

M&G Voting Policy

November 2016



Introduction

Approach

M&G's approach to stewardship is set out in our 'M&G and the UK Stewardship Code' document. An active and informed voting policy is an integral part of our investment philosophy. In our view, voting should never be divorced from the underlying investment management activity. By exercising our votes, we seek both to add value to our clients and to protect our interests as shareholders. We consider the issues, meet the management if necessary, and vote accordingly.

We aim to vote on all resolutions at general meetings of companies held in M&G's actively managed and UK passive portfolios.¹ Typically, M&G votes by proxy at general meetings, but on occasion we will attend a general meeting where our clients' interests are best served by us doing so.

When considering resolutions, we look to support management, but the ultimate decision will be determined by an assessment of the impact on our investments and the long-term interests of our clients. In determining our vote, a number of factors will be taken into consideration including our voting guidelines, company specific information and the extent to which we have been able to obtain any additional information required to make an informed decision.

We will vote against proposals that compromise our clients' interests. We may not vote in favour of resolutions where we are unable to make an informed decision on the resolution because of poor quality disclosure, or due to an unsatisfactory response to questions raised on specific issues. We would always seek to discuss any contentious resolutions before casting our votes in order to ensure that our objectives are understood.

Any shares on loan are recalled whenever there is a vote on any issue affecting the value of shares held, or any issue deemed to be material to the interests of our clients.

We disclose our voting records on our website. These are published on a quarterly basis.

Policy guidelines

These voting policy guidelines set out our expectations across the range of shareholder issues and indicate our voting stance on them. We fully support the UK Corporate Governance Code and have contributed to the formulation of the Investment Association's guidelines over many years. We generally concur with the latter's position across the range of issues facing investors.

UK corporate governance best practice is used as our starting point, given the well-established principles and practices in the UK that define accepted corporate behaviour and shareholder protections. However, we recognise and respect differing practice across international markets. Ultimately, every proposal will be evaluated on its merits, based on circumstances relevant to each individual company. High-level principles underlie our voting policy guidelines, but company-specific factors will always be considered.

Voting Implementation

Our preference is to either vote 'For' a resolution or 'Against' it. On some occasions, where we have concerns and/or information is lacking, we may 'Abstain'. Investee company policies, arrangements and disclosures that fall short of our voting guidelines and the standards of the local market will typically be voted against. Policies, arrangements and disclosure that fall short of our voting policies, but which reflect usual practice in the local market, will typically be supported. We may abstain on proposals that do not meet our expectations but where the company has made changes or has promised changes that significantly improve the position; or where we have not had sufficient opportunity to discuss our concerns.

¹However, a fund may refrain from voting some or all of its shares if doing so is in the interest of the fund, eg if exercising the vote would result in the imposition of trading restrictions ('blocking').

Policy

Remuneration

M&G's voting policy on remuneration is contained within a separate document entitled 'Remuneration Guidelines for UK investee Companies'.

Shareholder Meetings/Articles/Constitution/Bye Laws

Shareholder meetings provide an important opportunity for shareholders to hold directors to account; and for shareholders to express their views on strategy, corporate governance and corporate social responsibility matters.

Changes to the Articles/Constitution of a company should be examined regarding the need for the company to continue operating efficiently and effectively, while respecting and maintaining rights and protections provided to shareholders. The powers granted to directors should not be excessive and the ability of shareholders to hold directors to account should be sufficient. In principle, all shareholders are equal and companies should not issue share classes enshrining differing rights.

Issue	Comment	Voting
Re-election of Directors	All directors should be required to seek regular (preferably annual) re-election. Accountability to shareholders through re-election will influence our deliberations of other management proposals.	We will support proposals that ensure all directors stand for election every year (or proposals that move towards this position); and oppose proposals that reduce accountability to shareholders. Standard practice in local markets will be taken into consideration.
	'Bundled' resolutions where the re-election of directors is contained within a single resolution (thereby reducing the accountability of individual directors).	We will consider opposing bundled resolutions. Local legal requirements will be considered.
Alternate directors	As the name suggests, alternate directors lack accountability and should be discouraged.	We will oppose the election of alternate directors (other than in exceptional circumstances).
Shareholder rights plans	These supposedly aim to protect the company for a limited period of time when a new significant shareholder has objectives that may or may not benefit all shareholders on the register. While purporting to be in shareholders' interests, in our view they are often designed to entrench management.	We will oppose arrangements that significantly disadvantage shareholders. Proposals are analysed on a case-by-case basis. We are generally unsupportive unless convincing arguments are provided.
Restricted voting rights shares	We are not in favour of share classes with differing rights.	We will oppose the creation of differential voting shares.
Shareholder meetings	Shareholder meeting attendance is a basic shareholder right and requirements for entry should not be overly burdensome, although with due regard to necessary security.	We will oppose changes to the Articles which unnecessarily restrict shareholder participation in shareholder meetings.
Supermajority vote requirements/ Special resolutions	Resolutions requiring a 'super' majority (eg special resolutions) often serve to protect shareholder rights (eg dis-applying pre-emption rights) and are enshrined in law. Resolutions may be proposed to change the voting hurdle in respect of certain issues that are not in shareholders' best interests.	In principle, we are supportive of protecting shareholder rights; and we will oppose proposals with a reduced voting hurdle.

Issue	Comment	Voting
Shareholder resolutions (including Proxy Access requests)	Shareholders should have the right to propose resolutions at general meetings with an appropriate shareholding hurdle (approx. 5%) specified. The hurdle may be specified in company law.	We consider each shareholder resolution on its merits, taking into account the views and statements of the directors.
Bundled resolutions	Proposals seeking authority for more than one action or authority lack proper accountability, denying shareholder the opportunity to consider issues separately.	We will consider opposing bundled resolutions, taking into account any potential detrimental effect on the company's ability to operate.
Takeovers/schemes of arrangement	Investment analysis will determine the voting decision.	We consider each resolution on its merits.
Right to call meetings	We support shareholders' rights to call special meetings of the company where an appropriate minimum ownership threshold is in place.	We will generally support proposals to grant these rights to shareholders and against proposals to limit them.
Written consent powers	<p>Shareholders in US companies may have the power to act by written consent; or may seek the power to act by written consent.</p> <p>The managements of US companies may use powers previously granted by written consent instead of seeking shareholder approval at a shareholder meeting.</p> <p>We believe that written consent undermines shareholder democracy and our preference is for proposals to be considered and decided through general shareholder meetings.</p>	We will generally oppose adoption of written consent powers
Adopting the jurisdiction of incorporation as the exclusive forum for certain disputes	The aim is to reduce the cost and/or distraction of protecting the company from lawsuits across multiple territories, which are typically triggered after M&A. This is typically in shareholders' interests but does modestly reduce shareholder rights.	<p>We will support proposals where the company has a history of improving shareholder rights.</p> <p>Proposals will be analysed on a case-by-case basis while considering the company's history of lawsuits and other changes to shareholder rights.</p>

Share Capital and Listing Status

In our view, corporate equity structures should consist only of voting shares with equivalent rights. Potential dilution resulting from share issuance is closely monitored. In principle, M&G expects all shareholders to be given pre-emption rights as a matter of fairness and preventing the potential transfer of wealth to third parties.

Issue	Comment	Voting
Rights issues authority (UK Co law s.551)	Authorities to issue an amount not exceeding two thirds of issued share capital on a pre-emption basis are generally acceptable where directors are appropriately accountable. Particular circumstances may justify a higher amount but a full explanation would need to be provided.	We will oppose where the amount exceeds two thirds and where accountability and justification is inadequate.
Dis-application of pre-emption rights	<p>Authorities should not exceed 5% of issued share capital. Higher than 5% should be justified and this may take into account typical practice in the market where the company is listed. No more than 7.5% of the issued share capital should be issued in any three-year period.</p> <p>Smaller companies and non-UK companies often seek authorities greater than 5% and we consider 10% an appropriate level for these companies.</p>	Amounts higher than 5%, or with a discount of more than 5%, will typically be opposed without exceptional justification.
Issuing shares from Treasury	Issuance of treasury shares should be treated as new shares and included in the 5% pa and 7.5% over three years limits.	Amounts higher than 5% (or potentially higher when combined with an authority to issue new shares on a non-pre-emptive basis), or with a discount of more than 5%, will typically be opposed without exceptional justification.
Investment Trust treasury shares issuance	Generally, shares should only be issued at a price greater than Net Asset Value (NAV). However, we consider supporting resolutions where the price is above that at which they were purchased; the discount to NAV is no greater than 1% and the dilution equals no more than 0.5%.	We will typically oppose issuances that do not meet M&G limits criteria.
Return of capital	<p>All shareholders must be treated equally.</p> <p>We will typically support authorities to make share repurchases.</p> <p>Share repurchase amount should not exceed 15%. Account will be taken of the potential effect on significant shareholdings. Share repurchase authorities should state a 5% premium price limit. Consideration should be given to the wider context including opportunity on price and appropriate use of capital. Our preference is for companies not to have a significant numbers of shares held in Treasury.</p> <p>If shares are issued out of Treasury shares, then we would expect the same rules for the disapplication of pre-emption rights to be applied in the same way as if new shares are being issued.</p> <p>Issuance of B and C shares to provide shareholders the option of capital return by income or capital.</p>	<p>We would consider opposing if the number of shares held in Treasury is excessive and the company has a history of issuing Treasury shares in contravention of pre-emption rights.</p> <p>We typically support returns of capital via the issuance of redeemable shares. Shareholder authority via a special resolution should be obtained; and the duration should not exceed one year.</p>

Issue	Comment	Voting
Shareholder control and waivers from mandatory bids resulting from increased shareholding level after share repurchases	<p>A shareholder should not gain control or increase control as a result of share repurchases.</p> <p>Waivers that may result in a controlling shareholder or concert party increasing their shareholding between 40% and 50% are of particular concern.</p>	We would look on a case-by-case basis, but typically we would oppose Rule 9 waivers and international equivalents where the effect of share repurchases affect control or approach controlling levels.
Convertible Contingent Liability Instruments (Cocos)	Despite the disapplication of pre-emption rights and potentially significant dilution for existing shareholders, we are mindful of the regulatory requirement for tier 1 capital for companies in the financial services sector and will therefore support these types of resolutions.	

Directors and Board Structure

Directors are responsible for controlling and directing the company in the interests of all shareholders. Boards are expected to be effective and accountable. Directors should not be beholden to any other director for their position on the board and should be able to freely express their opinions. Boards should be comprised of an appropriate balance of executives and independent directors. The roles of Chairman and CEO should be separate. When the roles are combined there must be strong independent non-executive representation.

Directors should have meaningful shareholdings to promote alignment with shareholders generally.

We consider opposing resolutions for the election or re-election of a director as an action of last resort, due to the potential significant negative effects on the company by removing a director at a shareholder meeting. We will always aim to discuss with a company any contentious issues before casting our vote in order to ensure that our objectives are understood. To M&G, confrontation with boards at shareholder meetings represent a failure of corporate governance.

Issue	Comment	View
Chairman	<p>The chairman is responsible for the effective and efficient operation of the board. Our strong preference is that the CEO does not become chairman of the company, in line with the UK Corporate Governance Code.</p> <p>No more than two large company chairmanships should be held.</p>	<p>Concerns about the chairman would usually be discussed with the senior independent director.</p> <p>We will generally oppose the vote for a CEO to become chairman.</p>
Board structure and size	Where we consider a Board to be structured inappropriately, or either too large or too small, we may express our concerns to the chairman or the senior independent director. In some markets the norm is for the majority of the Board to be independent.	We may consider opposing or abstaining on a director's election/ re-election.
Multiple directorships	Directors should have sufficient time to devote to their responsibilities, taking into account potential periods of time of unexpected corporate difficulty.	We will consider opposing or abstaining on directors who do not appear able to devote sufficient time to the role, indicated by, for example, poor attendance at Board meetings.

Issue	Comment	View
Chief Executive	<p>The chief executive's focus should be on developing the corporate strategy for board approval and implementing it. The position should not be combined with that of the chairman.</p> <p>CEOs should sit on no more than one external board.</p>	<p>Concerns about the chief executive would only be expressed through voting after discussions with the chairman and as a final resort.</p> <p>Local market practice to be considered.</p>
Chief Financial Officer	<p>The chief financial officer should be a board member; and should not have formerly been the company's auditor, unless there has been a suitable 'cleansing' period.</p>	<p>We will consider opposing or abstaining on re-election when connected with a company's auditor.</p> <p>Typically, we prefer that the chief financial officer does not become chief executive unless there has been a robust succession planning process.</p>
Executive directors	<p>Certain executive directors, in particular the chief financial officer, should have a place on the board to balance the views of the chief executive.</p> <p>This is not always the case in international markets but should be encouraged.</p> <p>Biographical information for directors standing for election or re-election by shareholders should be provided to enable informed voting.</p>	<p>Unless we have specific concerns, we will typically vote in favour of executive director election/re-election.</p> <p>We will consider opposing the election or re-election of directors at companies that fail to disclose biographical details of directors.</p>
Non-executive directors (NEDs)	<p>Along with the chairman, non-executives are expected to provide oversight of company management together with advice and support. NEDs should be independent in terms of the criteria set out in the UK Corporate Governance Code.</p> <p>If non-executive directors hold more than four non-executive directorships then they need to justify that they have sufficient time to fulfil their fiduciary duties (see multiple directorships above).</p> <p>Sufficient biographical information should be disclosed.</p>	<p>We will consider opposing the election/re-election where we have concerns over independence or meeting attendance.</p> <p>We will consider abstaining if insufficient biographical information is provided.</p>
Board Committee Chairperson	<p>The chairs of the board committees should be independent non-executive directors, with the exception of the nomination committee where it is usually appropriate for the Board chairman to hold the position.</p>	<p>Where we have concerns over issues for which a board committee has responsibility, we will consider opposing or abstaining on the re-election of the respective committee's chairman.</p>
Meeting attendance	<p>Attendance at board and committee meetings is central to the role of a director. Companies are encouraged to disclose attendance information.</p>	<p>We will consider opposing or abstaining on a director's re-election if meeting attendance is poor.</p>
Alternate directors	<p>As the name suggests, alternates are not properly accountable to shareholders and their use is an issue of concern.</p>	<p>We will consider opposing the election/re-election of alternate directors.</p>
Shareholder representative directors	<p>We are not in favour of directors representing individual shareholders.</p>	<p>We will consider opposing the election/re-election of directors who represent particular shareholders.</p>

Issue	Comment	View
Director Shareholdings	All executive and non-executive directors should build a meaningful shareholding in the company in order to help align directors' and shareholders' interests.	We will consider opposing or abstaining on the election/re-election of directors who do not have meaningful shareholdings after a reasonable time on the Board.
Pledging	<p>We do not support the pledging of company stock by directors or executives as collateral for a loan where the shares involved form a portion of the shareholding requirement unless it is for a small amount (less than 10% of their holding) and the shares are fully granted and their disposal is not restricted in any way.</p> <p>The practice of significant pledging of company stock will be considered as a factor when assessing the re-election of relevant directors.</p>	We will consider opposing or abstaining on the election/re-election of directors who pledge or hedge shareholdings.
Hedging	Potential falls in the value of vested or unvested shareholdings should not be hedged through the use of put options or any other instrument.	
Early crystallisation of unvested incentive awards	Early crystallisation of unvested incentive awards through third party agreements are not acceptable.	

Audit

Company auditors should in principle be independent of company Boards and directors. Independence may be compromised by the fees they receive.

Issue	Comment	View
Auditor remuneration	<p>Non-audit fees should not compromise the auditor's independence – we would expect non-audit fees to be no more than the audit fee plus related items.</p> <p>Full disclosure of the auditor's remuneration including a breakdown of non-audit fees should be provided in the annual report.</p>	We will consider opposing the Reappointment of the Auditor when independence is compromised by the level of non-audit fees.

Environmental and Social Issues

Companies are expected to demonstrate that their operations take proper account of all applicable laws and regulations. Environmental and social issues should be factored into decision-making.

We encourage companies to regularly publish sustainability or corporate social responsibility reports and to seek shareholder approval of them.

Shareholder resolutions relating to environmental issues that seek greater disclosure, operational reviews, changes in strategy, etc. will be considered on their merits, taking into account companies' existing practices and Boards' recommendations.

Issue	Comment	View
Disclosures	Companies should demonstrate consideration and management of environmental and social issues by making appropriate disclosures.	We will consider abstaining on the annual report or appropriate board committee member when inadequate disclosures have been made.
Proposed changes in corporate strategy	Shareholder resolutions relating to changes in strategy are usually inappropriate as it is for the chief executive to determine strategy with board approval.	We will usually oppose resolutions causing changes in strategy.
Testing of corporate strategy against a scenario of climate change	Better disclosure would be positive for shareholders; undertaking this process would also improve the company's understanding of climate change risks.	We will generally vote in favour of these resolutions, while taking into account the Board's recommendation.
Sustainability report	Better disclosure would be positive for shareholders.	We will generally vote in favour of these resolutions.
Lobbying activities report	Better disclosure would help shareholders understand the company's use of shareholder funds.	We will generally vote in favour of these resolutions.
Appointment of director solely for their environmental expertise	It is the responsibility of the nomination committee to ensure that requisite environmental experience is represented on a board. All directors should have an appropriate awareness of the material social and environmental risks facing the company.	We will generally oppose these resolutions.
Environmental targets	Companies are expected to set appropriate targets to manage environmental impacts and risks.	We will consider resolutions to set environmental targets on a case-by-case basis.
Charitable donations	Generally, charitable donations should not be made with shareholders' funds. Small amounts are acceptable with shareholder approval specifying a maximum amount.	We will consider opposing resolutions authorising charitable donations.
Political donations	All political donations should be subject to a specific vote by shareholders; and when donations are made, full disclosure should be provided.	We will consider opposing resolutions authorising political donations.