

# Red Line VOTING

## - facilitating INVESTOR engagement

**E**xercising voting rights is one of the hallmarks of responsible investment. Equity owners can use their votes to encourage company management to act in line with the owners' interests (which, in the case of trustees, are the interests of the ultimate beneficiaries). However, many pension schemes and charities are invested in pooled funds. Typically, this has meant that they have had no control over voting decisions. Instead, managers have made these decisions on their behalf.

The Association of Member Nominated Trustees (AMNT) is seeking to change this with its new Red Line Voting initiative, launched in December 2015. It's designed to deliver greater influence to trustees - including those responsible for smaller pension schemes and those that invest in pooled funds - by enabling them to direct how their votes are cast on their UK equity holdings.



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### Examples of AMNT Red Line Voting guidelines



#### Environmental

Vote against the board Chair when there is a major incident of environmental damage in the year under report and the directors' report does not include a substantial account in response.



#### Social

Vote against the board's remuneration proposals if any staff are paid below the Living Wage and the company has not set out plans to address this.



#### Governance

Vote against the nomination committee chair if the board Chair and CEO roles are occupied by the same person for over a year.

We welcome this initiative. As ESG concerns become increasingly mainstream and not just the focus of a specialist few, it promises to be a practical way of allowing broader trustee participation in the voting process and improving the quality of investor oversight.

**What are the Red Lines?** They are 37 voting guidelines covering environmental, social and governance (ESG) issues. They have been developed to apply to companies listed on the London Stock Exchange - ie to the securities held within UK equity portfolios. The box gives examples of the voting guidelines.

#### How will the AMNT Red Lines work?

Trustees will not necessarily agree with all of the voting guidelines. They can adopt as many or as few of them as they wish. They then pass their chosen guidelines to their investment managers who are encouraged to vote in line with those guidelines on a "comply or explain" basis. Investment managers can still exercise judgement when voting, but where they do not vote in line with the guidelines, they are expected to explain their decision.

**What are the potential benefits?** The initiative is designed to enable pension schemes of all sizes to direct voting, while at the same time making it easier for investment managers to deal with those requests. By increasing trustees' involvement in voting decisions, it aims to better align corporate activity with scheme members' interests, which will hopefully lead to improved long-term financial performance.

**The practicalities of implementation:** In our recent responsible investment survey (see page 8), we asked for investment managers' views of the AMNT Red Line Voting initiative. While their responses suggested many managers agree with the Red Lines' overall objectives, it was clear that most are not yet set up to deal with this type of request from clients. As such, enquiries and pressure from clients is likely to expedite change within the investment management industry. If you would like to adopt some or all of the AMNT Red Lines, we would be pleased to liaise with your managers about implementing them on your behalf.

LCP is a firm of financial, actuarial and business consultants, specialising in the areas of pensions, investment, insurance and business analytics. This article was first published in LCP's [Investing Responsibly magazine](#)

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