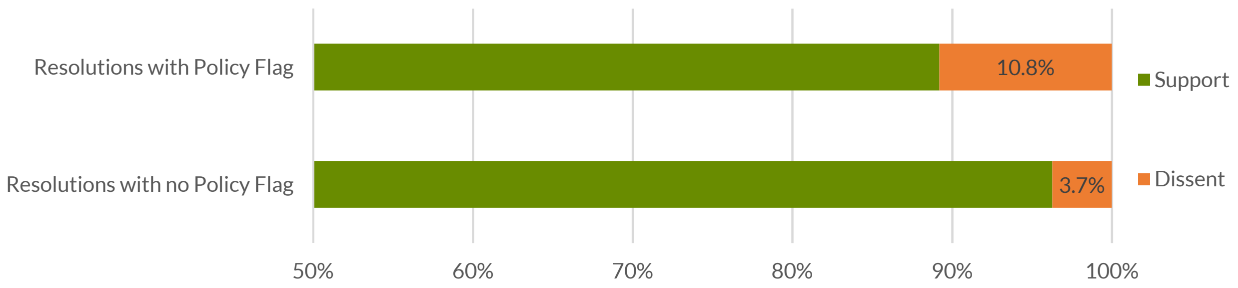
As the average dissent levels from the meeting results data shows, shareholder support of management is overwhelmingly in favour, even on the most contentious issues. Average dissent across all resolutions was 4.8% - in other words, an approval rating of more than 95%.

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 therefore often grab the headlines and consequently attract a relatively high level of opposition from shareholders. When considering the 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 managers' portfolios and their compliance with governance good practice as according to Nest's voting policy. The benefit of this approach is demonstrated in the chart below where resolutions with a policy flag receive almost triple the average general shareholder dissent of those without a policy flag. Nest therefore has a robust policy which is consistent with other investors governance concerns.

Figure 7: Average Shareholder Dissent with a Nest Policy Flag



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

4 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.

4.1 Board

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.

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. 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 then a shareholder could oppose the election of the remuneration committee chair in addition to voting against the remuneration report to send a strong signal.

38.41% 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 roles of CEO and Chairman were combined.
- There were concerns with the audit committee's oversight on audit independence and tenure.
- Slow progress on improving board gender diversity and/or no gender diversity target.
- A director held a significant number of other directorships ("over-boarding").

4.2 Remuneration

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.

Typically, executive remuneration is composed of: salary; benefits; pension; annual bonus; long term incentives; and contract termination provisions.

During the 2020 AGM season a number of companies adjusted their approach to executive and director remuneration in response to the economic impact of the coronavirus pandemic. The most common changes included a temporary reduction in base pay, a freeze in salary rates and a delay in target setting. Other companies also adjusted incentive pay outcomes, with some deferring annual bonus pay-outs or even cancelling the bonus in full.

Accordingly, key issues that investors considered when assessing remuneration committee decisions included the pandemic's impact on the company's wider employee population; the financial impacts on the business, including the need to preserve cash and take-up government aid; and the shareholder experience through share price performance and dividend decisions. These issues will also contribute to voting decisions next year.

Shareholders voted down the remuneration report at US technology firm **Intel Corp** (50.3% dissent). Concerns had been held with certain **promotion and new hire-related compensation arrangements** granted to executive officers as well as the **disclosure and stretch of performance targets** applied to incentive pay.

US-listed agribusiness and food production company **Bunge Limited** received 60.3% dissent on its remuneration report. Concerns had been held with the **severance arrangements for outgoing CEO** Soren Schroder which included a $7m cash severance payment and a $3m transition bonus award.

Tesco, the UK's largest supermarket chain, saw over thirds two- of shareholders vote against the adoption of its remuneration report at its AGM. The key contributing factor was the **use of discretion by the remuneration committee to retrospectively amend long-term incentive performance targets**. The remuneration committee removed Ocado from the comparator group used to determine the outcome under the TSR performance condition which resulted in an increased vesting level for executives. As a result, the value of the share award vesting to outgoing CEO Dave Lewis increased from £800,000 to £2,400,000.

Nest's voting template flagged policy concerns with executive remuneration and the alignment of pay with performance at all three companies.

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.
- Lack of "clawback" provisions[9].
- Concerns with the length of the vesting period for long-term incentives.
- A lack of incorporation of ESG considerations in executive incentive pay.

4.3 Sustainability

Resolutions categorised as Sustainability received over 10% average general shareholder dissent. This can be explained by the fact that shareholder proposals accounted for a majority (75.6%) of sustainability resolutions. Shareholder-proposed resolutions in general received on average a much higher shareholder 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.

Just under one-third of sustainability resolutions related to **political activity** (32.8%); consisting of approvals of the authority to incur EU political expenditure among UK companies and shareholder proposals requesting enhanced disclosure on political donations and lobbying in the US. UK company law requires companies to seek shareholder approval for political expenditure in the EU. The legislation encompasses more than just donations to political parties and includes expenditure towards the realisation of political aims such as political lobbying and trade association memberships. Accordingly, UK incorporated companies routinely seek approval at AGMs for EU political expenditure authorities as a compliance exercise to avoid inadvertent infringement of the legislation. These resolutions accounted for 71.9% of management-proposed sustainability resolutions. Nest will support most resolutions requesting to undertake UK and EU 'political' expenditure provided assurance is provided that no donations to political parties will be made and the authority is no longer than four years and no more than £75,000. Nest will consider voting against the report and accounts where shareholders' funds have been used to make political donations without shareholder approval.

[9] Clawback provisions enables a company to recover and/or withhold sums or share awards from directors in specified circumstances such as in the event of misstatement of financial results or gross misconduct.

4.4 Shareholder Proposals

The overwhelming numbers of resolutions were proposed by management, with only 4.47% of resolutions proposed by shareholders. The majority of shareholder resolutions were proposed in North America (151), 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 (20), Japan (3), UK & Ireland (3) and the Rest of the World (15).

Shareholder proposals 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 proposals to company general meetings highly. Nest's policy is to support shareholder proposals that enhance shareholders' rights, are in the economic interests of shareholders, or support sustainability and good governance. Due to the subjective nature of shareholder proposals, Nest's policy refers shareholder proposals to case-by-case considerations to individually assess the merits of each proposal.

Average shareholder dissent on management-proposed resolutions was 5.01% (2019: 7.4%), while it stood at 24.40% (2019: 20.3%) 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.

The majority of shareholder proposals related to **sustainability reporting and/or performance, and shareholder rights.** At US companies the **separation of the Chair and CEO roles** was a key theme in shareholder proposals. There were a number of successful shareholder proposals in the portfolio during the year:

Company	Proposal
Boeing Company	To request that the Board establish a policy of the Chairman being an independent director.
Chevron Corp	To request the Board to prepare a report to shareholders on climate lobbying.
Duke Energy Corp	To request the Board to amend the governing documents to remove the supermajority voting provisions.
Johnson & Johnson Inc	Request for a report to shareholders describing the governance measures the Company has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis.
Marathon Petroleum Corp	To request the Board to amend the governing documents to remove the supermajority voting provisions.
OMV AG	To elect as a member of the Supervisory Board, Mark Garrett.
Phillips 66	To request the Board to prepare a report on risks to public health of Gulf Coast petrochemical investments.
Procter & Gamble Co	To request that the Board reports to shareholders on efforts to eliminate deforestation.
Tesla Inc	To request the Board to amend the governing documents to remove the supermajority voting provisions.
Verizon Communications Inc	To request the Board to take the steps necessary to amend the Bylaws so that a lower threshold is required for shareholders to call a special shareholder meeting.

5 ENGAGEMENT

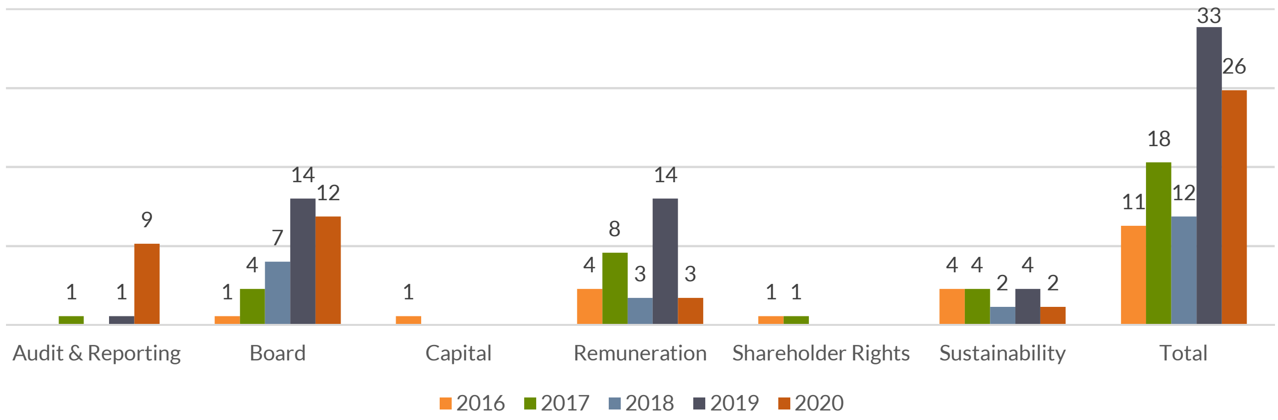
As part of Nest's commitment to acting as an active market participant and responsible asset owner Nest took part in a variety of engagements and wider market discussions during the year[10].

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. 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.

Nest requested a vote overrides on 26 resolutions across 15 companies in 2020.

Figure 8: Nest Vote Overrides



Key vote overrides

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

- Barclays: Nest voted in support of a shareholder resolution at Barclays' AGM. The resolution was developed by ShareAction and called on the bank to make **specific targets on tackling climate change**.
- Amazon.com: FOR the shareholder resolution asking for a report on the **environmental and social impacts of food waste**.
- McDonalds Corp: AGAINST the remuneration report and remuneration committee chair due to the **severance arrangements for the outgoing CEO**.

Nest also engages with fund managers without necessarily requesting a vote override. Nest's engagement continued to achieve some positive outcomes. For example, following engagement BMO changed a vote on favour on the remuneration report at Northern Trust Corp after Nest raised concerns with the below median vesting provisions under the long-term incentive pay arrangements.

Nest engages directly with some companies if it votes against management recommendations and its view is different from that of UBS. In 2020 Nest wrote letters to several companies to explain its voting decisions and areas of concern, seeking resolution or ongoing dialogue.

[10] More information on Nest's engagement activities can be found online: https://www.nestpensions.org.uk/schemeweb/nest/aboutnest/investment-approach/responsible-investment/responsible-investment-reports.html

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: Overall Voting Patterns

Fund	Number of Resolutions Voted	Fund Dissent %	Nest Policy Flags %	Average Dissent %
UBS	3,316	16.83%	30.49%	4.13%
HSBC	513	15.40%	39.57%	6.29%
NT	267	13.11%	40.82%	17.96%
BMO	131	12.98%	32.06%	4.78%
Total	**4,227**	**16.30%**	**32.29%**	**5.34%**

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. 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 2020 stood at 5.3% (2019: 9.5%), Nest's fund managers opposed management on 16.3% of resolutions (2018: 17.3%). Accordingly, **while Nest's fund manager dissent has decreased by 1.0%, shareholder dissent has decreased by a greater rate of 4.2%.**

There were 229 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.

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 – 66.76% of fund managers' dissenting votes occurred on resolutions with a policy flag.

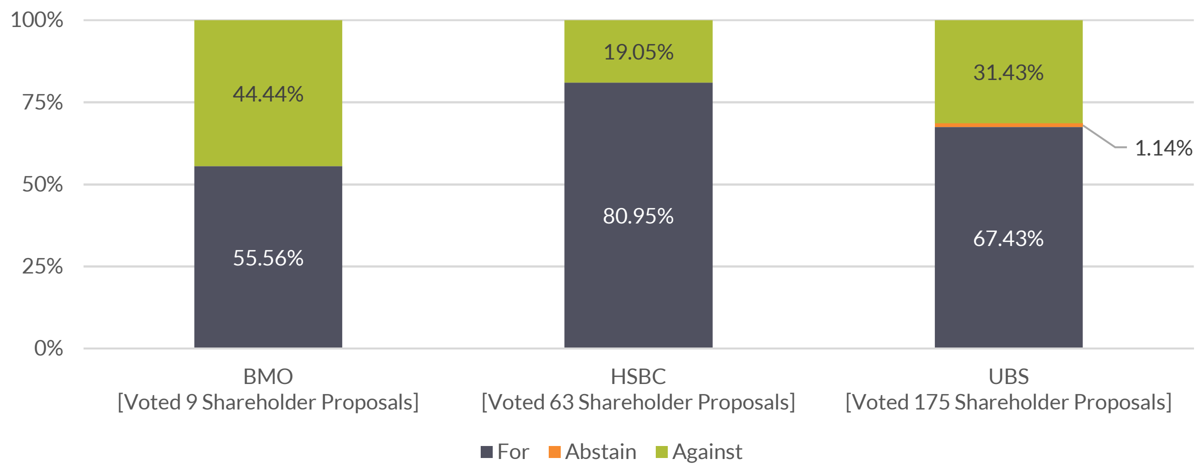
The analysis shows:

- In aggregate 689 (2019: 643) were voted contrary to management recommendation, comprising:
  - → 517 (2019: 510) management sponsored resolutions; and
  - → 172 (2019: 133) shareholder proposals.
  - → 33.24% of instances where fund managers opposed management did not have a Nest policy flag.
- Fund managers voted against 10 defeated management-proposed resolutions (consisting of three remuneration report approvals, one director election, one resolution on deliberations regarding possible legal action against directors if presented by shareholders, and five say-on-pay frequency votes in the US) and supported 10 successful shareholder proposals (see section 2.4).
- 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 contrary to management recommendation on 12.99% of management resolutions and 69.64% of shareholder resolutions.
- UBS' level of dissent has for the fifth year increased, this year by 1.2%, and is 12.7% higher than general shareholders. UBS have notably voted against more share issue authority requests this year.
- HSBC's dissent has decreased by 2.5% representing a reverse from 2019 in which dissent increased by 2.5%. This year HSBC's dissent is notably higher than the average shareholder.
- NT's level of dissent has notably decreased in comparison to last year's dissent level of 29.6%, however the change in the regional composition of votes cast by NT as well as the total number of resolutions voted by NT has impacted voting trend analysis. NT's dissent this year is lower than the average shareholder.
- BMO's level of dissent has increased by 0.4%. BMO's dissent continues to be significantly higher than the average general shareholder dissent, by 8.2%.

6.2 Fund Manager Voting on Shareholder Proposals

In aggregate fund managers voted 'For' on 70.45% of shareholder proposals, a greater level of support than that of the general shareholder average (23.01% votes in favour on average). Management recommended voting against the vast majority of shareholder proposed resolutions. Northern Trust did not vote on any shareholder proposals this year.

Figure 9: Proportion of Shareholder Proposals Supported by Fund Managers



An increasing number of shareholder resolutions are being filed to raise awareness and send a public signal to companies about a variety of sustainability issues. Nest's fund managers supported a broad range of these resolutions. For example, Nest's fund managers voted to support shareholder resolutions at:

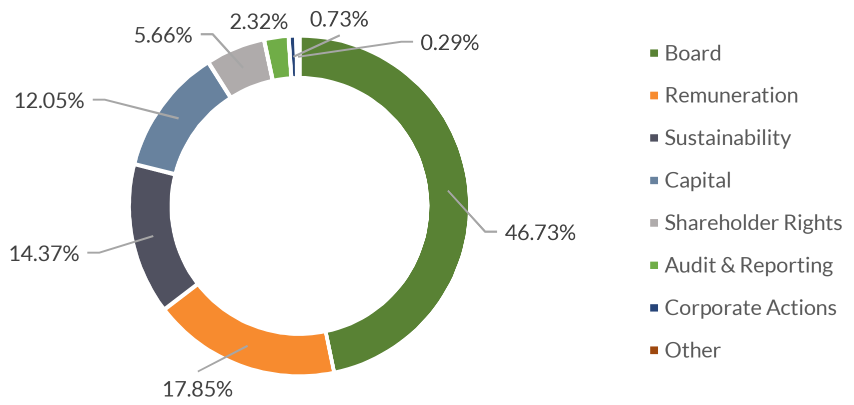
- Amazon American Airlines, Boeing, Caterpillar, Chevron, Delta Airlines, Duke Energy, Exxon Mobil, Facebook, Ford, General Motors, Home Depot, NextEra Energy, Southern Company, United Airlines, Verizon Communications and Walt Disney requesting enhanced reporting on political donations and/or lobbying.
- Barclays, Chevron, Delta Airlines, Equinor, Fortum, JPMorgan Chase, Philipps 66, Santos, Total, T Rowe Price, United Airlines and Woodside Petroleum requesting the board to prepare a report climate lobbying or to provide enhance disclosure on climate strategy and/or emission targets.
- Alphabet, Facebook, JPMorgan Chase, Home Depot and Intel requesting the board to prepare a report on ethnic and racial and/or gender pay gaps.
- Alphabet and Amazon requesting the incorporation of ESG performance metrics in executive remuneration.
- Amazon, Chevron, Facebook, General Motors and Tesla asking for additional reporting on human rights policy and practice.
- Coca Cola, McDonald's and Pepsico requesting a report on sugar and public health.
- Berkshire Hathaway and Procter & Gamble asking for a report on diversity and Alphabet and Tesla asking for a report on arbitration of employment-related claims.

6.3 Fund Manager Voting by Resolution Category

Nest's fund managers were more likely to vote against management recommendation on a Board-related resolutions than any other resolution type. The Remuneration category accounted for the second largest proportion of dissenting fund manager votes.

Fund managers voted 'Against' all but one resolution in the Other category and all resolution opposed in the category related to approvals to conduct any other business. Many institutional shareholders oppose such open-ended proposals as they are considered unfair to those shareholders wishing to submit voting instructions ahead of the meeting as they are unable to come to an informed voting decision on the proposal.

Figure 10: Spread of Fund Manager Dissent by Resolution Category



In aggregate, Nest's fund managers voted against 257 director elections. A variety of governance issues contributed to the opposing votes, including board and committee independence, combined CEO and Chair roles, poor progress on board gender diversity, and over-boarding. UBS voted against 32 director discharge resolutions at Volkswagen due to ongoing concerns in regard the Company's exposure to legal and regulatory risks in connection to the 2015 diesel emissions scandal and the board's response and disclosure in connection to this.

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

6.4 Concluding remarks on fund manager voting

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 hold today have been granted over time with company law developments, often in response to public policy problems caused by failures of governance.

The 2020 voting season took place in unprecedented times and the coronavirus pandemic may also impact future regulatory initiatives. During the reporting period companies have postponed shareholder meetings and amended the articles of association to allow for online only meetings. Historically, institutional investors have opposed the use of virtual meetings. Whilst investors have backed the switch this year, some may have concerns as to whether this will become the new normal.

As the coronavirus pandemic continued to evolve and cause economic uncertainty during the year, companies took action to preserve cash and protect balance sheets. Many companies adjusted capital allocation strategies, with some also reviewing their approach to executive and employee remuneration. The executive remuneration environment has changed and how companies respond may play an important part in voting decisions next year. In the UK more companies may move towards the use of restricted share awards given that it may be difficult to set appropriate targets for the next three years and, more generally, environmental, social and governance (ESG) performance will become important factors for boards and shareholders to consider.

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

- The most common board related policy issue was a shortfall in independent directors on boards and board oversight committees. Board and remuneration related resolutions continue to be most flagged.
- Identifies that Board and Remuneration related resolutions are the resolution types Nest's fund managers oppose management on most often, followed by Sustainability and Capital related resolutions.
- 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 12.99% of resolutions proposed by management and on 69.64% of resolutions proposed by shareholders and also supported 10 successful shareholder proposals.
- Nest's fund managers opposed 10 defeated management-proposed resolutions, including three remuneration reports at Bunge, Intel and Tesco.

Whilst the proportion of resolutions where potential issues were identified 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 (33.24% 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 national codes. 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 code 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. The divergence between the Nest policy guidance and voting outcomes should be considered within this context[11].

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. A full comparison of voting patterns will be carried out in future years when full data is available. 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.

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[11] The FRC has published guidance on what is a meaningful explanation: https://www.frc.org.uk/getattachment/6a4c93cf-cf93-4b33-89e9-4c42ae36b594/Improving-the-Quality-of-Comply-or-Explain-Reporting.pdf