Asset Management

Voting guidelines

For professional investors only

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HSBC Opening up a world of opportunity

It is our fiduciary duties to our clients that drive our stewardship activities.

Exercising our voting rights is a core part of our stewardship activity and broader responsible investment approach, under which we integrate environmental, social and governance (ESG) factors into our investment decisions, and look to drive positive change when engaging using shareholder rights appropriately.

This document sets out our global voting guidelines, informing our clients, company boards and other stakeholders how we exercise these voting rights.

We were early signatories to the Principles for Responsible Investment in 2006 and to the UK Stewardship Code in 2010. We have since become signatories to stewardship codes in Hong Kong and Taiwan and been accepted as signatories to the UK Stewardship Code 2020. We keep our participation in other stewardship codes under review.

Our approach

Our global voting guidelines are based upon international principles of good governance such as the G20 / OECD Principles of Corporate Governance and the investor-led International Corporate Governance Network (ICGN) Global Governance Principles and Global Stewardship Principles. As global investors, we recognise that corporate governance codes, standards and practices vary across different markets and we are sensitive to this in the application of our guidelines. Some markets operate a 'comply or explain' approach; we consider companies' explanations of any non-compliance in determining our vote.

We expect directors of companies in which we invest to provide effective stewardship and ensure that the companies act in the interests of all stakeholders. We expect companies to apply governance good practice for their market of listing and, for larger companies, to meet globally-recognised good practice standards. We seek constructive engagement with boards. We support management, where we consider they are appropriately discharging their duties.

These guidelines set out our approach on key voting issues. They are not exhaustive and are complemented by a number of tailored voting frameworks to reflect our approach in specific markets. More details can be found in our 2022 Stewardship and Engagement Plan published online.

Board’s role and leadership

The board’s role is to provide proactive leadership and oversight – including on strategy, capital allocation, risk management, sustainability and corporate culture – with a long term outlook, to protect and enhance shareholder value.

Board structure – There should be an appropriate balance between the executive and oversight functions. We favour a unitary board structure, but recognise that in some markets, separation of management and oversight is achieved through a dual board structure.

Chair & CEO roles – Chair-men and -women have a key role in driving the work of the board and providing effective leadership and oversight of the company. We favour the separation of the roles of Chair and Chief Executive. Where companies combine these, we expect a clear explanation and shareholder safeguards such as a strong lead independent director.

Board composition and independence

Balance of independence – Significant independent representation on the board is important to ensure appropriate challenge and protection of shareholder interests. We believe that as a principle, 50 per cent of the board, or supervisory board, should comprise of independent directors. We generally vote against the (re-)election of non-independent non-executive directors where the balance of independent directors does not meet this standard and may also vote against some executive directors. In certain markets, we may accept a different level, but it shall not be lower than one third or 33 per cent. Where a higher local standard exists, we encourage companies to meet that standard.

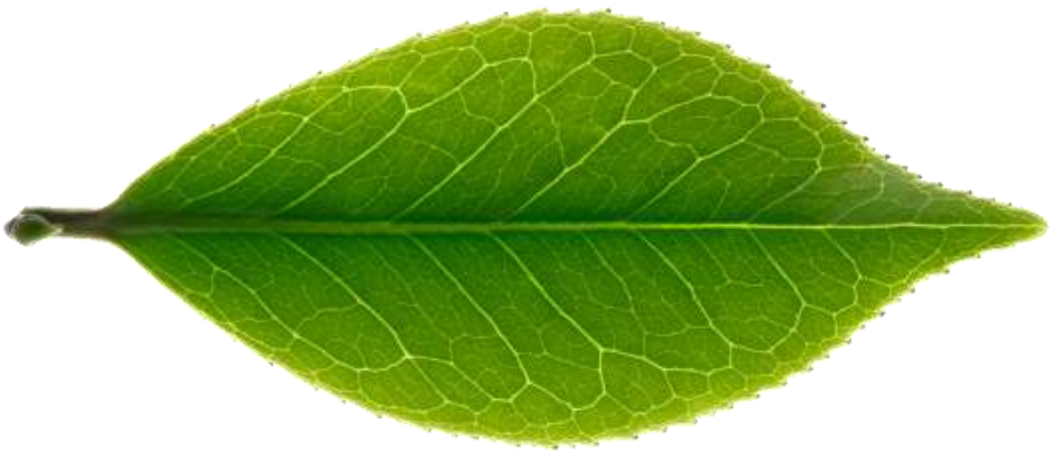
In assessing independence, we consider a candidate’s current or former employment with the company, family links with other directors, commercial links with the company, significant shareholding in the company, and tenure in excess of nine years. We are more likely to support independent shareholder nominees if the board does not meet our standards for independent representation.

Board diversity – The board should comprise directors with an appropriate range of skills and experiences. Diversity in gender, race, ethnicity and background are amongst the factors we consider when assessing board composition. We generally vote against the nomination committee chair of companies with under 10 per cent female board members, including for emerging and frontier markets. In most developed markets, our expectations for board diversity are substantially higher. More details can be found in our 2022 Stewardship and Engagement Plan published online.

Director re-election – We favour annual re-election of individual directors but recognise this is not current practice in many markets. We generally vote against measures to increase the term for which directors are elected or the grouping of directors' elections.

Overboarding – Directors need to be able to devote time to their important role. We may vote against directors who sit on more than five public company boards. We consider workload for the board chair or committee members to be more significant and may take this into account when making voting decisions.

Board committees – Boards should establish committees to consider remuneration, nomination and audit issues. These should be at least majority independent, with full independence the standard in some markets. Executive directors should not be involved in the determination of their own remuneration. In developed markets, we generally vote against non-independent directors on remuneration or audit committees where these are not majority independent. We expect companies to disclose in their annual report work plans, progress and targets of key board committees.



Executive remuneration

Remuneration should be set at the level required to reward and motivate company management and align with company strategy and long term shareholder interests. We generally vote against remuneration policies, reports or proposals which are not aligned with key aspects of our positions outlined below.

Performance link – Remuneration linked to short and long term performance measures has a role in incentivising management. We expect remuneration to align with performance, with evidence that investors view has been consulted. We expect bonuses, shares or options to be linked to performance criteria. Such criteria should be clearly defined, challenging and align with the companies' strategic objectives. Senior executives should have a sizable of their remuneration in shares to align with the long term interests of the company. We expect full disclosure of individual and overall directors' remuneration. We encourage the inclusion of appropriate measures of ESG performance amongst the criteria determining variable remuneration, with clear rationale for suitable metrics.

Other share-based incentives – We welcome share-based incentives that underpin the alignment of interest between management and shareholders. Non-executive directors' remuneration may include or comprise shares but should not be linked to performance criteria. We welcome schemes which encourage the participation of all staff in companies' equity.

Dilution – Companies should be mindful of the dilutive impact of share-based remuneration. The overall impact of such plans should generally be limited to 10 per cent in ten years.

Severance, Termination, Buyout and Change-in-Control payments – Companies should avoid excessive payments to arriving and/or departing directors; in general, these should not exceed annual remuneration. For termination linked to change of control, remuneration structure position should not lead executives to favour one course or another.

Quantum – We take into account the overall amount of remuneration, which should be appropriate in the context of the company, when compared to appropriate peer benchmarking and to the median national income of the company's largest markets. We are increasingly mindful of the impact high executive pay has on economic inequality and social cohesion, and therefore will vote against pay outcomes that do not meet our framework for fair executive pay, given the size and complexity of the company. Increases in remuneration should not be out of line with the experience of company employees and shareholders during the period concerned.

Accountability – Where a company has taken insufficient action to address previous significant shareholder votes against the Remuneration Report, Policy or advisory vote, we may vote against the re-election of Remuneration Committee members

Diversity – Given the positive yet evolving landscape regarding gender and ethnic diversity at board level, scrutiny will be placed on any practices or outcomes that negatively affect equality. More details can be found in our 2022 Stewardship and Engagement Plan published online.

Vesting, Holding and Deferral periods – Sufficient disclosure and structure regarding these is required.

Malus and Clawback – Both these aspects should be present in executive remuneration packages with specific reference made to the circumstances in which a company would exercise these provisions.

Capping – We do not favour unlimited payouts and believe that bonuses should be capped.

Disclosure and audit

We expect timely and appropriately detailed disclosure from companies in order to exercise our voting rights effectively. This should cover strategic, financial and operational performance, risk management and material ESG factors.

Annual report – We may vote against specific resolutions, such as approval of annual reports and accounts or financial statements, where we consider there is inadequate disclosure on governance issues or there are broader concerns about companies' governance.

Bundling – Resolutions for shareholder approval should not 'bundle' together separate matters.

Audit & accounts – A robust and reliable set of accounts and audit is critical for shareholder confidence. We review auditor independence and any concerns that are flagged when deciding on the re-election of external or statutory auditors. We expect companies to tenure their audit work at least once every five years.

Corporate tax optimisation – We believe companies must pay their taxes aligned with the spirit of the law. We are concerned when companies take inappropriate risk to avoid tax responsibilities. Companies operating in more than one country must determine how best to meet regulatory and other requirements, including corporate taxation. We engage with companies to encourage transparency in their tax arrangements. We believe that paying tax in the jurisdictions where earnings have been realised is likely to be more sustainable. We may apply voting sanctions where our analysis suggests companies are not making a fair contribution. More details can be found in our 2022 Stewardship and Engagement Plan published online.

Climate disclosure – In our engagement, we encourage companies to disclose their carbon emissions and climate-related risks in line with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). For more details, please refer to our 2022 Stewardship and Engagement Plan Section on Climate Change, which also outlines our voting approach.

Capital issues and shareholder rights

Shareholders are amongst the principal providers of the capital which companies need to grow and flourish. Companies should be mindful of the interests of existing shareholders as they consider changes to their capital structure. We believe all shareholders should have equal voting and other rights, proportionate to their shareholding, and that these rights must be protected. This includes minority shareholders having voting rights on key decisions or transactions which affect their interest in the company.

Share repurchase – We generally support authorities to repurchase shares as long these would not be at a premium in excess of 5 per cent, could not be used during a takeover period and no more than 15 per cent of issued capital could be held 'in treasury', with shares repurchased above that level to be cancelled.

Pre-emption – Existing shareholders should have a pre-emptive right to participate in significant capital increases. We recognise that pre-emption is not an established concept in some markets. We generally vote against share issuance authority without pre-emption which would result in dilution existing shareholders by more than 15 per cent and apply a lower limit of 10 per cent where that is the local market good practice standard.

Other share issuance – Whilst companies need flexibility to issue new capital in response to opportunities, we believe any event requiring more than one third of existing capital should be brought to a shareholders' meeting for specific approval.

Debt issues – We generally support convertible debt issuance authorities that operate within these equity issuance limits.

Related party transactions – We assess related party transactions on a case by case basis. Companies should ensure that they have adequate mechanisms to avoid conflicts of interest in transactions with related parties. This may include seeking specific shareholder approval.

Other transactions – Significant corporate transactions are assessed on a case-by-case basis to determine the best interests of shareholders in the company concerned.

'Poison pill' defences – We generally vote against the introduction or continuation of 'poison pill' defences. However, we are mindful of increasing corporate power concentration in certain sectors and markets, and its links to anti-competition, economic inequality, and lower levels of innovation and investment. Therefore, we may support poison pills and their introduction by exception where we believe there is a long term, holistic, value creation argument for a company remaining independent.

Differentiated shareholder disclosure requirements – We do not support measures that require shareholders to disclose their shareholding below the level required in local company regulations, we believe these measures can be used to undermine the voting rights of minority shareholders.

Virtual-only meetings - We recognise that there can be good reasons to hold shareholder meetings virtually but these should not be used to limit accountability to shareholders. We generally vote against resolutions to introduce virtual only meetings where there is no undertaking only to hold such meetings where required for public health or other overwhelming reasons

Shareholder resolutions

Shareholder resolutions are an increasingly important mechanism for raising concerns about companies' oversight and management of ESG issues. Whilst they remain prevalent in the United States, they are becoming more common in other developed markets, such as the European union, the UK and Japan. We support resolutions which call for enhanced disclosure, and resolutions the improve accountability and where we believe the resolution is achievable and fair.

Climate change resolutions – We support resolutions which call for enhanced disclosure on environmental issues.

We support the introduction of regular shareholder votes on companies' climate transition plans and their reports on progress against these, particularly in exposed sectors. We vote in favour of resolutions to introduce a 'say on climate'. We generally support resolutions asking for: adoption of climate change policies; adoption of science-based greenhouse gas emission reduction targets; annual assessments of portfolio resilience; and a credible Paris-aligned transition plans.

Biodiversity and nature-related resolutions - We support the introduction of regular shareholder votes on companies' biodiversity and nature related impacts and improvement plans, and their reports on progress against stretching goals, particularly in exposed sectors. We support resolutions which encourage protection of natural resources. These include reporting on: deforestation impacts, water usage and pollution, land restoration and issues such as single-use plastic bags and food waste. We support credible management and action plans.

Social resolutions – We support resolutions which call for enhanced disclosure on social issues. These include resolutions: calling for human rights impact assessments, reporting of gender and ethnicity pay gaps in markets where is possible and compliant, access to remedy processes according to the UN Guiding Principles for Business and Human Rights (UNGP), and improving transparency on product safety. We generally support resolutions asking for improvements on; fair drug pricing, real living wages provision for all employees, and fair lending practices. For more information, related to voting on social issues, please refer to the 2022 Stewardship and Engagement Plan Sections on Diversity, Equity and Inclusion (DEI) and Human rights.

Governance resolutions – We support shareholder proposals which defend or promote the governance principles set out in this policy. This includes resolutions: calling for an independent board chair, enhancing shareholders' rights to call special meetings or propose resolutions, supporting majority voting in director elections. We also support resolutions calling for enhanced disclosure on responsible tax, political lobbying and political donations.

Accountability – Although shareholder resolutions are often advisory, directors need to listen carefully to the views expressed by shareholders in their voting and associated engagement. Where companies have failed to respond to majority or significant votes in support of shareholder resolutions, we may vote against relevant directors.

We may also vote against relevant directors for poor management of ESG risks or inadequate response to shareholder engagement on these issues.

Voting process

These global voting guidelines inform the custom voting recommendations we receive from our external proxy voting research and platform provider. The voting recommendations for active holdings are reviewed by the relevant fund managers, whilst our corporate governance specialists oversee voting for all holdings.

We aim to vote all equities for which clients have given us voting authority, except where this is not practical for reasons such as share blocking or overly burdensome power of attorney requirements. Our global voting guidelines are applied across our investment offices, including London, Paris, Hong Kong, Malta, Mexico City, Mumbai, Taipei and Vancouver. We vote at around 8,000 company meetings in more than 70 markets annually.

Oversight – These global voting guidelines policy are proposed by the Stewardship team and approved by the Sustainability Forum at least annually. It is led by our Head of Sustainability Officer, and it includes our Chief Executive Officer and Chief Investment Officer. The ESG Oversight Committee also reviews voting activity on a quarterly basis.

Engagement – Engaging with key stakeholders including companies is an important part of our stewardship activity and informs our voting decisions. As part of our engagement, we contact some companies before voting against management to explain our rationale and give them the opportunity to respond.

Conflicts of interest – Our primary responsibility as an investment management firm is to aim to add value over the long term. Potential conflicts of interest we may face are addressed by the over-riding principle that client interests are put first. HSBC Asset Management is functionally and operationally independent from, and maintains arm's length commercial relationships with, other HSBC Group companies. We maintain a register of potential conflicts of interest and associated mitigation.

Vote disclosure – For all voting through the ISS platform, we publish on our website full monthly voting records, in arrears. We also offer clients detailed reports on our voting activity.

For further information, please contact: Christine Chow, Head of Stewardship. HSBC Global Asset Management (UK) Ltd., 8 Canada Square, London, E145HQ.

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