

# HSBC Global Asset Management

## Global voting guidelines

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**HSBC**  
Global Asset  
Management

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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 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.

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 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. 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 shareholders. 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 to protect and enhance long term value. We support management in good standing, where we consider they are appropriately discharging their duties.

# Voting issues

These guidelines set out our approach on key voting issues and inform our engagement activity. They are not exhaustive and are complemented by a number of tailored voting frameworks to reflect our approach in specific markets.

## 1 Board's role and leadership

The board's role is to provide proactive leadership and oversight – including on strategy, capital allocation, risk management 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.

## 2 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 at least one third of the board, or supervisory board, should comprise 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. Where a higher local standard exists, we encourage companies to meet that standard. For smaller companies, two independent directors may be sufficient.

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 twelve 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 and background are amongst the factors we consider when assessing board composition. We generally vote against the nomination committee chair of companies with no female board members.

**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.

**Board committees** – Boards should establish committees to consider remuneration 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.

**Nomination committee** – Where these exist, they should include independent representation, ideally in the majority.

## 3 Board 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 an important role in incentivising management. We expect bonuses, shares or options to be linked to performance criteria. Such criteria should be challenging and align with the companies' strategic objectives. We expect full disclosure of individual and overall directors' remuneration. We welcome the inclusion of appropriate measures of ESG performance amongst the criteria determining variable remuneration.

**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.

**Termination payments** – Companies should avoid excessive payments to departing directors; in general these should not exceed twice 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 peers, and not be excessive.

## 4 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.

**Corporate tax optimisation** – 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 companies fail over time to respond satisfactorily to our engagement on tax.

**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). Where companies in energy intensive sectors have persistently failed to disclose their carbon emissions and climate risk governance, we will generally vote against the re-election of the Chair.

## 5 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.

**Shareholder resolutions** – We support shareholder proposals which defend or promote the governance principles set out in this policy. For shareholder resolutions covering other ESG issues, we generally support greater disclosure and the introduction of appropriate policies, where the proposal is not overly proscriptive. Specifically on climate change, we generally support resolutions asking for: adoption of climate change policies; adoption of quantitative greenhouse gas emission reduction targets; annual assessments of portfolio resilience; and the development of two degree transition plans.

**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.

# 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, Mexico City, Mumbai, Taipei, Valletta and Vancouver. We vote at around 7,000 company meetings in more than 70 markets annually.

**Oversight** – These global voting guidelines policy are proposed by the ESG Oversight Group and approved by the Stewardship and Fiduciary Conflicts Forum, including our Chief Executive and Chief Investment Officer, at least annually. The ESG Oversight Group also reviews voting activity on a quarterly basis.

**Engagement** – Engaging with 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 Global 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 quarterly voting records, in arrears. We also offer clients detailed reports on our voting activity.

**Contact** – For further information, please contact: Thomas O'Malley, Global Head of Corporate Governance, HSBC Global Asset Management (UK) Ltd., 8 Canada Square, London, E14 5HQ.

## Note

These guidelines represent our developed markets standard; we apply them more strictly for companies listed in Europe, and more lightly for companies listed in emerging and frontier markets, reflecting these markets' governance best practice.

