

Global Voting Guidelines

February 2024



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Exercising our voting rights is a core part of our stewardship activity and broader responsible investment approach.

This document sets out our global voting guidelines, informing our clients, company boards and other stakeholders how we exercise these voting rights.

We were early signatories to the Principles for Responsible Investment in 2006 and to the UK Stewardship Code in 2010. In 2020 the Financial Reporting Council introduced a new assessment process for signatories to the UK Stewardship Code, and we have continued to be accepted as a signatory since this change was introduced. We are also signatories to stewardship codes in Hong Kong, Taiwan and Singapore. We keep our participation in other stewardship codes under review.



We set our expectations on governance standards based upon international principles of good governance such as the G20 / OECD Principles of Corporate Governance, the investor-led International Corporate Governance Network (ICGN) Global Governance Principles, and Global Stewardship Principles. While we work with a number of collaborative engagement initiatives such as Climate Action 100+, our voting guidelines are proprietary and specific to HSBC Asset Management.

As global investors, we recognise that corporate governance standards and practices vary across different markets and we reflect them in the design and application of our guidelines. Some markets operate a 'comply or explain' approach; we consider companies' explanations of any non-compliance in determining our vote as much as possible.

We expect directors of companies in which we invest to provide effective governance and to ensure that their companies act in the interests of all stakeholders. We expect companies to apply governance good practice for their market of listing and, for larger companies, to meet globally-recognised good practice standards. We also seek to hold boards to account for environmental and social issues which we believe are closely linked to the long-term success of companies. We seek constructive engagement with boards, and support management where we consider they are appropriately discharging their duties.

While we typically vote in line with these guidelines, we will exercise our judgement based on research and engagement history where appropriate. We may therefore in some cases vote differently from the guidelines and/or the external ratings on which some recommendations are based. We annually review our guidelines and may change our expectations in future.



To enable efficient proxy voting operations, we work with the Institutional Shareholder Services (ISS) which provides research, a voting platform and disclosure services. Our global voting guidelines, together with our own research, inform more granular voting policy instructions, based on which ISS provide us with custom voting recommendations for each shareholder meeting.

Should an investment or stewardship team identify a proposal which should be voted differently to our custom voting recommendation, a designated group of specialists including relevant investment teams will discuss and aim to make a collective decision on a vote. If the group does not reach an agreement, the vote may be escalated to the ESG Investment Committee or in some cases the local CIO.

We aim to vote all equities for which clients have given us voting authority, except where this is not practical for reasons such as share blocking or overly burdensome power of attorney requirements. Our global voting guidelines are applied across our investment offices, including London, Paris, Hong Kong, Singapore, Qormi (Malta), Mumbai and Vancouver¹.



Oversight

These global voting guidelines are proposed by the Stewardship team, owned by the CIO and approved by the Sustainability Forum, led by our Head of Sustainability, at least annually. We monitor the application of our voting policy by ISS and have regular communications to seek to ensure quality of services delivered.



Engagement

Engaging with key stakeholders including companies is an important part of our stewardship activity and informs our voting decisions. As part of our engagement, we aim to contact companies on our stewardship priority list before voting against management where possible, to explain our rationale and give them the opportunity to respond. We will also share such information with other issuers upon request. We do not however share our voting intentions on specific instances with third parties unless we have made them public.



Conflicts of interest

We maintain a register of potential conflicts of interest and associated mitigation. For further details, please refer to our Stewardship and Conflicts of Interest statement².



Voting records and disclosure

For all voting through the ISS platform, we publish full voting records through the Proxy Voting Dashboard³ on our website. We also offer clients detailed reports on our voting activity.

1. The guidelines are also applicable to some of our holdings in Turkey but not in Germany or Taiwan currently.
2. Please visit the page 'Policies and Disclosures' on our public website for more details on policies and guidelines related to responsible investing.
3. The Proxy Voting Dashboard is directly accessible at <https://vds.issgovernance.com/vds/#/MjJwNw==>

These guidelines set out our approach on key voting issues. They are not exhaustive and are complemented by tailored voting frameworks to reflect our approach in specific markets. Vote intentions may change if new information from a company is provided in a timely and comprehensive manner to address our concerns. We may also vote against management for other reasons prescribed in the guidelines where we have particular concerns.



For market classification, we use MSCI’s definition of developed markets as below⁴ unless otherwise specified. We include all other markets in our emerging markets category unless otherwise specified.

Americas	Europe & Middle East		Asia Pacific
Canada	Austria	Italy	Australia
USA	Belgium	Netherlands	Hong Kong
	Denmark	Norway	Japan
	Finland	Portugal	New Zealand
	France	Spain	Singapore
	Germany	Sweden	
	Ireland	Switzerland	
	Israel	United Kingdom	

Board’s Role and Leadership

In our view, the board’s role is to provide proactive leadership and oversight – including on strategy, capital allocation, risk management, sustainability and corporate culture – with a long-term outlook, to protect and enhance stakeholder value. For the board to be able to fulfil its responsibilities effectively, it needs to have an appropriate balance between the executive and oversight functions, as well as a sufficient level of diversity and relevant skill sets.

4. MSCI Developed Markets Indexes - <https://www.msci.com/our-solutions/indexes/developed-markets>MSCI

Balance of independence – Significant independent representation on the board is important to ensure appropriate challenge and protection of investor interests. We believe that, in principle, at least 50 per cent of the board members elected by shareholders⁵ should be independent, although we accept lower levels in certain markets, taking into consideration cultural and historical differences. We generally vote against the (re-)election of non-independent non-executive directors where the balance of independent directors does not meet these standards and may also vote against executive directors for this reason.

In assessing independence, we usually consider a candidate's current or former employment with the company, family links with other directors, commercial links with the company, significant shareholding in the company, and tenure in excess of nine years, with some exceptions. We are more likely to support independent director candidates nominated by shareholders if the board does not meet our standards for independent representation.

Our expectations for board independence in key markets are as below.

- ◆ Developed Markets except Europe and Japan: We expect all companies to have at least 50 per cent independence on the board. If the level is not met, we generally vote against the (re-)election of non-independent, non-executive director nominees.
- ◆ UK: We expect at least 50 per cent of the board excluding the chair to be independent. If this is not met, we generally vote against the (re-)election of the non-independent, non-executive director nominees.
- ◆ Continental Europe⁶: We expect all non-controlled companies⁷ and large cap (€4 billion or more) controlled companies to have at least 50 per cent independence on the board⁸. We expect smaller controlled companies to have at least one third independence. If these levels are not met, we generally vote against the (re-)election of non-independent, non-executive director nominees.
- ◆ Japan: We expect Prime Market companies to have at least one third independence among directors and all other companies to have at least 20 per cent or two independent directors, whichever is higher. We apply higher expectations for controlled companies in line with the local Corporate Governance Code^{9,10}; an independent majority at Prime Market companies and one third at other companies. If these expectations are not met, we generally vote against the re-election of the nomination committee chair as well as the (re-) election of non-independent, non-executive director nominees.
- ◆ Korea: We generally vote against non-independent director nominees when independent directors comprise less than majority of the board in case of large (KRW 2 trillion or more of assets) companies; or less than 25 per cent in the case of smaller companies.
- ◆ India: We generally vote against non-independent director nominees when less than one-third of the board is independent, or if less than 50 per cent where the board chair is an executive or a promoter.
- ◆ Other Emerging Markets: We generally vote against non-independent non-executive directors where less than one third of board is independent. We also vote against proposals where candidates are not named.

5. Excluding, where applicable, employee representatives or employee shareholder representatives

6. Members of the European Union, Andorra, Foroe Islands, Iceland, Liechtenstein, Monaco, Norway, San Marino and Switzerland

7. A non-controlled company is a company which does not have a shareholder (or a group of shareholders acting in concert) with over 50% of voting rights.

8. Same as footnote 2

9. Japan's Corporate Governance Code by Tokyo Stock Exchange, June 2021 (<https://www.jpx.co.jp/english/news/1020/b5b4pj0000046kxj-att/b5b4pj0000046i07.pdf>)

10. We have set differential expectations for board independence at controlled companies, taking into account the regional differences in the approach in the industry.

Board diversity – The board should comprise directors with an appropriate range of skills and experiences. Diversity in gender, race, ethnicity and background are amongst the factors we consider when assessing board composition. We generally vote against the re-election of the nomination committee chair of companies where there is insufficient gender balance (typically female representation) on the board. We also set expectations for board racial diversity in markets where data are uniformly available. Below are our minimum expectations for key markets.

US	Gender	Mega cap (US\$50bn or more): 40%	Mid to large cap (US\$5bn to 50bn): 35%	Small cap (Below US\$5bn): 30%
	Race	Russell 3000 and S&P 1500: one director from ethnic or racial minority background		
UK	Gender	Premium and Standard listed companies: 40% women and One senior board position held by a woman	Other companies: 35%	
	Race	FTSE 350, FTSE SmallCap, ISEQ20 and AIM-listed companies with market cap of over GBP 500 million: one director from ethnic or racial minority background		
Continental Europe	Gender	Large cap (€4bn or more): 40%	Mid cap (€500mn to 4bn): 35%	Small cap (Below €500mn): 30%
Hong Kong	Gender	Large cap (US\$10bn or more): 25%	Mid & Small cap (Below US\$10bn): 20%	
Mainland China	Gender	20%		
Taiwan	Gender	Large cap (US\$10bn or more): 15%	Mid & Small cap (Below US\$10bn): 20%	
Japan	Gender	15%		
South Korea	Gender	Large cap (US\$10bn or more): 15%	Mid & small cap (Below US\$10bn): 10%	
India	Gender	One independent female director		

Diversity on executive level – In addition to having sufficient diversity in the board room, we believe that the board should also be responsible for ensuring diversity among top management. We may vote against the chair or relevant board director at large companies in the US, UK and Western Europe where there is no woman in the executive team or equivalent.

Chair & CEO roles – The Chair has a key role in driving the work of the board and providing effective leadership and oversight of the company. We believe in the separation of the roles of Chair and Chief Executive. Where companies combine these, we expect a clear explanation and shareholder safeguards such as a strong lead independent director. At larger companies in developed markets except Japan, we generally vote against the individual where the roles of the chair and CEO are combined, unless 1) the board meets our minimum independent requirement and has a lead (or senior) independent director; or 2) company provides reasonable justification. At UK companies, we generally vote against combined chair and CEOs.

Overboarding – Directors need to be able to devote time to their important role. We may vote against directors who sit on more than five public company boards. We consider workload for the board chair or committee members to be more significant and may take this into account when making voting decisions.

Worker director – We look to support directors appointed from the workforce where possible. In cases where there is a tension between board independence falling slightly below our expectation, and supporting a worker director, we may support the worker director.

Board committees – Boards should establish committees to consider remuneration, nomination and audit issues. These should be at least majority independent, with full independence the standard in some markets. Executive directors should not be involved in the determination of their own remuneration. In developed markets, we generally vote against non-independent directors on audit, remuneration and nomination committees where these are not majority independent¹¹. We expect companies to disclose in their annual report work plans, progress and targets of key board committees.

Unequal voting rights – We believe in the principle of one share, one vote. We therefore generally vote against the re-election of the chair and the lead independent director of US companies where unequal voting rights are in place. In Europe, we will generally vote against directors or against the discharge of (non-executive) directors where unequal voting rights are present.

Cross-shareholdings¹² (Japan) – We do not favour the practice of cross-shareholdings unless there is clear strategic imperative as it is often an inefficient use of investor funds and can lead to governance problems. We may vote against the board chair of companies which allocate over 10 per cent of net assets in cross-shareholdings. This approach may also apply to companies in South Korea on a case by case basis.

11. The policy does not apply to many companies in Japan, where these committees are mostly established on a voluntary basis and the disclosure on committee membership is limited, which prevents us from applying the policy.

12. This is a practice where companies hold each others' shares, although the term is also used for when shares are held unilaterally, but for similar purposes.

Climate change – We believe that the board should be responsible for the company’s climate change strategy and the oversight of relevant issues. Where the strategy or actions of a company in a carbon intensive sector fall short of that required for low carbon transition we may vote against the re-election of the chair or relevant board director, based on assessments by Transition Pathway Initiative (TPI)¹³ and InfluenceMap¹⁴ as below.

		TPI score		InfluenceMap score (CA100+ companies)
Most carbon intensive sectors (oil and gas, coal mining, Electric utilities)	Developed markets	Below 4	Or	D or worse
	Emerging markets	Below 3		
Carbon intensive sectors (airlines, aluminum, autos, cement, chemicals, consumer goods, diversified mining, industrials, paper, shipping, steel, food producers)	Developed markets	Below 3	Or	D- or worse
	Emerging markets	Below 3		

Coal and Energy Policy – As outlined within the Coal Policy, in addition to engaging over time with companies who derive more than 10 per cent of their revenue from thermal or metallurgical coal¹⁵, we expect to also vote against the re-election of the chair or relevant board director at thermal coal companies whose transition plans remain inadequate, and/or who do not provide Task Force on Climate-Related Financial Disclosures (TCFD) disclosure or equivalent reporting. The Energy policy commits us to voting against company Chairs per the approach discussed in the table above, for the most carbon intensive sectors.

Biodiversity and nature – We encourage companies where biodiversity and nature is a material issue to recognise the importance of the topic, and to work on it in line with our engagement asks that include reporting on progress. We may vote against the chair of the board or the relevant board director of companies where we have identified biodiversity and nature loss as a material issue, but that fail to take appropriate steps to address it. We have a biodiversity and nature watch list, informed by internal and external sources that also inform our engagements.

13. More information available at <https://www.transitionpathwayinitiative.org/sectors>

14. More Information available at <https://ca100.influencemap.org/lobbying-disclosures>

15. We plan to engage with issuers held in our actively managed portfolios with more than 10 per cent revenue exposure to thermal coal by the end of 2023, and those in our passively managed portfolios by the end of 2025.

Human rights – We use a number of industry-recognised benchmarks¹⁶ and screening tools to identify companies that are violating, or are at risk of violating, United Nations Global Compact (UNGC) Principles 1 to 6¹⁷.

For companies that are considered to be non-compliant with UNGC Principles 1 to 6, or if they fall below our expectations in other reference benchmarks, we may vote against the re-election of the chair or relevant board director.

We currently use the providers listed below to assess company human rights risk exposure and practices. This may change over time, as information providers change and as our assessment of companies' management of salient human rights issues evolve.

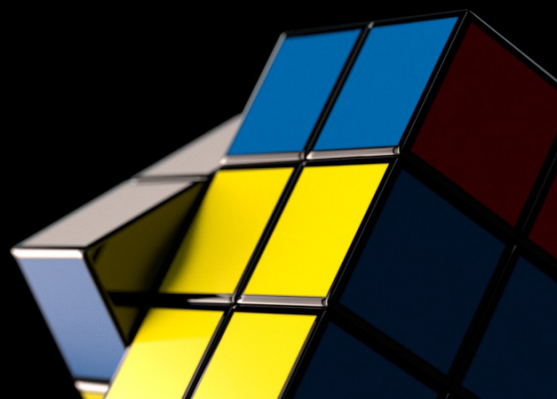
Data provider / benchmark	Sectors covered
Sustainalytics Global Standards Screening	Across industries
World Benchmarking Alliance: Corporate Human Rights Benchmark	Apparel; automotive manufacturing; extractives; food and agricultural products; ICT manufacturing
World Benchmarking Alliance: Social Transformation Baseline Assessment – human rights pillar	Across industries
Know the Chain	ICT; food and beverage; apparel and footwear
Ranking Digital Rights	Digital platforms and telecommunications

Workforce Risk Management – In accordance with our inclusive growth and shared prosperity theme, we believe that boards have a responsibility to oversee management's responsibility to create a safe, harmonious, and prosperous relationship between direct and third party workers, executives, and employee representative groups. For companies where we believe workforce issues are very material to the company's success, we expect to vote against directors responsible for employee oversight, or corporate social responsibility, if there is strong evidence of persistent weak management behaviours towards the workforce at the company both in absolute and sector relative terms.

16. Human rights benchmarks for investors: an overview by UNPRI, August 2022 (<https://www.unpri.org/human-rights/human-rights-benchmarks-for-investors-an-overview/10375.article?adredir=1>)

17. Principle 1: Business should support and respect the protection of internationally proclaimed human rights; and
 Principle 2: make sure that they are not complicit in human rights abuses.
 Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
 Principle 4: the elimination of all forms of forced and compulsory labour.
 Principle 5: the effective abolition of child labour; and
 Principle 6: the elimination of discrimination in respect of employment and occupation.

Remuneration should be set at the level required to reward and motivate company management and align with company strategy and long-term shareholder interests. We advocate for equitable pay structures, based upon the principle of inclusive growth and shared prosperity. We generally vote against remuneration policies, reports or proposals which are not aligned with key aspects of our positions outlined below, while taking into account different practices in certain markets.



Quantum – In accordance with our inclusive growth and shared prosperity theme, we believe that executive pay should be set at a level which rewards executives sufficiently according to the size and complexity of their businesses without exacerbating social inequality. For North America and Western Europe, we use a proprietary framework to determine the level of CEO pay which we believe is appropriate, taking into consideration company size in terms of market capitalisation and the number of employees.

The framework allows us to assess CEOs' earnings as a multiple of the national average household income in these markets; the exact thresholds vary by local market context but generally range from around 25 times to 140 times for the most complex and largest companies. Should the average pay of the CEO over three years exceed the level we believe is appropriate, we may vote against relevant proposals such as the remuneration policy and report. If we vote against relevant proposals because of excessive pay three years in a row, and do not feel that the board is adequately responding to our concerns, we may vote against members of the remuneration committee, particularly in the most extreme circumstances, where pay is in the top 10% of the framework for each company size and complexity group.

Shareholding requirement – Senior executives should have a sizable portion of their remuneration in shares to align with the long-term interests of the company. In the UK, we expect chief executives of FTSE100 companies to hold a minimum of 400 per cent of base salary in shares (300 per cent for FTSE250 and 200 per cent for all other companies) within five years of their appointment.

Performance link – Remuneration linked to short- and long-term performance measures has a role in incentivising management if the conditions are set appropriately. Performance criteria should be clearly defined, challenging and align with the companies' strategic objectives, without incentivising excessive risk-taking. We encourage the inclusion of appropriate measures of ESG performance amongst the criteria determining variable remuneration, with a clear rationale provided for the metrics chosen.

Other share-based incentives – We welcome share-based incentives that underpin the alignment of interest between management and shareholders. Non-executive directors' remuneration may include or comprise shares but should not be linked to performance criteria. We welcome schemes which encourage the participation of all staff in companies' equity.

Dilution – Companies should be mindful of the dilutive impact of share-based remuneration. The overall impact of such plans should generally be limited to 10 per cent of total issued capital in ten years.

Accountability – Where a company has taken insufficient action to address previous significant shareholder votes against the Remuneration Report, Policy or advisory vote, we may vote against the re-election of remuneration committee members.

Vesting, holding and deferral periods – Sufficient disclosure and structure regarding these is required. In the UK, we expect the total vesting and holding period to be at least five years, in line with the recommendations of the Corporate Governance Code.

Malus and clawback – Both these provisions should be present in executive remuneration packages with specific reference made to the circumstances in which a company would exercise them.



We expect timely and appropriately detailed disclosure from companies in order to exercise our voting rights effectively. This should cover strategic, financial and operational performance, risk management and material ESG factors.

Annual report – We may vote against specific resolutions, such as approval of annual reports and accounts or financial statements, where we consider there is inadequate disclosure on governance issues or there are broader concerns about companies' governance.

'Say on climate' – We assess Say on Climate resolutions put forward by companies on a case-by-case basis. Our support of the proposal is contingent on factors such as our assessment of the climate strategy proposed, the scope of any targets, management oversight and accountability, and capital expenditure plans. We typically support proposals to introduce a regular "say-on-climate" resolution, regular reporting on climate or a vote on climate transition plans.

Bundling – Resolutions for shareholder approval should not 'bundle' together separate matters.

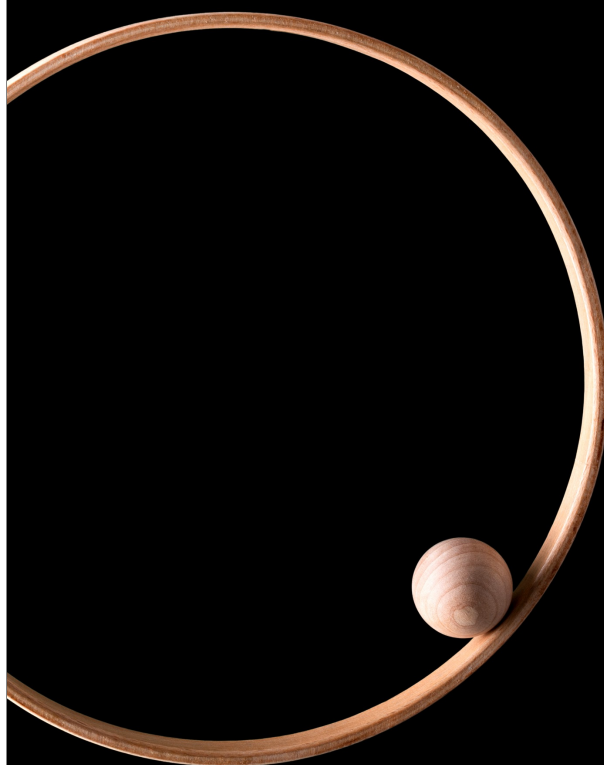
A robust and reliable set of accounts and audit is critical for investor confidence.

Auditor tenure & independence – We review auditor independence and any concerns that are flagged when deciding on the re-election of external or statutory auditors. We expect companies to tender audit work at least once every ten years.

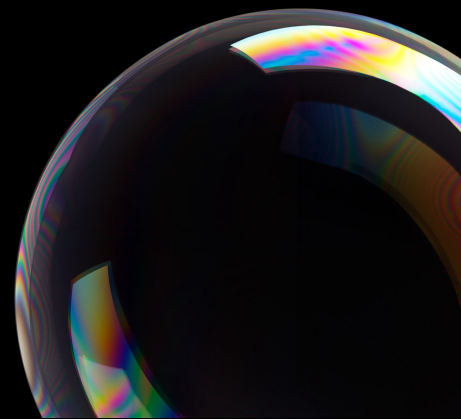
UK – In line with the Guidelines of the Pension and Lifetime Savings Association (PLSA), we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years; and 2) there has not been a recent tender process; and/or 3) there is no disclosure on plans to put the audit service out to tender. If the auditor tenure exceeds 20 years, we may vote against the appointment of auditor as well as the audit committee chair.

South Africa – In light of the Independent Regulatory Board for Auditors rule, we may vote against the audit committee chair where 1) the tenure of the auditor exceeds ten years and there is no public commitment to rotate their audit firm within a year; or 2) the auditor has been reappointed before the end of a five-year cooling off period.

Developed Markets – We may vote against the audit committee chair if the tenure of the external auditor exceeds 20 years.



Shareholders are amongst the principal providers of the capital which companies need to grow and flourish. Companies should be mindful of the interests of existing shareholders as they consider changes to their capital structure. We believe all shareholders should have equal voting and other rights, proportionate to their shareholding, and that these rights must be protected. This includes minority shareholders having voting rights on key decisions or transactions which affect their interest in the company.



Share repurchase – We generally support authorities to repurchase shares as long as 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 15 per cent of issued capital could be held ‘in treasury’, with shares repurchased above that level to be cancelled.

Pre-emption – Existing shareholders should have a pre-emptive right to participate in significant capital increases. We recognise that pre-emption is not an established concept in some markets. We generally vote against share issuance authority without pre-emption which would result in dilution of existing shareholders by more than 15 per cent and we apply a lower limit where that is the local market good practice standard.

Other share issuance – Whilst companies need flexibility to issue new capital in response to opportunities, we believe any event requiring more than one third of existing capital should be brought to a shareholders’ meeting for specific approval.

Related party transactions – We assess related party transactions on a case by case basis. Companies should ensure that they have adequate mechanisms to avoid conflicts of interest in transactions with related parties. This may include seeking specific shareholder approval.

‘Poison pill’ defences – We generally vote against the introduction or continuation of ‘poison pill’ defences. However, we are mindful of increasing corporate power concentration in certain sectors and markets, and its links to anti-competition, economic inequality, and lower levels of innovation and investment. Therefore, we may support poison pills and their introduction by exception where we believe there is a long term, holistic, value creation argument for a company remaining independent.

Virtual-only meetings - We recognise that there can be good reasons to hold shareholder meetings virtually but these should not be used to limit accountability to shareholders. We generally vote against resolutions to introduce virtual only meetings where there is no undertaking only to hold such meetings where required for public health or other convincing reasons.

Shareholder resolutions are an increasingly important mechanism for raising concerns about companies' oversight and management of ESG issues. Whilst they are most common in the United States, they are becoming more common in other developed markets, such as the European Union, the UK and Japan. We support resolutions which call for enhanced disclosure, and resolutions that improve accountability and where we believe the resolution is achievable and fair.

Climate change resolutions – Shareholder resolutions are considered on a case-by-case basis. We typically support shareholder resolutions requesting the adoption of climate change policies; adoption of science-based greenhouse gas emission reduction targets; assessments of climate risk and resilience; credible Paris-aligned transition plans; and Paris-aligned accounts and audit.

Biodiversity and nature-related resolutions – We will consider shareholder resolutions on biodiversity and nature-related topics, particularly for companies where this is a material issue. Resolutions could be related to our engagement asks, or on some of the key topics we focus on including but not limited to deforestation, natural resource overexploitation and pollution as examples.

Social resolutions – We support resolutions which call for enhanced disclosure on social issues. These include resolutions: calling for human rights impact assessments, reporting of gender and ethnicity pay gaps in markets where it is possible, access to remedy processes according to the UN Guiding Principles for Business and Human Rights (UNGPR), transparency on responsible tax. We generally support resolutions in line with our inclusive growth and shared prosperity beliefs, such as those related to; CEO-worker pay gaps, health and safety disparities, sick pay, labour rights, fair drug pricing, living wage provision for all employees, and fair lending practices.

Governance resolutions – We support shareholder proposals which defend or promote the governance principles set out in this policy. This includes resolutions: calling for an independent board chair, one share one vote; enhancing shareholders' rights to call special meetings or propose resolutions; and supporting majority voting in director elections. We also support resolutions calling for enhanced disclosure on political lobbying and political donations.

Technology and data - Ever increasing global use of technology and data has created challenges from a socio-economic and ethical perspective. We will support proposals that request greater transparency of the management of information and disinformation, along with enhanced insights into the use of artificial intelligence (AI) and algorithmic systems. This can include but is not limited to business operations, intellectual property and financial results.

Accountability – Although shareholder resolutions are often advisory, directors need to consider carefully the views expressed by shareholders in their voting and associated engagements. Where companies have failed to respond adequately to majority or significant votes in support of shareholder resolutions, we may vote against relevant directors.

The information presented may refer to HSBC Asset Management's global AUMs/figures and global policies. Even though local entities of HSBC Asset Management may be involved in the implementation and application of global policies, the numbers presented and the commitments listed are not necessarily a direct reflection of those of the local HSBC Asset Management entity.

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