

# EUROPEAN VOTING GUIDELINES

February 2020



**HSBC**  
Global Asset  
Management

Non contractual document

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# EUROPEAN VOTING GUIDELINES

February 2020

## Introduction

- ◆ We believe that good governance helps companies to deliver their strategy and produce sustainable long-term returns for shareholders.
- ◆ We exercise our voting rights at company meetings in support of governance good practice.
- ◆ We value an open dialogue with companies in which we invest. Our voting is linked to this engagement. Our predisposition is to support the management of companies in which we invest.
- ◆ However, in addition to the guidelines set out below we will consider voting against companies with serious governance concerns or where the response to our engagement has been unsatisfactory.
- ◆ These guidelines apply to companies listed in the following European markets: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, Netherlands, Norway, Portugal, Spain, Switzerland, Sweden, and United Kingdom.
- ◆ For all other markets, HSBC Global Asset Management votes on the basis of global voting guidelines.
- ◆ Our guidelines apply to all listed companies and we encourage all companies to meet the highest standards of governance relevant to their market. We recognise, however that some smaller capitalisation companies may find it difficult to meet certain requirements of governance codes, due to lack of resources or relevance, compared to larger more complex companies. We therefore apply these guidelines more flexibly for smaller capitalisation companies. If our guidelines conflict with local regulatory or legal requirements, we will not penalise companies in our voting.
- ◆ Our objective is to vote all shares for which we have voting authority. In some cases, local shareblocking or burdensome power of attorney requirements may prevent us from voting.
- ◆ We provide our voting policies to Institutional Shareholder Services, Inc. (ISS) who supply us with HSBC custom vote recommendations based upon these policies.
- ◆ For active holdings, these HSBC custom vote recommendations are endorsed or amended by fund managers prior to voting. Fund managers' instructions are also applied where active holdings overlap stocks held through passive strategies within the same location. Other passive holdings are voted in line with HSBC custom vote recommendations guidelines.
- ◆ Although we occasionally attend shareholder meetings in person, the vast majority of our votes are instructed by proxy, through the ISS platform.
- ◆ HSBC Global Asset Management operates independently of other companies in HSBC Group, ensuring that it does not benefit from privileged information that would create a conflict of interest.
- ◆ HSBC Global Asset Management may invest in shares of HSBC Group or other companies related to the Group. As with all companies, we normally apply our HSBC custom policy recommendations to these companies. Where client interest lies in a different vote, the decision is subject to special review under our conflict of interest policy and the outcome recorded in the conflict of interest register. This approach also applies where other conflicts of interest arise.
- ◆ More generally, HSBC Global Asset Management's conflict of interest management policy enables the prevention, detection and, where appropriate, management of any form of conflict of interest situation that may affect the free exercise of voting rights and the primacy of bearer interest.

# EUROPEAN VOTING GUIDELINES - February 2020

## A. Board structure

### 1. Independent oversight

- ◆ We favour the separation of management and oversight in the governance of a company.
- ◆ This may be achieved through a dual board structure, with supervisory and management boards. For a unitary board, the Chairman and Chief Executive Officer roles should be separate.
- ◆ Where the roles are combined a Senior Independent / Lead Director should be identified. This director should report to the shareholders' meeting. In the UK, all companies should identify a Senior Independent Director.
- ◆ We prefer to the Chairman of a company to be independent but recognise that market practice varies across Europe. In France and the UK, we shall vote against the election and subsequent re-election of the Chairman of a non-controlled company if they were not independent on appointment unless the board is at least 50 per cent independent and a Lead Director has been identified. In the UK, we shall normally vote against a proposed new Chairman who is not independent on appointment.

### 2. Board Balance

- ◆ The Board should comprise directors with an appropriate balance of skills, experience and knowledge. In particular, there should be sufficient independent non-executive directors on the Board / Supervisory board based on company size.
- ◆ For companies with market capitalisation > €1 billion / FTSE 350(1) companies, a minimum of half the board and no fewer than 3 directors should be non-executive and independent. Where this is not the case, we will generally vote against non-independent non-executive directors & candidates.
- ◆ For controlled companies with market capitalisation > €1 billion, at least one third of the board. Where this is not the case, we will generally vote against non-independent non-executive directors & candidates.
- ◆ In the case of companies with market capitalisation < €1 billion / non-FTSE 350 companies, we require that at least two members of the board be non-executive and independent. Where this is not the case, then we will generally vote against non-independent non-executive directors & candidates.
- ◆ Employee representatives are not regarded as independent, but will not be counted in the board balance.

### 3. Board Discharge

- ◆ We will normally vote for the discharge of the board if there are no contentious matters regarding the board, the management or their stewardship of the company.

### 4. Revocation of corporate bodies

- ◆ Revocations of corporate bodies will be studied on a case by case basis for each reason and always in the interest of holders.

### 5. Board Nominees

- ◆ We will generally vote against management proposals to elect new board members if the company fails to provide adequate information on their suitability. Confirmation of continued suitability is required at re-election.
- ◆ Shareholder nominees for election to the board will be reviewed on a case-by-case basis. We are more likely to support independent shareholder nominees if the board does not meet our standards for independent representation.
- ◆ In markets, such as Italy, where different slates are offered for election, we will normally support independent candidates proposed by shareholder representative bodies.

Note:

1. The FTSE 350 is a market capitalization-weighted index composed by the 350 largest companies whose main trading venue is the London Stock Exchange

# EUROPEAN VOTING GUIDELINES - February 2020

## A. Board structure (cont'd)

### 5. Board Nominee (cont'd)

- ◆ A vote against any director's re-election may be appropriate if that director has not attended at least 74% of the Board meetings for which they were eligible over the preceding year without adequate justification. This excludes directors who have only served for part of the year.
- ◆ Directors should have sufficient time to devote to their role, non-executive directors may have up to five such roles in listed companies. We shall vote against directors with more than five roles at every company until the number of roles is reduced.
- ◆ Directors with operational responsibilities should not have more than two external directorship at companies not linked to their principal employer. We shall vote against directors at all their external companies where this limit is exceeded.
- ◆ The board should comprise directors with an appropriate range of skills and experiences. Diversity in gender and background are amongst the factors we consider when assessing board composition. We generally vote against the nomination committee chair of companies with no female board members.

### 6. Frequency of re-election

- ◆ We favour annual re-election of directors. In markets or for smaller capitalisation companies where annual re-election is not the norm, we expect market best practice standards to be met. In France, we require at least one third of the board to seek re-election each year.
- ◆ If it is known that a director is retiring at or before the following AGM, we would tend to support his/her re-election irrespective of concerns highlighted elsewhere in these guidelines.

### 7. Appointment of Censors

- ◆ We do not support the appointment of advisors who regularly attend the board without being elected as directors, as they are not included in assessment of board balance or suitability for election and may adversely affect the proper operation of the Board.

### 8. Nomination Committee

- ◆ The board should appoint a nomination Committee to lead the process for board nominations.
- ◆ The Nomination Committee should consist of at least 50 per cent of (and minimum of two) independent non-executive directors. Where independent non-executive directors do not form the majority of the Nomination Committee, we may vote against the re-election of non-independent non-executive members of the Committee.
- ◆ Employee representatives are excluded from the calculation as long as the committee remains majority independent and their proportionate representation on the committee does not exceed that on the board.
- ◆ We recognise that in some markets, such as Sweden, other structures are in place to consider board nominations.

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## A. Board structure (cont'd)

### 9. Audit Committee

- ◆ The Board should appoint an Audit Committee to oversee corporate reporting, risk management and internal control.
- ◆ The Audit Committee should ideally consist entirely of independent non-executive directors. Where any member of the Committee is not an independent non-executive director, we may vote against their re-election if no adequate explanation is provided (including executive directors).
- ◆ Employee representatives are excluded from the calculation.
- ◆ In the UK, the Chairman of a smaller capitalisation company may be a member of but not chair, the Audit Committee. For larger companies where the company Chairman is a member of the Audit Committee, we would normally vote against his / her re-election.
- ◆ Where the information is available, a vote against any director's re-election may be appropriate if that director has not attended at least 75% of Audit Committee meetings over the preceding two years without adequate justification. This excludes directors who have only served for part of the year.
- ◆ The audit committee must be informed of all fees paid to external audit firms, both by the company and its affiliates, and ensure that these do not compromise the auditors' independence.

### 10. Statutory Auditors

- ◆ In markets with a Statutory Auditor model, we favour regular renewal of the Statutory Auditors. Transparency and caps on fees should also be applied to Statutory Auditors to ensure that their independence is maintained (see also Auditors below).

### 11. Remuneration Committee

- ◆ The Board should appoint a Remuneration Committee to consider and recommend appropriate levels of remuneration for executive directors and the Chairman. No director should be involved in the consideration of their own remuneration (except for non-executive fees – see below).
- ◆ The Remuneration Committee should ideally consist entirely of independent non-executive directors. We recognise however that this is not the market standard in many European countries. Irrespective of company capitalisation, where the Committee is not at least 50 per cent independent, we may vote against the re-election of non-independent directors on the committee if no adequate explanation is provided (including executive directors). We apply a higher standard where that is the market norm.
- ◆ Employee representatives are excluded from the calculation.
- ◆ In the UK, the company Chairman may be a member of, but not chair, the Remuneration Committee. Where he/she is the Chairman of the Remuneration Committee, we would tend to vote against his election/re-election.
- ◆ Where the information is available, a vote against any director's re-election may be appropriate if that director has not attended at least 75 per cent of Remuneration Committee meetings over the preceding two years without adequate justification. This excludes directors who have only served for part of the year.

### 12. Sustainability

- ◆ Boards should oversee the management of environmental and social risks that could impact the sustainability of the company's activities and its reputation.
- ◆ We will pay particular attention to the means by which boards exercise this oversight, including the existence where appropriate of a Committee for Sustainable Development and Health & Safety chaired by a director and reporting directly to the Board. We do not expect smaller capitalisation companies to meet this standard, though identifying a non-executive director to oversee these issues may be appropriate

### 13. UK Investment Trusts

- ◆ Audit, Remuneration or Management Engagement Committees should be entirely comprised of independent directors. Representatives of the fund management company should not sit on any board committee. Where the Chairman of an investment trust chairs the Audit Committee, we may vote against the re-election of the Chairman.

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## B. Board remuneration

Remuneration should be designed to promote the long-term success of the company. Levels of remuneration should be appropriate in the context of the company and not be excessive. Performance-related elements should be transparent, stretching and rigorously applied. The availability of detailed information on remuneration and associated performance criteria varies widely across Europe. The following standards represent an ideal; where information / local best practice does not enable full application of these standards, we shall apply as closely as we are able / deem appropriate.

### 14. Service contracts

- ◆ All directors' contracts, both executive and non-executive / management and supervisory, should, reflect best practice in their country of operations.
- ◆ In the UK & Switzerland, this would normally mean a contract based on no more than one year rolling periods.
- ◆ In some other European markets, directors' contracts are linked to the term for which they are elected. We shall accept contracts longer than one year where these are linked to the best practice term of office, for example four years in France, Netherlands & Belgium, five years in Germany.
- ◆ In the UK, we prefer executive directors not to receive more than 1 year's fixed remuneration (i.e. basic salary, pension etc.) on termination. Mitigation of severance on re-employment is preferred to the liquidated damages approach since the latter does not allow for reduced severance payments due to failure.
- ◆ In the UK, there should be no automatic entitlement to bonus for the period of notice. We would typically vote against where such entitlement would be likely to exceed 75% of base salary, and to abstain if likely to exceed 25% of base salary.
- ◆ In other European countries we do not expect termination payments to exceed the lower of two years' salary and bonus or the local good practice standard. Any performance element should be subject to meeting performance targets.

### 15. Fixed and variable remuneration

- ◆ Executive remuneration should comprise a balance of fixed and variable remuneration. The latter should include a significant element of long term remuneration. Where this is not the case we may vote against the approval of the Remuneration Report. Overall incentive structures should not be geared towards excessive short-term risk-taking.
- ◆ Remuneration should be linked to the increase and decrease of the intrinsic value of the company as well as the share performance relative to its peers. It should be consistent with good practice in its country and sector.

### 16. Non-executive / supervisory directors' remuneration

- ◆ Non-executive / supervisory directors' remuneration should reflect the extent of their time commitment and contribution to the governance of the company. Basic fees and rates for participation in Committee will normally be agreed by the Board as a whole based upon advice as to market rates.
- ◆ Non-executive / supervisory directors' remuneration should not include participation in any company incentive schemes because this might compromise their ability to set demanding targets for, and to challenge, the executive / management directors. We would generally vote against such schemes.

### 17. Bonuses

- ◆ Bonuses should preferably have stated performance criteria attached. Where performance criteria are not stated in advance, there should be a clear explanation retrospectively for the bonus.
- ◆ Bonuses or share payment linked to corporate transactions should generally be avoided.

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## B. Board remuneration (cont'd)

### 18. Long Term Incentive Plans (LTIP's) and other share / option based remuneration

- ◆ When considering long term incentive schemes, including matching shares, share grants, and share option schemes:
  - I. We prefer to vote against any executive scheme where there is any re-testing, including extension of the performance measurement period. An exception to re-testing provisions is absolute return performance incentive schemes, where we would take a positive view on the potential for early achievement of targets. We prefer to vote against any executive plan where the scheme is uncapped.
  - II. Awards should usually be phased over time, not given in a single block.
  - III. There should normally be no grant of awards:-
    - Within six months of retirement of the individual concerned, unless pro rating is being applied,
    - in the equity of a joint venture company or subsidiary unless it is being floated off and the recipient is moving with the joint venture/divested business.
  - IV. In general there should be no grants of options from any new scheme until the previous scheme it replaces has ceased granting or, if the new scheme runs alongside the old scheme the latter should then be adjusted to ensure total potential value received is no greater than under the original scheme.
  - V. We vote against downward re-pricing of options (or their surrender and re-grant at a lower price), other than in exceptional circumstances.
  - VI. Our typical stance would be to vote against LTIP/option schemes that have no performance criteria, or that do not have a pre-determined period of management performance measurement (which normally would not be under three years, although we would prefer five or even longer).
  - VII. Awards should only be made for challenging (at least comparator median) performance and should be based on a sliding performance measurement scale rather than a single hurdle.
  - VIII. Not more than 25% of the total scheme awards should be received for median/index TSR threshold performance or for consensus forecast performance for any other measurable criteria.
  - IX. Awards made on appointment should also have challenging performance criteria unless they match entitlements foregone from previous employment.
  - X. We recognise that in some markets, less information is provided on performance criteria. We would normally vote against proposed schemes where details of the performance criteria and vesting thresholds are not provided.
  - XI. Performance-related plans should align executive directors' interests with those of shareholders and be subject to shareholder approval. Ideally this alignment would be established by benchmarking the total shareholder return on the company's shares versus an appropriate index or peer group, however absolute return is acceptable if challenging. Relative earnings per share growth is also a satisfactory measure when it appears to be challenging. Other criteria may be acceptable provided they are outlined in advance and performance against them will be published at least retrospectively.

### 19. ESG criteria

- ◆ We welcome the inclusion of appropriate measures of environmental, social & governance (ESG) performance amongst the criteria determining variable remuneration.

### 20. Remuneration Report & Remuneration Policy

- ◆ Where these are not already present, we support the introduction of a Remuneration Report subject to shareholder vote. In markets where a vote on a Remuneration Report is required or represents emerging best practice, we may vote against the report and accounts of companies which do not offer such a vote.
- ◆ Remuneration Policy should be aligned with company strategy. In some markets, a vote on Remuneration Policy allows a more reflective and longer-term view on the appropriateness of a company's approach to remuneration.



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## B. Board remuneration (cont'd)

### 20. Remuneration Report & Remuneration Policy (cont'd)

- ◆ We shall determine our vote on the Remuneration Report & Policy in the context of overall remuneration levels.
- ◆ Instances where the highest paid director's basic salary is in the upper quartile for the index or sector, where bonuses (whether paid or maximum potential) are upper quartile for the index or where basic salaries have been increased by more than 10 per cent in one year, will be subject to close scrutiny. The appropriateness of maximum potential levels of remuneration will also be considered.
- ◆ Increases in executive remuneration will also be assessed in the context of changes in remuneration levels across the company.
- ◆ We support the publication of the ratio between the highest paid director and the median level for all employees in markets where this is common practice.
- ◆ Where a resolution on Remuneration Policy is put forward for adoption and that policy contains provisions, which effectively contravene any of our other guidelines, we will tend to vote against the Policy.
- ◆ Examples of these might include: unacceptable levels of remuneration payable on change of control of the company; non-contractual 'ex gratia' payments without adequate justification; or any form of retesting.
- ◆ Furthermore, we do not generally approve of schemes that do not provide for time pro-rating upon early leaving or a change of control. The exception to this is that time pro-rating does not need to be present in absolute return performance incentive schemes.
- ◆ We generally vote in favour of retention awards if they have challenging performance criteria.
- ◆ If there are no targets but a strong explanation from the Company, we would tend to abstain, as we would if there are no targets but retrospective performance is assessed by the Remuneration Committee with discretion to reduce vesting.
- ◆ Another issue we may not support is if a scheme allows participants to receive more than 25% of the total scheme awards for median/ index TSR threshold performance or for consensus forecast for any other measurable performance criteria.
- ◆ If a retention bonus has been paid based on retrospective performance, we may not fully support this.
- ◆ Where performance criteria or targets are disclosed for a long term scheme but cannot be assessed or compared with a relevant benchmark, we expect that the criteria will be explained in advance and performance against them published at least retrospectively. We may vote against the report where a persuasive explanation is not provided.
- ◆ If performance targets remain unchanged but corresponding reward increases, or performance targets are reduced for an unchanged reward, unless there is a satisfactory explanation we would tend to vote against either.
- ◆ We would tend to vote against the Remuneration Report if there is a retrospective change in LTIP criteria during its life, which is less favourable for shareholders.
- ◆ We may vote against the re-election of the members of the Remuneration committee when an issuer has not taken sufficient action following a significant percentage of votes against regarding resolutions on the Remuneration report or policy.

### 21. Supplementary retirement schemes

- ◆ In markets where executive pensions are a voting issue, we shall oppose supplementary retirement schemes unless extended to all executives and if an employer's contribution is planned on top of the legal pension scheme for all employees or according to local good practices standards.
- ◆ With regard to defined-benefit pensions for executive directors, we favour a 30 per cent cap on fixed and variable compensation when the corporate officer has been at the company for at least 20 years. If this is not the case, we support the attribution of an annuity equal to a maximum of 1.5 per cent of the salary for each year of service.
- ◆ Corporate officers require at least five years of service to participate in a defined benefit scheme. The officer also has to be present in the company at the time of retirement.

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## B. Board remuneration (cont'd)

### 22. Capital increases reserved for employees and free shares

- ◆ We consider that employee shareholding across all levels is a positive factor encouraging alignment with the company's long-term strategic objectives and performance.
- ◆ **Capital increases reserved for employees:**
  - A maximum discount of 30 per cent is accepted when the employee shareholding is < 5% of the capital (new authorisation included). In France, the maximum discount is 30 per cent and can be 40 per cent if the securities are subject to a blocking period of at least 10 years.
  - A discount of 20 per cent is accepted once the employee shareholding is > 5% of the capital (new authorisation included),
- ◆ **Free shares available to all / a significant proportion of employees:**
  - Annual allocation with vesting spread over several years, a minimum of three years, under the conditions of achieving targets and meeting performance criteria,
  - The current plan, stock and flows (including stock options) are limited to 10% of the share capital. If the company provides formal explanations and justifications or if it concerns a small market cap, the ceiling could be raised.
  - The shares cannot be granted to a person during a period of less than six months before retirement.

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## C. Shareholders' rights and entitlements

### 23. Dilution limits for (All Staff) plans and executive schemes

- ◆ Shareholders' rights should be protected. We will probably vote against the issuance of both discretionary and non-discretionary incentive schemes' new or treasury (re-issued) equity to employees of greater than 10% of the share capital on all schemes. Such schemes should not generally be in operation for longer than a 10 year lifespan and these dilution limits should apply to the same timeframe.

### 24. Equity issuance

- ◆ Equity issuance without pre-emptive rights or a priority period not related to remuneration schemes should be limited to 10 per cent. We will oppose larger increases or those which could be used during a public offering. We shall also oppose Capital increases without pre-emption rights but with a priority period which potentially cumulated would represent more than 20 per cent of capital.
- ◆ We will also normally vote against the permanent removal / temporary disapplication of existing pre-emption rights which, as a consequence, results in dilution exceeding the amounts defined above.
- ◆ We prefer companies to seek specific authority to issue shares for a transaction or capital reorganisation. In markets where this is not normal practice, we shall normally oppose equity issuance with pre-emptive rights in excess of 35 per cent. We accept a 50 per cent limit in markets where this level is the norm.
- ◆ For equity issuance by Investment Trusts, shares should be issued at NAV or preferably a premium. We will usually vote against the issuance of new or treasury (re-issued) shares if they are offered at a discount to NAV.
- ◆ We would generally vote in favour of proposals to increase the authorised share capital, where shareholders' rights are protected by the requirement to obtain authority to issue these shares.

### 25. Share repurchase

- ◆ We generally support authorities to repurchase shares as long these would not be at a premium in excess of 5 per cent, could not be used during a takeover period and no more than 10 per cent of issued capital could be held 'in treasury'.
- ◆ We apply local market good practice standards where there are limits on the amount of shares that can be repurchased and on the time limit of the authorisation.
- ◆ In France, we do not permit the use of derivatives for share repurchase.

### 26. Anti-takeover mechanisms

- ◆ We would also generally be against proposals for the insertion of any intended anti-takeover mechanism or the creation of restricted or non-voting shares, which would result in certain shareholders' influence being disproportionate to their ownership.
- ◆ We will vote against any anti-takeover measures or the creation of restricted or non-voting shares, which would result in certain shareholders' influence being disproportionate to their ownership. The issuance of capital securities (warrants, shares, capital contributions) or share buy-backs during the period of a takeover bid is also excluded.
- ◆ We support the 'one share' principle and consider that the existence of shares with double voting rights (or even multiple rights) may allow, with the holding of a minimum number of securities, the holder to accede to control of the capital of a company. This practice is likely to lead to abuses. We shall vote against proposals to extend or continue unequal voting rights and in favour of their reduction or termination.
- ◆ Where there is a request for the waiver of rule 9 of the UK Listing Rules to allow a large shareholder to increase their stake further without paying a premium to do this, (e.g. by way of non-participation in a share buy-back), we will tend to vote against where the stake would rise through the 30% or 50% thresholds. Otherwise we would usually abstain.

### 27. Dividends

- ◆ Dividend payments must be justified, in keeping with payments in the sector of activity and in line with the company's strategy. We will vote against any dividend payments if these are not lastingly covered by earnings or cash flow.
- ◆ Shareholders should be offered a cash alternative to any scrip dividends and vice versa and we may vote against the scrip/dividend when this is not the case.

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## D. Other

### 28. Bundled resolutions

- ◆ We believe that shareholders should be given the opportunity to vote separately on substantively different issues. We will normally vote against such ‘bundled’ resolutions. The exception to this would be the combination of two clearly linked and otherwise uncontroversial matters, such as re-appointment of auditors combined with setting their fees, which we would support if there were no other concerns.

### 29. Auditors

- ◆ We support the regular re-appointment and rotation of auditors according to best practice in the market concerned.
- ◆ Non-audit fees should ideally not exceed audit fees received by the same accounting firm, in order to preserve their independence and objectivity, which might otherwise be potentially impaired. An exception to this would be in the case of work by the auditing firm involving corporate activity on behalf of the company concerned, for example capital raising, mergers and acquisitions etc. Other exceptions might be where the non-audit fees were paid in order to satisfy specific regulatory requirements, provided these were fully disclosed, or where they were paid for tax compliance services (as opposed to tax advice). We will generally vote against resolutions to allow the board to fix the auditors’ remuneration if no acceptable exception prevails. The Audit Committee must monitor audit & non-audit fees to ensure that the independence of the auditors is not compromised.

### 30. Political donations

- ◆ Party political donations of any kind will not generally be supported. We will normally vote in favour of resolutions to make EU “political donations” because these are necessary to avoid companies being caught by EU legislation, which encompasses activities which would not normally be deemed supportive of any particular political party.

### 31. Mergers, acquisitions and reorganisations

- ◆ Corporate transactions for companies held in active fundamental portfolios will normally be referred to fund managers for an investment view. Where a company is only held in tracker and active systematic factor-based funds, we would not normally have an investment view on the transaction and will abstain.
- ◆ In the specific case of a change in investment policy for an investment trust company, we will consider this as an investment decision.
- ◆ HSBC will always vote in the best economic interest of our clients as investors in the company concerned, for example, in the case of a contested takeover.

### 32. Report and accounts

- ◆ We generally regard approval of the report and accounts as a routine item, but we may vote against where these have not been available prior to the deadline for voting at the meeting.
- ◆ We may vote against approval of the report and accounts where there is a serious governance concern or where the company does not meet recognised governance standards for its market of listing.

### 33. Shareholder resolutions

- ◆ We consider shareholder resolutions on a case-by-case basis in Europe.
- ◆ Our approach to governance-based shareholder proposals typically reflects the principles set out above.
- ◆ For other ESG shareholder resolutions, we typically support greater disclosure and requirements for a company to have a policy on a relevant ESG issue, but do not support resolutions that seek to impose such a policy or other duties.
- ◆ Specifically on climate change, following a review of the proposal, we typically support resolutions asking for: adoption of climate change policies; adoption of quantitative GHG emission reduction targets; annual assessments of portfolio resilience; development of two degree transition plans

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## D. Other

### 34. Articles of Association

- ◆ Proposals for changes in the articles of association – whether from management or shareholders – will be reviewed on a case-by-case basis and normally voted against if shareholder rights are not preserved.

### 35. Non-routine items not covered in the policy

- ◆ Where no HSBC guideline exists to cover a routine, usually non-contentious topic, then we will generally vote in favour of the board's recommendation.
- ◆ Contentious topics (including scheme of arrangements, and private placements) which are not covered by our guidelines will be reviewed on a 'case-by-case' basis.

### 36. Dual listed companies

- ◆ For companies incorporated in more than one country, we will apply the standards of the stricter country.

### 37. Regulated agreements

- ◆ Approval of the regulated agreements depends on the level of accuracy and justification of the economic conditions of the agreement. Any regulated agreement that is uninformed, not quantified, poorly justified, or that does not allow the resolution to be assessed in full knowledge of the facts will be rejected.

### 38. ESG integration

- ◆ HSBC Global Asset Management has been a signatory of the Principles for Responsible Investment (PRI) since 2006. We believe that ESG factors impact the sustainability of company returns. ESG criteria are integrated into the analysis and selection of securities in all actively-managed portfolios and not just SRI funds. There is also ESG engagement for index and systematic factor funds.

### 39. Corporate tax optimisation

- ◆ Companies operating in more than one country must determine how best to meet regulatory and other requirements, including corporate taxation. We engage with companies to encourage transparency in their tax arrangements. We believe that paying tax in the jurisdictions where earnings have been realised is likely to be more sustainable. We may apply voting sanctions where companies fail over time to respond satisfactorily to our engagement on tax.

### 40. Climate disclosure

- ◆ In our engagement, we encourage companies to disclose their carbon emissions and climate-related risks in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup>. Where companies in energy intensive sectors have persistently failed to disclose their carbon emissions and climate risk governance, we will generally vote against the re-election of the Chair.

Note:  
1. The Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) is a market-driven initiative, set up to develop a set of recommendations for voluntary and consistent climate-related financial risk disclosures in mainstream filings.

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## Appendix

### Definition of non-independent non-executive director

- ◆ Director who is identified by the board to be a non-independent;
- ◆ Director specifically designated as a representative of a significant shareholder of the company;
- ◆ Director who is also an employee or executive of a significant shareholder of the company;
- ◆ Director who is nominated by a dissenting significant shareholder unless there is a clear lack of material<sup>4</sup> connection with the dissident, either currently or historically;
- ◆ Beneficial owner (direct or indirect) of at least 10 percent of the company's stock, either in economic terms or in voting rights (this may be aggregated if voting power is distributed among more than one member of a defined group, e.g., members of a family that beneficially own less than 10 percent individually, but collectively own more than 10 percent), unless market best practice dictates a lower ownership and/or disclosure threshold (and in other special market-specific circumstances);
- ◆ Government representative;
- ◆ Currently provides (or a close relative provides) professional services to the company, to an affiliate of the company, or to an individual officer of the company or of one of its affiliates in excess of \$10,000 per year;
- ◆ Related to the company's advisors, e.g. auditors, solicitors, stockbrokers etc., or has been within the past three years;
- ◆ Represents customer, supplier, creditor, banker, or other entity with which the company maintains a transactional/commercial relationship (unless the company discloses information to apply a materiality test);
- ◆ Director who has conflicting or cross-directorships with executive directors or the chairman of the company;
- ◆ Relative of a current or recent former executive of the company or its affiliates;
- ◆ Founder/co-founder/member of founding family but not currently an employee;
- ◆ Former executive (five-year cooling off period);
- ◆ Director who has served on that company's board for more than ten years since first election - and not overlapped with the longest serving executive director for more than ten years – or fifteen years in the case of an investment trust. For markets where re-election is every four years, regard directors otherwise independent as retaining that status until the end of the third four-year term – i.e. twelve years
- ◆ Person with additional relationship or breaching principle considered to compromise independence under local corporate governance best practice guidance.

