



The Church  
Commissioners  
for England



# Engagement, Screening and Voting Report

January – June 2019



Half-yearly update on the engagement,  
screening and voting activities of the  
Church Commissioners for England



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# Introduction

1. This report provides a half-year update to the Church Commissioners' Assets Committee on the implementation of engagement, screening and voting in accordance with the ethical policies and stewardship responsibilities of the Church Commissioners.

## Public policy developments and advocacy

2. In March 2019, the Church Commissioners submitted a response to the GRI Global Sustainability Standards Board (GSSB)<sup>1</sup> proposal to establish a global standard for corporate reporting on tax and payments to governments.
3. Alongside the Church of England Pensions Board, the Commissioners also submitted a response to the Financial Reporting Council's proposed revision of the UK Stewardship Code. We were supportive of the FRC's proposals for increased emphasis on engagement on environmental and social issues, including, specifically, climate change; the broadening of stewardship expectations beyond listed equities; and increased accountability for signatories.
4. In June 2019, the Church Commissioners became founder investor signatories of the Powering Past Coal Alliance (PPCA) Finance Principles. PPCA is an initiative of the UK and Canadian governments focused on getting coal out of the global power generation mix in line with the requirements of the Paris Agreement (by 2030 in OECD/EU countries and by 2050 elsewhere). The Principles align well with the National Investing Bodies' (NIBs') climate change policy and expectations that electricity utilities should pursue strategies consistent with the Paris Agreement.
5. The Commissioners also signed multi-stakeholder letters to the UK government in support of both an ambitious Green Finance Strategy and a 2050 net zero emissions target.
6. During the half year, the Commissioners participated in an independent stakeholder panel for the review of the sustainability reporting guidance set out by IPIECA, the global oil and gas industry association for advancing environmental and social performance.
7. The Commissioners also participated in the Future of Corporate Reporting project run by the FRC. The initiative seeks to garner views from the investment industry on how corporate reporting on ESG issues should meet the expectations of investors as well as wider society.
8. The Commissioners have been members of the Investor Forum from 1 January 2019. The Investor Forum is a member-led organisation undertaking collective engagement with UK-listed companies and was established to implement one of the recommendations of the post-financial crisis Kay Review of UK equity markets and long-term decision-making.

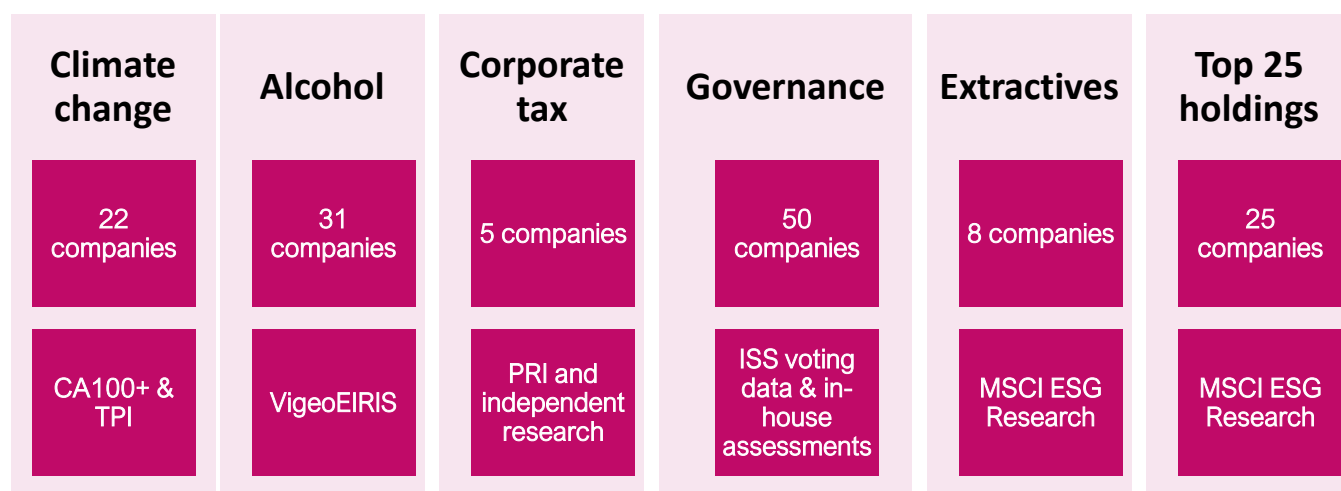
## PRI Assessment

9. In our 2019 UN-backed Principles for Responsible Investment Assessment Report, the Commissioners retained our A rating for Active Ownership.

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<sup>1</sup> <https://www.globalreporting.org/inforess-center/Pages/tax-transparency-investors.aspx>

# Engagement



## 10. Engagement activity in H1 2019

The boxes above show the Commissioners’ current engagement programmes, the number of companies in scope for each and the independent benchmarking or research providers used.

During the first half of 2019, the Commissioners directly engaged with 61 companies through 96 interactions. We took a leading role in 85% of our engagements during the period; in the remainder we supported other investors in collaborative engagements.

The majority of engagements were part of our governance, climate change and alcohol programmes. These programmes represented over 92% of our engagement efforts during the period. Climate change remains our top engagement priority and the area of the most in-depth dialogue. Additionally, we have now set up a consistent process for communicating to key holdings in a timely fashion the rationale for our dissent votes on corporate governance and other issues. This follows best practice stewardship guidance.

During the first half of 2019, 15 companies were the subject of more than one engagement interaction, making them the Commissioners’ most engaged companies. A snapshot is provided below.

Top Engaged Companies	ESG Theme		
	Bribery & Corruption	Climate Change	Governance
BP Plc	•	•	•
Exxon Mobil Corporation		•	•
Lloyds Banking Group Plc			•
Royal Dutch Shell Plc		•	•

Top Engaged Companies	ESG Theme		
	Bribery & Corruption	Climate Change	Governance
Tesco Plc			●
Prudential Plc			●
GlaxoSmithKline Plc			●
AstraZeneca Plc			●
Unilever Plc			●
HSBC Holdings Plc			●

● One interaction     
 ● Two or three interactions     
 ● More than five interactions

We engaged with all but five of our top 20 holdings during the period, mostly on corporate governance issues, as shown in appendix 2.

11. Chart 1: Commissioners' engagement by theme H1 2019 (96 interactions)



12. Climate Change Programme

The first half of 2019 was a very busy period for the engagement team.

The Commissioners filed a shareholder proposal at ExxonMobil alongside New York State Common Retirement Fund, asking the company to set emissions reductions targets consistent with the Paris Agreement covering both operational and product emissions. We also led intensive discussions with a Non-Renewable Energy company on a new climate change position statement.

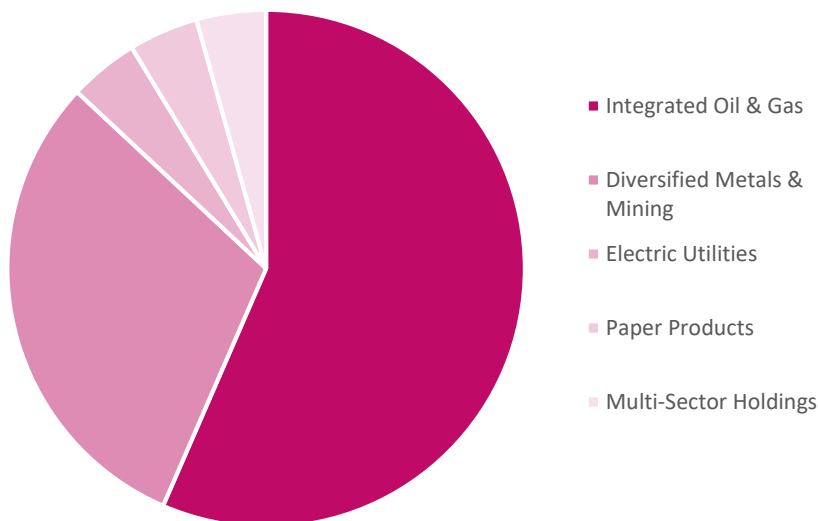
Both engagements involved collaboration with large, international coalitions of investors and took a significant proportion of the time of the Head of Responsible Investment and Senior Analyst.

It was also a busy period for the Commissioners as co-leads for the Oil & Gas (O&G) sector for Climate Action 100+ (CA100+) European companies, under the auspices of the Institutional Investors Group on Climate Change (IIGCC)<sup>2</sup>.

<sup>2</sup> IIGCC is the European chair of CA100+.

During the first half of 2019, the Commissioners collaborated with other investors to start to develop updated investor expectations on climate change for the oil and gas sector. The new investor expectations are due to be published in the second half of 2019.

Chart 2: Climate engagements H1 2019 (by Sector)



## Climate Change Update

### Transition Pathway Initiative



The Transition Pathway Initiative (TPI), co-founded by the Church of England National Investing Bodies and the Environment Agency Pension Fund in 2017, is now supported by 45 investors globally representing over \$15 trillion in assets. The Commissioners are represented on TPI's Steering Group.

### Climate Action 100+



The global climate change engagement initiative, Climate Action 100+, has also continued to grow and is now supported by 360 investors with more than \$34 trillion in assets. TPI is a benchmarking partner for the initiative. The Commissioners are active members of the IIGCC's Corporate Programme and Resolutions Sub-group.

During the first half of 2019, all but one of our 23 engagement interactions on climate change followed the CA100+ approach, focusing on governance, emissions reduction consistent with the well below 2°C goal and climate-related disclosure.

We engaged with eight companies, with repeated engagements with BP, Exxon, and Glencore .



**BP**

As part of the IIGCC's 8:8 dialogue with BP – which brings together eight lead investors with eight representatives of the company – the Commissioners participated in intensive engagement during the first half of 2019 on the content and language of a CA100+ shareholder resolution.

The resolution asked the company to assure investors of the consistency of its capital expenditure with the goals of the Paris Agreement and was filed by investors representing nearly 10% of the company's share capital. It received the backing of the company's board and passed with 99% support at the company's 2019 AGM, which the Commissioners attended.

**Exxon**

The Commissioners lead CA100+ engagement with Exxon alongside New York State Common Retirement Fund. After Exxon secured permission from the SEC to omit our shareholder proposal on emissions reduction targets from their AGM ballot, we called on investors to protest against Exxon's governance in their AGM voting. The Commissioners attended the AGM in Dallas in person and took the floor twice having been asked to propose two shareholder resolutions on behalf of other investors. In a difficult AGM for the company, voting for directors was down and support for the appointment of an independent Chairman was up, exceeding 40%.

**Glencore**

The Commissioners were appointed CA100+ leads for the Company on the inception of the initiative in 2018. After months of negotiation, in February 2019, the Company published a new climate change position statement, in which it committed to cap its coal production capacity at its current level and align its capital expenditure and investments with the goals of the Paris Agreement. In May 2019, we attended the Company's AGM to ask follow-up questions. In June, the Company published a review of climate lobbying by its industry associations having agreed with the Commissioners in 2018 to undertake this step.

**13. Alcohol Engagement Programme**

During the first half of 2019, the Senior Analyst attended a Wilton Park dialogue that brought together global companies, academics, NGOs and the Church Commissioners, as the sole investor representative, to discuss the harmful effects of alcohol misuse and what the industry can do to minimise it.

Progress in this engagement programme has been challenging due to the demise of the Public Health Responsibility Deal (PHRD) in the UK and our lack of holdings in global alcohol companies. The future of the programme and the implementation of our Alcohol Policy will be reviewed in the second half of the year.

**14. Corporate Tax Engagement Programme**

The Commissioners have continued to participate in the PRI collaborative corporate tax engagement programme.

**15. Governance Engagement Programme**

After the proxy voting season, we reached out to the majority of our top 50 holdings where we had voted against management resolutions at this year's AGMs and informed companies about the rationale behind our votes.

In advance of the proxy season, in February, we had also reached out to FTSE350 companies, as well as a selection of US holdings, to set out our new voting rules on issues where we were expecting companies to improve their disclosure, including corporate tax and climate change, following our annual review of our voting policy<sup>3</sup>.

These have both proven worthwhile engagement initiatives and companies have been responsive to our outreach.

During the first half of 2019 we continued our support of the 30% Club Investor Group, which works to improve board gender diversity in the UK, by supporting outreach to two companies and continuing our leadership of engagement with an Automobiles & Components Company. Through our membership of the Investor Forum, the Commissioners supported engagement with a Financials Company on governance and strategy.

## CASE STUDY

### Automobiles & Components Company

We expect FTSE 350 companies to endorse the recommendations set out in the Hampton Alexander review and to strengthen the presence and pipeline of women in senior level positions. Following the Company's admission to the FTSE 350 without any female representation at board level, we initiated a constructive engagement as part of the 30% Club.

As of 2019's AGM, two female directors were appointed at the board. Whilst the Company has not yet committed to the Hampton Alexander recommendations, it has appointed executive search firms which are signatories to the Standard Voluntary Code of Conduct for Executive Search Firms<sup>4</sup>.

#### 16. Extractive Industries Engagement Programme

The Church of England Pensions Board worked with the Church Commissioners and the Swedish Ethical Council to lead a robust response to the appalling Brumadinho disaster in Brazil in January, when a Vale tailings dam collapsed, killing over 200 people. The Commissioners participated in a series of roundtables bringing together companies, investors and external experts to discuss how to improve tailings facilities management. We joined an investor call for urgent public disclosure by listed extractives companies of tailings facilities and risks. As of 11 July, 34 out of the top 50 mining companies in the world had responded.









<sup>3</sup> This is done in collaboration with the CIG (Church Investors Group).

<sup>4</sup> <https://www.gov.uk/government/publications/women-on-boards-executive-search-firms-signed-up-to-the-code-of-conduct>



# Screening

17. In H1 2019 the ethical screens of the Church Commissioners were as follows:

Ethical screens								
	<a href="#">Adult Entertainment</a>	<a href="#">Alcohol</a>	<a href="#">Civilian Firearms</a>	<a href="#">Climate Change</a>	<a href="#">Defence</a>	<a href="#">Gambling</a>	<a href="#">Predatory Lending</a>	<a href="#">Tobacco</a>
Revenue threshold	3%	25%	10% and >0% <sup>5</sup>	10%	10% and 0% <sup>6</sup>	10%	10%	10%

18. The table below indicates the number of companies captured by screens in H1 2019:<sup>7</sup>

Screen category	No. of companies restricted	% of total exclusions
Gambling	108	26.8
Defence	77	19.1
Alcohol	75	18.6
Climate Change	51	12.7
Tobacco	42	10.4
Special Excluded	14	3.5
Predatory Lending	13	3.2
Cluster Munitions/landmines, Defence	7	1.7
Firearms	7	1.7
Cluster Munitions/landmines, Firearms, Defence	4	1.0
Cluster Munitions/landmines	3	0.7
Adult Entertainment, Alcohol	1	0.2
Alcohol, Gambling	1	0.2
<b>Total</b>	<b>403</b>	

19. No comparison against the end of the previous year is provided because we have undertaken a research overhaul during recent months. Companies known historically to have had exposure to ethically restricted activities have now been integrated in the ongoing research cycle.

20. "Special Excluded" refers to companies which are restricted following quarterly reviews by the Screening Committee. The committee is comprised of representatives of the Church Commissioners / Pensions Board and CCLA. Subject to NIB CEOs', and, as appropriate, trustee approval, the Screening Committee may propose restrictions of companies on the basis of unsatisfactory engagement outcomes, egregious ethical failings or other failures to meet ethical policy expectations. The committee may also put forward recommendations for lifting ethical restrictions, including as result of successful engagement.

<sup>5</sup> Companies involved in the retail/production of semi-automatic weapons are not considered suitable for investment regardless the size of revenues.

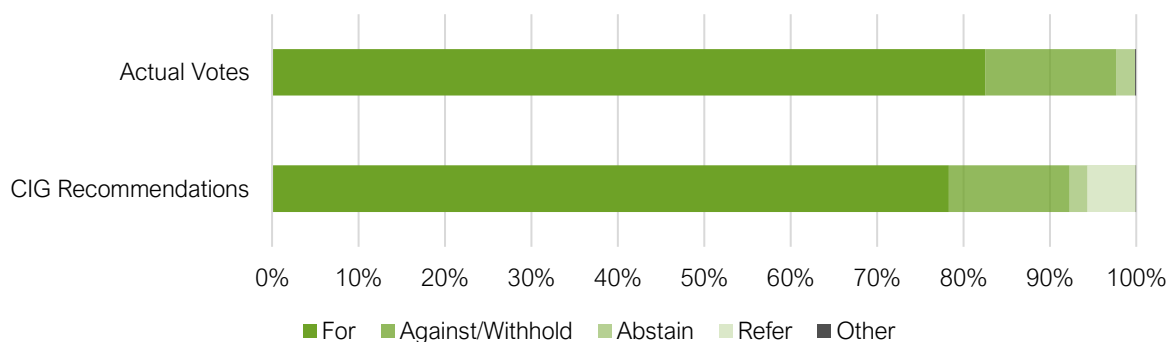
<sup>6</sup> Companies involved in the retail/production of indiscriminate weapons (i.e. nuclear weapons, landmines and cluster munitions) are not considered suitable for investment regardless the size of revenues.

<sup>7</sup> This reflects the restricted list as of April 2019 (effective from April 2019 to July 2019).

## Voting: Overview

21. This voting report is split into two parts: management resolutions and shareholder resolutions. Each section is further divided into UK and Global (with the exclusion of share blocking markets<sup>8</sup>). The majority of votes cast were as generated under the approach set out in the agreed Church Investors Group (CIG) voting template. Where required, discretion was exercised to cast a different vote.
22. Discretion is applied when the vote generated under the template does not reflect the Church Commissioners' ethical investment objectives or investment considerations. In H1 2019 discretion was used 133 times to deviate from standard voting outcomes under the CIG template. In all these instances consent from investment staff was obtained before votes were cast.
23. Particular highlights from H1 2019 are:

**Chart 4: Actual votes and CIG recommendations – UK and global region (13,406)**



- In H1 2019 the Church Commissioners voted on 13,406 ballots, of which 97.5% were related to management proposed resolutions. They were presented at 822 meetings across 48 different markets (64.3%<sup>9</sup> Global; 35.7% UK<sup>10</sup> Region). The majority of the meetings were voted during the period March to June (90.1%).
- The Church Commissioners voted against management (or withheld votes) on 15.1% of resolutions presented in the UK and the Global regions.

<sup>8</sup> Countries in which shares must be deposited or blocked from trading for a certain period of time in order to be voted.

<sup>9</sup> Percentage is based on country of incorporation.

<sup>10</sup> UK region includes Bermuda, Guernsey, Jersey, the Isle of Man and the United Kingdom.

— In the period 759 votes were referred for evaluation in line with the voting template. After careful consideration, we acted as follows on these referred votes:

- UK: 292 referrals (5.1% of UK votes) resulting in:
  - Abstain: 9
  - Against: 62
  - For: 221
  
- Global: 467 referrals (6.1% of Global votes) resulting in:
  - Abstain: 17
  - Against/Withhold: 82
  - For: 358
  - Other 10<sup>11</sup>

— In 2018, we started reporting voting data in chart format; full raw data is available in appendix 1.

#### 24. 2019 voting template

Theme (Policy)	Criteria	Vote
<b>Executive Remuneration</b> Executive Remuneration Policy	— Excessiveness of executive pay	— Against remuneration report / policy
	— Use of non-financial criteria in the determination of incentives	— Abstain remuneration report / policy or incentive schemes.
	— Long-term balance of the incentive framework	
	— Breaches of local good practice	
<b>Governance</b> Statement of Ethical Investment Policy	— Executive pay compared to pay at below-executive level	
	— Board composition and independence	— Against re-election of non-independent directors when board independence is not in line with local good practice and evidence of poor meetings' attendance.
<b>Diversity</b> Statement of Ethical Investment Policy	— Board diversity	— Against Chair of Nomination Committee where board female balance is below 33% (FTSE 350)
		— Against all members of Nomination Committee when board female balance is below 25% (FTSE 100)
		— Against Chair of Nomination Committee where there is no female board representation (Global).
<b>Audit</b> Statement of Ethical Investment Policy	— External auditor independence (UK, EU, US)	— Against the re-election of director: Chair of the Audit Committee when conditions in the policy are met
	— Length of tenure	
	— Size of non-audit fees	— Against the re-election of all Audit Committee members if conditions

<sup>11</sup> Other includes votes pertaining to the frequency of remuneration disclosure as well as no votes

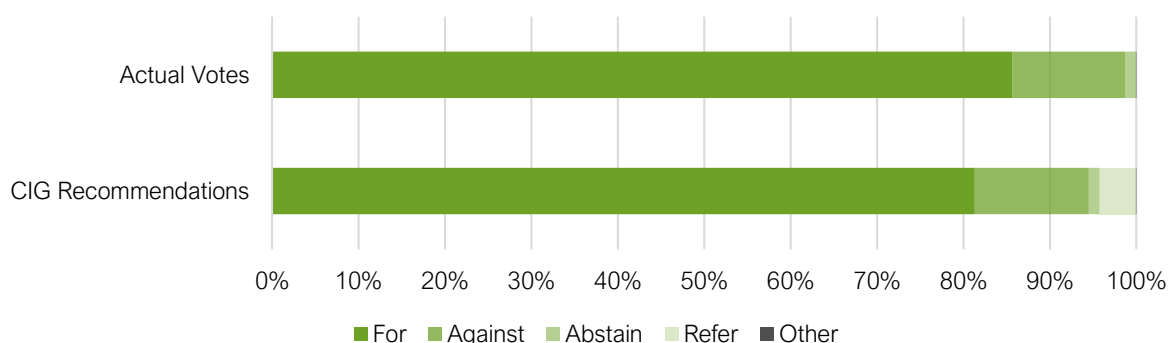
	— Other concerns over independence of external or internal audit	in the policy are met (case-by-case basis).
<b>Climate Change</b> Climate Change Policy	— No evidence or inadequate TPI Management Quality — Inadequate TPI Carbon Performance (electricity companies only) — Inadequate CDP response and lack of engagement responsiveness	— Against the re-election of the Chair (TPI laggard) — Abstain the report and accounts where the CIG considers a FTSE 350 company to be a CDP laggard.
<b>Board Responsiveness</b>	— No evidence of board responsiveness in case of shareholder dissent	— Against: the re-election of Director in case of inadequate board responsiveness — Abstain: the re-election of Directors in case of inadequate board responsiveness.
<b>Responsible Tax</b>	— Inadequate FTSE Tax Transparency Score	— Against: the re-election of Chair of the Board (FTSE 350 and Russell 50).
<b>Employee Pay</b> Executive Remuneration Policy	— Living Wage (UK only)	— Against FTSE 100 constituents in the Communications, Financial Services or Pharmaceutical sectors where the company is not a Living Wage accredited employer or otherwise did not meet the CIG's engagement standard.

# Voting: Management Resolutions (UK)

## Overview

25. In H1 2019 the Church Commissioners voted on 5,691 management resolutions and voted against management on 14.3% of resolutions. The main concerns were remuneration (including oversight provided by the Remuneration Committee), auditor independence, gender representation at board level and the quality of oversight by the Remuneration Committee.

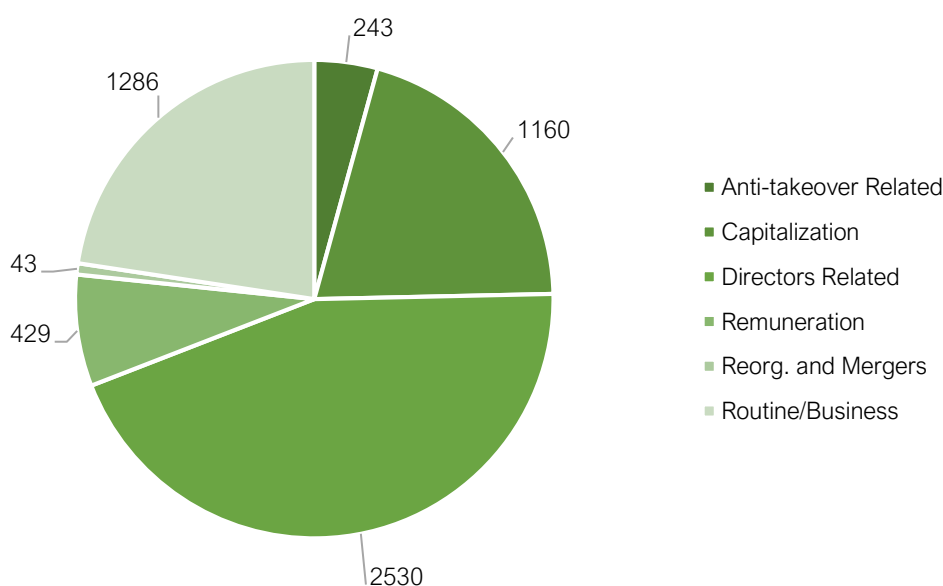
26. Chart 5: Actual votes and CIG recommendations – management resolutions – UK region (5,691)



## 27. Resolution category types

It is not surprising to note that most resolutions voted on during the quarter were related to director re-elections (44.5%), followed by resolutions on approval of annual reports and accounts (22.6%). The majority of dissent votes were cast for remuneration- and director-related resolutions. A detailed analysis of dissent votes on executive pay and director elections is presented under the “Remuneration – UK” and “Directors – UK” sections.

28. Chart 6: Resolution category types



## Remuneration (UK)

### 29. Remuneration-related resolutions

In H1 2019, the Church Commissioners voted on 429 compensation resolutions presented by management. These resolutions included votes on the approval of remuneration reports, remuneration policies, non-executive director fees and all-employee share plans.

In the first half of the year, 66.7% of compensation resolutions related to approval of remuneration reports and 13.1% to approval of remuneration policy. The outstanding resolutions mainly related to either Long Term Incentive Plans (LTIPs) or employee share plans.

We did not support 78.7% of remuneration reports and 67.9% of remuneration policies. Our vote on the remuneration policy normally reflects our assessment of the framework for executive remuneration, whilst votes on remuneration reports reflect our assessment of the application of the policy for the year under review. Our votes also take into consideration any specific circumstances applicable to the year under review, such as the use of discretion in determining the grant of bonuses or termination payments.

### 30. Rationale for Dissent (UK Region)

Our votes on remuneration are based on the implementation of the principles in our Executive Remuneration Policy. We present an overview below of the triggers which have determined dissent votes in the UK Region.

Dissent Rationale	Theme	% of Dissent Votes <sup>12</sup>
Principle 1	Local Best Practice	15%
Principle 2	Annual Bonus Quantum	11%
Principle 3	Variable Pay Short-termism	5%
Principle 4	ESG Performance Metrics	33%
Principle 5	Workforce Pay	17%
Other Concerns	Quantum	12%
	Miscellaneous	7%

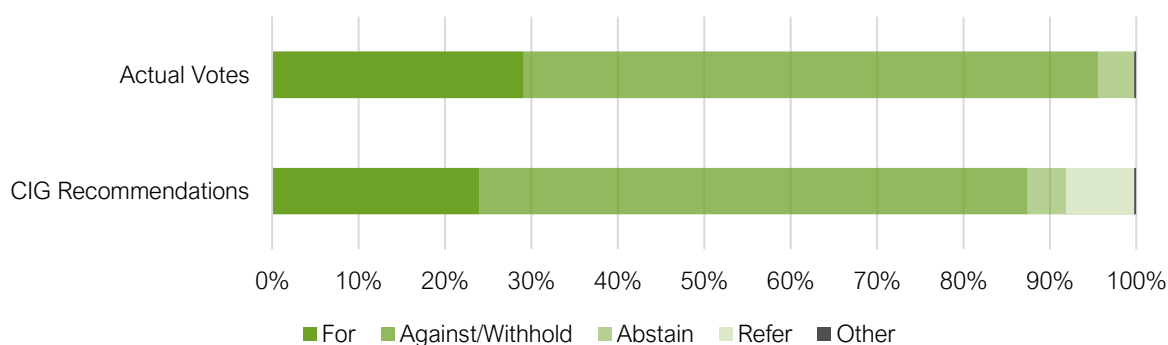
There was a substantial increase in our dissent votes from last year because we now withdraw support from remuneration reports where companies fail to disclose the pay differential between the CEO and the wider workforce. This is part of our phased approach begun in 2018 when the Church Commissioners abstained on remuneration reports and policies which did not address disclosure of pay differentials.

<sup>12</sup>Data calculated as no of dissent rationale divided by total number of UK dissent votes

We concur with the UK Government calling on all listed companies to publish pay ratios between executive directors and the rest of the workforce and the Investment Association's 2018 Principles of Remuneration<sup>13</sup> calling on companies to “adopt new pay ratio reporting requirements early, to maximise transparency over pay and ensure that there is accountability for high levels of pay internally”<sup>14</sup>.

As in 2018, we remain concerned about the lack of ESG performance measures linked to executive variable pay. We also remain concerned about the short-termism of bonuses, excessive pay-outs and remuneration packages that do not reflect accurately companies' performance and investors' returns. Our concerns about remuneration triggered our withdrawal of support for the re-election of the Chairs of Remuneration Committees where the Commissioners had voted against management on executive pay for at least two consecutive years.

31. Chart 7: Actual votes and CIG recommendations – compensation resolutions – UK region (429)



## CASE STUDY

### A Media Company - Approve Remuneration Report

Over the years we have not supported the approval of the remuneration report at the Company. We remain concerned about the level of pay. In 2018 the Company's CEO was awarded an annual bonus equivalent to 156.3% of base salary and a LTIP grant with a value equivalent to 450% of salary. In the same year, the Executive Share Option Scheme (ESOS) and Bonus Investment Plan (BIS) partially vested. These awards were paid out to the CEO and the CFO and their value exceeded 80% of the award (BIS, 87.5%; ESOS, 90%). The salary of the Company's CEO stands above its peers in terms of index, sector and revenue comparisons. Last but not least, our dissent vote reflected our concerns related to the lack of disclosure of pay differentials between the CEO and the rest of workforce.

**VOTE: Against**

<sup>13</sup> <https://www.ivis.co.uk/media/13874/Principles-of-Remuneration-Nov-2018-FINAL.pdf>

<sup>14</sup> <https://www.theinvestmentassociation.org/media-centre/press-releases/2018/high-pay-under-fire-in-toughened-investor-rules.html>

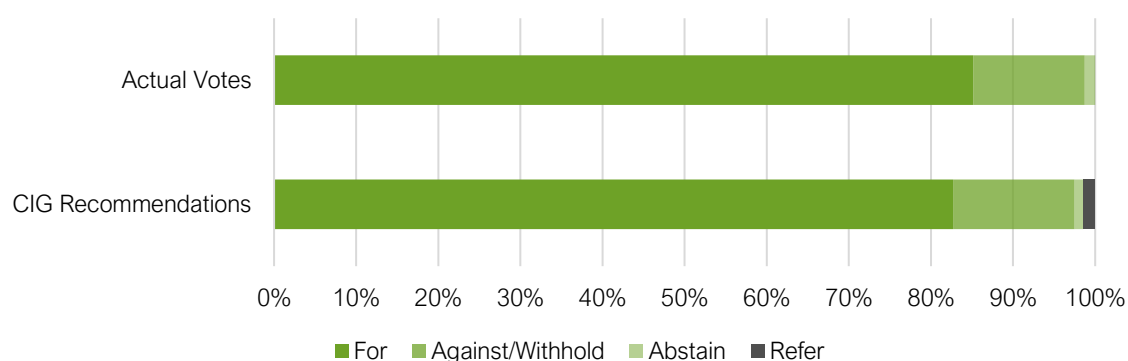


## Directors (UK)

### 32. Director elections resolutions

In 2018, the Church Commissioners voted on 2,530 resolutions related to director elections, of which 17.5% were cast against management recommendations. Director-related resolutions cover the election and re-election of directors including the chairs and members of various committees. The Church Commissioners assess independence and board composition when voting on board members as well as how well board committees are implementing best practices on corporate governance and responding to shareholders' feedback. For instance, the Commissioners vote against the re-election of the Chair of the Audit Committee where concerns about auditor tenure exist or the percentage of non-audit fees exceed audit fees on a continuous basis and without justifiable explanation.

### 33. Chart 8: Actual votes and CIG voting template – director election resolutions – UK region (2,530)



### 34. Audit

The Church Commissioners vote against the re-election of the Chair of Audit Committees where non-audit fees exceed audit fees in consecutive years without adequate explanation, there is a lack of auditor refreshment or non-audit fees are not disclosed. In H1 2019 we voted against director elections at 47 companies due to concerns about audit tenure.

### 35. Gender Diversity

As members of the 30% Club, the Church Commissioners are supporters of the Hampton-Alexander review recommendations. We scrutinise companies which are not deemed to promote gender diversity at board level. In H1 2019, we voted against director elections at 67 companies due to concerns over the Nomination Committee's lack of action to address gender diversity.

## CASE STUDY

### A Financial Company: Re-Election of Nomination Committee Members

The percentage of female directors on the Company's board is low in comparison with other FTSE 100 companies. The percentage of female representation at the Company has remained inadequate over three years: 20%, 2017; 13%, 2018; and 17%, 2019. We expect FTSE 100 companies to have at least 33% of their board represented by female directors and vote against the re-appointment of all directors sitting on the Nomination Committee where less than 25% of the board is female. In 2019 we withdrew support from the re-elections of three out of five members of the Nomination Committee.

We will keep monitoring this issue and we note that the terms of reference of the Company's Nomination Committee now include responsibility for overseeing the development of a diverse pipeline for Board and senior executive appointments.

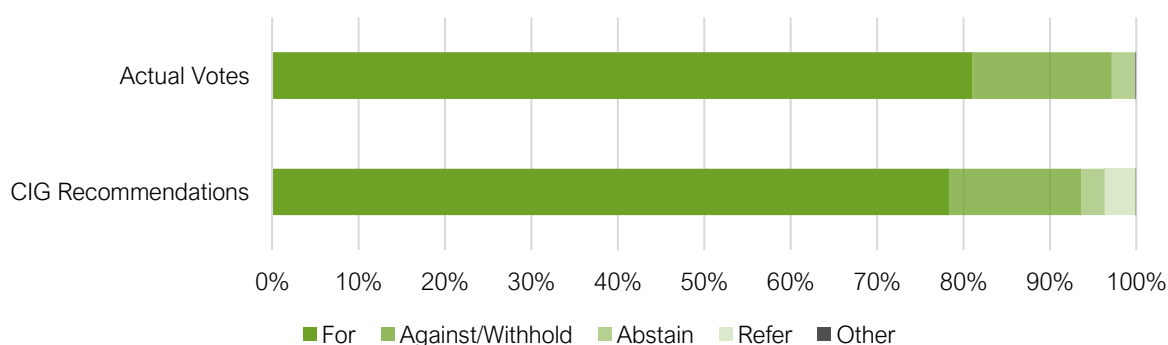
**VOTE: Against**

## Voting: Management Resolutions (Global)

### Overview

36. In H1 2019 the Church Commissioners voted on 7,374 management resolutions. Of these, we expressed dissent against management in 16.2% of global resolutions. The main concerns were board independence, auditor tenure, shareholder rights, and remuneration (including oversight performed by remuneration committees and inclusion of ESG considerations into variable remuneration).

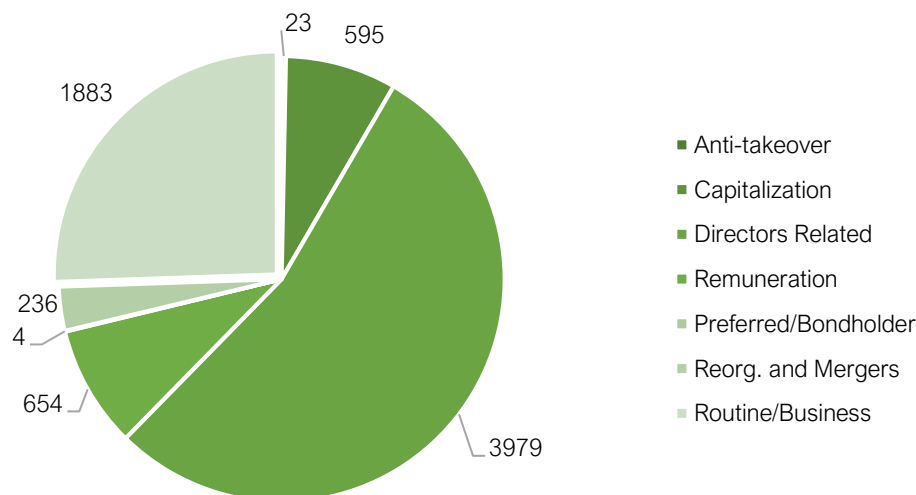
37. **Chart 9: Actual votes and CIG voting template – management resolutions – global region (7,374)**



### 38. Resolution category types

Not surprisingly the majority of resolutions voted on during the quarter were related to director re-elections (54%), followed by resolutions on annual reports (25.5%). At global level, the Church Commissioners remain concerned about compensation resolutions, namely approval of remuneration reports and share plans, as well as approval of remuneration policies. A fuller discussion about this topic is available in the Remuneration section.

39. Chart 10: Resolution category types

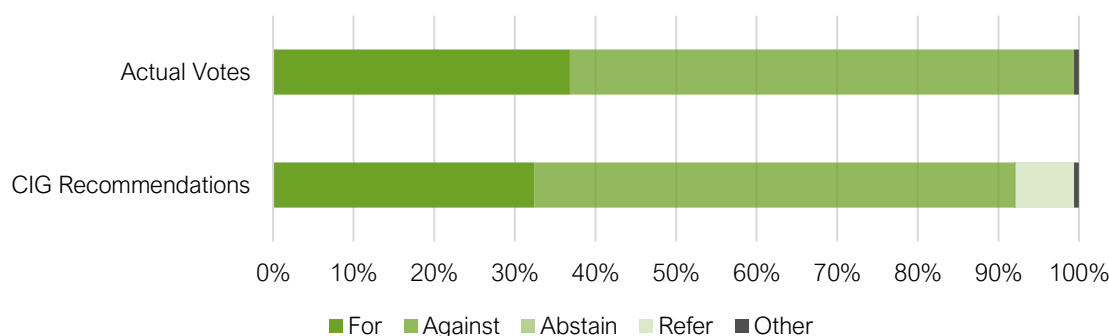


## Remuneration (Global)

### 40. Remuneration-related resolutions

In H1 2019 the Commissioners voted on 654 compensation resolutions. Types of resolutions included votes on the approval of remuneration reports, remuneration policies and all-employee share plans. Our vote on the remuneration policy would normally assess the framework for executive remuneration, while votes on remuneration reports take into account the application of the policy for the year under review. During the year, 54% of compensation resolutions were related to approval of remuneration reports and 13.5% to approval of remuneration policies. We withdrew support from 72.2% of remuneration reports and 73.9 % of remuneration policies. 31.7% of dissent votes in the Global Region are associated with companies listed in the US market. Overall, we are uncomfortable with the potential size of variable remuneration awards in the US market which often exceeds 600% of the CEO’s base salary.

41. Chart 11: Actual votes and CIG recommendations – compensation resolutions – global region (654)



## CASE STUDY

## A Media Company. - Advisory Vote to Ratify Named Executive Officers' Compensation

In 2019, the Company proposed a CEO remuneration package worth \$39.3m, which is 88% higher than the CEO peer median. 98% of the CEO's pay package comprises fully vested option grants with no service or performance vesting criteria attached.

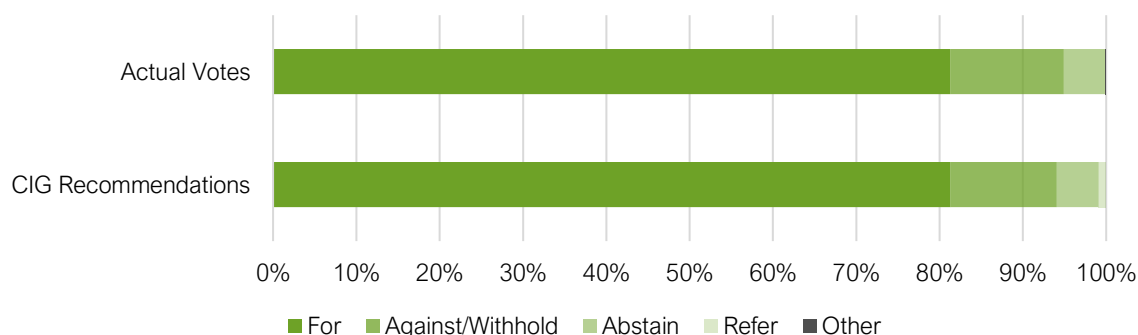
In 2019 shareholders signalled their profound discontent about executive pay at the Company: 50.2% of shares voted at the meeting were cast against the resolution. Even though the Company had received 61.2% dissent votes in 2018, by the time of the 2019 AGM the Company had failed to disclose its shareholder engagement efforts to address shareholders' concerns. It retained a problematic framework in which named executive officers receive vested option grants with no service or performance vesting criteria attached and executives determine their own pay allocations between salary and option awards.

**VOTE: Against**

## Directors (Global)

42. In H1 2019 the Church Commissioners voted on 3,979 director-related resolutions. Of these, we voted against 13.6% of management recommendations. The category includes the election of directors as well as discharge of the Supervisory Board, amendment of the articles governing the appointment of directors and "proxy access" laws to encourage board accountability. The Church Commissioners assess independence and board composition when voting on board members as well as how well board committees are implementing best practices on corporate governance and responding to shareholders' feedback.

43. Chart 12: Actual votes and CIG voting template – director election resolutions – global region (3,979)



44. The Church Commissioners, as co-founders of the Transition Pathway Initiative (TPI), vote against the re-election of Chairs of the Board when companies have insufficient disclosure or processes to manage their contribution to climate change or have shown inadequate alignment with the Paris targets (in the case of Climate Action 100+ electricity companies). In H1 2019 we voted against the re-election of the Chair of the Board at three companies.

45. From 2019 we have voted against the re-election of Chairs of the Board where companies fail to mitigate risks associated with aggressive tax planning. We rely on the FTSE Tax Transparency Score, which assesses how well companies have implemented: policy commitment to tax transparency, alignment between tax and revenue generating activity, board oversight, independent audit and corporate tax disclosure at a global level<sup>15</sup>. In H1 2019 we voted against the re-election of the Chair of the Board at four companies.

46. Overall in this period we withdrew our support from 542 director-related resolutions. The majority of our dissent votes focussed on companies incorporated in the United States, but significant dissent votes were also lodged in Japan, Brazil and Switzerland. The main reasons for our dissent were board structure, lack of separation of the role of the Chair of Board and CEO, inadequate board independence, creeping control from controlling shareholders and dissatisfaction with stewardship oversight (especially relevant for Chairs of Audit, Nomination and Remuneration committees).

47. Chart 13: Director election – dissent ballots

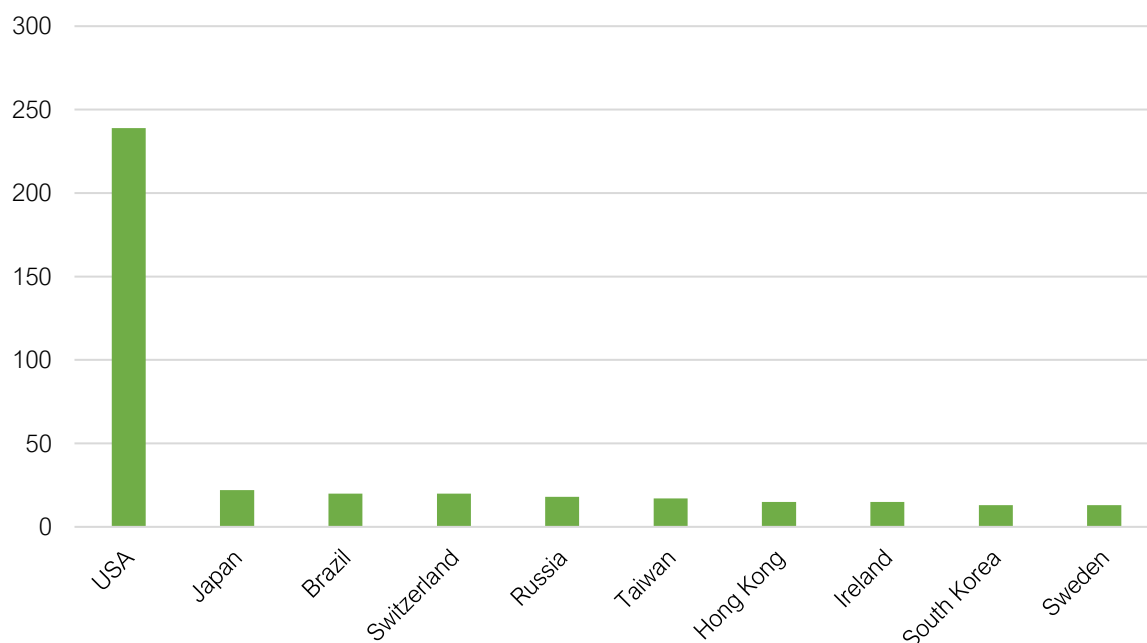


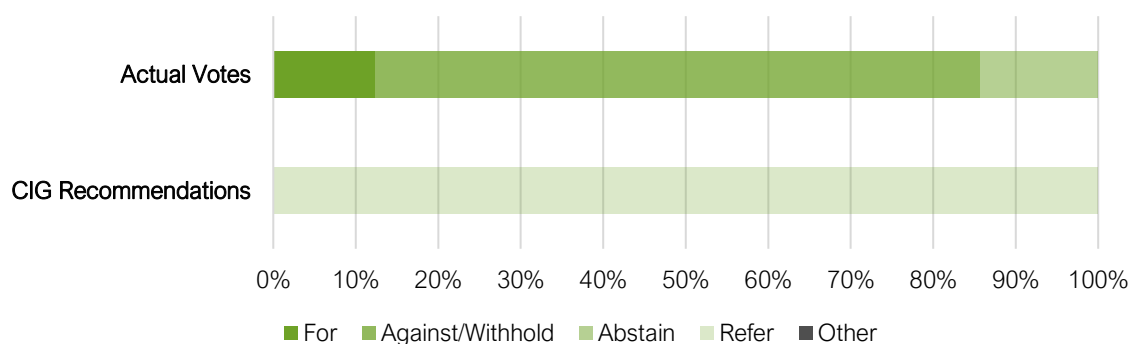
Chart 13 indicates the countries with the highest dissent votes on director re-election by number of ballots (See Table 12 on page 29 for data).

<sup>15</sup> <https://research.ftserussell.com/products/downloads/FTSE-ESG-Methodology-and-Usage-Summary-Full.pdf>

## Voting: Shareholder Resolutions (UK)

48. In H1 2019 the Church Commissioners voted on 26 shareholder-proposed resolutions in the UK presented at eight companies<sup>16</sup>. The majority of the resolutions were presented by activist shareholders (80%) and the remaining resolutions related to climate change. We voted in support of the CA100+ resolution at BP (for which management recommended a vote in favour).

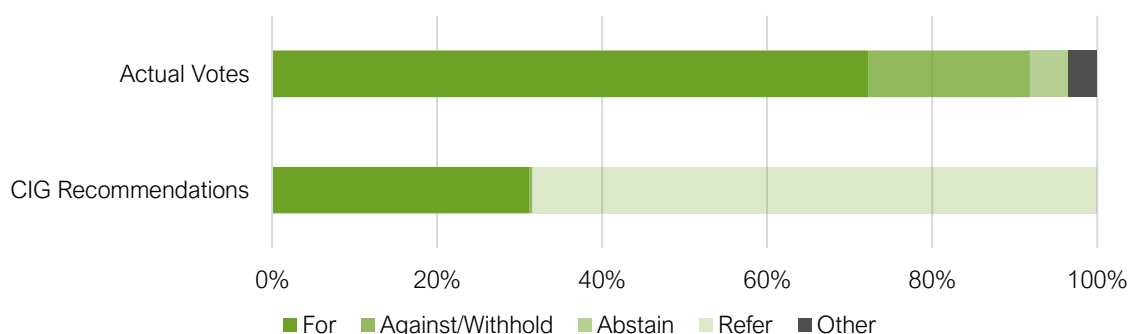
49. **Chart 14: Actual votes and CIG recommendations – shareholder resolutions – UK region (49)**<sup>17</sup>



50. Our “abstain” vote on the resolution presented by Follow This at Royal Dutch Shell’s AGM was determined by the fact that the resolution was withdrawn by the proponent ahead of the meeting.

51. Whilst we are sympathetic to concerns raised by an activist shareholder at a Travel and Tourisms Company, we opted to start engaging with the Company’s Senior Independent Director alongside other investors through the Investor Forum. We will keep monitoring the composition of the Company’s board and the appointment of the new Chair of the Board.

52. **Chart 15: Actual votes and CIG voting template – shareholder resolutions – global region (292)**



53. In H1 2019 the Church Commissioners voted on 292 shareholder resolution ballots proposed at 74 global meetings. Most of the shareholder-proposed resolutions related to

<sup>16</sup> Equivalent to 49 ballots.

<sup>17</sup> Ten ballots related to four shareholder resolutions.

corporate governance matters like appointment of directors, establishing committees representing minority shareholders, remuneration, sustainability and shareholder rights. Regarding the latter, we note increasing shareholder action to address companies' differential voting rights and unfriendly control structures for minority shareholders.

54. The large majority of shareholder resolutions supported related to shareholder calls for improved corporate governance standards including director elections, boosting board independence and enhancement of shareholder rights including lowering the ownership threshold to act by written consent. We have also been supportive of resolutions which sought increased disclosure on climate change, sustainability, human rights and taking responsibility for "fake news". We did not support resolutions where disclosure was insufficient to determine the resolution's merits or resolutions were deemed too prescriptive.



# Appendix 1: Actual votes and CIG recommendations

Table numbers correspond with chart numbers in the Voting section of the report.

**Table 4: Actual votes and CIG recommendations – UK and Global region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	11,064	2,030	295	0	17	13,406
CIG recommendations	10,497	1,874	271	759	5	13,406

**Table 5: Actual votes and CIG recommendations – management resolutions – UK region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	4874	745	71		1	5,691
CIG recommendations	4627	750	70	243	1	5,691

**Table 7: Actual votes and CIG recommendations – compensation resolutions – UK region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	125	285	18	0	1	429
CIG recommendations	103	272	19	34	1	429

**Table 8: Actual votes and CIG voting template – director election resolutions – UK region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	2154	344	32	0	0	2,530
CIG recommendations	2092	374	28	36	0	2,530

**Table 9: Actual votes and CIG voting template – management resolutions – global region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	5,973	1,192	203	0	6	7,374
CIG recommendations	5,779	1,123	201	267	4	7,374

**Table 11: Actual votes and CIG recommendations – compensation resolutions – global region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	241	409	0	0	4	654
CIG recommendations	212	390	1	47	4	654

**Table 12: Actual votes and CIG voting template – director election resolutions – global region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	3234	542	201	0	2	3,979
CIG recommendations	3236	507	198	38	0	3,979

**Table 13: Geographical distribution of Director Re-Election Dissent in percentage**

Country	% of Dissent Vote
USA	47.6%
Japan	4.4%
Brazil	4.0%
Switzerland	4.0%
Russia	3.6%
Taiwan	3.4%
Hong Kong	3.0%
Ireland	3.0%
South Korea	2.6%
Sweden	2.6%
Other	21.9%

**Table 14: Actual votes and CIG voting template – shareholder resolutions – UK region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	6	36	7	0	0	49
CIG recommendations	0	0	0	49	0	49

**Table 15: Actual votes and CIG voting template – shareholder resolutions – global region**

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	211	57	14	0	10	292
CIG recommendations	91	1	0	200	0	292

## Appendix 2: Engagements with top 20 holdings.

Top 25 Holdings	Sector	Engagement Programme
Royal Dutch shell	Integrated Oil & Gas	Climate change; Corporate Governance
HSBC Holdings	Diversified Banks	Corporate Governance
Taiwan Semiconductor	Semiconductors	No activity in H1 2019
GlaxoSmithKline	Pharmaceuticals	Corporate Governance
BP	Integrated Oil & Gas	Climate change; Corporate Governance; Bribery
Unilever	Personal Products	Corporate Governance
Dentsply Sirona	Health Care Supplies	Corporate Governance
Lloyds Banking Group	Diversified Banks	Corporate Governance
Alphabet	Internet Software & Services	No activity in H1 2019
Samsung Electronics	Technology Hardware, Storage & Peripherals	Corporate Governance
Henry Schein	Health Care Distributors	Corporate Governance
AstraZeneca plc	Pharmaceuticals	Corporate Governance
Analog Devices	Semiconductors	Corporate Governance
Cooper Cos	Health Care Supplies	Corporate Governance
Tesco Plc	Food Retail	Corporate Governance
Thermo Fisher	Life Sciences Tools & Services	Corporate Governance
Prudential	Life & Health Insurance	Corporate Governance
Deere & Company	Agricultural & Farm Machinery	Corporate Governance
Naspers Ltd	Cable & Satellite	No activity in H1 2019
Oracle Corp	Systems Software	Corporate Governance



Registered address:  
Church Commissioners for England  
Church House  
Great Smith Street  
London SW1P 3AZ

[churchofengland.org](http://churchofengland.org)

[commissioners.stewardship@churchofengland.org](mailto:commissioners.stewardship@churchofengland.org)