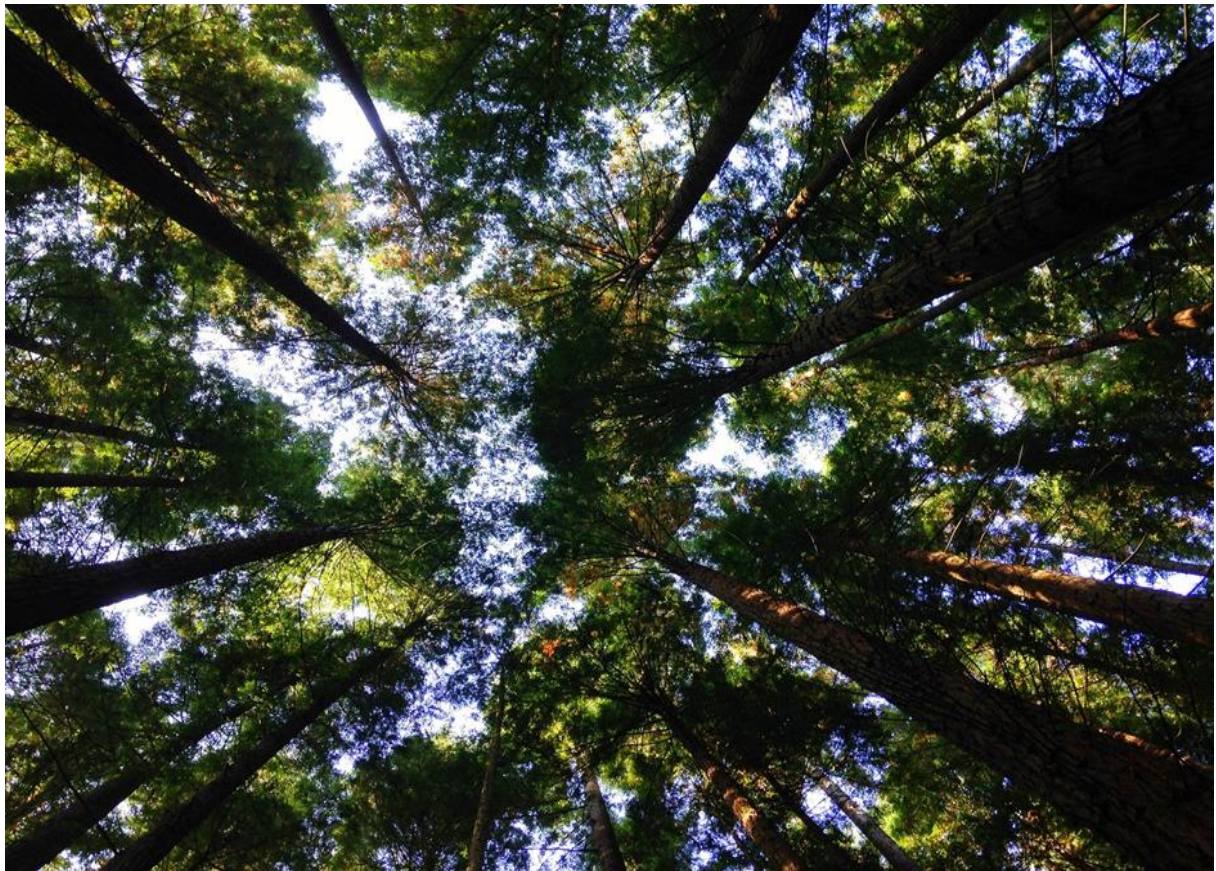


Engagement, Screening and Voting Report

January – June 2020

Update on the engagement, screening and voting activities of the
Church Commissioners for England



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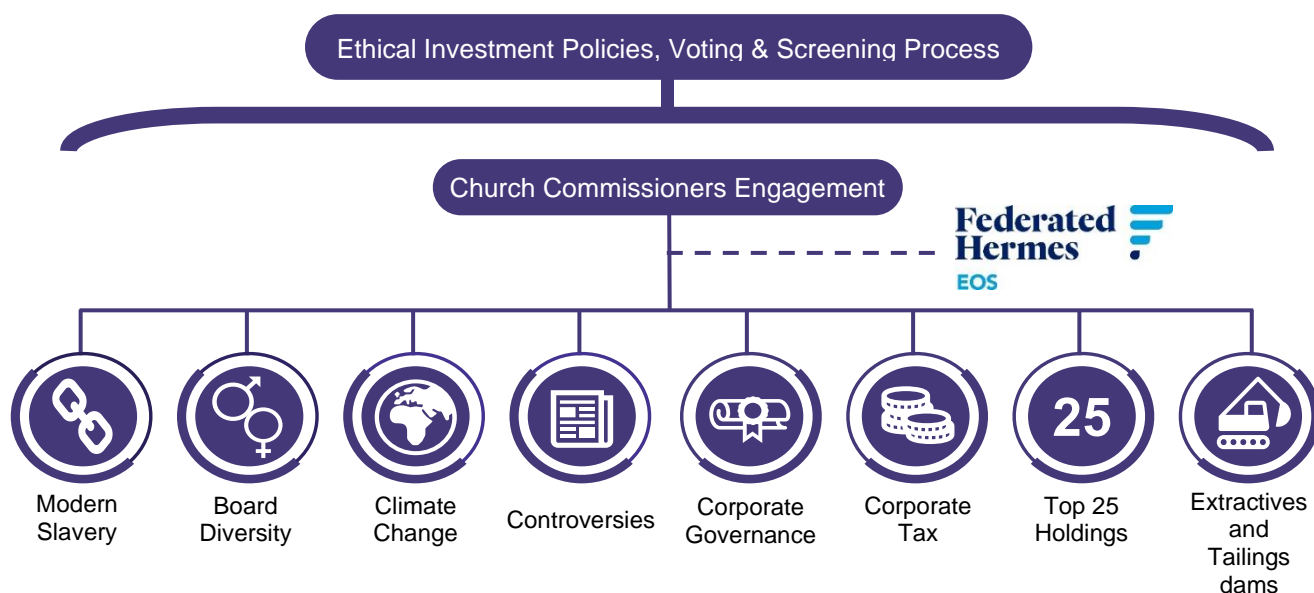
Introduction

This report provides a half yearly update on the implementation of engagement, public policy advocacy, screening and voting in accordance with the ethical investment policies we have adopted based on the advice of the Ethical Investment Advisory Group (“EIAG”), and our stewardship responsibilities.

The Church Commissioners (“Commissioners”) Responsible Investment team focuses on engaging with companies and public policy makers and voting consistently with EIAG advice and leading best practice. The Commissioners also collaborate as part of current industry wide initiatives, to leverage the effectiveness of collaborative engagement where there are shared objectives.

The Commissioners’ voting, screening and engagement activities are based on the advice given by the EIAG as well as on leading RI best practices. In January 2020, the Commissioners joined the UN convened Net-Zero Asset Owners Alliance, committing to align its portfolio with the goal of being net zero by 2050, alongside the other National Investing Bodies (NIBs) of the Church of England.

The Commissioners engagement work is complemented by Federated Hermes. Our engagement programmes focus on eight key topics and are supported by Federated Hermes, as shown below.



Corporate Engagement

Overview

In H1 2020 the Commissioners focused on the eight core engagement programmes below. Engagement is triggered by concerns about non-compliance with our ethical investment policies, and in support of meeting the framework and objectives of each of the eight engagement programmes.

Engagement involves research and due diligence, consultation with asset managers, letter writing and in-person meetings or calls with the companies. Where necessary, engagement is escalated e.g. via voting, AGM attendance, filing shareholder resolutions and use of press releases and media comment.



Key Statistics for H1 2020 engagement:

67

Direct interactions with companies, with the Commissioners taking a leading role in 52% of these engagements

39

Companies directly engaged by the Commissioners

15

Policy and industry-wide engagements supported

14

Companies subject to multiple interactions, with six companies seeing three or more interactions each

457

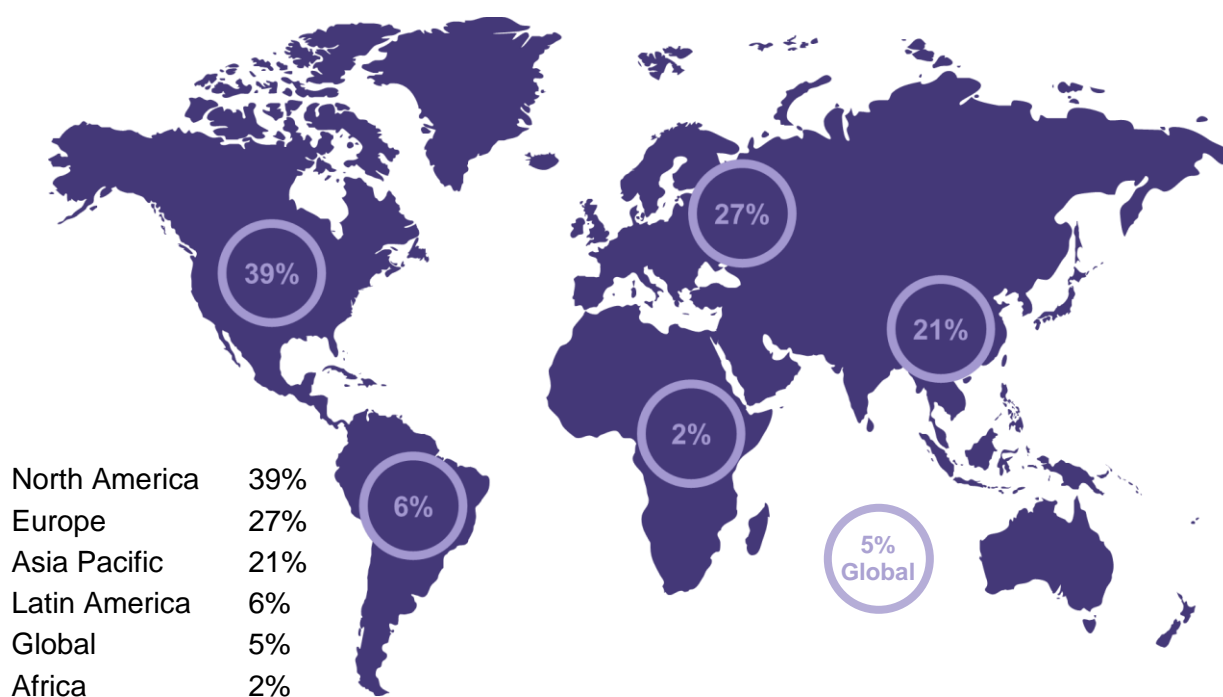
Federated Hermes interactions with companies across all of their programmes

167

Companies engaged by Federated Hermes

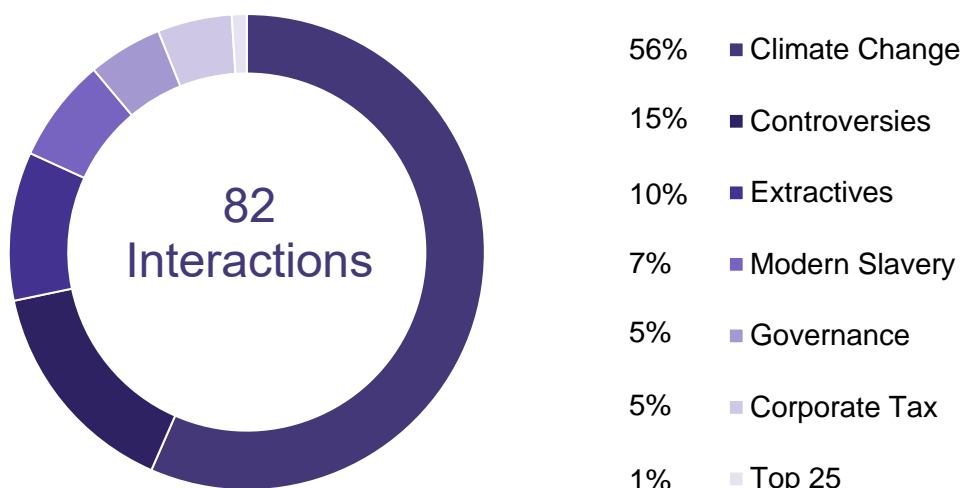
As can be seen by the map below, the Commissioners' programme has a global scope, with a particular focus on key markets in Europe and North America and a growing focus on Asia Pacific, particularly through the Climate Change and Controversies programmes.

Figure 1: H1 2020 Engagements by region



Commissioners Engagements by theme

Chart 1: Commissioners' engagement by theme in H1 2020

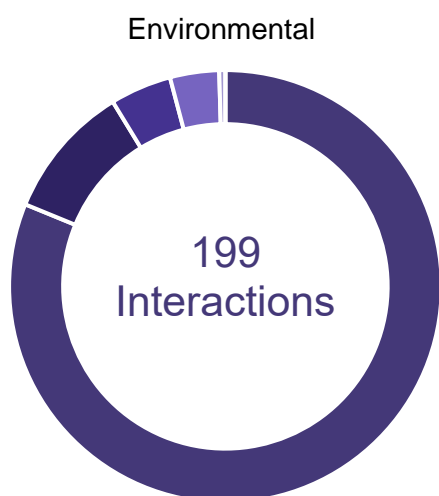


The majority of engagements were part of our Climate Change and new Controversies programmes, which represented 71% of our interactions during the period. Climate Change remains our top engagement priority and the area of the most in-depth dialogue. Additionally, we have now set up a consistent process for communicating to key holdings, in a timely fashion, the rationale for our dissent votes on corporate governance and other issues, following best practice stewardship guidance.

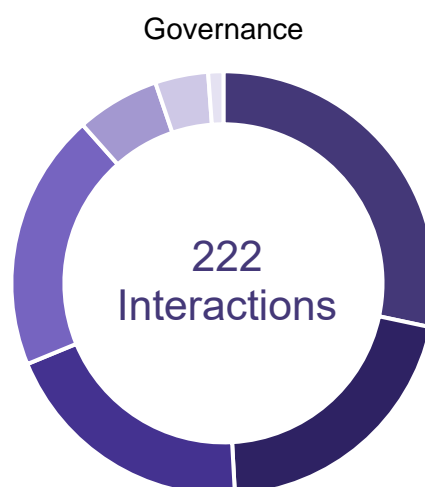
Federated Hermes Engagements by Theme

The majority of engagements were part of Federated Hermes' Climate Change, Executive Remuneration and Board Diversity Skills and Experience programmes, which align with the Commissioners' core engagement programmes. Additionally, Federated Hermes carried out significant engagements on issues outside of the Commissioners' core scope, including Business Strategy, human capital management and conduct and culture.

Chart 2: Federated Hermes' engagement by theme in H1 2020

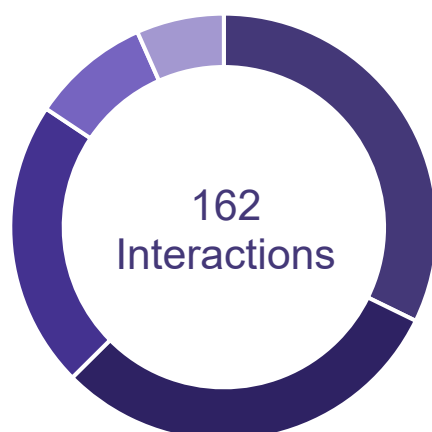


- 81% ■ Climate Change
- 10% ■ Pollution and Waste Management
- 4.5% ■ Supply Chain Management
- 4% ■ Water
- 0.5% ■ Forestry and Land Use



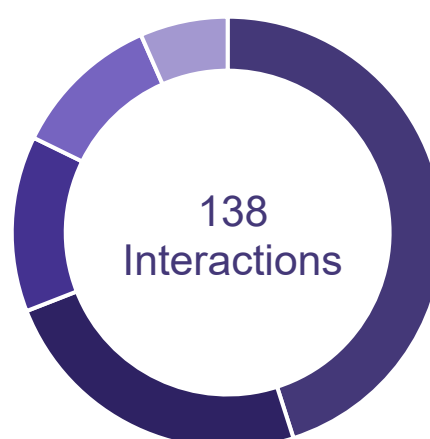
- 28% ■ Human Capital Management
- 21% ■ Human Rights
- 20% ■ Conduct and Culture
- 20% ■ Diversity
- 6% ■ Labour Rights
- 4% ■ Bribery and Corruption
- 1% ■ Tax

Strategy, Risk & Communication



- 32% ■ Risk Management
- 30% ■ Business Strategy
- 22% ■ Integrated Reporting and Other Disclosure
- 9% ■ Cyber Security
- 7% ■ Audit and Accounting

Social & Ethical



- 45% ■ Executive Remuneration
- 24% ■ Board Diversity, Skills and Experience
- 13% ■ Shareholder Protection and Rights
- 11% ■ Board Independence
- 7% ■ Succession Planning

Climate Change Engagement Programme:

Purpose:

The purpose of the Commissioners' Climate Change engagement programme is to ensure that investee companies act in line with our Climate Change Policy. Specifically, the majority of climate change engagement of the Church of England National Investing Bodies (NIBs), including the Commissioners, is guided by the commitments made by the NIBs in a July 2018 General Synod debate on climate change. The NIBs committed to urgently engage with companies rated poorly by the Transition Pathway Initiative (TPI) and to start divesting in 2020 from those not taking their responsibility to transition to a low carbon economy seriously. Additionally, our commitment states that by 2023, we will divest from fossil fuel companies that have been assessed by TPI as not prepared to align with the goal of the Paris Agreement to restrict global average temperature rise to well below 2°C.

In 2020, we have broadened our climate change programme to include engagement on deforestation issues and the reduction of carbon emissions from our real assets portfolio in line with our commitment to managing a net zero portfolio by 2050. We have been heavily involved in policy, engagement and carbon reporting methodology discussions through our membership of the UN Supported Net Zero Asset Owners Alliance, as described in the Standards and Policy Frameworks section of this report.

Actions and Outcomes:

In support of this, the Commissioners are active members of the Institutional Investors Group on Climate Change (IIGCC) and take a leading role within Climate Action 100+ (CA100+). In H1 2020, we engaged 27 companies on climate change through 41 interactions and signed five investor statements urging government action on climate change issues. These involved collaboration with large, international coalitions of investors as well as engagements where we acted alone on behalf of the National Investing Bodies.

Having put companies on notice last year that they are at risk of restriction if they do not improve their performance regarding climate change issues, we had multiple ongoing dialogues in H1 2020. We use TPI scores as our key benchmark and collaborate closely with CA100+ when contacting companies to ensure our messages are aligned and the threat of restriction reinforces the initiative's goals without confusing the messages communicated to companies.

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 investors globally representing over \$18 trillion in assets. The Commissioners are represented on TPI's Steering Group.

TPI is in the process of developing methodologies in the Corporate Fixed Income and Diversified Mining sectors and produced a widely reported on paper about European oil and gas companies' net zero commitments.

The Initiative won "ESG Assessment Tool of the Year" at the Sustainable Investment Awards, hosted by Environmental Finance.



Three companies have improved their performance such that we believe that they will avoid restriction at the end of 2020, when the latest TPI scores are released. Several others have indicated a willingness to improve through our discussions independently and with Climate Action 100+ engagement groups.

The oil and gas sector remains a key focus for the Commissioners, as shown in Chart 3. We have been heavily involved in the Institutional Investors Group on Climate Change's (IIGCC) Oil and Gas sector engagement group, assisting several key CA100+ engagements with major European oil and gas companies ahead of AGMs and the release of joint statements on net zero ambitions. Electric utilities in the US and Asia have also seen much focus ahead of potential restrictions at the end of 2020.

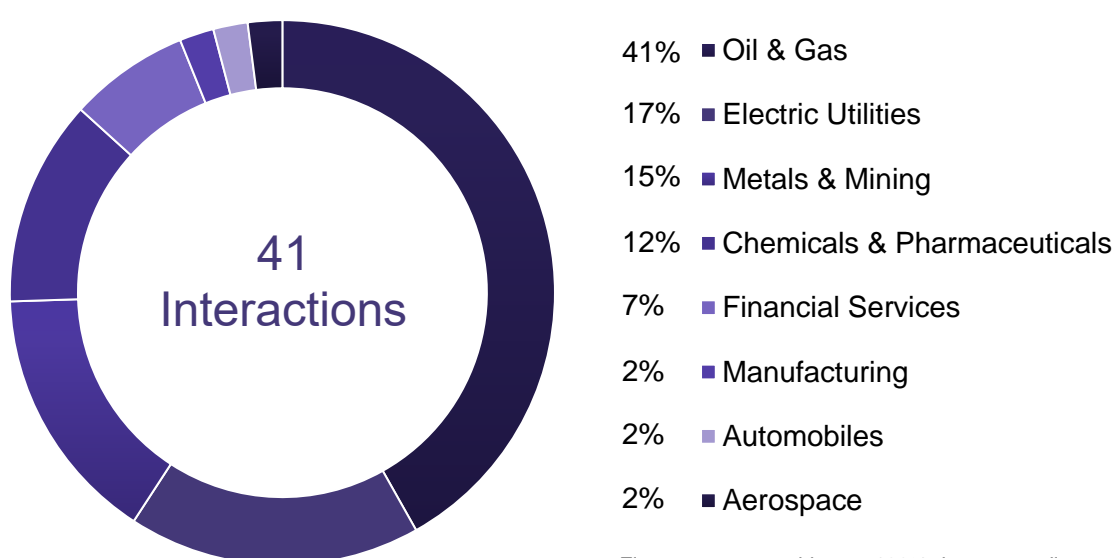
Climate Action 100+



The global climate change engagement initiative, Climate Action 100+, has also continued to grow and is now supported by over 450 investors with more than \$40 trillion in assets. TPI is a benchmarking partner for the initiative and the Commissioners are active members of the IIGCC's Corporate Programme and Resolutions Sub-group, which feeds into CA100+.

During H1 2020 we had 17 engagement interactions with 10 companies on climate change directly in support of CA100+. These interactions focus on governance, emissions reduction consistent with the well below 2°C goal and climate-related disclosure. We continued to co-lead engagement on ExxonMobil in partnership with New York State Common Retirement Fund and on a large chemicals firm.

Chart 3: Corporate climate change engagements H1 2020 (by Sector)



Figures may not add up to 100% due to rounding

Key climate engagements in H1 2020:**Chemical and Pharmaceuticals Company**

We commenced a positive engagement with a multinational chemical and pharmaceuticals company introducing the CA100+ initiative and its goals. We have had constructive discussions on their target to be carbon neutral by 2030 and the accompanying governance and disclosure mechanisms. We will be continuing the engagement as the Company implements a strategy to meet their sustainability targets.

ExxonMobil

We co-filed a shareholder proposal with As You Sow for ExxonMobil's 2020 AGM, calling for the company to issue a report describing if, and how, it plans to reduce its contributions to climate change and align with the Paris Agreement. This proposal was unfortunately, successfully challenged at the SEC by the company. In addition, we co-filed an exempt solicitation ahead of the AGM calling for investors to support resolutions on splitting the CEO-Chair positions, producing a lobbying report, and to hold the board accountable through their voting decisions for its significant failure of governance regarding climate change; once again, we voted against the entire board. Concern amongst large investors over poor climate governance as the company continues to grow, as it lags peers in the sector.

Korea Electric Power Corporation (KEPCO)

Having initially discussed climate targets and disclosure with KEPCO on behalf of the National Investing Bodies in relation to our restriction criteria, we have been an active member of the CA100+ group engaging KEPCO. In March, the group wrote to the Korean Energy Minister, controller of the government's majority stake in the company, emphasising investors' lack of support for coal generation, calling for improved governance procedures around KEPCO's overseas investments, and for more ambitious national climate targets which would impact KEPCO's generation mix. Whilst a coal project in Indonesia will proceed, decisions on three other major overseas projects have been paused and the Korean government has taken positive policy steps towards alignment with the Paris Agreement.

FEDERATED HERMES Case Study

Since 2010, Federated Hermes has been engaging with an Energy and Services Company, a UK-based provider of energy to households and businesses, on its response to climate change. Federated Hermes stepped up their engagement in 2016 when they spoke at the company's annual shareholder meeting. Federated Hermes asked the company to set ambitious carbon reduction targets for customer emissions and seek to regain its coveted 'A' grade under the CDP rating system.

After the 2016 shareholder meeting, Federated Hermes met the group head of environment, head of corporate affairs and company secretary to discuss the development of a published target for the reduction of emissions associated with the Company's customers, as well as improved reporting. Federated Hermes would go on to request further action and disclosure on climate change at the company's 2017, 2018 and 2019 shareholder meetings.

In 2018, Federated Hermes was appointed lead co-ordinator of investors for the Company as part of the Climate Action 100+ collaborative engagement initiative. Federated Hermes co-ordinated a meeting between investor representatives and the company's CEO and other executives in Q3 2018. At this Federated Hermes requested that the company raise its ambition to set a pathway to decarbonise its business in line with the goals of the Paris Agreement, and also report on the resilience of the company to low-carbon scenarios in line with the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD).

In its 2018 Annual Report, the company confirmed its commitment to report in increasing alignment with the TCFD guidelines. In January 2019 the company gained an A grade in the CDP ranking and a Level 4 rating under the Transition Pathway Initiative. In April 2019, it published its 2030 Responsible Business Ambitions, which included a target to enable the reduction of its customers' emissions by 25% below 2015 levels for the first time. In July 2019, the company explicitly integrated the low-carbon transition into its corporate purpose.

Federated Hermes continue to engage with the company on achieving net zero emissions, in line with the goals of the Paris Agreement, as well as the role the Company can play in the transition.

Governance Engagement Programme

Purpose:

The purpose of the Commissioners' governance engagement programme is to ensure that portfolio companies are aware of the rationale for our voting and our corporate governance concerns, and to encourage responsiveness.

Actions and Outcomes:

After the proxy voting season, we reached out to 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, to set out our new voting rules on issues where we were looking for companies to improve their disclosure, including corporate tax and climate change, following our annual review of our voting policy in collaboration with the Church Investors Group (CIG). These have both proven worthwhile engagement initiatives and

companies have been responsive to our outreach. Further details are set out in the Voting section of the report.

Through our membership of the Investor Forum, the Commissioners supported engagement with a Bank on governance and strategy.

Board Diversity

Purpose:

The purpose of the Commissioners' diversity programme in 2020 is to encourage FTSE 350 companies to achieve 33% board gender diversity in line with the standards set in the Hampton Alexander Review. The Commissioners are members of and support the work of the 30% Club.

Action and Outcomes:

As part of this, the Commissioners were signatories to a collective letter to FTSE 350 companies with boards with less than 30% female membership, companies with all male Executive Committees, and companies with only one female member on the board. As part of this campaign, 133 letters were sent under all three campaigns. Thirty-three companies (17% of recipients) responded by May 2020.

We also supported joint investor letters to Executive search firms Egon Zehnder, Page Executive and Russell Reynolds seeking a meeting regarding internal processes regarding diversity. Page Executive sought to engage in May 2020.

Following extensive engagement with a Mining company and our voting dissent at previous years' AGMs, we welcome the Company's appointment of three women as non-executive directors. The Company now fully complies with the Hampton-Alexander Review's targets.

Controversies

Purpose:

The purpose of the Controversies programme is to ensure that portfolio companies are addressing serious controversies by identifying material risks and breaches of international norms and human rights, to form a basis for engagement. Portfolio companies that are not addressing serious controversies will be brought to the Assets Committee's attention for divestment consideration. The Controversies process enables the practical application of EIAG advice on the incorporation of international norms and human rights into the NIB's ethical investment practices, including the UN Guiding Principles on Business and Human Rights (UNGPs) and the UN Global Compact.

Actions and Outcomes

The Controversies process has already been successfully used as a joint NIBs Framework for two sets of exclusions – a proposed joint NIB approach to companies involved in installation of controversial surveillance systems. A controversies screen was run against the entire portfolio in January 2020, and due diligence undertaken on the companies of most serious concern.

Corporate Tax Engagement Programme

Purpose:

The purpose of the Commissioners' Tax Engagement programme is to encourage companies in targeted sectors to follow the principles of the Principles of Responsible Investment (PRI) corporate tax programme for tax policy, governance and disclosure, which are consistent with our Corporate Tax Policy.

Actions and Outcomes

The Church Commissioners continued its engagement with Amazon in 2020 in relation to corporate tax transparency, holding meetings with Amazon (UK) in May 2020, and Seattle in June 2020, and raising the following issues: the lack of a Global Tax Policy, the Role of Board/ Audit Committee in Tax oversight, and Country by Country Reporting.

Extractive Industries & Tailings Dams

Purpose:

To ensure that companies act in line with our Extractives Policy and are responding to the 2019 investor call for public disclosure of tailings dams.

Actions and Outcomes:

- **NIBs Extractives Screen:**

In early 2020, the NIBs carried out a global screen of extractives companies on the Global Industry Classification Standard, identifying several companies in the Commissioners' holdings which met our threshold for further due diligence and engagement. We worked with our managers to further investigate and engage with companies regarding concerns related to human rights and safety. We carried out joint engagements with the Church of England Pensions Board, under both the Controversies and Extractives programmes, with two Mining companies, engaging on issues relating to free prior and informed consent, as well as management of riverine tailings.

- **Tailings Dams:**

January 2020 saw the anniversary of the Brumadinho tailings dam disaster in Brazil. The Commissioners participated in a summit at Church House, chaired by the Bishop of Birmingham, as part of the investor initiative led by the Church of England Pensions Board and the Swedish Council on Ethics to raise standards of tailings dam management and disclosure in the mining industry. We joined an investor call for urgent public disclosure by listed extractives companies of tailings facilities and risks. In H1, the Church Commissioners engaged with four non responders, resulting in a disclosure from Exxon.

The Commissioners also contributed to the Global Industry Standard on Tailings Management which has been endorsed by the co-convenors of the Global Tailings Review (GTR), the United Nations Environment Programme (UNEP), Principles for Responsible Investment (PRI) and International Council on Mining and Metals (ICMM).

Top 25

Purpose:

To know our top 25 companies, encourage responsiveness to any ethical concerns and ensure that they are addressing serious controversies.

Actions and Outcomes

The Commissioners held four interactions with two of our top 25 holdings, two Big Tech companies. The Commissioners assisted in preparing, and co-filed, an exempt solicitation for Alphabet¹ in support of the proposal we had co-filed which requests that the Board of Directors establish a committee to oversee the Company's human rights risks to help anticipate and oversee management with respect to the adverse human rights and societal impacts associated with Alphabet's technologies. Whilst the resolution was not successful, it received a large amount of press and raised awareness both inside and outside the company in relation to human rights issues in Big Tech companies. We will continue to engage with companies on this issue.

In March 2020 we signed a public open letter to social media companies following on the ChristChurch Call, asking social media companies to create clear lines of governance and accountability to ensure that social media platforms cannot be used promote objectionable content like the livestreaming and dissemination of the Christchurch shootings.

Modern Slavery

Purpose:

Our Modern slavery programme supports the CCLA-led "Find It, Fix It, Prevent It" programme, an investor-led, multi-stakeholder project designed to harness the power of the investment community to increase the effectiveness of corporate actions against modern slavery with three project streams:

1. Public policy engagement – Promoting meaningful regulatory frameworks that tackle modern slavery.
2. Developing better data – Working with environmental, social and governance (ESG) data providers, academics and non-governmental organisations (NGOs) to identify and develop data sources that help investors understand the scale of the issue.
3. Corporate engagement – Dialogues with prioritised companies to help them develop and implement better processes for finding, fixing, and preventing modern slavery.

Actions and Outcomes

We collaborated with the Church Investor Group on developing the engagement programme (see [here](#)).

¹ <https://www.sec.gov/Archives/edgar/data/932974/000121465920004296/d511203px14a6g.htm>

We have commenced an engagement with a major international shipping company in H1 2020 in relation to its modern slavery policy and implementation including asking the company to:

- Increase their efforts to identify human trafficking, forced labour and modern slavery in their supply chains.
- Review, assess and disclose the effectiveness of their attempts to address these issues.
- Support the provision of remedy to victims of modern slavery within their supply chains.

The Commissioners have also been involved in public policy engagement, as detailed in the next section.

Public Policy and Advocacy

The Church Commissioners continued to engage on public policy and conduct advocacy, in H1 2020. During that period, the Commissioners signed on to 12 public investor statements detailing investors' expectations or urging action on specific issues and providing public policy support through seven consultations and meetings with policymakers.

Climate Change

The most significant Responsible Investment development in H1 2020 was the Commissioners' joining the UN-convened Net Zero Asset Owner Alliance, alongside the Church of England Pensions Board and CBF Church of England Funds at the World Economic Forum in Davos.

The members of the Alliance commit to transitioning their investment portfolios to net-zero GHG emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, taking into account the best available scientific knowledge including the findings of the IPCC, and regularly reporting on progress, including establishing intermediate targets every five years in line with Paris Agreement Article 4.9.

Since the announcement, the Commissioner's Responsible Investment team have been actively involved in all four workstreams of the Asset Owner's Alliance, co-leading the policy stream for the first half of the year, and engaging in the measurement and public reporting; engaging with portfolio companies on a net-zero target; and engaging in the financing transition workstream. Alliance members are currently discussing a framework for initial shorter-term emissions reductions targets consistent with the goal of the Paris Agreement to pursue efforts to limit the global average temperature rise to 1.5 degrees Celsius above pre-industrial levels.

In addition to this, the Commissioners have supported the following public policy collective initiatives in H1 2020:

- In April 2020, a letter to the EU encouraging strong methane regulation and minimum standards to accompany 2050 target.
- In May 2020, IIGCC letter to the UK Prime Minister, calling on recovery plans to align with a clean, just economy.
- In May 2020, a letter to EU leaders from IIGCC seeking a sustainable recovery to the Covid-19 crisis.
- In June 2020, the Commissioners signed an investor statement expressing concern over the degradation of environmental laws in Brazil, particularly due to a land grabbing bill passing through Congress. The investor pressure led to conversations with the Amazon Council, led by the Vice President of Brazil, and with the Chamber of Deputies, and has kickstarted an ongoing engagement on policy with the government.

Federated Hermes Case Study: Heat Decarbonisation

Federated Hermes met with the heat decarbonisation team of the UK government's Department for Business, Energy and Industrial Strategy (BEIS), along with other UK utility CA100+ participants. The UK's heat decarbonisation roadmap will be published this summer. It will set out the key questions that need to be answered and how this will be done, with the aim of getting the necessary policy in place by the mid-2020s.

The participants agreed to hold a set of meetings to create greater dialogue between CA100+ and the BEIS team over this important year for heat decarbonisation.

Modern Slavery and Human Rights

In January 2020, the Commissioners attended a consultation with the Director of Labour Market Enforcement for the UK, providing input on investor initiatives in relation to modern slavery.

In January 2020, the Commissioners, along with CCLA, met with the Modern Slavery Unit Head of Supply Chain on behalf of the Find It, Fix It, Prevent It Initiative. The purpose of the meeting was to present the project aims and investor perspective on modern slavery, following on from an earlier meeting on 30 October 2019. The first part of the discussion focussed on the proposed investor engagement on modern slavery. The second part of the discussion focussed on the feedback letter on amendments to the Modern Slavery Act to promote greater transparency and disclosure by companies.









In April 2020, the Commissioners made a joint submission with the Church of England Pensions Board to the Office of the United Nations High Commissioner for Human Rights on its Accountability and Remedy Project consultation on non-state based remedy for business human rights abuses, describing the role which investors have been able to play in facilitating redress in light of the disaster in Brumadinho.

In May 2020, the Commissioners participated in the Investor Roundtable: Modern Slavery Data for Investor Action chaired by British Institute of International and Comparative Law, Bingham Centre and the Alan Turing Institute to inform the project's ongoing research.

The Commissioners also signed an Investor Statement on Covid-19 in April 2020, prepared by NY State and ICCR, asserting that Board directors are accountable for long-term human capital management strategy and that the companies they oversee have invested in their workforces and will be well served by having retained a well-trained and committed workforce when business operations are able to resume.

Screening

In 2020 the ethical screens of the Church Commissioners were as follows:

Selection of Ethical screens								
	Adult Entertainment	Alcohol	Civilian Firearms	Climate Change	Defence	Gambling	Predatory Lending	Tobacco
Revenue threshold	3%	25%	10% and >0% ²	10%	10% and 0% ³	10%	10%	10%

The table below indicates the number of companies captured by screens in 2020:⁴

Screen category	No. of companies restricted	% of total exclusions
Gambling	112	24.8
Alcohol	85	18.8
Defence	80	17.7
Climate Change	55	12.2
Tobacco	48	10.6
Special Excluded	24	5.3
Predatory Lending	16	3.5
Cluster Munitions, Defence	13	2.9
Cannabis	9	2
Firearms	7	1.5
Adult Entertainment, Alcohol	1	0.2
Alcohol, Gambling	1	0.2
Cluster Munitions, Firearms, Defence	1	0.2
Total	452	

“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 the CBF Funds. 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 a result of successful engagement.

² Companies involved in the retail/production of semi-automatic weapons are not considered suitable for investment regardless of the size of revenues.

³ Companies involved in the retail/production of indiscriminate weapons (i.e. nuclear weapons, landmines and cluster munitions) are not considered suitable for investment regardless of the size of revenues.

⁴ This reflects the restricted list as of April 2020 (effective from April to July 2020.).

Voting: Overview

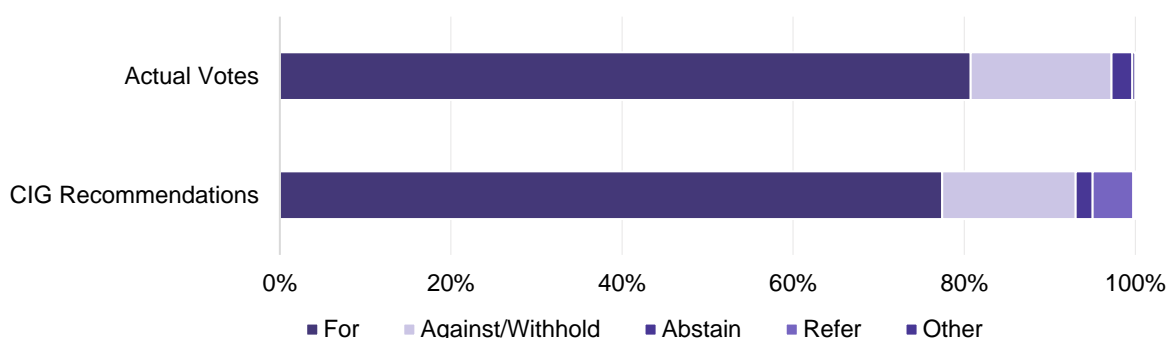
This voting report is split into two parts:

- management resolutions; and
- shareholder resolutions

Each section is further divided into UK and Global (with the exclusion of share blocking markets⁵). The majority of votes cast in line with the approach set out in the agreed Church Investors Group (CIG) voting template. Where required, discretion was exercised to cast a different vote.

Particular highlights from 2020 are:

Chart 4: Actual votes and CIG recommendations – UK and global region (15,559)



In 2020, the Church Commissioners voted on 15,559 ballots, of which 96.2% related to management resolutions. They were presented at 1,014 meetings across 45 different markets (90.2%⁶ Global; 9.8% UK⁷ Region). The majority of the meetings were voted during the period March to June (95.7%). Due to Covid-19, most of the meetings were held as virtual meetings.

The Church Commissioners voted against management (or withheld votes) on 20.3% of resolutions presented in the UK and the Global regions. In 2020, the CIG tightened its voting policy. Key issues include gender opportunities at Senior Management level, board responsiveness around tailing safety and lobbying disclosure. These changes have contributed to an increase of dissent in respect to director election resolutions. In almost a quarter of the meetings voted in this period one or more shareholder resolutions were put forward to the ballots and only 14% of them have received support from the boards, e.g. Marathon Petroleum Corporation's board supported the resolution on the adoption of a simple majority vote standard for various matters requiring shareholder approval.

Discretion is applied when the vote generated under the template does not reflect the Church Commissioners' ethical investment objectives or investment considerations.

⁵ Countries in which shares must be deposited or blocked from trading for a certain period of time in order to be voted.

⁶ Percentage is based on country of incorporation.

⁷ UK region includes Bermuda, Guernsey, Jersey, the Isle of Man and the United Kingdom.

In 2020, discretion was used 75 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.

In the period 1,032 votes were referred for evaluation in line with the voting template. After careful consideration, we acted as follows on these referred votes:

UK: 385 referrals (5.0% of UK votes) resulting in:

Abstain:	9
Against:	70
For:	306

Global: 647 referrals (6.9% of Global votes) resulting in:

Abstain:	22
Against/Withhold:	120
For:	495
Other	10 ⁸

Voting data in chart format is available in Appendix 1.

2020 voting template

The Covid-19 pandemic presented societal and economic challenges, which also affected public companies and shareholders. The uncertainties created by Covid-19 meant that business activities around the world were temporarily closed. Many regulators granted extensions to companies to file financial statements and some companies postponed their annual meetings.

In April 2020, the Church Investors Group implemented a Covid-19 voting policy. We fully echoed the recommendations of the PRI, stating that “PRI signatories should be supporting sustainable companies through this crisis – in the interests of public health and long-term economic performance – even if that limits short-term returns”⁹. The Commissioners, along with other investors representing over USD 9.5 trillion in assets under management, supported [the Investor Statement published by the Interfaith Center on Corporate Responsibility](#). ICCR called on companies’ boards to provide paid leave to employees, prioritise health and safety, maintain employment and supplier/customer relationships, and adopt financial prudence.

Through the Covid-19 emergency policy, we limited our dissent aimed at Chairs and Executive Directors, but we continue to challenge boards when failing on climate change (management quality) and tax transparency. The Commissioners thus remained committed to the climate priorities set at the 2018 Synod. With regards to tax, companies and society more broadly are now, more than ever, relying on governments’ funds and we believe it is unconscionable not to challenge companies which generate profits at the expense of taxpayers. Finally, we have increased our scrutiny on the ratio between executive pay and the broader workforce, especially in cases where companies offered generous executive short-term awards and the companies’ workforce suffered the brunt of the crisis. The CIG governance leads will review the Covid-19 voting policy in September 2020.

⁸ Other includes votes including frequency of remuneration disclosure and “do not vote” actions

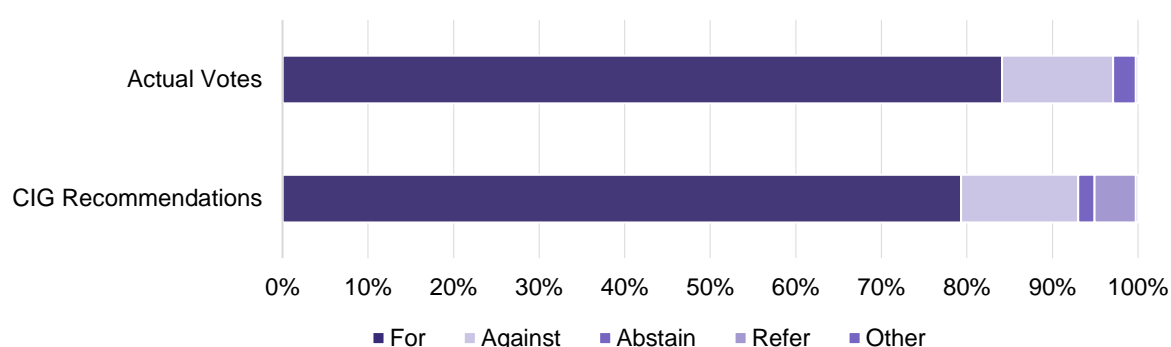
⁹ <https://www.unpri.org/covid-19-resources/how-responsible-investors-should-respond-to-the-covid-19-coronavirus-crisis/5627.article>

Voting: Management Resolutions (UK)

Overview

In 2020, the Church Commissioners voted on 1,518 management resolutions and voted against management on 14.8% 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.

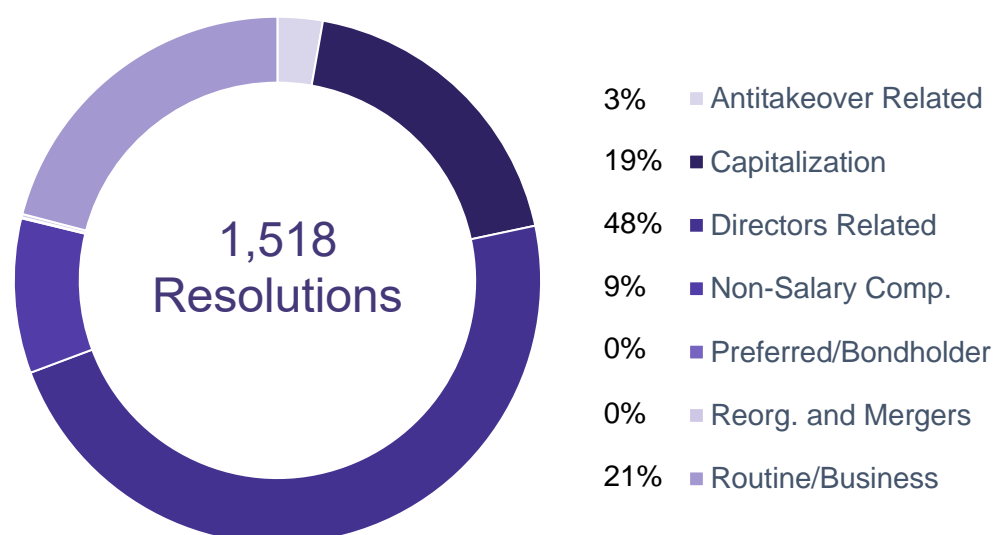
Chart 5: Actual votes and CIG recommendations – management resolutions – UK region (1,518)



Resolution category types

It is not surprising to note that most resolutions voted on during the quarter were related to director re-elections followed by resolutions to approve annual reports and accounts and to approve capitalisation plans. 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.

Chart 6: Resolution category types



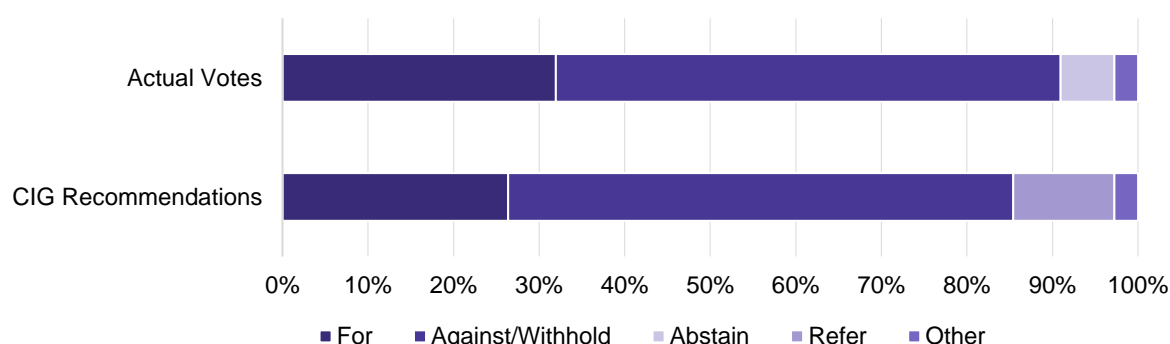
Remuneration (UK)

Remuneration-related resolutions

In 2020, the Church Commissioners voted on 144 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. This included 64.3% of compensation resolutions related to the approval of remuneration reports and 15% related to the approval of remuneration policies. The outstanding resolutions mainly related to either Long Term Incentive Plans (LTIPs) or employee share plans.

We voted against 77.4% of remuneration reports and 69.2% 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.

Chart 7: Actual votes and CIG recommendations – compensation resolutions – UK region (144)



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
Principle 1	Local Best Practice
Principle 2	Annual Bonus Quantum
Principle 3	Variable Pay Short-termism
Principle 4	ESG Performance Metrics
Principle 5	Workforce Pay
Other Concerns	Overall Quantum
	Miscellaneous

Lack of ESG performance metrics linked to variable pay was the main driver behind our dissent on pay resolutions. From 2020, we have also started to review how CA100+ companies integrate climate change targets into their executive pay. Other drivers behind

our dissent votes on pay were: (i) the short-termism of bonuses; (ii) excessive pay-outs; and (iii) remuneration packages that do not adequately link pay and performance.

Where the Commissioners had voted against management on executive pay for at least two consecutive years, we escalated our dissent by withdrawing our support for the re-election of the Chairs of Remuneration Committees or the entire Remuneration Committee in critical circumstances. In 2020 we voted against the re-election of the Chair of the Remuneration Committee at 20 UK companies but did not vote against the entire Remuneration Committee at any company.

Case Study: Internet Retailer

Over the years we have voted against the remuneration report at the Company and remain concerned about the level of pay and its structure. At their 2019 AGM, the Company's pay was opposed by 29.8% of investors. Despite this, the Company did not produce an investor statement in line with Investment Association guidance to address investor concerns nor did they alter their variable pay structures.

During the 2020 proxy season, the Commissioners voted against the Company's remuneration report. Our dissent was triggered by multiple factors including notable increases in executive salaries, the board's discretion to exclude the impact of the fire at the Andover Customer Fulfilment Centre in the LTIP vesting, the vesting of the one-off Growth Incentive Plan (GIP) despite investors' disapproval of the GIP back in 2014, questionable bonus outcomes of the Annual Incentive Plan, and the increase in NED fees. We also remain disappointed that the Company has failed to integrate non-financial metrics into remuneration structures.

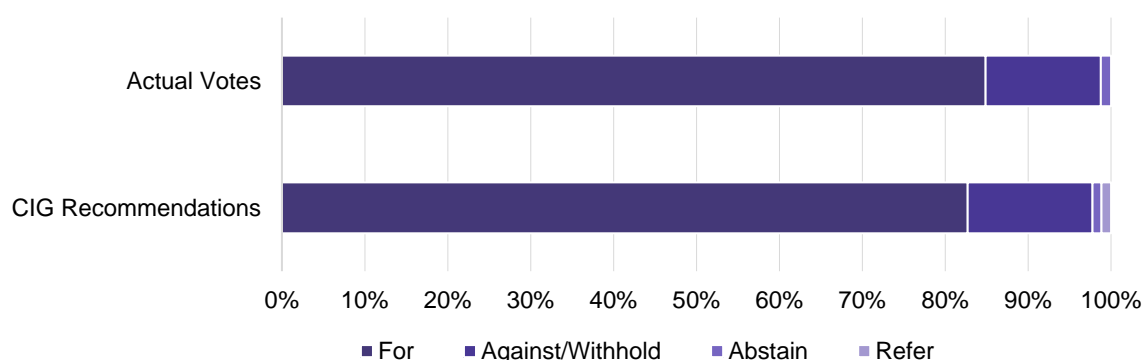
Vote: AGAINST

Directors (UK)

Director election resolutions

In 2020, the Church Commissioners voted on 3,376 resolutions related to director elections, of which 15.1% 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. We also assess how well board committees are implementing best practices on corporate governance and responding to shareholder feedback. For instance, the Commissioners' vote against the re-election of the Chair of the Audit Committee where we have concerns about auditor tenure or where the percentage of non-audit fees exceed audit fees on a continuous basis without justification.

Chart 8: Actual votes and CIG voting template – director election resolutions – UK region (3,376)



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 2020, we voted against director elections at five companies due to concerns about audit tenure. Whilst we had concerns about the level of non-audit fees for some companies, sufficient rationales were provided.

Gender Diversity

The Church Commissioners support the Hampton-Alexander Review recommendations. Whilst we continue to scrutinize companies which are not deemed to promote gender diversity at board level, from this year we have also extended our voting provisions on gender representation at the companies' Senior Management level for FTSE 350 companies. In 2020, we withdrew support for the re-election of the Chair of the Nomination Committee at nine companies for not adequately addressing gender diversity at board level and at five companies for lack of gender balance at senior management level. The Church Commissioners fully agree with the Hampton-Alexander Review, believing that "when companies bring a diverse mix of perspective and skills to the table this will lead to greater productivity and sustainability. This is not simply a question of fairness. These companies will be better equipped to foresee and act on risks and opportunities, nurture talent and command the trust of the consumers they serve – delivering better long-term returns for investors on behalf of savers"¹⁰.

Case Study: Media company

We opposed the re-election of the Executive Chair. The CIG does not support the re-appointment of an Executive Chair unless it is a temporary arrangement. Given that the Board Chair's role is ultimately responsible for the overall Company's governance oversight, it is particularly bad practice to have an Executive Chair on an ongoing basis. In addition, KPMG have included a material uncertainty statement in their report regarding the Group's ability to continue as a going concern.

Vote: AGAINST

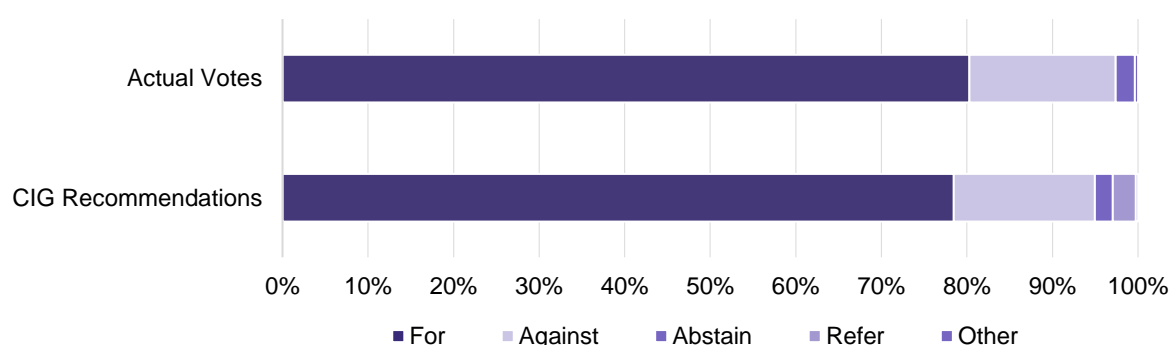
¹⁰ <https://ftsewomenleaders.com/wp-content/uploads/2019/11/HA-Review-Report-2019.pdf>

Voting: Management Resolutions (Global)

Overview

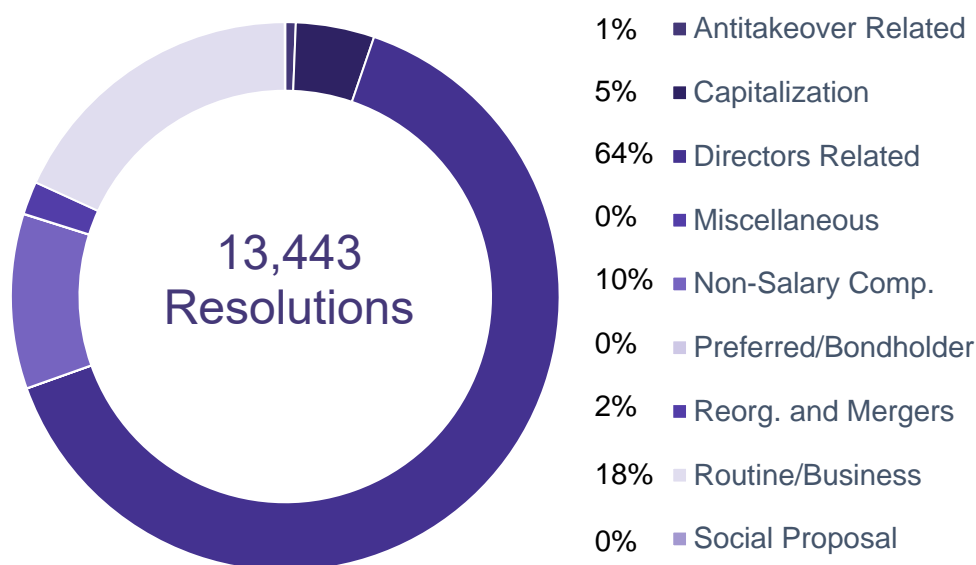
In 2020, the Church Commissioners voted on 13,443 management resolutions. We opposed management in 18.6% of global resolutions. Our main concerns were board independence, auditor tenure, shareholder rights, and remuneration (including oversight performed by remuneration committees and inclusion of ESG considerations into variable remuneration).

Chart 9: Actual votes and CIG voting template – management resolutions – global region (13,443)



Resolution category types

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

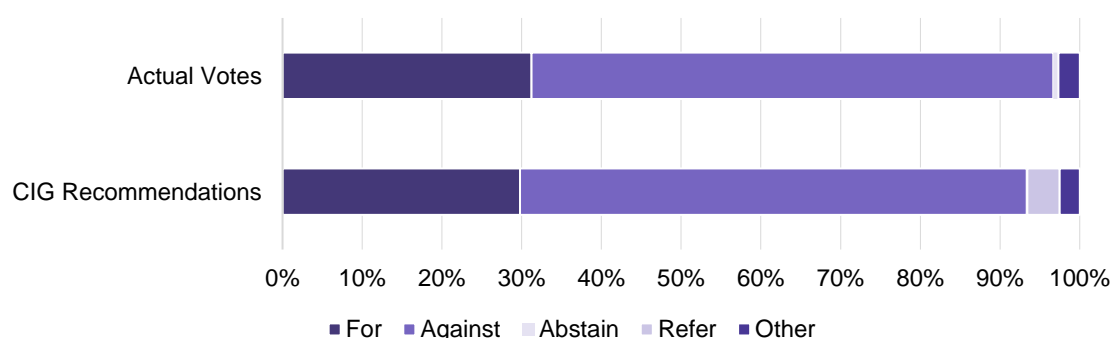
Chart 10: Resolution category types

Remuneration (Global)

Remuneration-related resolutions

In 2020, the Commissioners voted on 1,383 compensation resolutions. Types of resolutions included votes to approve 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. In the period under review,

- 64.5% of compensation resolutions were related to the approval of remuneration reports;
- 7.2% to the approval of remuneration policies; and
- 85.2% of remuneration reports and 60.6 % of remuneration policies were not supported
 - 82.7% of against 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 exceed 600% of the CEO's base salary.

Chart 11: Actual votes and CIG recommendations – compensation resolutions – global region (1,383)

Case Study: Automobiles and Parts company

The Commissioners voted against the approval of the compensation report at the Company because their executive pay structures fail several principles of the EIAG Executive Policy, including breaching best practices around variable pay and severance.

Our concerns centred around the pay granted to the new CEO who was appointed on May 11, 2020 (he had been serving as interim CEO). The Company determined that he was eligible to receive a \$1.5 million bonus "upon approval by the Board of Directors of strategic and financial plans at the September 2020 meeting of the Board of Directors, to be paid in February 2021." Additionally, he was awarded an RSU grant valued at \$2 million with one-year vesting. He had previously been awarded a \$3 million grant. Mr Zeitz has also benefited from perks equivalent to \$1 million for covering housing and transportation expenses associated with his relocation to the US (a one-off payment).

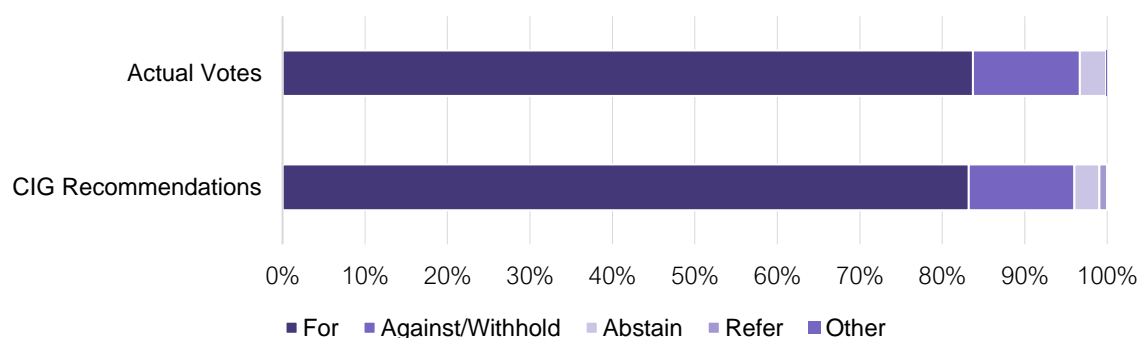
Ultimately, 28.1% of investors opposed the Company's compensation report. We expect the Company to address the concerns raised by investors in the following months.

Vote: AGAINST

Directors (Global)

In 2020, the Church Commissioners voted on 9,367 director-related resolutions. Of these, we voted against 15% of management recommendations. This category includes: election of directors; discharge of the Supervisory Board; amendment of the articles governing the appointment of directors; and "proxy access" laws to encourage board accountability. When determining votes on directors, the Commissioners consider independence, overall Board composition, how well the Board implements best practices, and Board responsiveness to shareholder feedback.

Chart 12: Actual votes and CIG voting template – director election resolutions – global region (9,367)



The Church Commissioners, as co-founders of the Transition Pathway Initiative (TPI), vote against the re-election of Board Chairs when companies have insufficient disclosure or processes to manage their contribution to climate change or have shown inadequate alignment with the Paris targets.

Electricity companies covered under the CA100+ programme that are judged by TPI to not be aligned with at least an NDC scenario are subject to votes against their Board Chairs. In 2020, this approach resulted in votes against the re-election of the Chair of the Board at eleven companies.

We are also continuing to vote against the re-election of Chairs of the Board where companies fail to mitigate risks associated with aggressive tax planning. This year this issue has particular importance because governments have implemented measures to sustain companies throughout adverse economic and operating conditions as a consequence of the global health crisis. In H1 2020, we voted against the re-election of the Chair of the Board at eleven companies due to the companies' aggressive tax planning measures.

Overall in this period we opposed 1,319 director-related resolutions. 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).

Chart 13: Director election – dissent ballots

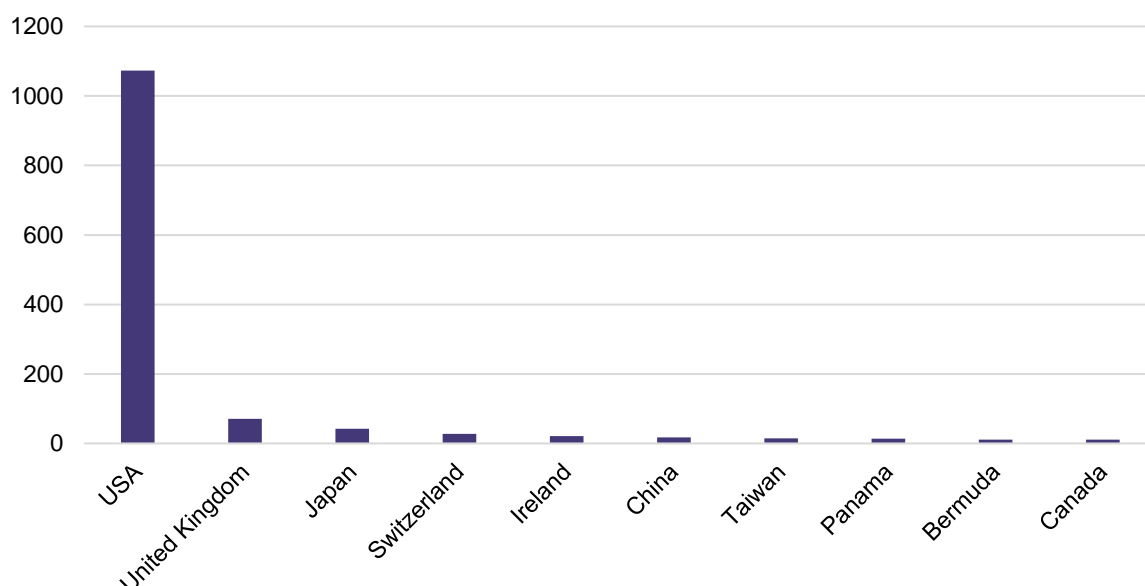


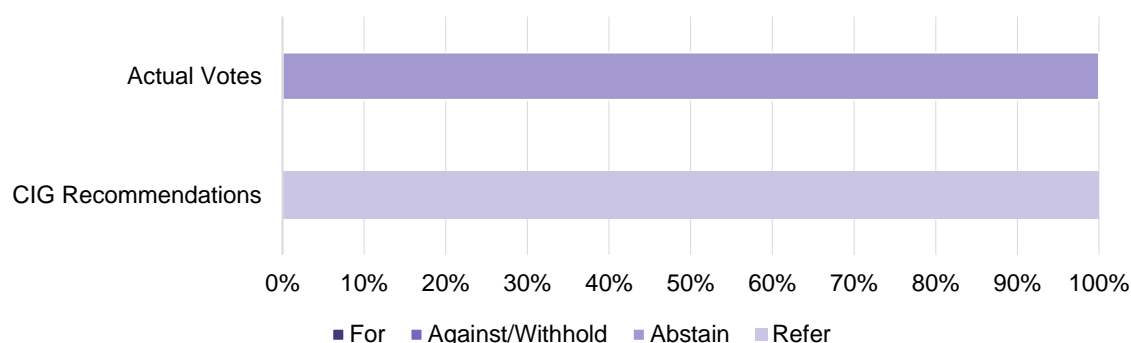
Chart 13 indicates the countries with the highest dissent votes on director re-election by number of ballots

Voting: Shareholder Resolutions (UK)

In 2020 the Church Commissioners abstained on shareholder-proposed resolutions in the UK presented at two companies

With regards to a Bank company, the Commissioners abstained on the resolution because the Company had taken positive steps forward in engagement with institutional investors (including the Investor Forum, of which the Commissioners are a member). Importantly, the Company has committed to a goal of being a net zero emissions bank by 2050. The Commissioners remain involved in the Investor Forum engagement with the Company.

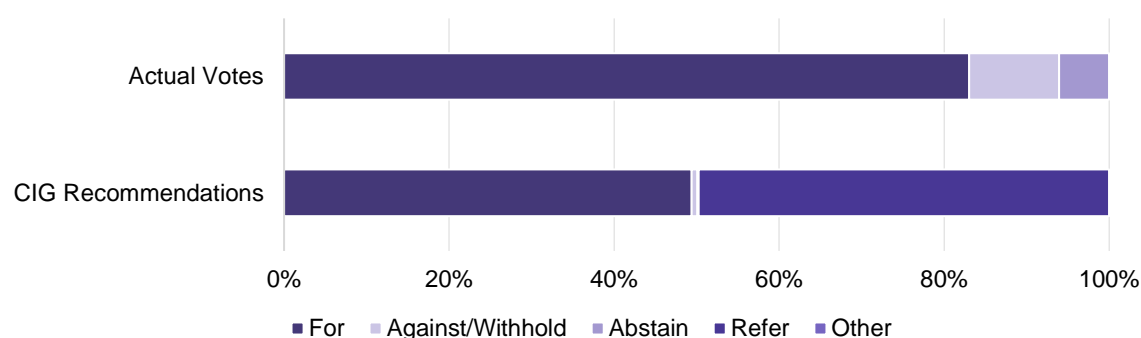
Chart 14: Actual votes and CIG recommendations – shareholder resolutions – UK region (3¹¹)



Whilst the Commissioners support the Oil & Gas company for its efforts in having “the most ambitious plan to reduce emissions intensity in the [Oil & Gas] sector and is close to alignment with a 2°C scenario¹²”, we believe the Company still needs to demonstrate how it will actually meet the 2 Degree Scenario by 2050. As such we opted to abstain on this proposal.

Voting: Shareholder Resolutions (Global)

Chart 15: Actual votes and CIG voting template – shareholder resolutions – global region (595)



In 2020, the Church Commissioners voted on 595 shareholder resolution ballots proposed at 214 global meetings. Most of the shareholder-proposed resolutions related to corporate governance matters such as the 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.

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.

¹¹ Refers to number of ballots.

¹² <https://www.transitionpathwayinitiative.org/tpi/publications/58.pdf?type=Publication>

We also supported resolutions which sought increased disclosure on climate change, sustainability, human rights and taking responsibility for “fake news”. We did not support resolutions when they were considered over prescriptive or not beneficial to investors.

The Church Commissioners, alongside other investors, are concerned about the proposed amendment to the Exchange Act Rule 14a-8 on shareholder proposals. We have directly expressed our concerns to the SEC earlier this year. We are deeply worried that raising the holdings thresholds for the submission of shareholder proposals and creating a tiered system, as well as restricting shareholders’ ability to aggregate holdings, will reduce the rights of small shareholders.

Case Study: Big Tech company

At the 2020 AGM, the Commissioners supported the following shareholder resolutions:

- **Report on Potential Human Rights Impacts of Customers' Use of Rekognition**
Such disclosure would allow shareholders to understand the processes used by the Company for assessing human rights impacts in its operations, specifically around new technologies like facial recognition.
- **Report on Products Promoting Hate Speech and Sales of Offensive Products**
Such disclosure would enable shareholders to evaluate the effectiveness of the company’s content policies given that the company continues to face controversies related to hate speech on its site.
- **Require Independent Board Chairman**
Separation of roles is seen as best practice.
- **Report on Global Median Gender/Racial Pay Gap**
Such disclosure would enhance transparency around diversity and of the company’s workforce
- **Report on Promotion Velocity**
The Company’s peers are more transparent on the issue.
- **Reduce Ownership Threshold for Shareholders to Call Special Meeting**
This would enhance shareholder rights.
- **Report on Human Rights Risk Assessment**
Such disclosure would be beneficial to shareholders.
- **Report on Lobbying Payments and Policy**
Such disclosure would be beneficial to shareholders.

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

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	12,565	2,558	382	0	54	15559
CIG recommendations	12,047	2,429	309	735	39	15559

Table 5: Actual votes and CIG recommendations – Management– UK

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	1,277	197	40	0	4	1,518
CIG recommendations	1,204	208	29	73	4	1,518

Table 7: Actual votes and CIG recommendations – Salary— UK

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	46	85	9	0	4	144
CIG recommendations	38	85	0	17	4	144

Table 8: Actual votes and CIG voting template – Director Election– UK

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	2,866	469	41	0	0	3,376
CIG recommendations	2,792	509	36	39	0	3,376

Table 9: Actual votes and CIG voting template –Management– Global

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	10,794	2296	303	0	50	13,443
CIG recommendations	10,549	2217	279	363	35	13,443

Table 11: Actual votes and CIG recommendations – Salary— Global

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	432	905	9	0	37	1,383
CIG recommendations	412	879	1	56	35	1,383

Table 12: Actual votes and CIG voting template – Director Election – Global

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	7,843	1214	298	0	12	9,367
CIG recommendations	7,794	1202	284	87	0	9,367

Table 13: Top 10 Countries - Director Re-Election Dissent - Global

Country	% of Dissent Vote
USA	81.3%
United Kingdom	5.4%
Japan	3.2%
Switzerland	2.1%
Ireland	1.6%
China	1.3%
Taiwan	1.1%
Panama	1.1%
Bermuda	0.8%
Canada	0.8%

Table 14: Actual votes and CIG voting template – Shareholder Resolution - UK

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	0	0	3	0	0	3
CIG recommendations	0	0	0	3	0	3

Table 15: Actual votes and CIG voting template – Shareholder Resolution - Global

	For	Against (+Withhold)	Abstain	Refer	Other	Total
Actual votes	494	65	36	0	0	367
CIG recommendations	294	4	1	296	0	367



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