Asset Management

Voting guidelines

February 2023

For professional investors only

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Introduction

We believe that high standards of corporate governance are fundamental to protecting and enhancing the long-term value of the companies in which we invest. We believe our corporate governance approach can also help companies and our investors accelerate the transition to a more sustainable future. We regard stewardship as integral to our approach to investment and to delivering returns to our clients.

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.

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, Taiwan and Singapore and been accepted as signatories to the UK Stewardship Code 2020. We keep our participation in other stewardship codes under review.

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 standards and practices vary across different markets and we reflect them in the design and application of our guidelines. Some markets operate a ‘comply or explain’ approach; we consider companies’ explanations of any non-compliance in determining our vote as much as possible.

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.

While we typically vote in line with these guidelines, we will exercise our judgement based on research and engagement history where appropriate. We may therefore in some cases vote differently from the guidelines and / or the external ratings on which some recommendations are based.

These guidelines set out our approach on key voting issues. They are not exhaustive and are complemented by tailored voting frameworks to reflect our approach in specific markets. Vote intentions may change if new information from a company is provided in a timely and comprehensive manner to address our concerns, or through proactive engagement. Where particular companies are not responding to engagement and are a cause for concern, we will consider supporting and ultimately co-filing shareholder proposals calling on them to address the issue. Throughout our engagement, we remain a partner in helping companies improve and transition by sharing knowledge and best practice.

For market classification, we use MSCI's definition of developed markets as below[1] unless otherwise specified. We include all other markets in our emerging markets category unless otherwise specified.

Americas	Europe & Middle East		Asia Pacific
Canada	Austria	Italy	Australia
USA	Belgium	Netherlands	Hong Kong
	Denmark	Norway	Japan
	Finland	Portugal	New Zealand
	France	Spain	Singapore
	Germany	Sweden	
	Ireland	Switzerland	
	Israel	United Kingdom	

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 stakeholder value. For the board to be able to fulfil its responsibilities effectively, it needs to have an appropriate balance between the executive and oversight functions, as well as a sufficient level of diversity and relevant skill sets.

1. MSCI Developed Markets Indexes - https://www.msci.com/our-solutions/indexes/developed-marketsMSCI

Balance of independence – Significant independent representation on the board is important to ensure appropriate challenge and protection of investor interests. We believe that in principle, at least 50 per cent of the board members elected by shareholders[2] should be independent, although we accept lower levels in certain markets, taking into consideration cultural and historical differences. We generally vote against the (re-)election of non-independent non-executive directors where the balance of independent directors does not meet these standards and may also vote against executive directors for this reason.

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 in general, with some exceptions. We are more likely to support independent shareholder nominees if the board does not meet our standards for independent representation.

Our expectations for board independence in key markets are as below.

- Developed Markets except continental Europe and Japan: We expect all companies to have at least 50 per cent independence on the board[3,4]. If the level is not met, we will vote against the (re-)election of non-independent, non-executive directors.
- Continental Europe: We expect all non-controlled companies and large cap (€4 billion or more) controlled companies to have at least 50 per cent independence on the board[5]. We expect smaller controlled companies to have at least one third independence. If these levels are not met, we will vote against the (re-)election of non-independent, non-executive directors.
- Japan: We expect Prime Market companies to have at least one third independence among directors and all other companies to have at least 20 per cent or two independent directors, whichever is higher. We apply higher expectations for controlled companies in line with the local Corporate Governance Code[6]; an independent majority at Prime Market companies and one third at other companies. If these expectations are not met, we will vote against the re-election of the nomination committee chair as well as the (re-) election of non-independent, non-executive directors.
- Korea: We vote against non-independent director nominees when independent directors comprise less than majority of the board in case of large (KRW 2 trillion or more of assets) companies; or less than 25 per cent in the case of smaller companies.
- Emerging Markets: We vote against non-independent non-executive directors where less than one third of board is independent. We also vote against proposals where candidates are not named.

2. Excluding, where applicable, employee representatives or employee shareholder representatives
3. Same as above
4. In the UK, we expect at least half of the board excluding the chair to be independent, in line with the Corporate Governance Code.
5. Same as above
6. https://www.jpx.co.jp/english/news/1020/b5b4pj0000046kxj-att/b5b4pj0000046l07.pdf

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 re-election of the nomination committee chair of companies where there is insufficient gender balance (typically female representation) on the board. Below are our expectations for key markets.

US	Gender	Mega cap (US$50bn or more): 40%	Mid to large cap (US$5bn to 50bn): 35%	Small cap (Below US$5bn): 30%
	Race	Russell 3000 and S&P 1500: at least one director from ethnic or racial minority background		
UK[7]	Gender	FTSE350 companies: 40%	Other companies: 35%	
	Race	FTSE 100, FTSE 250 and FTSE SmallCap: at least one director from ethnic or racial minority background		
Continenta l Europe	Gender	Large cap (€4bn or more): 40%	Mid cap (€500mn to 4bn): 35%	Small cap (Below €500mn): 30%
Hong Kong and Mainland China	Gender	20%		
Japan	Gender	15%		
India	Gender	One independent female director		

7. All listed companies whose financial year started from 1 April 2022 are expected to comply with the new FCA listing rules or explain. We may vote against the nomination committee chair if any of the following is not met: 1) At least 40% of the board to be women; 2) At least one of the senior board positions (Chair, CEO, CFO or Senior Independent Director) should be a woman; 3) At least one member of the board should be from an ethnic minority background excluding white ethnic groups.

Chair & CEO roles – The Chair has a key role in driving the work of the board and providing effective leadership and oversight of the company. We believe in 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. At larger companies in developed markets except Japan, we vote against the individual where the roles of the chair and CEO are combined, unless 1) the board meets our minimum independent requirement **and** has a lead (or senior) independent director; or 2) company provides justification. At UK companies, we vote against combined chair and CEOs.

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.

Worker director – We look to support directors appointed from the workforce where possible. In cases where there is a tension between board independence falling slightly below our expectation, and supporting a worker director, we may support the worker director.

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 audit, remuneration and nomination committees where these are not majority independent[8]. We expect companies to disclose in their annual report work plans, progress and targets of key board committees.

Unequal voting rights – We believe in the principle of one share, one vote. We therefore vote against the re-election of the Chair and the Lead Independent Director of US companies where unequal voting rights are in place. We plan to extend a similar policy to Europe in 2024.

Cross-shareholdings (Japan) – We do not favour the practice of cross-shareholdings unless there is clear strategic imperative as it is often an inefficient use of investor funds and can lead to governance problems. We may vote against the top executives of companies which allocate over 10 per cent of net assets in cross-shareholdings. This approach may also apply to companies in South Korea on a case by case basis.

Climate change – We believe that the board should be responsible for the company's climate change strategy and the oversight of relevant issues. Where the strategy or actions of a company in a carbon intensive sector fall short of that required for low carbon transition we may vote against the re-election of the chair or relevant board director, based on assessments by Transition Pathway Initiative (TPI)[9] and InfluenceMap[10] as below.

8. The policy does not apply to Japan, where these committees are mostly established on a voluntary basis and the disclosure on committee membership is limited, which prevents us from applying the policy.
9. https://www.transitionpathwayinitiative.org/sectors
10. https://ca100.influencemap.org/lobbying-disclosures

			TPI score		InfluenceMap score (CA100+ companies)
Most carbon intensive sectors (oil and gas, coal mining, Electric utilities)	Developed markets	Below 4	Or	D or worse
	Emerging markets	Below 3		
Carbon intensive sectors (airlines, aluminium, autos, cement, chemicals, consumer goods, diversified mining, industrials, paper, shipping, steel)	Developed markets	Below 3	Or	D- or worse
	Emerging markets	Below 3		

As outlined within the Coal Policy, in addition to engaging over time with issuers who derive more than 10 per cent revenue exposure to thermal coal[11] , we will also vote against the re-election of chairs at these companies whose transition plans remain inadequate, and/or who do not provide TCFD disclosure or equivalent reporting. We referenced Bloomberg TPI climate score and CDP data when determining the quality of TCFD disclosure of companies.

We will consider incorporating companies' commitment to just transition in our voting in the future.

Biodiversity and nature – We may vote against the re-election of the chair or relevant board director who fail to implement adequate policies and reporting on biodiversity and nature issues. For example, we expect companies with high exposure to deforestation risks to have a deforestation policy and will over time also expect a dedicated biodiversity policy.

We will continue to use MSCI Natural Capital Scores and FAIRR's Protein Producer Index to inform our voting and will raise our expectations and apply a higher cut-off. In addition, from 2023, we will use information from:

1. Iceberg Data Labs, which informs our biodiversity ETF, assessing 1,000 companies across 22 industries using 25 nature indicators and 18 core social indicators;
2. World Benchmarking Alliance's Nature Benchmark and Seafood Stewardship Index, the Benchmark assesses 1,000 companies across 22 industries and considers 25 nature indicators and 18 core social indicators, and the Index examines the 30 most influential companies in the seafood industry;
3. The Forest 500 report that tracks the policies and performance of the 350 most influential companies and 150 most influential financial institutions linked to deforestation in their supply chain and investments; and
4. InfluenceMap Industry Influence on Biodiversity Policy report and scores that show industry associations' engagement on biodiversity-related policies and regulations, and the companies that comprise the associations' membership.

11. We plan to engage with issuers held in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal by the end of 2023, and those in our passively managed portfolios by the end of 2025.

Human rights – We identify human rights violations using Global Standards Screening from Sustainalytics. This helps us systematically to identify companies that are violating, or are at risk of violating, United Nations Global Compact (UNGC) Principles 1 to 6[12] . We also refer to industry-recognised[13] human rights benchmarks, including Know the Chain, Ranking Digital Rights, World Benchmarking Alliance's Corporate Human Rights Benchmark (CHRB) and 2022 Social Transformation Baseline Assessment.

For companies that do not comply with UNGC Principles 1 to 6, or if they fall below our expectations in other reference benchmarks, we may vote against the re-election of the chair or relevant board director.

We may change our use of third-party reference benchmarks and expectations over time, as companies' management of salient human rights issues evolve.

Data provider / benchmark	Sectors covered	Metric(s)	Consider voting against management when
Sustainalytics Global Standards Screening	Across industries	UNGC Principles 1 to 6	Non-compliant
World Benchmarking Alliance: Corporate Human Rights Benchmark	Apparel; automotive manufacturing; extractives; food and agricultural products; ICT manufacturing	Human rights score (out of 100) comprising five themes	Score is 10 or below
World Benchmarking Alliance: Social Transformation Baseline Assessment	Across industries	Human rights score (out of 10) comprising eight indicators	Score is 1.5 or below
Know the Chain	ICT; food and beverage; apparel and footwear	Overall benchmark score (out of 100) comprising seven themes	Score is 10 or below
Ranking Digital Rights	Digital platforms and telecommunications	Overall score (out of 100) comprising three pillars	Score is 10% or below

Cyber-related risk – should also be addressed at board level, with relevant policies in pace to ensure the correct governance structure and accountability.

12. Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour.
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.
13. https://www.unpri.org/human-rights/human-rights-benchmarks-for-investors-an-overview/10375.article?adredir=1

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 also advocate for equitable pay structures, based upon the principle of inclusive growth and shared prosperity. We generally vote against remuneration policies, reports or proposals which are not aligned with key aspects of our positions outlined below, while taking into account different practices in certain markets.

Quantum – In accordance with our inclusive growth and shared prosperity theme, we believe that executive pay should be set at a level which rewards executives sufficiently according to the size and complexity of their businesses without exacerbating social inequality. For North America, Western Europe and Japan, we use a proprietary framework to determine the level of CEO pay which we believe is appropriate, taking into consideration company size in terms of market cap and the number of employees.

The framework allows us to assess CEOs' earnings as a multiple of the national average wage in these markets; the exact thresholds vary by local market context. Should the average pay of the CEO over three years exceed the level we believe is appropriate, we may vote against relevant proposals such as the remuneration policy and report. If we vote against because of excessive pay three years in a row, and do not feel that the board is adequately responding to our concerns, we may vote against members of the remuneration committee who have been in their role for three years or more.

Shareholding requirement – Senior executives should have a sizable portion of their remuneration in shares to align with the long-term interests of the company. In the UK, we expect chief executives of FTSE100 companies to hold a minimum of 400 per cent of base salary in shares (300 per cent for FTSE250 and 200 per cent for all other companies) within five years of their appointment.

Performance link – Remuneration linked to short- and long-term performance measures has a role in incentivising management if the conditions are set appropriately. Performance criteria should be clearly defined, challenging and align with the companies' strategic objectives, without incentivising excessive risk-taking. We encourage the inclusion of appropriate measures of ESG performance amongst the criteria determining variable remuneration, with a clear rationale provided for the metrics chosen.

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.

Capping – We do not favour unlimited pay-outs and believe that variable pay should be capped.

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.

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.

Vesting, holding and deferral periods – Sufficient disclosure and structure regarding these is required. In the UK, we expect the total vesting and holding period to be at least five years, in line with the recommendations of the Corporate Governance Code.

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

Accountability

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 and Assurance

A robust and reliable set of accounts and audit is critical for investor confidence.

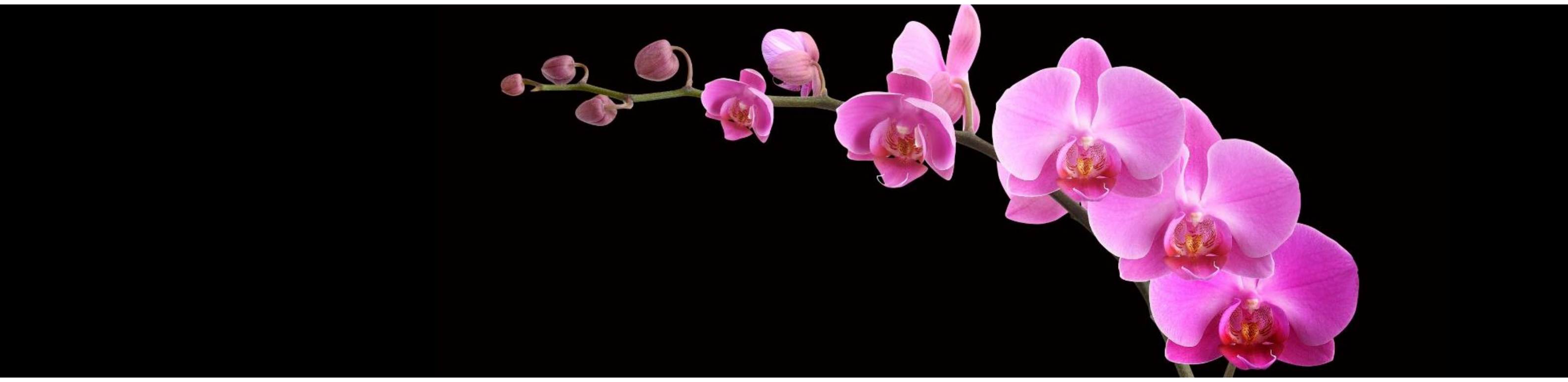
Auditor tenure & independence – We review auditor independence and any concerns that are flagged when deciding on the re-election of external or statutory auditors. We expect companies to tender audit work at least once every ten years.

UK – In line with the Guidelines of the Pension and Lifetime Savings Association (PLSA), we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years; and 2) there has not been a recent tender process; and/or 3) there is no disclosure on plans to put the audit service out to tender. We may also vote against the audit committee chair if the auditor tenure exceeds 20 years.

South Africa – In light of the Independent Regulatory Board for Auditors rule, we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years and there is no public commitment to rotate their audit firm within a year; or 2) the auditor has been reappointed before the end of a five-year cooling off period.

In 2024, we may extend a similar policy limiting auditor tenure to below 20 years and expecting a tender process every 10 years to other markets, including the US. In addition, we may start voting against the appointment of an auditor in the UK and South Africa as well as voting against the audit committee chair, should the company fail to meet the above expectations.

Climate accounting – Globally, we expect companies to align their accounts with the Paris Agreement's goal and a 1.5 degree pathway and their auditors to raise concerns when companies fail to make appropriate accounting adjustments. Where this does not happen, we may vote against management on relevant proposals from 2024 to express our concerns.



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 as 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 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.

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.

'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.

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 are most common 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 that improve accountability and where we believe the resolution is achievable and fair.

Climate change resolutions – We support the introduction of regular shareholder votes on companies' climate transition plans and their reports on progress against these, particularly in high-emission sectors. We typically vote in favour of resolutions to introduce a 'say on climate'. We generally support resolutions asking for the introduction of or improvements to measures to tackle climate change. These include but are not limited to: adoption of climate change policies; adoption of science-based greenhouse gas emission reduction targets; annual assessments of portfolio resilience; credible Paris-aligned transition plans; and Paris-aligned accounts and audit.

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, as analysed by our in-house experts.

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 it is possible, access to remedy processes according to the UN Guiding Principles for Business and Human Rights (UNGP), transparency on responsible tax. We generally support resolutions in line with our inclusive growth and shared prosperity beliefs, such as those related to; CEO-worker pay gaps, health and safety disparities, sick pay, fair drug pricing, real living wages provision for all employees, fair lending practices.

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, one share one vote; enhancing shareholders' rights to call special meetings or propose resolutions; and supporting majority voting in director elections. We also support resolutions calling for enhanced disclosure on political lobbying and political donations.

Ever increasing global use of technology and data has created challenges from a socio-economic and ethical perspective. We will support proposals that request greater transparency of the management of information and disinformation, along with enhanced insights into the use of artificial intelligence (AI) and algorithmic systems. This can include but isn't limited to business operations, intellectual property and financial results.

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

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, Singapore, Malta, Mexico City, Mumbai and Vancouver. We vote at nearly 9,500 company meetings in more than 70 markets annually.

Oversight – These global voting guidelines are proposed by the Stewardship team and approved by the Sustainability Forum, led by our Head of Sustainability, at least annually. 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 companies on our stewardship focus list 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 for our clients 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. For further details, please refer to our Stewardship and Conflicts of Interest statement[14]

Voting records and disclosure – For all voting through the ISS platform, we publish full voting records through the Proxy Voting Dashboard[15] on our website. We also offer clients detailed reports on our voting activity.

Contact – For further information, please contact: Sachi Suzuki, Senior Manager – Investment Stewardship. HSBC Global Asset Management (UK) Ltd., 8 Canada Square, London, E14 5HQ.

14. https://www.assetmanagement.hsbc.co.uk/-/media/files/attachments/common/resource-documents/stewardship-and-conflicts-of-interest-en.pdf
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