Voting Guidelines for Investment Managers of ACCESS LGPS **Annex C**

Introduction

Link Fund Solutions Limited ("LFS") recognises that as the Manager of the ACCESS LGPS (the "Fund") it has a responsibility as a shareholder, and to its investors the ACCESS funds, to promote good corporate governance and management in the companies in which the Fund invests and it requires investment managers appointed to manage the Fund to exercise the voting rights attached to investments held in the Fund unless market circumstances make it impossible to do so. This document sets out guidelines to which LFS expects investment managers to have regard in the exercise of voting rights on behalf of the Fund however LFS recognises that in certain cases there may be good reasons not to follow the guidelines set out in this document and in those circumstances LFS expects its investment managers to exercise their discretion having regard to the long-term interests of the shareholders in the Fund and the principles of good corporate governance. LFS requires investment managers to report on voting activity monthly.

The guidelines set out in this document identify those matters that LFS considers of importance in the context of good corporate governance together with its preferred position on those matters. Where investment managers do not adopt the positions set out in these guidelines it is required that they should provide a robust explanation of the position adopted. LFS also expects that investment managers will be signatories to and comply with the Financial Reporting Council's Stewardship Code (the Code) and United Nations Principles of Responsible Investment (UNPRI). If they have not signed up to either the Code or UNPRI they should be prepared to explain the reasons.

1. Accounting Matters

Report and Accounts

General Principles:

The Report and Accounts should present a true and fair view of the company's financial position and prospects and receive an unqualified audit opinion, unless there are exceptional circumstances that are fully explained in the Annual Report.

Vote For

- Adoption of Report and Accounts unless Auditors Report is qualified.

Vote Against

- Adoption of Report and Accounts when the Auditors report is qualified, and there is no satisfactory explanation.

- The Report and Accounts are not considered to present a true and fair view of the company's financial position.

Audit

General Principles

The principles that are applied in relation to the role of auditors and the Audit Committee are as follows.

Audit Committee

- There should be an Audit Committee of at least three members, all of whom should be independent non-executive directors.
- At least one member of the Audit Committee should have significant financial experience.
- The responsibilities of the Committee should include to review the company's internal financial control system, and to make recommendations to the board on the appointment of the external auditor.
- The annual report should include a separate section that describes the work of the Audit Committee.

External Auditors

- Non-audit fees should be disclosed and should not affect audit independence. In general, fees for non-audit work should not represent more than 25% of the total audit fees, unless there are special circumstances which are explained.

Voting guidelines: Audit

Vote for the re-appointment of the auditors:

- Where the fees for non-audit work are either immaterial (less than £100,000) or less than one quarter of the total payments to the auditor.

Vote against:

- The re-appointment of the auditors where the fees for non-audit work are material and exceed the fee for audit work.
- The auditor's tenure exceeds ten years or is undisclosed.

2. Directors

General Principles

The principles that are applied in relation to the role of executive and non-executive directors are as follows:

Division of responsibilities

- There should be a separate chairman and chief executive, while a temporary combination of the roles may be acceptable for example, while looking for a successor CEO, such interim measures should not continue long-term.
- The chairman should not have previously served as chief executive.

- There should be a senior independent non-executive director.

Independent non-executives

- The board should have sufficient independent non-executive directors with a minimum of three non-executives on the board.
- At least half of the board should be independent. In determining whether a candidate is independent regard should be had to the independence criteria set out in the FRC Corporate Governance Code.

Accountability

- All directors should be subject to regular re-election, at least every three years.

Independent appointment process

- Where there is a Nomination Committee a majority of the Nomination Committee should consist of independent non-executive directors.

Remuneration and Audit Committees

- Where a director is a member of the Remuneration Committee or the Audit Committee, the guidelines on best practice in these areas, which are referred to below, will be followed in voting on that director.

Board Diversity

- The Report and Accounts should include a statement of the board's policy on diversity, including professional, international and gender diversity, objectives set for implementing the policy and its progress against these objectives.

Voting Guidelines

Election of Executive Directors

Vote for the election of an executive director, only where the following are satisfied:

- the candidate is subject to re-election by rotation at least every 3 years or where the candidate is over 70 and is required to stand for re-election each year.
- where at least one half of the Board are independent non-executive directors.
- there is a senior independent non-executive director.
- where there is a formal nomination process for directors e.g. a Nomination Committee, and a majority of the Nomination Committee consists of independent non-executive directors.

Vote against the election of an executive director, if one of the following situations exists:

- a director, who is not subject to re-election by rotation at least every three years.
- a director, who is over 70, and is not required to stand for re-election each year.
- a director, who has a contract period of longer than one year, and there are no exceptional circumstances.
- a director, where less than one half of the Board are independent non-executive directors.
- a director, who is also a member of the Nomination Committee, where a majority of the Nomination Committee are not independent non-executive directors.

- a director, who is also a member of the Audit Committee.
- a director, who is also the company secretary.
- a director who has low attendance at meetings without a suitable explanation.

- **Election of Non-Executive Directors**

Vote for the election of a non-executive director, only where the following are satisfied:

- where there is re-election of directors by rotation at least every 3 years.
- where candidate is over 70 and is required to stand for re-election each year.
- where the candidate is independent.
- where the candidate is not independent, but at least one half of the Board are independent non-executive directors.
- where there is a formal nomination process for directors e.g. a Nomination Committee and a majority of the Nomination Committee consists of independent non-executive directors.

Vote against the election of a non-executive director, if one of the following situations exists:

- a director, who is not subject to re-election by rotation at least every three years.
- a director, who is over 70, and is not required to stand for re-election each year.
- a director, who is not independent, where less than one half of the Board are independent non-executive directors.
- a director, who is not independent, and who is a member of the Audit Committee.
- termination provisions are in excess of one year's salary and benefits.
- a director who has low attendance at meetings without adequate explanation.

Election of Chairman

Vote for election of a chairman, only where there is a senior independent non-executive director.

Vote against election of a chairman, if one of the following situations exists:

- where the candidate combines the roles of Chairman and Chief Executive, unless there are exceptional circumstances e.g. a temporary arrangement, pending separation of the posts.
- where the candidate is proposed as an Executive Chairman and there is no separately designated Chief Executive, unless there is an explanation of how the Chairman's role is balanced by other executive directors.
- Where the candidate proposed also chairs the Remuneration or Audit Committee.

Board Diversity

- A vote against the Report and Accounts should be considered if a diversity statement is not included or is unsatisfactory.
- If there is no clear evidence that diversity is being considered by the board then a vote against the Chair or Chair of the Nominations Committee should be considered.

3. Directors' Remuneration

General Principles

The principles that are applied in relation to the remuneration of director are as follows:

Remuneration Committee

- Executive remuneration should be determined by a Remuneration Committee.
- All directors on the Remuneration Committee should be independent.

Disclosure

- There should be full and transparent disclosure of each director's remuneration.

Long-term incentives scheme

- Long term incentive schemes should be based on challenging performance targets over a consecutive period of at least three years. Therefore performance targets for minimum rewards should be based on at least producing median performance for the industry or average market returns.
- Performance should be measured by reference to comparison with the company's competitors, rather than by reference to general market movements.

Remuneration Packages

- Total rewards available under the terms of the director's contract should not be excessive. Excessiveness will be judged by reference to market norms in the industry concerned.
- Share-based incentive schemes should require a significant financial commitment from the participant, to align their interests with those of shareholders.

Contract Period

- Executive director contracts should not be longer than one year.
- Contracts should not provide for automatic compensation in excess of one year's salary in the event of termination of the contract.

- **Voting guidelines: Remuneration Report**

Vote for the Remuneration Report if the following conditions exist:

- where all directors' contract periods are for no longer than one year.
- where only independent directors are members of the Remuneration Committee.
- where the company complies with the Combined Code on remuneration matters.

Vote against the Remuneration Report:

- where any director's contract period is for more than one year, and there are no exceptional circumstances.
- where a director, who is not independent, is a member of the Remuneration Committee.

- **Voting guidelines: Executive remuneration schemes and long-term incentive plans**

  Vote against:
  - where the remuneration structure does not permit participation across the workforce.
  - where there is a no capital commitment on the part of executive participants.
  - where rewards are not based on performance targets, or where performance targets do not reflect performance relative to the company's competitors, rather than general market factors.
  - where the period over which performance is assessed is less than 5 years.

  Abstain in other circumstances

4. Shareholder Rights

General Principles

The principles that are applied in relation to the shareholder rights are as follows.

Dividends

- Declared dividends should be put to a vote.
- There should always be a cash alternative available as an option to a scrip dividend or equivalent.

Share Buybacks

The Stock Exchange guidance is that market repurchases of up to 15% of share capital may be made within a 12 month period, provided that the price does not exceed 105% of market value. Share buybacks may affect earnings per share and so performance targets for directors' remuneration should be adjusted accordingly. Share re-purchase proposals should comply with the Stock Exchange's guidance, and should be put as special resolutions.

Pre-emption rights

The disapplication of pre-emption rights (the requirement to allot shares only to existing shareholders) will be supported provided that the share allotment does not exceed 5% of issued share capital within one year or 7½% within a 3 year rolling period.

Controlling Shareholder

- Where there is a shareholder or connected group of shareholders holding more than 30% of the voting rights, there should be safeguards in place to protect the rights of other shareholders. A majority of the board should not be connected with the controlling shareholder.

Memorandum and articles of association

- Any proposals affecting the memorandum and articles of association should be put as separate resolutions.

Political Donations

- All political donations should be fully disclosed and justified. Any political donations should be subject to a separate vote.

Shareholder Rights Vote

Vote for:

- Pre-emption, where a proposal complies with the Pre-emption Guidelines
- Share buybacks, where the proposals comply with Stock Exchange guidelines, and any relevant performance targets for executive directors are adjusted accordingly.

Vote against:

- Proposed dividend and special dividends which are not covered by earnings and the company offers no explanation of policy.
- Pre-emption, where a proposal does not comply with the Pre-emption Guidelines.
- Share buybacks, where the proposals do not comply with the Stock Exchange guidelines.
- Annual report, where dividend policy is not put to a vote.
- Bundled resolutions, unless the reasons are fully explained or the issues concerned are immaterial.
- Annual report, where political donations are material (more than £100,000) and are not subject to a separate vote.
- Any proposal for authority to make party political donations which are material.
- A scrip dividend without a cash alternative, unless the reasons are fully explained.

5. Environmental Issues

The principles that are applied in relation to the environmental issues are as follows:

Published Policy

- The company should publish a formal statement setting out its approach to dealing with environmental issues.

Reporting

- The Annual Report should disclose the company's procedures for auditing and reporting on environmental risks.

Voting guidelines: Environmental Issues

Vote for:

- Annual report, where it includes full disclosure of company's policies and verification procedures on environmental matters.

Vote against:

- Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.