



Corporate Governance and Shareholder Engagement Policy

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Superannuation Arrangements of the University of London



FS 670013

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SAUL's vision statement

A sustainable and affordable, well-managed Scheme, which is valued by all members and employers alike.

1 - Introduction

SAUL Trustee Company (STC) is Trustee and administrator of the Superannuation Arrangements of the University of London (SAUL). SAUL started in 1976 and was established to provide retirement benefits for non-academic employees of the University, although all staff are eligible to join. It covers c.50 colleges and institutions that have links with higher education in the south-east of England, including most of the Colleges of the University of London, Imperial College, the Royal College of Art and the Universities of Kent and Essex.

SAUL is a multi-employer occupational pension scheme set up under trust. It has both a defined benefit (DB) and a defined contribution (DC) section (called SAUL Start).

This policy works in tandem with our Responsible Investment Policy and sets out SAUL's approach to corporate governance and shareholder engagement. It outlines the broad policies which the Trustee believes constitute best practice and provides the framework within which it will enter into engagement with companies in which it invests and implements its voting guidelines and practice.

The Trustee believes in supporting incumbent management wherever possible but is also aware that the neglect of Environmental, Social, and Governance (ESG) issues might lead to poor or reduced shareholder returns. Whilst the Trustee wishes to protect shareholder value, it also wishes to enhance investment returns which contribute to long-term performance.

This approach extends from proxy voting policies, engagement by SAUL's investment managers and other advisers, through to consideration of corporate actions and takeovers. For example, SAUL will not automatically support a board recommendation concerning a takeover or acquisition. The decisions taken by directors on strategic or operational grounds clearly impact the financial interests of shareholders and, hence, any beneficiaries to whom they have a fiduciary duty. When determining policy in such situations the Trustee places the highest priority on optimising SAUL's investment interests. However, the underlying philosophy behind all its investment decisions is the belief that those companies which achieve best practices in governance and ESG matters will outperform other businesses.

SAUL recognises that investment in a company brings not only rights but also responsibilities. In SAUL's view good governance of the companies in which it invests is best achieved where directors are held accountable for their stewardship of the company through informed dialogue and the exercise of shareholder rights provided under company law. SAUL's policy on corporate governance supports the principles set out in the UK Corporate

Governance Code¹ and the UK Stewardship Code². SAUL's investment managers are also required to actively engage with companies when implementing this policy.

SAUL considers that the exercise of proxy votes according to this policy is required for the majority of equity portfolio companies held. This is achieved through the use of the services of a third-party corporate governance and proxy voting adviser, Pension & Investment Research Consultants Limited (PIRC). The following sections set out SAUL's approach to its responsibilities as an owner in providing input and critical support to investee companies.

SAUL is a signatory of the Principles of Responsible Investment³. This provides a framework within which the Trustee can exercise its stewardship responsibilities in relation to matters of ESG. It also provides opportunities for learning from other responsible investors and participating in collective engagement according to SAUL's policy.

The Trustee expect that no lesser standards of corporate governance should apply, where considered appropriate, to SAUL Trustee Company. As part of reviewing this policy, the Trustee considers its current approach against these standards.

2 – Policy scope

This policy applies to both the DB Plan and SAUL Start.

The coverage will be disclosed annually in SAUL's reporting and disclosures (for example, Implementation Statements and Climate-Change-Risk-Management Report), as well as any circumstances where the policy was not followed.

3 – Current priorities

This policy captures SAUL's current areas of focus, ensuring that they are integrated (as far as practicable) when voting at general meetings and engaging with companies. The current priorities are:

- climate change – where SAUL has set objectives, with the overall objective to be Net Zero by 2050 (or sooner)
- nature / biodiversity – where SAUL will focus on building knowledge of the risks and encouraging company disclosure in line with evolving best practice, and
- social – where SAUL will primarily focus on workforce matters.

SAUL is acutely aware that voting and engagement on these focus areas relies on disclosure of comprehensive data, which varies between company and geographical location. For example, climate change data is more widely disclosed than nature / biodiversity data.

¹ Financial Reporting Council. (2024). The UK Corporate Governance Code. Financial Reporting Council. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

² Financial Reporting Council. (2020). *The UK Stewardship Code*. Financial Reporting Council. <https://www.frc.org.uk/investors/uk-stewardship-code>

³ Principles for Responsible Investment. *About the PRI*. <https://www.unpri.org/pri/about-the-pri>

Therefore, should sufficient data be disclosed in one of the focus areas, SAUL will include this when considering how to vote at general meetings. Where disclosures need to be improved, this will form part of the Trustee's engagement strategy so that, over the medium term, voting on these issues can be incorporated.

4 – The Board

Director election

Voting on the appointment of the directors is the most important routine issue for shareholders to consider at general meetings. The composition and effectiveness of the board is a crucial element in determining corporate performance. In the absence of other routes, SAUL may vote against the appointment or re-appointment of a director in the event of unsatisfactory compliance with the principles set out in this policy.

Board balance

In assessing a company's governance structure, SAUL will take account of the overall structure of the board in terms of its composition, separation of powers, and the relationship between executive and non-executive directors and board committees.

Analysis may also focus on those aspects of directors' appointments which can be assessed: the process by which individuals are appointed, their contractual terms, their independence (in the case of non-executives) and the provision of sufficient information to allow a clear judgement on calibre, experience and potential conflicts of interest.

SAUL's view of the role of a board concurs with the principles set out in the UK Corporate Governance Code. In order to undertake these functions, there should be a balance of executive directors and non-executive directors with broader experience, who are in a position to act independently and hold executive management accountable for their actions. The ratio of different types of directors is important, as is the overall size of the board. Independent non-executives may find themselves outnumbered and outvoted on large boards where there are many executive directors. Equally, boards with large numbers of directors may become unwieldy.

The nomination committee should regularly review the structure, size and composition (including the skills, knowledge and experience) of the board and make recommendations with regard to any changes. A dedicated section of the annual report should outline the nomination committee's activities, including the procedures followed for board appointments. This section must detail the board's diversity policy, including gender diversity, any measurable objectives set for the policy, and the progress made towards these goals. If neither an external search consultancy nor open advertising was used for appointing a chair or non-executive director, an explanation should be provided. The use of external search consultancies should be disclosed, along with any other connections they have with the company. Transparently describing the appointment process ensures that selections are based on merit and objective criteria. Open advertising is encouraged for chair or non-executive roles and should be more widely adopted for all positions.

Board and committee independence

Independence is determined partly by an individual's character and integrity. These cannot be objectively assessed by shareholders on a consistent basis and are therefore not an appropriate area for written guidelines, although shareholders may, in particular cases, want to address the issue directly with boards. Outside of subjective assessment of individual qualities, there are a number of criteria identified by the UK Corporate Governance Code which may be assessed objectively. It is SAUL's view that it is appropriate for shareholders to form their own view of a director's independence based on these criteria. These criteria are disclosed in *Appendix 2* of this document. SAUL therefore provides its voting agents with suggested criteria derived from the UK Corporate Governance Code.

Additionally, SAUL is fully aligned with the UK Corporate Governance Code in its commitment to ensuring the independence of board committees⁴. This alignment emphasizes the importance of having independent members on the three main committees—Audit, Remuneration, and Nomination. SAUL believes that independent membership on these committees is crucial for maintaining objectivity, enhancing governance, and ensuring that decisions are made in the best interest of all stakeholders. This approach is consistent with the standards set out in the UK Corporate Governance Code.

Chair of the Board

The role of the Chair of the Board is distinct from that of the Chief Executive. The Chair has responsibility for leading the board and for ensuring that the board runs effectively. The Chair should also ensure effective communication with shareholders. Placing these responsibilities in the hands of the person responsible for running the company's business can lead to unfettered powers of decision. SAUL supports the view of the UK Corporate Governance Code that the roles of Chair of the Board and Chief Executive should not be exercised by the same individual.⁵

SAUL supports the Code provisions 9 and 10 that the Chair should meet the definition of independence upon appointment. A chair who does not meet the criteria set out in the Code is likely to have difficulty in effectively fulfilling at least some of the chair's roles.

Executive Directors

Executive Directors should be appointed through a formal process similar to that of non-executives, considering the board's succession plans and the current business environment. SAUL emphasizes the need for companies to justify why a candidate is suitable for the role, particularly in response to emerging business challenges. It is advisable to publicly advertise these positions. Non-Executive Directors (NEDs) play a crucial role in ensuring accountability and should meet without executives at least once a year. SAUL supports the

⁴ Financial Reporting Council. (2024). The UK Corporate Governance Code. Financial Reporting Council. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

⁵ Financial Reporting Council. (2024). The UK Corporate Governance Code (Provisions 9 & 10). Financial Reporting Council. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

requirement that, excluding the chair, at least half of the board should be independent NEDs to balance executive influence effectively.

Senior Independent Director

The Senior Independent Director (SID) plays a crucial role in supporting the chair and acting as a liaison between other directors and shareholders when needed. It's important that the SID's responsibilities are clearly outlined and publicly available in their terms of engagement. SAUL views the SID as a vital component of a company's governance structure. If a company fails to appoint a SID or if the SID lacks independence according to SAUL's criteria, it may lead to a recommendation to vote against the chair or a nominations committee member.

Designated Non-Executive Director

Ensuring that employees' voices are heard, and their rights are upheld not only fosters a positive workplace culture but also enhances a company's reputation and long-term success. Having a designated Non-Executive Director (NED) appointed to the Board of Directors, who was previously elected by the employees of the company further strengthens this commitment. It ensures that employees have direct representation in decision-making processes, aligning the company's actions with the workforce's needs and perspectives. This structure not only promotes fairness and inclusivity but also contributes to more balanced and informed governance, ultimately benefiting both the employees and the company as a whole.

Number of positions

It is important that directors have sufficient time to devote to the company's affairs. Shareholders will be assured of this if full disclosure is made of directors' other commitments and attendance records of formal board and committee meetings are provided. SAUL will be concerned if directors appear to have insufficient time to attend properly to the company's affairs due to too many other commitments.

Circumstances in which SAUL has concerns over a director's aggregate time commitments will lead to support for re-election being withheld, unless the director maintains a 100% attendance record at board and committee meetings throughout the year. Similarly, support may not be recommended for directors with an overall attendance record below 90% (without mitigating circumstances). In cases where up to a third of a company board is considered to have excessive time commitment issues, SAUL will, on a case-by-case basis, consider withdrawing support for the chair of the nomination committee.

Diversity

SAUL is committed to diversity which we view not only as a social responsibility but as a business advantage for the future. In order to widen the basis of experience on boards and improve their accountability and representative nature, companies should extend their search for non-executives beyond the boards of other listed companies to include individuals

with a greater diversity of backgrounds. International candidates, those with relevant experience in the public, academic or voluntary sectors, or at divisional level in other companies may well fulfil the role.

SAUL adopts a gender-based voting policy aligned with the evolving standards and promoting gender inclusivity. SAUL is aligned with the Sustainability Development Goal 5⁶, which aims to empower all women and girls and achieve gender equality. This includes ensuring equal participation in leadership and decision-making, and eradicating harmful practices and discrimination. SAUL is aligned with the Hampton-Alexander Review⁷ and extends its recommendations and monitoring to a broader set of companies than FTSE 350. SAUL supports that FTSE-All Share boards aim for women to account for at least 33% of board positions and will not recommend supporting the re-election of a nomination committee chair of an FTSE All-Share company where current female representation on its board falls below these expectations with no clear and credible proposals for reaching these objectives.

Additionally, SAUL will be seeking companies to engage in discussions on diversity at all levels, with a particular focus on acknowledging the Parker Review's recommendations for enhancing the ethnic and cultural diversity of UK boards. The goal is to ensure that board composition better reflects the diversity of their employee base and the communities they serve. As of March 2023, new targets have been launched for December 2027, namely, companies across the FTSE 350 index will be asked to set a percentage target for senior management positions that will be occupied by ethnic minority executives in December 2027⁸.

Succession planning

Forward-planning for orderly succession is important, although we recognise that there will always be unforeseen circumstances. The board should disclose how it goes about planning for succession, the factors considered and with whom responsibility lies. In our view, it is appropriate that succession policy forms part of the terms of reference for a formal nomination committee comprised solely of independent directors.

Director skills and performance

Effective disclosure of board skills is essential for investor transparency. SAUL believes companies should present comprehensive skills matrices, covering areas like governance, finance, legal, environmental, and more, especially for key committees. If there are significant skill gaps or inadequate disclosure, SAUL may hold the chair of the nomination committee accountable. Additionally, SAUL may oppose the election of directors lacking necessary skills, especially if they are on critical committees. The Chair should also ensure the company's strategy aligns with the Paris Agreement or explain any deviations.

⁶ United Nations. *Goal 5: Achieve gender equality and empower all women and girls*. United Nations Sustainable Development Goals. <https://sdgs.un.org/goals/goal5>

⁷ Hampton-Alexander Review. (2016). *Improving gender balance in FTSE leadership*. Department for Business, Energy & Industrial Strategy. <https://ftsewomenleaders.com/>

⁸ Parker Review Committee. (2024, March). *The Parker Review: Ethnic diversity of UK boards* (March 2024). Parker Review. <https://parkerreview.co.uk/wp-content/uploads/2024/03/The-Parker-Review-March-2024.pdf>

The board should conduct a formal, annual evaluation of its performance, including that of its committees and individual directors. For FTSE 350 companies, this evaluation should be externally facilitated at least every three years, with the facilitator identified in the annual report along with any connections to the company. The appraisal process for both non-executives and executives should be clearly described, covering criteria used and outcomes. The responsible director or committee should be identified, ensuring transparency and accountability in the evaluation process.

5 – Directors’ remuneration

Directors face a clear conflict of interest when setting their remuneration policy. The use of a wholly independent remuneration committee will help avoid this conflict and SAUL supports the UK Corporate Governance provisions⁹ on the role and composition of such committees.

Remuneration has a direct link to corporate performance via its role in providing incentives to senior management and the extent to which rewards received by senior management for poor performance will disincentivise and demotivate employees throughout a company. Companies also need to demonstrate sensitivity to pay and employment conditions across the company. Shareholders are expected to take a view on whether the policy pursued by the committee towards executive remuneration is worthy of endorsement via an annual vote at the annual general meeting.

When analysing remuneration reports, SAUL will take account of the quality and depth of disclosure, the balance of performance requirements and potential rewards for long-term incentive plans, and directors’ service contracts and retirement benefits policy.

Non-Executive fee arrangements

The remuneration report should provide clear details on the fees for Non-Executive Directors (NEDs), including their composition and the process for determining them. As NEDs take on more active roles, it is expected that their fees will increase. However, market rates should not be the only factor in setting these fees; they should reflect the time commitment, responsibilities, and skills required. SAUL believes that while it is acceptable to compensate NEDs partially in shares, these should not be tied to short-term performance incentives like options. The remuneration of the Chair, in particular, should be thoroughly explained. SAUL advocates for rigorous scrutiny of NED compensation, similar to that applied to executive pay, including benchmarking against peer groups and considering the NED-to-employee pay ratio.

Internal comparisons

SAUL expects companies to disclose the ratio of chief executive pay to average employee pay as evidence that the remuneration committee is mindful of the broader social and economic environment that influences pay regulations. SAUL believes that disclosure should extend beyond whether pay across the company was considered, requiring companies to

⁹ Financial Reporting Council. (2024). The UK Corporate Governance Code (Code provisions 32 to 41). Financial Reporting Council. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

state if they consulted employees when setting executive pay and, if so, how this was done. Companies that did not consult employees should provide an explanation as to why not.

Remuneration Committee

The Chair of the Remuneration Committee plays a crucial role in ensuring that director remuneration aligns with the company's performance and shareholder expectations. When there are serious concerns over a director's pay, the Chair of the committee must demonstrate accountability and transparency in addressing these issues, as failure to do so can undermine trust and corporate governance. SAUL's policy of holding the Chair of the Remuneration Committee accountable in such situations is crucial to maintaining integrity and ensuring that remuneration practices are fair, justifiable, and aligned with the interests of all stakeholders.

6 – Reports and accounts

Reporting is a fundamental element of accountability to shareholders. Reporting should be objective and comprehensive. Financial reporting should be as transparent as possible, with results represented in a way that captures all material issues. Accounting policies and judgements that have a material impact on results should be clearly identified.

Although the board's primary duty of accountability is to shareholders, and financial success is a key issue, in the long term this can only be achieved on a sustainable basis. Directors should identify their key stakeholders, develop appropriate policies for managing the relationships with them, and should report on and be held accountable for the quality of these relationships since they are an important part of a company's long-term competitive position.¹⁰

Therefore, as well as reporting financial performance, companies must provide additional information on a range of issues which reflect the directors' stewardship of the company concerning all stakeholders. This should include information in the strategic report on the commitment to employees, to society and on the impact of the company's business on the environment in which it operates.

In addition, with growing evidence on how the need to decarbonise should affect financial imperatives of companies, all companies will be expected to state whether the financial statements or the accounts are Paris-aligned or explain the reason if they are not. Alignment with the Paris Agreement should be considered in all financial decisions, as a framework to allocate capital in a way to manage risks and find opportunities in accordance with credible transition plans and targets to achieve net-zero. Failure to do so may expose the company to significant financial risks, including the inability to access capital at an accessible cost and shareholders should not support accounts that do not reflect accurately all financial impact from material risks, which could prevent the company from continuing as a going concern in the long term.

¹⁰ Companies Act 2006, §§ 172, 414C (UK).

Internal controls

SAUL concurs with the Turnbull Committee's conclusion that a "sound system of internal controls contributes to safeguarding the shareholders' investment and the company's assets,"¹¹ and that it is the board's responsibility to set internal control policies.

Risk control policies and processes should be fully described. Relations with investors will benefit when companies decide to go beyond the basic requirements and identify the significant areas of risk and how the company manages these. In addition, SAUL takes into account the recommendations for risk management set out in the Walker Review¹². Companies should also review the guidance provided by the Financial Reporting Council on internal controls¹³.

7 – Audit

It is vital that the audit process is, and is seen to be, objective, rigorous and independent if it is to provide assurance to users of accounts. This is also important to maintain confidence in clean reporting in the capital markets, not only by market participants but also by the wider public whose pensions and other equity investments are dependent on it. It is SAUL's view/position that in order to best facilitate this process the independence of the external statutory auditor needs to be preserved and a company's audit committee should be comprised exclusively of independent members.

Under UK company law, the 'true and fair view' is an objective characteristic of audited accounts which sets as a floor a standard of accounting practice that reports capital and reserves properly (net assets). This is in order to discharge the duties of the directors to the company, under audit, which includes knowing that the company is a true going concern and not making unlawful distributions by having improperly prepared accounts.

Investors' confidence is in part based on a perception of the objectivity of the audit process. This perception is affected where there is a lack of transparency in disclosure of the degree to which an audit firm has also undertaken consultancy for a company, for example on executive remuneration, and particularly in areas with a direct impact on those financial statements subject to audit. Full disclosure of the nature of work done by the auditors during the year, accompanied by fees charged and the existence of any material links between the company and the audit firm, will contribute to the confidence that investors can have in the independence of the statutory audit. Companies may wish to provide such disclosures as part of a separate report by the audit committee contained within the annual report and accounts.

¹¹ Institute of Chartered Accountants in England and Wales (ICAEW). (1999). *Internal control: Guidance for directors on the Combined Code*. Turnbull working party.

¹² Walker, D. (2009). *A review of corporate governance in UK banks and other financial industry entities: Final recommendations* (26 November 2009). HM Treasury.

¹³ Financial Reporting Council. (2014). *Guidance on risk management, internal control and related financial and business reporting* (September 2014). Financial Reporting Council.

The provisions of the UK Corporate Governance Code that deal with the role, responsibilities and composition of the audit committee are minimum requirements¹⁴. Best practice in this area goes beyond regulatory compliance and it is up to each company to disclose the extent to which its own arrangements offer a meaningful and effective contribution to the governance of the company and the protection of investors. Such disclosure should be included in a separate audit committee report within the annual report and accounts. As an additional comfort to investors, and in order to enable audit committee members to fulfil their duties effectively, reports should include confirmation that committee members receive copies of formal communications between the external auditor and the company. Companies may also choose to include details of attendance at audit committee meetings with particular reference to attendance by staff other than formal committee members and any direct or indirect involvement by reporting auditors in the company's internal audit function. Companies with formal procedures for recording audit or accounting-related grievances by internal audit or accounting staff should be encouraged to confirm the existence of such procedures.

Auditor rotation

In addition, we encourage companies to implement a compulsory rotation policy by reviewing their statutory auditor after not more than ten years. Mandatory audit firm rotation has been introduced¹⁵, such that Public Interest Entities (PIEs)¹⁶ have to appoint a new firm of auditors every ten years. Notwithstanding this, SAUL still maintains that the rotation of the audit partner is not sufficient and continues to advocate for a rotation of the audit firm.

Whistleblowing

The 2003 Combined Code¹⁷ introduced a responsibility for audit committees to review whistleblowing arrangements to maintain oversight and address potential issues effectively, a measure that SAUL considers vital for enhancing public trust in corporate legitimacy, ensuring positive employee relations, and mitigating serious risks. SAUL believes that the whistleblowing hotline should be externally managed to ensure impartiality and protect the anonymity of employees. Meaningful disclosure in the annual report should include details on how the mechanism was reviewed, its usage, and outcomes. The Audit Committee Chair will be held accountable in cases where there are serious concerns over the whistleblowing hotline.

8 – Share capital and shareholder rights

Shareholders need to have clear information about their rights and those of other shareholders. The company's share structure should be disclosed, including the voting rights and other rights attached to each class of shares.

¹⁴ Financial Reporting Council. (2024). The UK Corporate Governance Code (Code provisions 24 to 31). Financial Reporting Council. <https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

¹⁵ Regulation (EU) No 537/2014, Articles 16 and 17, incorporated into UK law by the Statutory Audit and Third Country Auditors Regulations 2016, Part 3 (amending the Companies Act 2006, §§ 490 et seq).

¹⁶ The meaning of a PIE has been redefined (Directive, Article 1.2f) to include all companies listed on an EU regulated market and in addition, unlisted banking and insurance companies and groups, unless they are small.

¹⁷ Financial Reporting Council. (2003). *The Combined Code on Corporate Governance*. Financial Reporting Council.

Shareholders who have the same financial commitment to the company should have the same rights. Dual class share structures with differential voting rights are disadvantageous to many shareholders and should be reformed.

Share issuance authorities are among the routine items which shareholders are asked to approve at general meetings. SAUL supports the pre-emption rights principles and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority. SAUL supports the disapplication principles set out in revised Pre-emption Group Guidance¹⁸ which is that issuances without pre-emptive rights should be limited to 5%. Issuances of up to 10% should be split into two separate authorities, a general resolution for up to 5% of issued share capital; and a second for the issuance of up to an additional 5% in connection with an acquisition or specified capital investment.

Intervention in strategic and operational issues

Decisions taken by directors on strategic or operational issues can clearly have a major impact on the financial interests of institutional shareholders and those beneficiaries to whom they have a fiduciary duty. In deciding on any form of engagement with a company on a strategic issue, SAUL places the highest priority on optimising its own interests as an investor and those interests of underlying beneficiaries.

Many board decisions on strategic issues become subject to shareholder approval usually at an EGM. Examples include specific corporate actions such as takeovers, mergers or capital reorganisations. They are put to shareholders either by law or under the Listing Rules, they are deemed to be of such importance and to have such significant implications for the rights of shareholders that shareholders need to specifically approve them. SAUL will endeavour to maintain its awareness of any corporate governance or ESG issues surrounding shareholder approval of relevant corporate actions. Although compliance with corporate governance or socially responsible best practices will rarely be the decisive factor in arriving at a position on an issue of strategic importance for an investee company, SAUL expects full information to be provided by the parties and its asset managers, in its assessment of the likely financial and strategic impact on the company and its stakeholders.

Timings and information

Companies should ensure that shareholders receive the necessary information for informed participation well in advance. The Code stipulates a minimum of 20 working days' notice for AGMs, and SAUL believes the same should apply to Extraordinary General Meetings (EGMs) to allow shareholders ample time to consider complex issues. While the Shareowner Rights Directive permits a 14-day notice period for general meetings, SAUL cautions against its misuse, advocating that shorter notice periods should be reserved strictly for emergencies, such as urgent capital raising. SAUL will monitor compliance and vote accordingly on proposals that infringe on shareholder rights.

¹⁸ Pre-Emption Group. Monitoring report. <http://www.pre-emptiongroup.org.uk/getmedia/09343697-051a-440c-acd1-dbb3a6ca4d00/PEG-Monitoring-Report.pdf.aspx>

Balanced information

All information provided to shareholders should be clear, balanced, and easily understandable. Resolutions need to be fully explained, including the rationale and potential implications, ensuring that technical aspects are presented in straightforward language. This approach avoids relying on standard phrases or excessive legal jargon, making the information accessible to all shareholders.

Dividends

A company's dividend policy is crucial for balancing investor income needs with long-term financial stability. Shareholders should have the opportunity to approve the dividend policy annually, including any dividends paid or proposed. Directors must prioritize the company's long-term health over short-term distribution pressures. SAUL supports requiring a shareholder vote if no dividend is paid and expects clear explanations for any uncovered distributions, particularly if there is a pension deficit. SAUL also advocates for companies to offer a cash alternative to scrip dividends and to provide a transparent statement on distribution policies.

Political donations

SAUL has general concerns over the reputational risks and democratic implications of companies becoming involved in funding the political process. However, we recognise that it may be appropriate for companies to fund business associations or groups whose activities have a direct benefit to the company, or to undertake other funding that may fall within the ambit of the Political Parties, Elections and Referendums Act 2000.

Buyback authorities

SAUL has reviewed its stance on share buybacks and now generally advises against granting buyback authorities unless the board can present a clear, compelling case demonstrating long-term shareholder benefits and ensuring no conflicts of interest. Although buybacks are theoretically advantageous, in practice, they can be problematic, often executed on incorrect assumptions or primarily to boost earnings per share (EPS), which can lead to wealth transfer away from ongoing shareholders. SAUL also considers the Association of Corporate Treasurers' guidelines¹⁹ when evaluating buyback and treasury share issuance requests.

Shareholder resolutions

SAUL will carefully evaluate shareholder resolutions with the objective of supporting initiatives that align with our ESG principles, particularly those that promote transparency, long-term value creation, and positive societal impact. We will vote in favour of resolutions that advance environmental stewardship, social equity, and strong governance practices

¹⁹ Elwin, R. (2003). Treasury shares and share buybacks. *The Treasurer*, July-August 2003, 28-30. Association of Corporate Treasurers. <https://www.treasurers.org/ACTmedia/JulAug03TTElwin28-30.pdf>

while opposing those that may pose significant risks to these objectives, restrict shareholders' rights or undermine sustainable growth. SAUL will generally endorse proposals that align with best practices to strengthen shareholder rights.

SAUL assesses these resolutions based on the specific issues they raise rather than as direct opposition to the board. Companies should not hinder shareholder resolutions but instead engage with the concerns they express and take appropriate action. SAUL also believes that current regulations for requisitioning resolutions are overly burdensome and support reforms to make the process more accessible and timely.

Right to attend meetings in person

SAUL supports shareholders' rights to attend company meetings in person, viewing it as essential for maintaining direct accountability between the board and shareholders. While SAUL does not oppose providing a virtual option for those unable to attend in person (a "hybrid meeting"), it is against the idea of virtual-only meetings. Such meetings could distance shareholders from engaging directly with the board. SAUL would oppose amendments to company articles allowing virtual-only meetings and may recommend voting against the election of the Chair if this right is compromised without sufficient justification.

Significant opposition

SAUL believes that when a company receives a significant proportion of votes against a management-proposed resolution, it should promptly address the issue by providing a statement within its Regulatory News Service (RNS) announcement. Additionally, the company should disclose in its subsequent annual report the steps taken to engage with shareholders on the concerns reflected in these significant votes. SAUL considers any opposition level of 10% or more significant and expects companies to take these concerns seriously.

Stock lending

SAUL participates in a stock lending programme. In order to exercise its vote at all company meetings at which SAUL invests, a proportion / minimum number of shares are excluded but SAUL may recall all of the stock on loan for a company in which it invests should there be a voting issue of particular significance.

Litigation

SAUL will decide whether or not to participate in litigation on a case-by-case basis where it holds securities that are subject to a lawsuit.

9 – Environmental, Social and Governance (ESG)

For SAUL, sustainable development entails a commitment to ensuring that our activities are undertaken in such a way that we strive to limit any negative impacts that they may have, magnify their positive impacts, and ensure that we do not undermine the ability of future

generations to sustain themselves and prosper. In essence, our philosophy is reflected throughout our approach to providing pensions, the way we treat our employees, and our impact on the environment and society at large.

SAUL's strategy is shaped by the Just Transition framework, which emphasizes the interconnectedness of environmental, social, and governance (ESG) factors. Focusing solely on environmental issues could overlook risks arising from social and governance aspects. SAUL's holistic approach integrates these considerations to support a fair transition to a net-zero economy. This analysis includes climate, social, and governance factors to inform voting recommendations. SAUL also assesses companies' climate resilience and decarbonization strategies, ensuring boards understand and address potential "greenwashing" and the impact of their climate commitments. As a result of this commitment, SAUL is a signatory of the Principles for Responsible Investment²⁰.

As part of this balanced and comprehensive analysis consistent with the size and complexity of the business, SAUL expects companies to disclose the following information regarding their management approach to ESG issues:

- clear accountability at the board and senior executive level
- corporate environmental, social and governance values, including business ethics and anti-bribery and corruption practices
- company policies relating to corporate governance arrangements, as well as
- environmental, employment, stakeholder engagement and community investment issues.
- corporate strategy in relation to ESG factors
- principal risks and uncertainties facing the company and the risk management
- processes and system of internal control
- shareholder returns, and
- key stakeholder relationship.

These practices ensure companies proactively tackle climate change, promoting environmental sustainability and aligning with the global objective of reducing global warming and adapting to climate change in line with SDG 13²¹.

From an environmental standpoint, the sixth assessment report, released on August 2, 2021, by the Intergovernmental Panel on Climate Change (IPCC)²², highlighted that irreversible changes could lead to devastating consequences for life on Earth, describing the situation as a "code red for humanity." The best-case scenario, where global temperature rise remains below 1.5 degrees Celsius compared to pre-industrial levels, has only a 50% chance of being achieved. This scenario requires emissions to peak soon, emphasizing that net zero should be the steady state after significant and timely emissions reductions have been made.

²⁰ Principles for Responsible Investment. Signatory directory. <https://www.unpri.org/signatories/signatory-resources/signatory-directory>

²¹ United Nations. (n.d.). Goal 13: Take urgent action to combat climate change and its impacts. United Nations Global Goals. <https://www.globalgoals.org/goals/13-climate-action/>

²² Intergovernmental Panel on Climate Change (IPCC). (2021). Climate change 2021: The physical science basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Cambridge University Press. <https://www.ipcc.ch/report/ar6/wg1/>

SAUL considers having a clear commitment to net zero by 2050 and a short-term target(s) essential. Having a target for net zero by 2050 at the latest shows the overall commitment of the company to adequately manage climate risks. Short-term emission reductions are required to keep alive the ambition of keeping global warming to within 1.5 degrees while short-term targets are also critical for accountability purposes. SAUL believes that the absence of adequate climate targets for major greenhouse gas emitters is an indicator of serious governance shortcomings.

Alongside looking at a company's emission reduction targets, a company's overall approach to climate change should include identification of risks, board-level oversight, climate skills, commitment to TCFD/IFRS S2 reporting, disclosure of an implementation strategy, capital expenditure disclosure, Paris-aligned climate lobbying and commitment to a just transition. SAUL would also expect to see high-emitting companies linking pay awards with climate-related metrics and their auditors considering climate change when reviewing the company's accounts. Where a company's approach is deemed inadequate SAUL will vote against relevant agenda items at company AGMs.

Say on Climate Resolutions

In recent years, the emergence of "say-on-climate" resolutions, whether submitted by boards or shareholders, reflects the heightened focus on climate issues and the expectations of major investors regarding the management of climate risks and opportunities. When assessing such proposals, SAUL evaluates the extent to which the company's transition plans demonstrate a commitment to leading decarbonization strategies. This includes identifying credible actions and setting realistic short- and medium-term targets to align with a 1.5-degree scenario, in accordance with the Paris Agreement and the Glasgow Climate Pact.

SAUL's assessment is comprehensive, integrating its Just Transition analysis and examining whether:

- the Chair holds responsibility for the decarbonization strategy
- at least one director possesses expertise in decarbonization
- the board and management receive decarbonization training
- the company commits to ending or reviewing membership in anti-climate-change lobbies
- a specific timeframe for the decarbonization strategy is established
- scenario planning is conducted with a focus on maintaining warming within 1.5 degrees Celsius compared to pre-industrial levels, and
- emission reduction targets are quantified across all Scope 1, 2, and 3 emissions.

Additionally, SAUL may oppose any "say-on-climate" resolution if the Climate/Transition report is not included within the annual report and accounts. This stance emphasizes the importance of embedding climate-related disclosures directly into core financial reporting documents. Including such reports in the annual report ensures their strategic relevance and enhances shareholder accountability during AGMs.

Social performance indicators

SAUL strongly advocates for companies to establish and publish formal policies on a range of social issues, such as employment, health and safety, and human rights. These policies should be clear and comprehensive, acting as a statement of the company's commitment to social responsibility. SAUL expects these policies to be underpinned by specific guidelines on how the company manages various social risks. For example, companies should disclose their approach to managing health and safety hazards, promoting equal opportunities, and upholding freedom of association and collective bargaining in line with International Labour Organization (ILO) Conventions 87 and 98²³.

In addition to these overarching policies, SAUL believes companies should regularly disclose a set of social performance indicators to provide transparency on how these policies are being implemented. These indicators should include:

- Board-level responsibility for human resources, employment standards, and human rights, ensuring that these critical areas are overseen at the highest level
- management structures and systems designed to monitor and evaluate the social impact on stakeholders, as well as detailed employment statistics, including turnover rates, absenteeism, and a breakdown of remuneration by gender and job level
- diversity targets across all levels of the company, including at the board level and within the company's supplier base, to demonstrate a commitment to fostering an inclusive workplace
- employee satisfaction surveys with specific results, time and resources allocated to employee training, and key health and safety performance goals, including metrics such as lost time injuries, fatalities, and rates of occupational diseases, and
- opportunities for employees to have formal input into matters that affect them, ensuring their voices are heard and considered in decision-making processes.

Furthermore, SAUL expects companies to be transparent about any contentious issues that have arisen during the year, such as industrial relations disputes, human rights litigation, or health and safety-related fines or sanctions. By providing detailed disclosures in these areas, companies can demonstrate their commitment to addressing social issues effectively and maintaining strong, ethical relationships with their stakeholders. This transparency is not only vital for accountability but also for building trust and confidence among investors, employees, and the wider community.

²³ International Labour Organization. (1948, 1949). *Convention No. 87 on Freedom of Association and Protection of the Right to Organise, and Convention No. 98 on the Right to Organise and Collective Bargaining*. Retrieved from <https://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/freedom-of-association/lang-en/index.htm>

Modern slavery statement

The Modern Slavery Act 2015²⁴, requires transparency in how companies are addressing the risk of modern slavery in their operations and supply chains. Having a Modern Slavery Act policy is crucial for managing the company's reputation, as it demonstrates a commitment to ethical practices, mitigates potential risks, and enhances investor confidence. Moreover, it reflects the company's corporate responsibility to uphold human rights and prevent exploitation. To ensure companies are adhering to the Modern Slavery Act given the risks to investors, SAUL introduced a policy on modern slavery and currently recommends voting against the Chair of the Board where accountability at the board level is unclear. Examples of such instances are:

- Lack of signature: If the Modern Slavery Statement is not signed by a director, indicating a potential lack of high-level endorsement and oversight
- Unclear or missing date: Absence of a clear date on the statement, undermining the timeliness and relevance of the disclosed actions, and
- Review process ambiguity: If the statement lacks clarity on the periodic review process or evidences no review, suggesting inadequate governance and risk management practices.

Additionally, in the event that the statement was not made publicly available, or if it is inaccessible due to a broken link or other barriers (preventing stakeholders from evaluating the organization's commitment to combating modern slavery), SAUL may recommend opposition also to the annual report and accounts.

Artificial Intelligence

The rise of Artificial Intelligence (AI) poses significant risks to investors. These risks are often highest at technology companies developing software associated with privacy, misinformation, disinformation, and discrimination concerns. In addition, while such technology can improve the way that we live and work, there are also potential negative implications for workers in specific industries as AI comes to replace certain tasks and jobs. SAUL expects companies to have adequate processes to monitor and mitigate these material risks, which can lead to companies facing reputational damage, regulation and litigation.

SAUL will therefore support shareholder proposals requesting companies improve disclosure around AI risks and how they are being managed. SAUL may also hold directors accountable where a company's approach to AI has fallen short and resulted in serious incidents.

10 – Investment Trusts

In any public company, the separation between ownership and control introduces a potential risk that the company may be operated in the interests of its managers rather than its

²⁴ Modern Slavery Act 2015, c. 30. (UK). Retrieved from <https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

owners. This risk is particularly pronounced in externally managed investment companies, where the interests of the investment manager could take precedence. SAUL believes that no individual with current or recent ties to the investment manager, its parent company, or any affiliated companies should serve as a director of the investment trust. SAUL will not support the approval of accounts if there is evidence that the board is overly reliant on the investment manager in fulfilling its responsibilities.

SAUL accepts that representatives of the fund management company directly responsible for managing money should attend part of some board meetings. However, those parties should not be involved in drawing up agendas or dealing with matters that should be reserved for the board. When a representative from the fund management attends all board meetings and answers questions meant for the board, it raises concerns that the board may be under the influence of the fund management company rather than led by the Chair. A key issue is that fund manager fees are a critical consideration before recommending buybacks, and a fund manager should not be advising the board on matters related to their own fees. This situation may lead to opposition to the Chair's leadership.

Dividend approval

SAUL acknowledges that investment trusts are subject to specific rules regarding dividend distribution, such as the legal obligation to distribute a portion of income as dividends. While most investment trusts seek shareholder approval for dividends at their AGM, some have moved away from this practice to accommodate regular quarterly payments. SAUL believes that even in these cases, the dividend policy should be put forward for annual shareholder approval. Additionally, SAUL views the absence of an annual vote on dividend distribution or policy as a failure to uphold shareholder rights.

Share Buyback Authorities

SAUL will not support share buyback proposals for investment trusts unless the company provides a clear analysis of the impact of past buybacks on reducing discounts. Simply stating that the share price may deviate from Net Asset Value (NAV) due to market factors is insufficient; performance and costs, particularly management fees, must also be considered. SAUL expects an independent board to thoroughly evaluate the effect of these factors before seeking or executing buyback authority. Without this analysis, buybacks may address symptoms rather than the root causes, such as high costs or fund manager underperformance. The absence of detailed cost disclosure, including figures from the Key Information Document (KID), in the annual report may lead SAUL to recommend voting against the report, accounts, and even the Chair. SAUL emphasizes that a fully independent board should negotiate rather than merely take instructions, ensuring that buyback decisions are in the best interest of shareholders and do not inadvertently destroy value.

11 – Other Policies

Unquoted company investment: SAUL will implement a similar approach to corporate governance and ESG policies in relation to investments in unquoted companies, whether through direct investments or portfolios established and managed on its behalf by its fund

managers. The Trustee further expects its fund managers to implement these policies wherever possible when investing on behalf of the Trustee.

Non-UK investment: Where SAUL invests outside the UK, the Trustee will take account of differing practices from those in the UK and will support the development of good corporate governance in these markets. The principles set out in this policy will form the basis of SAUL's approach.

Shareholder activism: SAUL supports the UK Stewardship Code. SAUL's statement of compliance with the UK Stewardship Code can be found in Appendix 1.

12 – Policy Implementation

Each quarter PIRC, the proxy voting and corporate governance advisor to SAUL, will provide a monitoring report showing how the voting policy has been exercised. This quarterly report includes information on any company which has not complied with best practice as enshrined in the PIRC shareholder voting guidelines, and a list of votes cast for or against management proposals or shareholder proposals, as well as a failure to exercise voting rights.

In the event that a voting issue arises not covered by the SAUL Voting Policy, during the course of the proxy season, the Trustee has agreed that PIRC will inform it of such issues and make proposals as to how SAUL should act.

In addition, SAUL will report from time to time on any other matters in relation to its stewardship responsibilities in line with the UK Stewardship Code, the Principles for Responsible Investment and any other frameworks considered appropriate.

Appendix 1 – SAUL’s statement of compliance with the UK Stewardship Code

SAUL Trustee Company, as trustee of the Superannuation Arrangements of the University of London (SAUL), believes that the adoption of good Corporate Governance practice will improve the quality of management and, as a consequence, is likely to increase the returns available to long term investors.

SAUL announced on July 29th, 2024, their acceptance as a signatory to the Financial Reporting Council’s UK Stewardship Code for the third year in a row. This document is accessible on SAUL’s website²⁵.

If there are any questions about SAUL’s responses to the UK Stewardship Code please contact:

Email:

gen@saul.org.uk

Address:

SAUL Trustee Company
1 King's Arms Yard
London
EC2R 7AF

²⁵ Superannuation Arrangements of the University of London (SAUL). (2023). UK Stewardship Code Submission - DB Plan: Year ending 31 March 2023. <https://www.saul.org.uk/#/page/the-uk-stewardship-code>

Appendix 2 – General applicable SAUL independence criteria

A director will not normally be assessed as independent if the director:

- has held an executive position within the company or group
- has, or has had in the recent past, a material business relationship with the company directly or as a partner, shareowner, director or senior employee of a body that has such a relationship
- has received or receives additional remuneration from the company apart from a director's fee, participates in the company's share option or performance-related pay scheme, or is a member of the company's pension scheme
- has close family ties with any of the company's advisers, directors or senior employees (close family ties via material business relationships may also be relevant)
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- represents a significant shareowner or has a connection to a controlling shareowner and cannot demonstrate the link to be immaterial
- has had a significant association with the company or group of more than nine years (this includes predecessor companies in the case of mergers and acquisitions)
- has not been appointed through an appropriately constituted nomination committee or other independent process
- receives remuneration from a third party in relation to the directorship
- serves as a director or employee of a company in which the company has a notifiable holding thereby facing potentially conflicting fiduciary duties
- acts as the appointee or representative of a stakeholder group other than the shareowners as whole, or
- serves as a director or employee of a significant competitor of the company.