

An aerial, high-angle photograph of a modern building's exterior. The building features a complex, geometric facade made of glass and dark metal frames, creating a series of overlapping, angular shapes. The glass reflects the sky and surrounding environment. Below the building, a lush green landscape with trees and a paved area is visible. The overall color palette is dominated by blues, greys, and greens.

Pensions UK

**Stewardship and
Voting Guidelines
2026**

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About us

The voice of pensions

Pensions UK is the voice of pensions in the UK, trusted and heard by the Government and the pensions industry. For more than 100 years we've delivered influential thought leadership, practical guidance and research for our members; pro-actively solving the sector's biggest issues and setting the future direction. As a not-for-profit organisation, we exist for the benefit of our members, and to deliver the best possible outcome for savers in the UK, so they can retire in confidence and with dignity.

Our membership and reach

We're the voice of pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest £2 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. Across our work in strategic and regulatory policy development, advocacy, membership engagement, events and communications, we engage with over 2,500 organisations, with nearly 16,000 contacts within our membership and a further 17,000 in the pensions and financial services industries.

Our objectives

Pensions UK has set five strategic objectives for 2025 to 2029. These are:

- Making pensions better
- Influencing pensions policy
- Giving outstanding value to our members
- Building a great place to work
- Securing our future as a purpose-led, forward-thinking organisation

Acknowledgements

Pensions UK would like to thank the members of our Stewardship Advisory Group for their input and continued policy guidance. We would also like to thank Minerva Analytics for their support and their excellent 2025 proxy season review¹.

¹ Minerva Analytics, 2025, Minerva Briefing: 2025 Proxy Season Review, <https://www.manifest.co.uk/downloads/2025-proxy-season-review/>

Introduction

In a rapidly changing global context, marked by technological disruption, geopolitical uncertainty, and shifting societal expectations, effective stewardship is more critical than ever. Pension schemes have a responsibility to act as long-term stewards of capital, ensuring that companies are equipped to manage risks and seize opportunities in ways that protect and grow members' savings. Our guidelines are designed to support this mission. They provide a clear framework for voting and engagement that reflects both enduring principles and emerging realities. By applying these guidelines, schemes can help shape corporate behaviour, foster sustainable value creation, and uphold the integrity of markets, delivering outcomes that matter for members and society alike.

The 2026 Stewardship and Voting Guidelines come at a time of profound change in the investment and corporate governance landscape. Over the past year, we have seen a sharp rise in shareholder resolutions on artificial intelligence (AI) and a surge in cybersecurity-related incidents, underscoring the need for stronger expectations of corporate behaviour in these areas. Our updated guidelines provide clearer principles and voting recommendations to ensure companies are managing these risks responsibly and transparently.

Governance remains a cornerstone of stewardship, but the dynamics are shifting. While scrutiny of boards and leadership continues to intensify, shareholders increasingly face structural limits on their ability to influence outcomes. This reality calls for more collaborative approaches and engagement through emerging industry initiatives, which we highlight in this year's guidance.

On climate and sustainability, the global backlash against ESG has grown louder, even as policy developments in 2025 have reinforced the need for credible transition planning and disclosure. Our narrative reflects this duality: the need to maintain long-term sustainability objectives while navigating a more contested environment. Similarly, social factors and workforce issues have moved up the agenda, with investors recognising their impact on resilience and performance. Our strengthened guidance on these themes reaffirms our commitment to equity, diversity, and inclusion (EDI) as a driver of better outcomes.

This year's guidelines also introduce two new elements. First, a framing section on emerging trends from the 2025 voting season, providing context for the evolving stewardship landscape. Second, an introduction to pass-through voting (in Section 9) as an option for exercising shareholder rights. While not suitable for all schemes, we present this neutrally as part of a broader conversation about member voice and choice. These updates equip pension schemes with the tools and insight needed to navigate complexity and fulfil their stewardship duties in an era of unprecedented change.

Purpose of this guide

This guide is aimed at scheme investors, their investment service providers and companies interested in using Pensions UK’s guidelines as a benchmark for their corporate reporting and investor relation work. The principles set in this document, although drafted for a UK context, are globally applicable, and schemes may wish to apply this framework more broadly than just to their holdings in UK equities.

Below is an outline of key sections of the document:

- The policy framework for corporate governance and stewardship – Reviews the new regulations on shareholder engagement and its implications for scheme investors. It also discusses how corporate governance and stewardship relate to one another.
- A holistic approach to stewardship – Explains what stewardship and engagement are, as well as outlines key considerations for schemes building effective stewardship, engagement and voting policies. This section includes practical checklists.
- Pensions UK’s Corporate Governance Policy – Sets out what investors should look for when it comes to assessing corporate behaviour and governance overall. It seeks to address the overall question of “what does good corporate behaviour look like?”
- The Pensions UK Voting Guidelines – Delves into each of the key issues of interest to investors (such as audit, remuneration, climate change and workforce) and explores what investors should look for from companies, further exploring what good corporate behaviour looks like. It also discusses where investors might find evidence or metrics to inform decisions.
- Summary of voting recommendations – A chart summarising Pensions UK’s voting recommendations, both by issue and action.

Considering this guide has been published for more than a decade now, and that most pension practitioners will be familiar with the static sections (‘Policy framework for corporate governance and stewardship’, ‘Pensions UK’s Corporate Governance Policy’, ‘A holistic approach to stewardship’, ‘The Pensions UK voting guidelines’, ‘Using asset managers and advisers’) of the document, Pensions UK has decided to host these in our member hub.

Nevertheless, if you are just starting on your stewardship journey, we recommend reading the static chapters before delving into the Voting Guidelines.

Significant developments relevant to asset owners in 2025

Government’s delivery on manifesto commitments

1. Pensions Investment Review & launch of Pensions Commission

- Soon after coming into office in July 2024, the Government announced the launch of the Pensions Investment Review. The intent was for this to be a two-part review with Part 1 focused on investment and Part 2 focused on long term adequacy and sustainability challenges.
- The purpose of Part 1 was to consider how pension funds could boost UK growth through investment in productive assets in a way that also improved member outcomes. An interim report was published in November 2024², and two major consultations were launched alongside this:
 - Unlocking the UK Pensions Market for Growth³ which focused on accelerating consolidation in the DC market, introducing scale requirements, and embedding a value-for-money culture.
 - Local Government Pension Scheme (England and Wales): Fit for the Future⁴ which proposed reforms to asset pooling, governance, and local investment priorities for the LGPS.
 - Pensions UK responded to both – and our responses can be found on our website.^{5 6}
- The Review’s final report,⁷ published alongside the Government’s response to the two consultations,^{8 9} in May 2025, outlined the Government’s growth

² HM Treasury – Department for Work and Pensions – Ministry of Housing, Communities and Local Government, 2024, Pensions Investment Review – Interim Report, https://assets.publishing.service.gov.uk/media/6736181254652d03d5161199/Pensions_Investment_Review_interim_report.pdf

³ HM Treasury & Department for Work and Pensions, 2024, Unlocking the UK Pensions Market for Growth, Consultation on reforms to the Defined Contribution pension market to build scale and put savers first, https://assets.publishing.service.gov.uk/media/67372cf9c0b2bbee1a127202/pensions_investment_review_unlocking-the_uk_pensions_market_for_growth.pdf

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⁵ Pensions UK, 2025, Local Government Pension Scheme (England and Wales): Fit for the Future – Pensions UK response, <https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2025/LGPS-Fit-for-the-future-Jan-2025.pdf>

⁶ Pensions UK, 2025, Unlocking the UK Pensions Market for Growth – Pensions UK response, <https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2025/Pensions-Investment-Review-Unlocking-the-UK-pensions-market-for-growth-Jan-2025.pdf>

⁷ HM Treasury – Department for Work and Pensions – Ministry of Housing, Communities and Local Government, 2025, Pensions Investment Review – Final Report, https://assets.publishing.service.gov.uk/media/683971d8e0f10eed80aafb3a/27.05.2025_PM_-_final_report.pdf

⁸ HM Treasury & Department for Work and Pensions, 2024, Unlocking the UK Pensions Market for Growth – Consultation response, https://assets.publishing.service.gov.uk/media/683724c9dc6ebc5eca0cbb12/28_05_2025_Government_Response_Unlocking_the_UK_Pensions_Market_for_Growth.pdf

⁹ Ministry for Housing, Communities and Local Government, 2025, Local Government Pension Scheme (England and Wales): Fit for the Future, <https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/outcome/local-government-pension-scheme-england-and-wales-fit-for-the-future-government-response>

agenda and set out a series of measures to be legislated on through the Pension Schemes Bill.

- Part 2, “Finishing the job: Launching the Pensions Commission”¹⁰ was announced in July 2025. The Commission is to be chaired by Baroness Jeannie Drake, to review the long-term future of UK pensions. Its remit is to tackle retirement adequacy, fairness, and sustainability, building on the Pensions Investment Review and Pension Schemes Bill. We expect a final report to be issued in 2027.

2. Introduction of the Pension Schemes Bill¹¹

- The long-awaited Pensions Schemes Bill, introduced in June 2025, has announced sweeping reforms to scale, value, and investment in UK pensions. Key measures include:
 - DC consolidation & scale: Mandates creation of “megafunds” with at least £25 billion in default funds by 2030, driving economies of scale and enabling investment in productive assets.
 - Small pots consolidation: Automatic transfer of deferred pots under £1,000 to authorised consolidators, reducing fragmentation and costs.
 - Value for Money Framework: Regulatory powers to enforce VFM standards across schemes, with first assessments expected in 2028.
 - DB surplus flexibility: Trustees can return surplus to employers under new statutory powers, subject to safeguards.
 - Decumulation duty: Schemes must offer default retirement pathways by 2027–28.
- In announcing these proposals in the Bill, the Government has positioned UK pensions as a lever for economic growth while also aiming to improve member outcomes. We expect the proposals in the Bill to lead to fewer, bigger schemes to unlock scale benefits through the consolidation of DC schemes and the Government hopes to drive greater investment in UK productive assets.
- We expect the Bill to receive Royal Assent in Spring 2026. Pensions UK has been involved and engaged with the Government and our members throughout the passage of the Bill.

3. Government commitment on transition plans

- In their manifesto, the Government made a commitment to mandating UK-regulated financial institutions and large companies to develop and

¹⁰ Department for Work and Pensions, 2025, Finishing the job: Launching the Pensions Commission, <https://www.gov.uk/government/publications/finishing-the-job-launching-the-pensions-commission/finishing-the-job-launching-the-pensions-commission>

¹¹ UK Parliament, 2025, Pension Schemes Bill, <https://bills.parliament.uk/bills/3982>

implement credible transition plans that align with the 1.5C goal of the Paris Agreement.

- In June 2025, the Government issued a consultation¹² on transition plan requirements as part of a wider package of consultations signalling the first steps of this Government in developing a UK sustainability reporting framework that is fit for the long term.
- Pensions UK responded¹³ to the consultation and will continue to engage as proposals develop. We are expecting a further, follow-up consultation to articulate more detailed proposals around how the Government will meet their manifesto commitment. We have urged the Government to ensure it considers their transition plans proposals in the context of the wider changes coming in through the introduction of UK Sustainability Reporting Standards (UK SRS) and the DWP Review of TCFD.

4. Employment Rights Bill¹⁴

- The Employment Rights Bill, introduced in October 2024, is expected to receive Royal Assent in late 2025.
- Some of the key provisions within the Bill include:
 - Changes to day-one rights for unfair dismissal with the qualifying period being reduced from two years to six months (from 2027).
 - Ban on “fire and rehire” (2026).
 - Expanded family leave and statutory sick pay from day one (2026).
 - Stronger collective redundancy consultation rules and Fair Work Agency creation.
- From a pension scheme perspective, the Bill will lead to increased employment protections which may affect scheme sponsors’ financial resilience and HR strategies, influencing covenant assessments for DB schemes.
- It will also deliver enhanced worker rights and fair work standards, and this will likely become part of social factors in stewardship and ESG engagement, requiring asset owners to monitor compliance and workforce practices at investee companies.

¹² Department for Energy Security and Net Zero, 2025, Transition Plan Requirements: Implementation Routes, <https://www.gov.uk/government/consultations/climate-related-transition-plan-requirements/transition-plan-requirements-implementation-routes-accessible-webpage#foreword-by-the-secretary-of-state-for-energy-security-and-net-zero>

¹³ Pensions UK, 2025, Transition Plans requirements: Implementation routes – Pensions UK response, <https://www.pensionsuk.org.uk/Portals/0/Documents/Policy-Documents/2025/Transition-plans-requirements-implementation-routes-Sep-2025.pdf>

¹⁴ UK Parliament, 2024, Employment Rights Bill, <https://bills.parliament.uk/bills/3737>

5. Audit and corporate governance reform

- There is currently no timetable for the Audit and Corporate Governance Bill and therefore plans to replace the FRC with a new regulator (Corporate Reporting Authority) and strengthen director accountability remain delayed.

Updated FRC Stewardship Code

- The Financial Reporting Council published the revised Stewardship Code¹⁵ in June 2025, which will take effect from January 2026. This marks the most significant update since 2020 and reflects feedback from asset owners and service providers on reducing complexity while maintaining high standards.
- The key changes introduced include:
 - Reporting is now split into two components: Policy & Context (reported on every four years) and Activities & Outcomes (reported on annually).
 - The number of principles has been reduced, with greater flexibility and a stronger emphasis on outcome-focused reporting.
 - There are new dedicated principles for proxy advisors and service providers, ensuring accountability across the stewardship ecosystem.
- Throughout the Review, we have been engaged and our response to the initial consultation can be found on our website.¹⁶ We flagged a number of concerns, one of which was in relation to the revised definition which was notable in its omission of specific references to ‘environment’ and ‘society’. While we recognised that the new definition provides the scope to consider issues such as environment and society, the view of our members was that the change in removing these risks a dilution in standards at a time where consideration to the environment and society is front of mind for the Government and must also be front of mind for investee companies.
- In addition, we also flagged concerns around the practical implementation of the Code highlighting:
 - That the proposed definition of stewardship needed greater clarity to ensure it promotes long-term value creation and accountability.
 - Our concerns around the decision not to consult on accompanying guidance.
 - Our concerns that some changes could inadvertently weaken shareholder rights, limiting investors’ ability to hold companies to account effectively.

¹⁵ Financial Reporting Council, 2026, UK Stewardship Code 2026, <https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code/>

¹⁶ Pensions UK, 2025, Consultation response: FRC UK Stewardship Code Consultation, <https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/FRC-UK-Stewardship-Code-Consultation-PLSA-Consultation-response>

- The FRC hopes that the changes will streamline reporting obligations while reinforcing the importance of demonstrating real-world impact. They expect clearer, outcome-driven stewardship reporting from managers and improved comparability and accountability across the industry. We will continue to monitor the practical implementation of the Code and act to provide further support to members where appropriate.

FCA Primary Markets Review and related industry action

- The FCA continued its ambitious programme to make UK capital markets more competitive and attractive for issuers and investors. This year's developments included:
 - A simplified listing regime and overhaul of prospectus rules to reduce friction for companies seeking to raise capital.
 - The launch of PISCES (Private Intermittent Securities and Capital Exchange System), a new platform enabling private companies to trade shares periodically without a full public listing.
- The FCA hopes these reforms will revitalise UK equity markets and broaden access to private investment opportunities. There is the potential for greater exposure to private market opportunities through pooled vehicles, but we are clear on the need for enhanced governance oversight as listing standards evolve.
- That is why it was encouraging to see the development of the Governance for Growth Investor Campaign (GGIC).¹⁷ The initiative advocates for:
 - Strong governance as a foundation for sustainable economic growth
 - Enhanced voting transparency and protection of AGM participation rights.
- The campaign positions asset owners as influential voices in shaping governance standards during a period of regulatory change and reinforces collective engagement power to safeguard long-term interests while also supporting robust governance frameworks for investee companies. This aligns with our own policy position, and we are pleased to be a supporter of the initiative, considering how we can work collaboratively to ensure strong governance standards are not overlooked.

Vote reporting

- In March 2025, Pensions UK, in collaboration with the FCA-established, industry-led Vote Reporting Group (VRG) developed a new, standardised vote reporting template to support improved transparency, consistency, and engagement between asset managers and asset owners.

¹⁷ Railpen, 2025, Governance for Growth Investor Campaign (GGIC), <https://www.railpen.com/knowledge-hub/our-thinking/2025/governance-for-growth-investor-campaign-ggic/>

- The original PLSA vote reporting template was created to efficiently help trustees meet their new reporting requirements in terms of their managers' wider voting behaviour and provide information on a range of most significant votes (MSVs). It achieved good take-up but was not intended to provide standardised voting information.
- The new template has been developed to 'fill the gap', building upon USA SEC NP-X reporting to provide this information, in response to the growing recognition across the industry that: asset managers were being asked for this information cut in a variety of different ways to suit different clients and their advisers, and asset owners were still not getting the consistent, comparable information across all their managers' voting activity.
- The work of the VRG will be at the heart of the new template with relevant elements of the previous Pensions UK template complimenting it where it has been deemed necessary. We are confident that the new template provides a comprehensive, streamlined and simplified vote reporting template that:
 - Improves vote reporting quality and consistency.
 - Reduces ongoing / overall reporting costs for asset managers.
 - Increases transparency and comparability for clients.
 - Enhances engagement and market discipline.
- The template supports sustainable finance goals, regulatory developments, and ensures greater alignment between asset owners' and asset managers' stewardship objectives and activities. It also supports FCA objectives on market integrity and growth by improving voting transparency, accountability, and investor confidence.
- We have now also published detailed, technical guidance. This technical guidance builds on the FAQs document which was published alongside the new vote reporting template in March 2025 (under our previous name). It has been developed to support users of the template, particularly asset managers, proxy advisers, and asset owners, by providing detailed explanations for each field within the template. It offers clarity on data expectations, formatting, and interpretation, and is intended to maximise the template's usability and uptake.

The final version of the new template, developed by the industry, for the industry, incorporates key elements of the previous Pensions UK template, integrating the industry developed VRG template at its core. It is worth noting that there have been some changes made to the Pensions UK template from the version published

in March and so we encourage all users to review the template and technical guidance in full – all documents can be found on our website.¹⁸

¹⁸ Pensions UK, 2025, A new industry shareholder vote reporting template, <https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/A-new-industry-shareholder-Vote-Reporting-Template>

The 2025 voting season – key emerging trends

With thanks to Minerva Analytics and their excellent 2025 proxy season review, we have considered the key trends from 2025 and outlined how that has shaped our approach to updating this year’s guidelines.

Emerging trend	How have our guidelines developed?
<p>Strong support for management, but rising governance scrutiny:</p> <p>Across global markets, shareholder support for management remained high, with the UK recording the highest average support (97.4%). However, this masks growing dissent on specific issues, particularly around capital-related resolutions in the UK and governance-related proposals in the US.</p>	<p>Pensions UK has strengthened its expectations on capital issuance and related party transactions, particularly in light of UK regulatory changes that have relaxed shareholder approval requirements. We reaffirm our commitment to robust governance standards and oppose bundling of resolutions that dilute shareholder rights.</p>
<p>ESG – still central, but increasingly contested:</p> <p>The ESG landscape is shifting. While ESG remains mainstream, it is now more contested, particularly in the US where anti-ESG sentiment and regulatory rollbacks have led to a sharp decline in shareholder proposals and support for environmental and social resolutions. In contrast, governance proposals have gained traction globally.</p>	<p>Our latest member survey showed that 96% of respondents feel sustainability is important in their investment decision-making, with 71% saying it is extremely or very important. Additionally, 26% reported that the importance has increased. With member survey findings reinforcing our members’ commitment to sustainability, we have reframed ESG expectations through a systemic stewardship lens. This recognises that environmental and social risks, including</p>

	climate change, biodiversity loss, and inequality, are financially material and require long-term, portfolio-wide responses.
<p>Climate stewardship – momentum stalling:</p> <p>The number of Say on Climate votes has declined for the third consecutive year. Many companies that held votes in 2022 have not followed up, and some, particularly in oil and gas, have scaled back climate commitments. In the UK, average support for Say on Climate votes remains below market averages, and investor dissent is rising where companies fail to deliver credible transition plans.</p>	<p>We have clarified our expectations for climate transition plan disclosure and follow-up votes and will consider escalating votes against directors where companies fail to meet prior commitments or provide credible updates.</p>
<p>Diversity and inclusion – navigating the global backlash:</p> <p>The 2025 season saw a de-prioritisation of EDI by some investors, particularly in the US, where political developments have led to a rollback of EDI initiatives and disclosure.</p>	<p>Pensions UK remains steadfast in its belief that diverse boards drive better outcomes, strengthening our expectations on board diversity, reaffirming support for frameworks such as the Race at Work Charter and Disability Confident, and signalling willingness to escalate votes where EDI targets are persistently missed.</p>
<p>Executive pay – rising dissent amid US-UK pay gap:</p> <p>Executive pay continues to rise, with UK companies citing the need to compete with US firms. UK banks sought significant increases following the removal of the bonus cap. While most remuneration policies passed, many received high levels of dissent, especially where one-off awards or poor alignment with performance were evident.</p>	<p>We have updated our remuneration principles to emphasise the need for clear rationale, transparency, and alignment with long-term value creation. We will scrutinise pay increases more closely, particularly where they are not accompanied by improvements in employee pay or performance justification.</p>
<p>Emerging risks – AI, cybersecurity and virtual meetings:</p> <p>Investors are increasingly focused on AI governance, cybersecurity, and virtual-only AGMs. Proposals on the</p>	<p>We have introduced new expectations for cyber risk governance, including disclosure of frameworks, incident response, and board oversight. We also support hybrid AGM formats to ensure meaningful shareholder engagement.</p>

environmental impact of AI and the use of technology in fossil fuel industries are gaining traction. Meanwhile, concerns are growing over shareholder participation rights in virtual-only meetings.

Looking ahead to 2026: Stewardship in a shifting landscape – what can investors expect and what should they prepare for?

- We expect that governance will remain the dominant ESG pillar, with investors focusing on board effectiveness, shareholder rights, and transparency.
- Climate action must be reinvigorated, with investors holding companies accountable for transition plans and emissions targets.
- Remuneration scrutiny will intensify, especially where pay increases are not matched by performance or fairness to the wider workforce.
- Diversity and inclusion must not be sidelined. Investors should continue to press for progress despite global headwinds.
- Systemic risks like AI and cybersecurity will demand more robust governance and disclosure.
- Asset owners will increase scrutiny of asset managers' voting behaviour, with tools like the vote reporting template playing a key role in ensuring alignment.

Section 1: Board leadership and company purpose

An effective board is crucial to setting a positive company purpose, set of values and culture. The board should be diverse and committed to contributing to the long-term success of the company. The boardroom culture must enable each director to contribute effectively and create a whole greater than the sum of its parts.

Company leadership, purpose and culture vary widely, and investors should work with their advisers and managers to consider which issues are the most likely to be material to value-generation. For instance, one company might have an issue with its supply chain and another an issue with staff retention.

The role of culture

The Covid-19 pandemic ushered in a new era of how we look at company culture and the treatment of workforces. While we're not fully back to "normal" in terms of pre-covid ways of working, we're now in a new phase of experimentation and tension in relation to employee expectations around flexibility and employer expectations around a return to office presence.

This is all really important for investors. Cultural failures can damage corporate reputation and substantially affect investment returns. The 2018 UK Corporate Governance Code clearly highlighted the role of the board in determining and assessing a company's culture and values, and how the desired culture has been embedded.

Culture is difficult to assess, but there are performance metrics available that can be helpful for raising key questions. Pensions UK has previously undertaken work¹⁹ to determine the value of an engaged, motivated and skilled workforce through a range of proxy metrics. The aim is for investors to use this to assess its company culture through different sources of information, including their communications with employees, shareholders and wider stakeholders.

¹⁹ Pensions UK, 2016, Understanding the Worth of the Workforce: A Stewardship Toolkit for Pension Funds, <https://www.plsa.co.uk/portals/0/Documents/0591-Understanding-the-worth-of-the-workforce-a-stewardship-toolkit-for-pension-funds.pdf>

A notable development in 2024 was the FCA’s publication highlighting the findings of their culture and non-financial misconduct survey.²⁰ This surveyed 1,028 regulated wholesale financial services firms and asked them about recorded incidents of non-financial misconduct in 2021, 2022 and 2023. The findings showed that the number of reported non-financial misconduct incidents increased across the three-year period with the most common types of misconduct being bullying/harassment (26%), discrimination (23%) and ‘other’ (41%). While the report highlights that action (disciplinary or other) was taken in 43% of cases, more work is likely to be needed to fully understand the survey findings, and this represents an area where greater focus may be required as we move into 2025.

In a recent letter²¹ to the Treasury Select Committee, the FCA reaffirmed that non-financial misconduct, including bullying, harassment, and violence, is already a regulatory issue for all firms, ahead of new rules coming into force on 1 September 2026 that will formally integrate non-financial misconduct into the Conduct Rules, fitness and propriety assessments, and breach notifications.

Following broad industry support for the Consultation Paper CP25/18²², the FCA is expected to publish updated Handbook guidance by the end of 2025 to help firms interpret these rules. It continues to prioritise supervisory oversight, with 76 open non-financial misconduct related cases across sectors, and has published data on the use of non-disclosure agreements (NDAs) in wholesale firms to support benchmarking and encourage firms to review their internal reporting and cultural framework.

Evidence base

Shareholders will naturally look at financial results and wider evidence that the chair and the board are adhering to the spirit of the Corporate Governance Code’s Principles. For instance, significant pay discrepancies between a company’s senior executives and the rest of the workforce, as well as gender or ethnicity pay gaps, can be signifiers of wider issues within a workplace’s culture and processes.

To ensure a strong and inclusive workplace culture, clarity on company strategy, culture and the business model should flow through every part of the annual report. This should include information on a company’s employment model and working practices – given their significance to a company’s long-term performance – and how this is linked to the firm’s culture and purpose.

²⁰ FCA, ‘Culture and non-financial misconduct survey – findings, 2024, <https://www.fca.org.uk/data/culture-non-financial-misconduct-survey-findings>

²¹ FCA, 2025, RE: Sexism in the City – FCA response to committee recommendations, <https://committees.parliament.uk/publications/49964/documents/269044/default/>

²² FCA, 2025, Consultation Paper CP25/18 – Tackling non-financial misconduct in financial services: Consultation on guidance in the Code of Conduct (COCON) and the Fit and Proper Test for Employees and Senior Personnel (FIT) sourcebooks including Policy Statement on amendment to the Code of Conduct (COCON) (CP23/20), <https://www.fca.org.uk/publication/consultation/cp25-18.pdf>

The annual report should have clear information on workforce engagement as well as draw clear links between any employee survey findings, actions undertaken in response to this and the expected impact. Key measures include employee turnover and employee survey follow-up. Additionally, a company's strategic report should clearly articulate how its key assets contribute to the generation of sustainable value creation. Clear connections should be apparent between chosen financial and non-financial priorities and KPIs selected by the company. Outcomes for the company and its stakeholders should be measurable, incentivised, and integrated into remuneration arrangements, with appropriate outcome measures over a reasonable time horizon.

Shareholders may want to undertake a closer analysis of the narrative within company statements, noting the tenor and language used in describing the approach to the workforce and stakeholders. In addition, this analysis should consider whether messaging from the chair and chief executive (CEO) statements are clear regarding the aims and culture of the company. A feeling of alignment and consistency should be apparent throughout the document.

Leadership purpose and culture can be difficult to evaluate purely through reading company reports and therefore should be enhanced by shareholder engagement, which is central in reviewing corporate behaviour and assessing performance on an ongoing basis. Investors should be alert to practices that limit meaningful engagement, such as virtual-only AGMs that restrict shareholder participation, or the use of bundled resolutions that obscure individual accountability. These practices may undermine transparency and should be challenged where they occur.

The best indicators to use will depend on the situation, the context and the specific environment in which a company operates. Investors should look for reliable and consistent sources of data, such as the recent FCA non-financial misconduct survey, which allow comparison with others in the sector over time.

What does good company behaviour look like?

- Corporate purpose, culture and values are aligned with company strategy. This alignment should continue through the recruitment, performance management and reward structures, all of which should be aimed at incentivising behaviour that is consistent with the company's purpose and values.
- There is a clear link between good performance, the effectiveness of the board and results that are consistent with the company's stated strategy. Any weakness in performance should be adequately explained and addressed and should not be the result of imprudent management, poor judgement or weakness in corporate governance. It should rather be the result of external factors over which the board has limited control, but which it is taking steps to combat, nonetheless.

- The board demonstrates awareness of its s.127 duties under the 2006 Companies Act.²³ This is a requirement for directors to have regard to other stakeholders, including workers, customers, suppliers as well as the wider society and environment. This should include evidence of a plan for engagement with stakeholders, as well as activities undertaken and consequent outcomes.
- The board demonstrates positive relationships with key stakeholders. The board should be able to communicate how stakeholder perspectives are fed into boardroom considerations, which should include shareholders - the quality of this dialogue is vital for assessing culture especially.
- The annual report offers a fair, balanced and understandable assessment of the company's prospects and position. It should cover both financial and non-financial issues and outline how the board has fulfilled its responsibilities.
- Company statements refer to the workforce as a source of value, not a risk to be managed. The 2018 Corporate Governance Code explicitly clarified a company's responsibilities to shareholders and stakeholders, including its workforce.
 - The chair is engaged with the company's shareholders on governance and culture. The chair should be accessible, accept legitimate shareholder requests for meetings and convey relevant sentiments and dialogue back to the board.
 - Where shareholder engagement is constrained, whether through inaccessible meeting formats, lack of responsiveness, or procedural barriers, investors should consider escalating concerns through voting or direct engagement.
- Governance reporting is focused on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation.²⁴

How investors should consider voting

The most appropriate route for voicing general concerns is through voting on the annual report and accounts. Investors should consider voting against adoption of a company's annual report and accounts if:

- Key stakeholder relationships, including with shareholders and the workforce, are being neglected and the board is not adhering to the spirit of the Corporate Governance Code requirement to engage and support stakeholder constituencies.

²³ Companies Act 2006, 2006, The Stationery Office, <https://www.legislation.gov.uk/ukpga/2006/46/contents>

²⁴ New Corporate Governance Code 2024 principle which comes into force on 1 January 2025.

- Disclosure of the business model fails to convey how the company intends to generate and preserve long-term value.
- The company fails to provide a fair and balanced explanation of the composition, stability, skills and capabilities and engagement levels of the company's workforce.

More specific concerns related to the quality of the company's interaction with shareholders could be addressed by voting against the re-election of the chair if:

- The chair has declined a legitimate shareholder request for a meeting without offering a valid reason as to why or has failed to find a mutually convenient time without undue delay.
- The chair has repeatedly failed to address investors' concerns about the relationship between the company and key stakeholders.
- The chair has had significant involvement, whether as an executive director or a non-executive director, in material failures of governance, stewardship or fiduciary responsibilities at a company or other entity.
- The company has adopted virtual-only meeting formats without providing adequate mechanisms for shareholder participation and scrutiny.
- The company has used bundled resolutions that prevent shareholders from expressing views on individual governance matters.

Section 2: Division of responsibilities

Separation of the roles of the chair and chief executive

A key role for the board is to scrutinise the operations and strategy of a company, ensuring the firm is operated in a way which aligns with its mission, purpose and in the interests of stakeholders. An important element of this is holding company management – including the CEO – to account.

Separation of the roles of the chair – who should be transparently independent – and the CEO is therefore a cornerstone of good corporate governance in the UK. The contravention of this tenet by (a) the combination of the roles, or (b) the designation of an executive chair, should cause significant concern.

There are very limited instances where a temporary combination of the roles may be justified, notably when a chair 'bridges the gap' between the departure of a CEO and the appointment of their successor. Investors must probe companies carefully in these instances, ensuring that this short-term fix is being well-managed and that it does not persist excessively. Investors should expect companies to set out a clear timeline for resolving interim combined roles and to engage meaningfully with shareholders if and where such arrangements extend beyond one year.

The succession of the CEO to chair is a significant issue and is very rarely acceptable. It must be made clear that external search consultants were engaged and that external candidates of at least equivalent stature had been actively and fully considered.

Board director commitment

The board director role is an increasingly demanding one, particularly when chairing a key committee. It is crucial that directors have sufficient time and energy to fulfil their role properly. Investors should scrutinise directors holding multiple board positions, particularly where they chair more than one complex or global company. Overboarding concerns should be assessed in light of time demands, sector complexity, and crisis-readiness.

Board directors and chair independence

This calls for a particularly thoughtful application of the 'comply or explain' principle. Investors should consider the following factors in coming to their decision regarding independence:

- Overall corporate governance standards and history.

- Evidence of independence in board directors' conduct, including holding management to account when necessary.
- Confirmation that independence (not just performance) was assessed in the board performance review.

Evidence base

Engagement with board directors, particularly the chair, gives investors the opportunity to assess the quality and effectiveness of the board overall. A company's annual report is a key resource for investors to consider, as it provides important information regarding the division of responsibilities of the board.

The annual report should contain details of current leadership appointments, including any changes over the previous year. Investors should be mindful of the separation of the roles of chair and CEO, as well as the other commitments and interests that board directors may have in forming their views, including their concurrent directorships, while taking into account the size and scope of these outside companies, as well as whether an individual board director is over-committed.

The annual report should also clearly set out the ways in which the board has demonstrated its effectiveness and addressed any areas for improvement. This should include insight into board-level training and assessment and outreach activities that have taken place throughout the year. It should also include an assessment of the board's diversity of skills, experience and backgrounds.

What does good company behaviour look like?

- Different roles and individuals within the board work together collectively and effectively. The quality and mix of individuals should give investors reassurance as to the substance and openness of debate within the boardroom, the lack of dominance by any one individual and the avoidance of groupthink.
- The roles of chair and CEO are fulfilled by different individuals. The two roles are distinctly different and should not, unless in exceptional circumstances, be held by the same person. Clear timescales for the persistence of any redundancy within these roles should be set out. Similarly, a company's CEO should not become chair of the company. We would expect significant levels of engagement with shareholders were this to be the case, setting out the reasons for doing so.
- The chair is transparently independent, and – upon new appointments – confirmation is provided to shareholders that the previous chair was not involved in the appointment of their successor. If the chair is not

independent upon appointment, the company should consult its investors and provide a detailed explanation as to why it considers the appointment desirable and appropriate. In assessing the new chair's suitability, shareholders must consider:

- Their calibre, including skills, knowledge and experience
 - The current balance and diversity of the board
 - The nature of the impediment to the proposed chair's independence.
- The nomination committee anticipates change and ensures proper and timely succession planning. The board should endeavour, where feasible, to consult its long-term investors over sensitive board appointments. Boards should disclose their succession planning frameworks, including timelines, criteria, and contingency arrangements. Long-term investors should be consulted on what would be the key skills for sensitive appointments, especially where internal candidates are favoured over external search processes.
- Directors can commit appropriate time to the company. Investors should assess the evidence for other demands on directors' time as well as any significant developments which may have occurred since a director's appointment.
 - This is particularly pertinent to the role of chair, especially where a company is both complex and global in scale or where it operates in a highly regulated sector (such as financial services).
 - It is clear that due consideration has been given by the board and each director to the time commitment required, particularly in the event of a crisis developing.
- Clear mechanisms are in place for shareholder communication. This must include the appointment of a senior independent director (SID) as a key contact for shareholders when the normal channels of the chair, CEO, or chief financial officer have failed to address concerns or are not the appropriate contact. The SID should play an active role in shareholder engagement, particularly where concerns persist around board leadership, succession, or independence. The SID should also contribute to board evaluation and act as a conduit for investor feedback on governance matters.
- Shareholders are given timely access to online terms and conditions by which directors are appointed.
- No current or prior relationships exist between independent non-executives and the company, which could compromise directors' ability to hold management to account. Shareholders should have a clear sense of any existing or pre-existing relationships between the two parties. The Corporate Governance Code draws out more clearly its expectations regarding this area.

- There should be a clear mechanism in place for a company’s engagement with its wider workforce. Companies should be clear about linking their engagement with their workforce to their broader strategy, values and mission.

How investors should consider voting

We are aware that investors may feel uncomfortable voting against a combined CEO/chair given the pivotal role that a CEO plays in a company (and the investment case). Some investors may therefore choose to vote against the annual report and accounts to signal their concern, short of opposing the combined CEO/chair.

However, we feel that this may not be a sufficiently effective response to what is a very serious issue. We therefore believe that investors should consider voting against the election of the chair if:

- There is a combination of the role of chair and CEO without a convincing explanation as to why, where an ‘interim’ period extends for more than one year or where there is evidence of poor succession planning.
- Investors judge that the arguments presented to justify the succession of the CEO to chair are insufficient. It is important to note that complexity of the business is unlikely to be sufficient explanation in itself.
- The chair is director of more than four companies and/or a chair of two or more global and highly complex companies (unless there is a compelling explanation as to why this will not impact their availability and commitment).
 - The situation of a combined role persists and there remains serious concern that the specific arrangements create unresolvable challenges for board oversight of executive management.
- Material corporate governance failings under the chair’s watch are evident. This should include an inadequate response in addressing shareholder concerns.
- Investors should consider also voting against the election of the director responsible for the appointment process (often the SID) when issues persist.

Section 3: Composition, succession and evaluation

The composition of a company’s board is a critical determinant of its effectiveness, resilience, and legitimacy. While progress has been made in improving gender and ethnic diversity on UK boards, analysis from the 2025 voting season has suggested that for some, equity, diversity and inclusion (EDI) has been de-prioritised. Pensions UK and its members remain firmly committed to advancing EDI as a core component of good governance. In the face of global political headwinds, including a growing backlash against EDI in some jurisdictions, we reaffirm our belief that diverse boards are essential for long-term value creation, risk management, and stakeholder trust.

Composition and diversity

There is clear evidence that diverse boards make better decisions and avoid behavioural biases such as groupthink or herding, enhancing board effectiveness. There is strong evidence of progress on UK boards regarding gender and ethnic diversity and this can largely be attributed to FCA requirements to track progress on these characteristics. However, more work remains to be done to ensure that boards contain the ideal mix of experience and skills, gender, ethnicity and other forms of diversity including but not limited to those protected characteristics detailed in the Equality Act 2010.²⁵ Investors must continue to press companies to maintain momentum, set clear timescales, and assess company disclosures on diversity carefully.

The latest FTSE Women Leaders Review,²⁶ which sets recommendations for Britain’s largest companies to improve the representation of women on boards and in leadership positions, and carries on the work from the Hampton-Alexander and Davies Reviews, found that women’s representation on FTSE 100 boards continues to increase steadily from 42.6% in 2023 to 44.7% in 2024 and from 40.1%, to 42.6% for FTSE 250 boards during that same time. This contributes to continued progress for FTSE 350 boards. Last year, the 40% goal for women on boards was achieved three years ahead of the target date of 2025 and that has increased further with female representation now at 43.4%.

There have been further increases in female representation on FTSE 100 boards. Since 2021, there have been no all-male boards at FTSE 100 companies, and all boards have more than one woman. In total, there are now 471 women on FTSE 100 boards, up from 445 in 2023. Among FTSE 100 company boards, the most significant progress has been in relation to the number of women in the senior independent director role. This is up from 48, to 58 in 2024. Despite this, progress

²⁵ UK Parliament, Equality Act 2010, The Stationary Office
<<https://www.legislation.gov.uk/ukpga/2010/15/section/4>>.

²⁶ FTSE Women Leaders Review, Achieving Gender Balance, 2025, <https://ftsewomenleaders.com/wp-content/uploads/2025/03/ftse-report-master-2025-online-v3.pdf>

is still needed in other areas. There are still only nine out of 100 female CEOs and there have been no new female chairs this year.

The latest March 2025 report from the Parker Review²⁷ on the ethnic diversity of UK boards, indicates that ethnic diversity continues to increase on FTSE 350 boards. Ninety-five out of the 100 FTSE 100 companies have an ethnic minority director on their board (with 56 having more than one) – this is in line with 2022 figures. In the FTSE 250, there was a target of one minority ethnic director by December 2024.

The data collected in this latest report includes information from 236 out of the 250 FTSE 250 companies. 86%, up from 79% in 2024 (204 out of 236) are meeting the target with at least one minority ethnic director. In 2023, two new targets were set for December 2027, with each FTSE 350 company being asked to set a percentage target for senior management positions that will be occupied by ethnic minority executives, and 50 of the UK's largest private companies have been set the target of having at least one ethnic minority director on the main board.

It is still too early to tell how these new targets will impact progress in improving ethnic minority representation among FTSE 350 companies, but it is hoped that these new targets will provide a further stimulus across large companies to enhance the competitiveness and performance of their businesses and increase opportunities for ethnic minorities.

Despite progress, the global context for EDI has become more challenging. In some jurisdictions, particularly the US, political developments have led to a backlash against diversity initiatives. Pensions UK and our members continue to support inclusive leadership and diverse boardrooms as a business imperative.

Succession and board performance review

Continuous board refreshment and succession planning are vital to ensure diversity on boards. It is critical that appropriate and sufficiently flexible succession plans are in place for the CEO and chair.

An effective board performance review process will use an independent external facilitator at least every three years.

²⁷ David Tyler & The Parker Review Committee, Improving the Ethnic Diversity of UK Business: An update report from the Parker Review, 2025, <https://parkerreview.co.uk/wp-content/uploads/2025/03/The-Parker-Review-March-2025.pdf>

Evidence base

While it is particularly difficult to obtain concrete metrics in this area, investors should look for progress over time and evidence that the company’s approach is improving diversity.

Company disclosures on succession planning tend to use boilerplate reporting. Investors should look at the annual report with an eye towards assessing how bespoke the narrative on succession planning is, including how well it is linked to the company’s overall strategy, values and mission.

Best practice disclosure on this issue includes:

- A board succession planning and nomination policy
- A rationale for re-election of each director
- Disclosure about the principles and process, including clearly defined parameters for and expectations of new appointments
- Disclosure regarding the diversity of the board on a “comply or explain basis,” including a clearly defined process for developing diversity. A clear discussion regarding the outcome of the board effectiveness review, including how the findings impact upon broader company value.

What does good company behaviour look like?

Good company behaviour begins with a clear and public commitment to EDI as a strategic priority. Companies should demonstrate leadership by embedding inclusive practices into their governance, culture, and strategy.

Succession and nomination

- A clear description of the board’s policy on diversity and inclusion, including professional, international, and protected characteristics,²⁸ such as sex, race, disability, age, sexual orientation, gender reassignment, marriage and civil partnership, pregnancy and maternity, and religion or belief. Other non-protected characteristics should also be considered, such as socio-economic background, neurodiversity, veterans and returners to the workplace.
- Clear, measurable objectives that it has set for implementing its diversity policy, and its progress against these objectives. This should include the board’s policy not just on its own diversity, but also on the diversity of the senior management team. There should be a consistency in the company’s strategy, and explanations of the contribution of diversity and its link to corporate value over time which should include the following:

²⁸ Equality Act 2010, The Stationary Office <<https://www.legislation.gov.uk/ukpga/2010/15/section/4>>.

- Documentation of the gender and ethnic diversity of the board as well as its progress towards meeting minimum gender and ethnic standards as required by the FCA on all UK listed companies²⁹ on a comply or explain basis. These are:
 - Gender
 - At least 40% of the board are women (including those self-identifying as women).
 - At least one of the senior board positions (chair, CEO, senior independent director, or chief financial officer) is a woman (including those self-identifying as women).
 - Note: The FTSE Women Leaders Review maintains both these standards and includes additional recommendations on ways to improve gender diversity. We strongly support working towards these additional metrics.
 - Ethnicity
 - At least one member of the board is from a non-White ethnic minority background (as referenced in categories recommended by the Office for National Statistics).
 - Note: The Parker Review maintains this equivalent standard with additional recommendations for improving ethnic diversity, and we recommend using this as a guide as well. Also, it is important to document whether they are a signatory to the Race at Work Charter (or equivalent).
 - Documentation on the board’s efforts towards creating an inclusive workplace environment for those with disabilities. This could include whether they are a Disability Confident employer³⁰ in the UK.
 - Note: In September 2023, the FCA consulted³¹ on proposed changes to their approach to diversity and inclusion (the consultation closed in December 2023). The FCA has now responded to say that it will not take these developments further citing the broad range of feedback received, wider expected legislative developments and their desire to avoid additional burdens on firms at this time. This is disappointing, but we will continue to consider how we can engage the regulators to improve rules and regulations to improve EDI standards.

²⁹ Financial Conduct Authority ‘Diversity and inclusion on company boards and executive management’, Financial Conduct Authority (2022) <<https://www.fca.org.uk/publication/policy/ps22-3.pdf>>.

³⁰ Department for Work and Pensions, Disability Confident Employer Scheme, <https://www.gov.uk/government/collections/disability-confident-campaign>

³¹ Financial Conduct Authority, 2023, Diversity and inclusion in the financial sector – working together to drive change, <https://www.fca.org.uk/publication/consultation/cp23-20.pdf>

- Companies should demonstrate alignment with recognised frameworks such as the Race at Work Charter, Disability Confident Scheme, and other global or sector-specific diversity initiatives. These commitments provide a useful benchmark for assessing a company’s seriousness in embedding inclusive practices.
 - The board has a clear vision about its optimal composition and a structured plan and timescales to achieve this. This should include: the ideal mix of experience and skills; gender, ethnicity and other forms of diversity including but not limited to those protected characteristics detailed in the Equality Act 2010;³² and the proportion of the board that should consist of non-executive directors.
- Clear disclosure on succession plans. While some allowance should be made for the confidential or sensitive nature of some succession planning issues, disclosures should cover as much material information as possible including:
 - Any identified skills shortages or obstacles/delays to achieving diversity goals
 - A focus on the chair and CEO
 - An approach which looks multiple years ahead.
- Ownership of the succession planning approach by the company. The board should – through the nomination committee – retain ownership over the succession planning and recruitment strategy for both the board and for the senior management team. Although the company may use external consultants, the board should ensure it remains actively involved.
- A well-balanced nomination committee. This should include the non-executive chair of the board, given the vital role they play in director performance evaluation.
- A clear and convincing rationale for board director re-election in the annual report. Such a statement should present shareholders with a full picture of the relevant and diverse skills and experience that a director is bringing to the board. It should also include:
 - A statement of a director’s other directorships, trusteeships and responsibilities – including those outside the corporate sector
 - The contributions they have made or will likely make to the board, including how their unique background helps shape a diverse board
 - Confirmation that the director has recently been subject to formal performance evaluation in relation to the fulfilment of their s.172 duties.³³
- Detailed and considered explanations around director independence. This should include why the company considers that the director remains independent despite the existence of any factors which may impair

³² UK Parliament, 2010 Equality Act 2010, The Stationary Office, <https://www.legislation.gov.uk/ukpga/2010/15/section/4>

³³ UK Parliament, 2010, Companies Act 2006, The Stationery Office, <https://www.legislation.gov.uk/ukpga/2006/46/section/172/2011-04-22>

independence. It should also include justification as to why the independent element is sufficiently strong to counter any imbalance that may arise from the presence of one (or more) non-independent non-executive directors.

- A transparent and inclusive approach to the nomination process. This should include engagement with key shareholders, or other stakeholders such as employees.
- A consistent approach to board refreshment. This should include appropriate director mandates in terms of duration, and a clear link between director performance and re-election.
- Forward-looking and detailed succession and refreshment plans when proposing the re-election of long-serving members. The Corporate Governance Code stipulates that a board should state its reasons if a director has more than nine years' tenure. This should not be considered to mark a limit on the value offered by an individual, but a detailed plan is particularly vital when the director chairs an important board committee, including the following:
 - There is evidence of a particularly rigorous review and evaluation process in the cases of long serving members
 - There is particularly clear disclosure as to why a long-serving non-executive director remains independent.
- A clear link between implementation of the succession plan and company strategy. This should include the board's policy on diversity, inclusion and equal opportunities, including its diversity objectives and progress towards achieving them. There should also be clear information regarding the efforts to develop talent internally.

Board performance and disclosure

- External board performance reviews are conducted by a truly independent organisation, which is vital for an independent and rigorous approach. Companies should disclose details of the process – including the name of the firm or individual undertaking the board performance review – and as far as possible the conclusions reached within the review and subsequent actions taken. This should include details on the following:
 - When the review took place and when a subsequent review is planned
 - What was specifically reviewed (including the rationale for this decision)
 - Who conducted the review, whether they were internal or external, appointments and why they were selected
 - The nature of the process
 - Key findings and lessons learned, and whether any follow-up is required and if so, in what areas.
- Disclosure of details of any controlling shareholders, including the relationship agreement. The relationship agreement must detail any

entitlements to governance arrangements such as board appointments and be made available to investors, barring any commercially sensitive details.

- Companies should explicitly include diversity and inclusion as a focus area in board performance reviews, assessing how effectively the board fosters an inclusive culture and whether its composition reflects the company's values and stakeholder expectations.

How investors should consider voting

Holding individual directors accountable is especially vital if schemes are particularly unhappy with the composition of a board of a company, including the plans for succession and methods which have been used to ascertain how 'fit for purpose' an individual board member is.

Although voting against the entire board is usually the most powerful sanction an investor can apply, in this case, it is voting against specific individuals – alongside a clear and timely explanation from the investor as to why the vote is being cast – that can be most effective.

Investors should consider voting against the approval of the annual report and accounts if:

- There is limited or boilerplate disclosure about the board performance review and review of corporate governance arrangements.
- A diversity statement is not disclosed or is considered unsatisfactory based on our above recommendations of what good company behaviour should be.

Investors should consider voting against the re-election of the chair if:

- Practice does not improve regarding the composition and succession or there is consistently no independent board performance review conducted.

Investors should consider voting against the re-election of the chair and the chair of the nominations committee if:

- There is no evaluation process.
- There is a failure to disclose a reassuring succession plan, even after engagement with shareholders.
- The board is consistently failing to move closer to the latest FCA requirements on diversity and inclusion – or did not successfully explain the reason for non-compliance – the FTSE Women Leaders Review on gender diversity and the Parker Review recommendations on ethnic diversity.
- The board has not established a diversity and inclusion policy and strategy.
- The board is consistently failing to, or showing lack of effort to, move closer to our above recommendations of what good company behaviour should be regarding board diversity.

- There is no evidence of progress on broader diversity dimensions (e.g. disability, socio-economic background) despite stated commitments.
- The company has failed to disclose its alignment with recognised diversity frameworks or explain its absence.
- There is a failure to move to annual director elections and an absence of an acceptable explanation.

Investors should consider voting against the re-election of a director (including re-election of the chair) if:

- Previous legitimate investor concerns have not been sufficiently addressed.
- The director has had significant involvement, whether as an executive director or non-executive director, in material failures of governance, stewardship or fiduciary responsibilities at another company or entity.
- Engagement with a director has resulted in a judgement against their effectiveness and suitability, including with regards to conflict of interest.
 - There is no supporting statement from the board.
 - There is clear evidence of poor performance or poor attendance at meetings without provision of a satisfactory explanation.
- There is concurrent tenure of a non-executive director with an executive director for over nine years and no satisfactory explanation given as to why the director remains independent.
- The composition of the key committees or the balance of the board has been compromised by the presence of one (or more) specific non-independent non-executive directors.
- There is failure of a specific aspect of reporting or function (with investors voting against the director responsible, e.g. the chair of the relevant committee).
 - There is no clear evidence that diversity is being sufficiently considered by the board, or where previously committed timescales are not being met, in the senior board positions.

Section 4: Audit, risk and internal control

The primary client of a company’s auditor is the shareholder. Investors rely on a high-quality audit, where the auditors are fully independent and have exercised professional scepticism and judgement, to enable them to form a clear and accurate view of the financial health of the company.

Individual accountability here is key: if a named partner, or the chair of an audit committee, has been involved in presiding over poor audit practices elsewhere, then investors should expect that the individual is not involved on an audit committee or involved in the audit at or of another firm.

In 2021, the UK Government launched a major consultation on audit reform,³⁴ bringing together the recommendations of the Kingman Review,³⁵ the Competition and Markets Authority statutory audit market study,³⁶ and the Brydon Review.³⁷

Recommendations from the Brydon Review, that investors may wish to consider, include:

- For the directors’ risk report to be published in good time for shareholders to comment, as well as for a formal invitation to be issued to shareholders to express any requests regarding where they would be particularly keen for an auditor to focus on in the audit plan.
- A standing item to be added to AGM agendas for questions to the chair of the audit committee and to the auditor.

Though the Government had committed in the 2022 Queen’s Speech³⁸ to bring forward an Audit Reform Bill, this legislation was not included in the 2023 King’s Speech. The new Government’s King’s Speech³⁹ in July 2024 did however announce a draft Audit Reform and Corporate Governance Bill. The draft bill recognises that robust and rigorous scrutiny of large companies by auditors, along with greater transparency around their finances, is essential for ensuring accurate information about the health of companies and a more secure economy. The UK plans to replace the Financial Reporting Council (FRC) with a new regulator, the

³⁴ Department for Business, Energy and Industrial Strategy, 2021, Restoring trust in audit and corporate governance – Consultation on the government’s proposals, [Restoring trust in audit and corporate governance \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³⁵ Sir John Kingman, 2018, Independent Review of the Financial Reporting Council, Department for Business and Trade, Financial Reporting Council and Department for Business, Energy & Industrial Strategy, [Independent Review of the Financial Reporting Council \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³⁶ Department for Business, Energy & Industrial Strategy, 2019, Market study on statutory audit services: summary of responses, [Market study on statutory audit services: summary of responses to the 2019 consultation \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³⁷ Sir Donald Brydon, 2019. Assess, assure and inform: improving audit quality and effectiveness – final report of the independent review, Department for Business and Trade and Department for Business, Energy & Industrial Strategy, [Independent Review into the Quality and Effectiveness of Audit \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³⁸ Prime Minister’s Office, 2022, The Queen’s Speech 2022, [Lobby Pack \(10 May 2022\) \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

³⁹ Prime Minister’s Office, 2024, The King’s Speech 2024, <https://www.gov.uk/government/speeches/the-kings-speech-2024>

Audit, Reporting and Governance Authority, which will have the powers needed to address poor financial reporting and build trust. The new regulator will have a wider remit, including extending oversight to larger private companies, removing unnecessary rules for smaller businesses, sanctioning directors for financial reporting failures, and overseeing the audit market to protect against conflicts of interest.

However, the Government has now confirmed that the Audit Reform and Corporate Governance Bill will not be brought forward in this parliamentary session. Investors should be aware that, when introduced, the Bill is expected to have significant implications for oversight, accountability, and audit market regulation. The delay reinforces the importance of investor scrutiny in the absence of legislative reform.

In May 2023, the FRC published its Minimum Standards for Audit Committees.⁴⁰ The goal of these standards is to enhance performance and ensure a consistent approach across audit committees within the FTSE 350, while the FRC aims to support the delivery of high-quality audits and reinforce public trust in the financial reporting process.

The minimum standards are referenced as part of the UK Corporate Governance Code, specifically in Provisions 25 and 26. These provisions outline the main roles and responsibilities of the audit committee and the annual report disclosures on the work of the audit committee. Given that the text included in the minimum standard was duplicative with the 2018 Code, the FRC removed the repeated wording in the 2024 Code to avoid further duplication. The changes to the FCA listing rules, including the removal of the premium listing category, do not impact these standards.

The 2024 Corporate Governance Code⁴¹ has now embedded across FTSE 350 companies, with early implementation revealing varied approaches to audit committee disclosures and risk oversight. Investors should assess how companies are applying the revised provisions, particularly in relation to audit quality, resilience statements, and assurance policies.

Last year, shortly before the publication of our 2025 Stewardship and Voting Guidelines, Railpen published, with Governance Perspectives LTD., *Acting on Audit – an investor stewardship perspective*.⁴² The purpose of the report was to highlight the importance of high-quality audits in reinforcing trust in financial reporting and strengthening corporate accountability. It examined the current state of audit

⁴⁰ Financial Reporting Council, 2023, Audit Committees and the External Audit: Minimum Standard, https://media.frc.org.uk/documents/Audit_Committees_and_the_External_Audit_Minimum_Standard.pdf

⁴¹ FRC, 2024, 2024 UK Corporate Governance Code, <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/uk-corporate-governance-code/>

⁴² Railpen, 2024, Acting on Audit – An investor stewardship perspective, <https://www.railpen.com/knowledge-hub/our-thinking/2024/acting-on-audit/>

quality, assessed investor engagement, and provided recommendations for improving audit practices.

The report aims to encourage system-wide changes by suggesting actions for companies, audit firms, regulators, and investors to collectively enhance audit quality. In the last year, we have seen the report help to spark renewed interest in audit committee transparency and investor access to audit-related information. Investors are encouraged to use the report's recommendations, including those on voting sanctions and AGM auditor engagement, as a benchmark for assessing audit committee performance and disclosure quality.

The external auditor

The role of the external auditor is to provide an independent opinion of a set of financial statements to show whether these give a true and fair value of the company. There should be regular turnover in use of an external auditor to ensure that they remain impartial and are able to exercise professional scepticism.

Risk and internal control

Risk management must be a prominent consideration at any company. In addition to an external audit, an effective, robust and well-resourced internal audit has a central role to play in supporting boards to better manage and mitigate the risks the company faces. Firms should focus on risk in the context of the business strategy, the firm's size and global footprint, as well as its assets, liabilities and the wider political and regulatory environment.

It is the internal auditor's task to provide an annual internal opinion on the state of the organisation's arrangements in relation to risk management, governance and internal control. This function may also include an advisory or consultancy function, where they support management in improving systems and controls.

Cybersecurity and AI governance

The 2024–25 voting season has seen a marked increase in shareholder resolutions related to AI and cybersecurity governance, underscoring the urgency for investors to develop clear expectations around board oversight, responsible use frameworks and risk mitigation. Our guidelines have, and will continue to evolve, to reflect this trend.

Cybersecurity

Cybersecurity risks are evolving rapidly and intensifying, driven by heightened geopolitical tensions that have made state-sponsored attacks, ransomware campaigns, and supply chain compromises more frequent and sophisticated. Critical sectors, such as pensions, face growing exposure as hostile actors seek to exploit vulnerabilities for disruption, espionage, and economic leverage.

These risks can arise not only from the technology itself but also from the people using it and the processes supporting it. It includes risks to information (data security) as well as assets, and both internal risks (for example, from staff) and external risks (such as hacking). Investors need to ensure that companies are managing these threats appropriately, by having governance and oversight structures in place and reporting on potential breaches and solutions.

Investors should encourage companies to explicitly disclose the governance and oversight structures in place to identify and manage these risks, as well as provide timely reporting of any breaches and the measures taken in response.

The 2024–25 period saw several high-profile cyberattacks across sectors, with material impacts on operations, customer trust, and share price. These incidents have highlighted how poor board oversight and weak internal controls can expose companies to significant financial and reputational risk. Investors should expect companies to disclose board-level responsibility for cyber risk, provide evidence of scenario planning and breach response protocols, and explain how cybersecurity is integrated into enterprise risk management.

A good source of information around how investors can positively and proactively engage was Railpen and Royal London Asset Management’s *Cybersecurity Risk & Resilience: Guidance for Investors*⁴³ report published earlier this year. It offered evidence-based insights on the financial impact and threat landscape of cyber risk, plus practical engagement guidance for investors.

The report shifts stewardship from reactive post-cyber-incident engagement to proactive resilience dialogue. It sets out expectations for assessing companies’ baseline practices and progress toward best practice, structured around four pillars:

- Governance
- Supply chain & M&A
- Processes, culture & training
- Collaboration.

Cybersecurity should also be an active consideration when selecting a supplier and suitable provisions should be included in contracts. Investors should agree

⁴³ Railpen and Royal London Asset Management, 2025, *Cybersecurity Risk & Resilience – guidance for investors*, <https://www.railpen.com/media/4itdafvg/railpen-cybersecurity-report-2025.pdf>

what metrics to use to monitor their suppliers, at a depth and frequency proportionate to their risk.

Artificial intelligence (AI)

As we have outlined in previous iterations of our Guidelines, artificial intelligence (AI) is likely to be one of the biggest technological leaps in history. It is poised to unlock new business models, transform industries, reshape jobs, and boost economic productivity.

AI has the potential to change the investment landscape:

- Investors will place more value on the quality of a company's AI assets and capabilities.
- Investors themselves will rely far more on AI-based research techniques to support their investment approach.
- Investors will compete head-to-head with the technology sector for AI talent.
- AI has the potential to create entirely new fields of work that, at this stage, it is impossible to foresee.

Although AI has the potential to generate significant opportunities, it can also generate risks for businesses, including the amplification of discrimination, proliferation of misinformation and privacy violations – particularly in relation to generative technologies – and additional cyber and data vulnerabilities.

Resolutions related to AI governance are increasing rapidly, reflecting investor concerns about deployment risks, bias, misinformation, and regulatory lag. Stewardship expectations vary depending on use case. For example, algorithmic trading requires different oversight than customer-facing AI tools. Investors should assess whether companies have board-level accountability for AI, disclose responsible use frameworks, and align with emerging standards on transparency and fairness.

Investors will need to consider the economic viability of AI which is uncertain due to the high costs involved in developing and maintaining AI systems, including expenses for research and development, specialised hardware, ongoing updates, and regulatory compliance. These significant financial costs create uncertainty about long-term profitability, as businesses may struggle to achieve sufficient returns on their investment.

Investors should also be aware that AI is evolving quickly, and comprehensive global governance frameworks are struggling to keep pace. This regulatory lag creates uncertainty around responsible standards, accountability, and oversight, potentially leading to inconsistent policies across regions. Without effective

regulation, there is a risk of AI being deployed in ways that undermine privacy, exacerbate biases, or perpetuate inequalities.

In addition, AI is likely to be highly disruptive in the employment space, being poised to replace workers' jobs worldwide in the future. Indeed, some large technology companies are already starting to feel the heat from ESG-focused shareholders concerned about job losses due to AI, as well as the potential introduction of discrimination in employment decisions.

Investors should ensure that companies are accountable for their social impacts by aligning with evolving industry good practice in the AI space. It may be that AI and AI-enabled technologies will be subject to new standards and requirements in the future in order to promote safety, security and equity. Investors will need to ensure that companies are adhering to these standards and requirements.

Pensions UK has already worked with PWC to produce a Made Simple Guide⁴⁴ and will continue to engage heavily on the topic of AI to:

- Support trustees
- Explore how AI impacts the responsibilities of trustees and the pensions industry more widely
- Consider in more detail the role of AI in investments.

Evidence base

The key source of information provided by the auditor is the audit report. Investors should pay attention to the following information:

- Evidence of professional scepticism by the auditor
- The critical accounting policies and principles used
- The level of materiality adopted
- Assumptions and judgements
- The findings of any review undertaken by the FRC's Audit Quality Review Team (and actions taken by the board in response to the findings).

Investors, including pension schemes, also pursue a variety of voting sanctions on audit, including where:

- There are concerns about the company's financial policies and processes (vote against the audit committee chair)
- Previously identified material weaknesses have not been addressed, or disclosures are inadequate (vote against the audit committee chair)

⁴⁴ Pensions UK, 2025, Artificial intelligence for UK pension schemes Made Simple, <https://www.pensionsuk.org.uk/Policy-and-Research/Document-library/Artificial-intelligence-for-UK-pension-schemes-Made-Simple>

- The audit firm’s tenure is considered excessive (vote against the auditor and sometimes audit committee chair)
- There are considered to be excessive non-audit fees or other concerns about independence (vote against the auditor and sometimes the audit committee chair).⁴⁵

Few investors are experts on audit assumptions and methodologies and there is an ongoing policy debate regarding to what extent investors can expect to be. The key determinant of a high-quality audit is professional scepticism and a willingness to challenge management.

Investors should be prepared to dig deeper and ask questions, including disclosure on areas where the auditor challenged management and the outcome, or even simply making a request that the auditor be present at the AGM to answer any questions and present their report.

On ESG metrics, it is desirable that the sustainability metrics provided by companies be assured and that the rationale for the choice of assurance provider (including whether external or internal) is made clear.

What does good company behaviour look like?

Audit

- The audited accounts represent a 'true and fair' view of the state of affairs of the business. This should include its assets, liabilities, financial position and profit or loss – all of which should be prudently assessed to avoid overstating capital.
- The audit committee obtains a high-quality audit in the interests of shareholders, allowing for proper accountability between the audit company and the investors. This committee has arguably the most complex brief of any of the board committees, as objective and prudent accounts sit at the heart of an effective accountability regime.
- The audit committee demonstrates sufficient independence from company management. The committee should be staffed solely by independent directors (both from the executive but also taking into account independence from the external auditor) and enjoy sufficient relevant experience to carry out its responsibilities to a high standard.
 - The company should apply the FRC’s Minimum Standards for Audit Committees⁴⁶ on a voluntary basis, including clear disclosures on auditor selection, independence safeguards, and audit quality

⁴⁵ Railpen, 2024, Acting on Audit – An investor stewardship perspective, <https://www.railpen.com/knowledge-hub/our-thinking/2024/acting-on-audit/>

⁴⁶ FRC, 2023, FRC publishes minimum standard for audit committees, <https://www.frc.org.uk/news-and-events/news/2023/05/frc-publishes-minimum-standard-for-audit-committees/>

- indicators. Investors should expect meaningful commentary in the audit committee report, not repetition of the auditor’s findings.
- The audit committee report provides ‘colour’ and detail. This should not simply mirror the auditor’s report. It should include the right quality and amount of information to give investors an insight into the audit process, including:
 - Explicit details of the criteria used for auditor selection and evaluation, including any contractual obligations to appoint audit firms.
 - Details of the audit tender process, including when the audit was last tendered and how the company ensures independence is safeguarded.
 - How the audit committee satisfied itself that it got the highest quality audit possible.
 - Any changes to the process and plan of the audit (and reasons for these changes), including any changes to the audit partner and the process carried out by the audit committee to agree this appointment.
 - The audit tendering process is in line with regulations⁴⁷ and has been rigorous. Any tendering process should enable the audit committee to compare the quality and effectiveness of the services provided by the incumbent audit with other audit firms – including those outside the Big Four. The intention to tender the audit contract should be disclosed in advance within the report and accounts and the process should focus on audit quality – not costs – including the auditors’ independence and processes to ensure professional scepticism.
 - The audit committee fully discloses any members’ connections with the current or potential auditor. Committee members should also have recent and relevant financial experience related to audit, accountancy or investor practitioner expertise.
 - Additional disclosures clearly cover any reasons for any auditor resignations and fully detail all non-audit fees and policy on non-audit work. Where the auditors supply non-audit services to the company, the audit committee should keep the nature and extent of such services under regular and closer review, to ensure objectivity is not compromised. Disclosure of non-audit fees should include:
 - Clear breakdown between the types of services received
 - Tax compliance services are differentiated from tax advisory services
 - Non-statutory acquisition-related services are separated from statutory services.
 - Appropriate use is made of third parties for non-audit services (including outside the Big Four). Where the company also uses its auditors for non-

⁴⁷The Stationary Office, The Statutory Auditors and Third Country Auditors Regulations 2016, 2016, [The Statutory Auditors and Third Country Auditors Regulations 2016 \(legislation.gov.uk\)](https://www.legislation.gov.uk)

audit work, the rationale must be clearly explained. No more than 50% of the audit fee should be spent on non-audit services.

- The AGM includes a presentation from the auditor. This happens increasingly rarely, but Pensions UK would be keen for this to take place more frequently. Such appearances would give investors the opportunity to directly ask questions and hopefully raise the profile of audit issues.
- The company is looking to apply on a voluntary basis the FRC's Audit Committees and External Audit: Minimum Standard.
- The audit committee requests that the auditor includes graduated findings in their reports, providing a nuanced view of key management estimates and judgments.
- The audit committee could ensure that engagement-level audit quality indicators (AQIs) are published or shared with investors upon request.
- The company should prepare a resilience statement and an audit and assurance policy, sharing these documents with shareholders.
- The audit committee should agree to meet with shareholders upon reasonable request to discuss audit-related issues and the company should encourage its auditors to hold at least one investor roundtable each year.
 - The company should support the publication of the names of companies and additional information when reporting on audit quality inspections.⁴⁸

Risk and internal control

- The annual report covers the key elements of the business. It should explain how the company generates value from its key tangible and intangible assets. It should set out the how the board establishes and maintains an effective risk management and internal control framework – including ESG and reputational risks.
- The annual report covers emerging risks, demonstrating a dynamic approach to risk assessment. This could include risks from climate and cybersecurity, or tax management (and the potential impact on reputation and brand value). The company should be communicating what changes have occurred in relation to their risks over the previous year, how it has chosen to respond and the impact so far – including likely impact on the overall business strategy and model.
- Directors state whether they expect the company to meet its liabilities as they fall due over the period of their assessment. This should include drawing attention to any qualifications or assumptions as necessary. This should be as part of an articulation as to whether they have a reasonable expectation that the company will remain a viable and sustainable enterprise for the foreseeable future.
- Directors articulate their reasons for choosing a specific timeframe. This should follow the FRC's guidance that the length of the period should take

⁴⁸ Railpen, Acting on Audit – An investor stewardship perspective, 2024, <https://www.railpen.com/knowledge-hub/our-thinking/2024/acting-on-audit/>

account of the board’s stewardship responsibilities, previous statements they have made, especially in raising capital, the nature of the business and its stage of development.

Cybersecurity and AI

- The company has identified its cybersecurity vulnerabilities - including any that arise from the use and integration of AI - and has robust policies and procedures in place in case of a cyber-attack.
- The company has a cybersecurity training policy in place for employees and has adopted best practices to enhance network and device security. The company should extend cybersecurity training and best practices for employees to include AI as appropriate.
- The company has implemented robust data anonymisation techniques when using AI, which allows businesses to protect data privacy.
- The company takes a zero-trust approach when selecting AI tools and third-party services, by vetting them against corporate privacy and security policies, to ensure the business is not being exposed to risk and vulnerabilities.
- The company could have, or be considering, cyber insurance as well as options for legal, technical and PR support. Several high profile cyber-attacks in 2024-25, including ransomware incidents and data breaches, have materially disrupted business operations, damaged reputations, and triggered regulatory investigations. These events have highlighted how oversight failures, including lack of board-level accountability and inadequate risk planning, can expose companies to significant financial and strategic risk. Increasingly, investors should expect companies to embed cybersecurity into their broader governance and resilience strategies. This includes:
 - Assigning board-level responsibility for cyber risk
 - Conducting regular stress tests and scenario planning
 - Disclosing how cyber risks are monitored, mitigated, and integrated into enterprise risk frameworks
 - Reporting on lessons learned from past incidents and how these have informed improvements in controls and oversight
 - Appointing a Chief Information Security Officer, or equivalent, with supporting resources
 - Evaluating cybersecurity and AI skills in board effectiveness reviews
 - Conducting effective due diligence and monitoring of supply chain cybersecurity
 - Including cyber considerations in inorganic growth strategies, including the due diligence and integration phases
 - Maintaining relevant cyber certifications or holding an independent audit report (e.g. aligned with NIST and ISO 27001 standards).
- Specifically related to AI, stewardship expectations should be tailored to the specific use of AI within a company. For instance:

- Customer engagement tools raise concerns around bias, misinformation, and data privacy
- Algorithmic trading systems require scrutiny of model transparency, risk controls, and regulatory compliance
- Operational AI, such as predictive maintenance or supply chain optimisation, may pose risks around resilience and accountability.
- Investors should assess whether boards understand these distinctions and have governance structures appropriate to each use case. This includes board-level responsibility, responsible use frameworks, and alignment with emerging standards on transparency, fairness, and safety.

Voting decisions should reflect the materiality of the risk, the company's exposure, and the adequacy of its response. We are clear that where companies fail to demonstrate adequate governance of AI or cybersecurity risks, or where there is evidence of egregious conduct (particularly in high-impact sectors), investors should consider voting against the annual report and accounts, the audit committee chair, or relevant directors. For completeness, we have outlined below what could be perceived as egregious behaviour that may warrant voting action:

- Lack of transparency & governance: Failure to disclose how AI systems make decisions, what data they are trained on, or known incidents of harm, bias, or breaches. Deploying models without adequate governance, responsible safeguards, or risk controls.
- Algorithmic bias & discrimination: Ignoring known risks of bias in training data and failing to implement processes to detect and mitigate discriminatory outcomes, especially in sensitive areas like hiring, healthcare, or credit scoring.
- Cybersecurity & data privacy failures: Scraping personal data without consent, deploying insecure models, neglecting encryption or incident response planning, and failing to disclose breaches or vulnerabilities.
- Intellectual property infringement: Using copyrighted or confidential material without permission, allowing outputs that replicate protected works, and lacking processes to audit and remove infringing content.
- Environmental negligence & misrepresentation: Making no effort to reduce AI's energy and water footprint or offset emissions and engaging in 'AI washing' by exaggerating AI capabilities to mislead investors.

How investors should consider voting

Investors should note that in most cases, but not always, there are separate resolutions which cover the appointment of external auditors and the setting, or authorisation of the board to set, auditors' fees. This is important because investors may have concerns about the balance between audit and non-audit fees, which need to be considered separately to the appointment of the auditor alone.

There are a range of resolutions that investors might use as a vehicle to express concerns regarding audit process or outcomes. These include: the vote to appoint or reappoint the auditor; the vote to give directors power to agree the auditor's fee; the vote to approve the report and accounts; or the election of the chair (or other members) of the audit committee. More information on different examples of investors' audit voting approaches can be found in Railpen's latest report (page 22).⁴⁹

Investors should consider voting against the annual report and accounts and perhaps also the auditor and/or audit committee chair if there are ongoing concerns in relation to:

- The audited accounts fail to provide a true and fair view of profit or loss, assets or liabilities (for example, they overstate profit or assets or understate likely liabilities such as pension or climate-related liabilities). Please note: if the auditor is seen to have helped reveal this issue, then their re-election, all other things being equal, should be strongly supported.
- The ongoing use of alternative performance measures to report on business performance where their use is not transparent and fully justified or appears to flatter management delivery through unclear use of generally accepted accounting principles or regularly changing calculations.
- There is poor disclosure of the strategy and risk exposures or a lack of disclosed review of the company's risk management and internal control systems.
- There is either no viability statement which looks multiple years ahead, or one which does not evidently consider a full range of risk factors.
- The climate change assumptions that underlie calculations of relevant and publicly stated asset valuations or business profits are not sufficiently transparent or appear to be inconsistent with science and expert opinions on climate change.
- The company has not demonstrated that cybersecurity risks are sufficiently well governed or managed.
- The company has experienced a material cyber breach and failed to disclose lessons learned or governance improvements.

Investors should consider voting against the re-election of the chair of the audit committee and reappointment of the auditor if:

- The tenure of an external auditor extends beyond ten years and there has not been a recent tender process and where no plans to put the audit service out to tender are disclosed.
- The auditor has been in place for more than 15 years.
- The non-audit fees exceed 50% of the audit fees in consecutive years without an adequate explanation being provided.

⁴⁹ Railpen, 2024, Acting on Audit – An investor stewardship perspective (page 22), <https://www.railpen.com/knowledge-hub/our-thinking/2024/acting-on-audit/>

- There are major concerns regarding the audit process and quality of accounts – particularly a failure to provide a true and fair view (or good visibility over the payment of dividends) and these are not resolved satisfactorily by the board.
- Cybersecurity risks (or any breach responses) are not being sufficiently well managed.

Investors should consider voting against authorisation of auditor’s remuneration (or the reappointment of the auditor if these resolutions are bundled) if:

- The auditor’s report fails to address a key issue or is otherwise unsatisfactory.
- Audit fees have been either increased or reduced by a significant proportion (e.g. more than 20%) in a given year without a clear justification.
- Resolutions are bundled (e.g. auditor reappointment and fee authorisation), and there are concerns about either component, investors should consider voting against the bundled resolution and request future separation for transparency.

Investors should consider voting against the re-election of the chair if:

- There are extreme concerns or persistently poor disclosure in regard to the sufficient auditing of the company.

Investors should consider voting against the re-election of a director (including re-election of the chair) if:

- AI is deployed in high-risk areas and the company fails to disclose governance structures, responsible safeguards, or board-level accountability.
- There is evidence of egregious conduct attributable to a particular director around the development and deployment of AI.
- Companies are failing to act on AI proportionate to risk exposure, business model and potential impacts, focusing on the key pillars of board accountability, risk management and transparency.

Section 5: Remuneration

In the last year, we have continued to see interest rates and inflation falling. Despite this, many in the UK are still feeling the effects of what has been a severe cost-of-living crisis. This is highly likely to have had an impact on the vast majority of those employed in investee companies as well as pension scheme savers.

This is an area of particular focus among investors, especially after the introduction of new disclosure requirements by the Companies (Miscellaneous Reporting) Regulations 2018.⁵⁰ The legislation established mandatory reporting for some companies on employee and stakeholder engagement, and disclosure of information on the ratios between CEO and average staff pay, among other demands.

However, in 2025, the UK Government committed to reducing the corporate reporting burden⁵¹ by 25% as part of its wider strategy to modernise corporate reporting. While simplification may reduce administrative overhead, it also raises concerns about transparency and accountability. Investors should be alert to the risk that reduced disclosure could hinder effective scrutiny of executive pay practices and be alert to opportunities to engage with the government as some of their proposals come through.

Over the last year, there have also been interesting developments in the debate around executive pay due to concerns regarding the competitiveness of the UK market. As the UK Government continues the push for domestic growth, concern has been raised that the pay disparity between executive pay in the UK market vs other markets – the US in particular – is a significant barrier to attracting and retaining top executive talent. We have seen companies proposing new and, in some cases, alternative remuneration structures as well as UK banks removing the bonus cap following the FCA’s ruling last year.⁵²

In fact, a key trend emerging from the 2025 proxy season was that UK banks have introduced more US-style pay structures, including higher variable pay opportunities and hybrid incentive plans. While these changes are framed as necessary for global competitiveness, they carry reputational risks — especially in the context of the UK’s cost-of-living crisis. Pensions UK believes that any increase in executive pay must be clearly linked to performance and justified in the context of wider workforce pay and societal expectations.

⁵⁰ The Stationary Office, 2018, The Companies (Miscellaneous Reporting) Regulations, <https://www.legislation.gov.uk/ukxi/2018/860/contents/made>

⁵¹ Department for Business and Trade, 2025, Regulation Action Plan Update, and Modernisation of Corporate Reporting, <https://questions-statements.parliament.uk/written-statements/detail/2025-10-21/hcws973>

⁵² FCA, 2023, PS23/15: Remuneration: Ratio between fixed and variable components of total remuneration, <https://www.fca.org.uk/publications/policy-statements/ps23-15-remuneration-ratio-between-fixed-and-variable-components-total-remuneration>

Executive pay

The shift to improve UK competitiveness is happening across the economy. Among the remuneration structures proposed to attract top executives there are hybrid plans which provide for both time-based and performance-based awards, combined incentive plans which combine the annual and long-term incentives, and increased pay opportunities.

The 2025 proxy season saw a notable rise in shareholder dissent on executive pay, particularly in relation to quantum, structure, and alignment with performance. One-off awards and discretionary bonuses were a key source of concern, with investors increasingly expecting clear justification and robust performance linkage.

To date, there has been limited evidence that the increase in executive pay over the years has genuinely been in response to performance, or that further increases in executive pay or changes to make executive pay packages more generous alone will drive success that significantly boosts economic growth. Given that there are several high-profile UK companies that have managed to attract senior executives from the US, it is also arguable that the issues with UK executive pay is overblown.

Asset owner initiatives, such as the Fair Reward Framework⁵³ led by the Church of England Pensions Board, exist to re-frame the debate around executive pay. The Fair Reward Framework offers a balanced approach to executive pay, emphasising fairness, restraint, and alignment with long-term value creation. Investors should use this framework to assess whether companies are striking the right balance between competitiveness and fairness.

Another argument that is made is that UK investors are harsher on UK companies than they are on global counterparts. We are clear that our members should work to identify ‘what good looks like’ on many corporate governance issues and look to apply voting decisions as consistently as possible across jurisdictions while being mindful of specific local market practices around executive remuneration.

While there is limited data on shareholder dissent on this issue, it remains the case that ‘say on pay’ votes are advisory only. The ‘say on pay’ legislation was introduced in 2002 and requires publicly traded firms to submit an executive remuneration report to a non-binding shareholder vote. According to research from Harvard Business School, there has been no evidence of a change in the level and growth rate of CEO pay after the adoption of the new rules.⁵⁴ A second stage in the evolution of the regime began in 2013, when shareholders were granted a binding vote on remuneration policy. Another study stated that, in light of the

⁵³ Fair Reward Framework, <https://www.fairreward.org/>

⁵⁴ Fabrizio Ferri and David Maber, 2007, Say on Pay Vote and CEO Compensation: Evidence from the UK, Harvard Business School, <https://www.hbs.edu/faculty/Pages/item.aspx?num=30651>

continuing presence of significant levels of excess pay, ‘say on pay’ has to date had limited success as a regulatory strategy.⁵⁵

Pensions UK calls on companies to exercise restraint in executive pay, especially as the UK deals with the impact of the cost-of-living crisis. Pensions UK also encourages investors to evaluate all aspects of a company’s remuneration policy, with a view towards ensuring that it is closely aligned with investors’ interests, driving long-term strategic success and is in line with wider workforce policies.

Investors should be aware that there is a significant and growing reputational risk from the issue of poorly managed executive remuneration, including for investors themselves and how well they are holding companies to account on this issue. We also believe there is growing demand for alignment between remuneration and wider sustainability targets, and we now expect to see this reflected in voting policies.

Building on this, The Investment Association (IA) has recently updated its principles for remuneration⁵⁶ which provide useful information, including how remuneration policies should:

- Promote long term value creation
- Support both individual and corporate performance and encourage long term, sustainable financial health
- Be clearly linked to company performance
- Involve proactive engagement between remuneration committees and shareholders and other stakeholders
- Be appropriate for the company’s circumstances.

Gender, ethnicity and disability pay gaps

Companies with over 250 employees are mandated to report on gender pay gap, which is normally included in a separate document alongside their annual report.⁵⁷ Building on this, the Draft Employment Rights Bill proposes mandatory equality action plans for gender pay gaps and introduces ethnicity and disability pay gap reporting. Companies should prepare for these requirements by enhancing their disclosures and developing robust action plans.

Investors should expect clear narratives and measurable progress. A 2021 recommendation from the UK Government’s Commission on Race and Ethnic

⁵⁵ B. Wu, Iain MacNeil, Katarzyna Chalaczkiewicz-Ladna, 2020, ‘Say on pay’ regulations and director remuneration: evidence from the UK in the past two decades’, *Journal of Corporate Law Studies*, <http://eprints.gla.ac.uk/210140/7/210140.pdf>

⁵⁶ The Investment Association, 2024, *The IA’s Principles of Remuneration*, <https://www.theia.org/sites/default/files/2024-10/Principles%20of%20Remuneration%202025%20-%20Final.pdf>

⁵⁷ Government Equalities Office, 2020, *Who needs to report their gender pay gap?* Government Equalities Office, <https://www.gov.uk/guidance/who-needs-to-report-their-gender-pay-gap>

Disparities detailed that companies that choose to publish pay gaps between ethnic groups should also publish a diagnosis and action plan to address them.⁵⁸ In December, a group of 10 major UK investors, coordinated by ShareAction, called on the FCA to introduce mandatory ethnicity pay gap reporting for financial institutions.⁵⁹

The Draft Equality (Race and Disability) Bill announced in the King’s Speech does propose the introduction of mandatory ethnicity and disability pay reporting. This will enshrine in law the full right to equal pay for minorities and disabled people which will make it easier to bring unequal pay claims. The reporting will also support the disclosure of ethnicity and disability pay gaps.

Evidence base

There are often several pages dedicated to executive remuneration in an annual report. However, it is vital that companies and shareholders also have regular discussions on strategy and long-term performance; investors must be sure to then use these engagements as an opportunity to encourage firms to directly link remuneration and corporate performance objectives.

Remuneration metrics should be considered in the context of the sector in which the company operates, the wider workforce and what similar companies are doing in terms of their pay arrangements. There should be evidence of a range of long-term remuneration structures considered, with a robust, long-term business rationale as to why a particular approach – such as a long-term incentive plan (LTIP) – was chosen over other approaches such as deferred stock options.

Investors should ensure there is a wider, industry discussion around remuneration, not just their own approach, bearing in mind the increased scrutiny from public and policymakers regarding big pay packages in an era where we are likely to face greater economic and market uncertainty.

What does good company behaviour look like?

- Remuneration structures and incentives for executive directors should cascade down to all employees to allow staff to share in the success of a business. For example, the company should seek to offer employees share awards in the most cost effective and simple manner. This should also

⁵⁸ Commission on Race and Ethnic Disparities, 2021, Commission on Race and Ethnic Disparities: The Report, [Commission on Race and Ethnic Disparities – Commission on Race and Ethnic Disparities: The Report – March 2021 \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/2021/03/22/commission-on-race-and-ethnic-disparities-the-report)

⁵⁹ ShareAction, 2023, Investor Letter to the Financial Conduct Authority on Diversity & Inclusion’, <https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/FCA-Investor-Letter-press-2023.pdf>

include executive pension contributions – rates for executive directors should be in line with those available to the workforce. This should be the case for new directors and investors should engage as much as possible to ensure that this is the case for existing directors too.

- Maximum pay-outs must remain in line with the expectations of shareholders and other stakeholders, including workers and the wider society.
- The pay policy should not enable any pay award larger than what is necessary to successfully execute the company’s wider strategy and to incentivise and reward appropriately.
- There are clear timeframes for bringing executive pension contribution rates for existing directors in line with those of the wider workforce. No compensation should be awarded for this change.
- New executive directors or any director changing role are appointed at the same level of pension contribution as for the overall workforce.
- The remuneration policy is clearly linked to incentivising behaviours which are consistent with the company’s purpose and values. This should include performance on environmental and social issues and should demonstrate some recognition of wider societal expectations, the general economic environment and the returns to long-term shareholders.
 - The remuneration committees should take into consideration (as a starting point) the company’s strategic plan and KPIs to ensure there is a strong explanation for the drivers of executive remuneration given the company’s overall strategy.
 - This should include a plan in the near term, if not already undertaken, to tie remuneration to company performance on relevant and material environment and social metrics.
 - This should be done in a way which does not incentivise the pursuit of sustainability at any cost and should be appropriate to the company context, but remuneration policies should include meaningful and material sustainability metrics, such as climate targets, diversity goals, or social impact indicators.
 - Companies should disclose how ESG-linked pay metrics are selected, measured, and verified.
 - Where LTIPs are used, these should be linked to several different performance metrics, perhaps including a combination of growth, earnings and a mix of top-line and bottom-line contributions, in order to avoid incentivising short-term behaviour by executives.
- Pay schemes are clear and understandable for both investors and executives. The firm should not be operating multiple long-term schemes – a multiplicity of awards, with varying performance conditions is rarely successful in motivating company executives.
- The remuneration committee designs rewards that drive long-term success. The committee should take ownership of, and be accountable for, both the

remuneration policy and its outcomes. The company should consider how it might align pay more closely with the interests and expectations of their long-term owners in order to position themselves well for future success.

- The remuneration committee exercises its judgement, taking a critical and challenging approach to pay increases. Shareholders allow the remuneration committee significant discretion and room to exercise judgement about the overall performance of the company when determining awards.
 - Even when the remuneration committee is thinking about making executive salary increases that are in line with the average employee increase, consideration should be made to how competitive pay is already and to the extent to which this will increase all other areas of remuneration (typically already much higher than that available for employees).
 - The remuneration committee should demonstrate that it is prepared to exert downward pressure on executive pay where necessary and that it has used its discretion to ensure that awards properly reflect business performance. This should include a willingness to scale back on account of wider factors relating to the company, as well as its conduct, reputation and relationship with key stakeholders.
 - Where the remuneration committee has used its discretion to increase pay, it should explain appropriately.
 - The remuneration committee should consider how the results have been achieved, not just what was achieved including the creation of meaningful value and not just temporary stock price increases.
- Executive management makes a material long-term investment in shares of the businesses they manage. Senior executives should have significant 'skin in the game' of the companies they manage. Importantly, this should not just arise owing to share awards but be as a result of active purchase of shares by executives in the open market.
 - The bulk of variable rewards should flow over time from the benefits of being an equity owner.
 - Companies should also consider ensuring that executives are exposed to some tail risk for an appropriate length of time once they leave a company.
- There is a cap on variable pay and clear remuneration committee consideration of the wider remuneration landscape. There is no need for there to be a cap on fixed pay, but the remuneration committee should ensure there are set limits for variable pay (typically as a percentage of salary). It should also consider whether an overall pay cap (i.e. the value of awards actually paid) may be appropriate in certain circumstances to ensure executives are not benefiting from windfall gains, particularly as a result of external factors which are outside of management's control.
- There is a clear narrative to support the gender pay gap figures. This should include a well-targeted action plan for any improvement, including anticipated outcomes and how it links back to the company's strategy. The

best companies will also be disclosing – in preparation for mandatory reporting requirements – their ethnicity pay gap and any supporting narrative.

- The company initiates appropriately regular discussions with investors on strategy and long-term performance. Any discussions on remuneration should be initiated at a sufficiently early stage and include long-term investors who are committed to stewardship.
 - The company includes in its annual report a description of its malus (reducing bonuses before payment) and clawback (recovering bonus after payment) provisions, which can be applied in certain circumstances such as payments based on erroneous or misleading data, misconduct, misstatement of accounts, serious reputational damage and corporate failure.⁶⁰

How investors should consider voting

It is important that investors note the difference between a remuneration policy and a remuneration report when it comes to choosing the right resolution on which to express a view. While one does impact the other, a vote for or against one does not necessarily require a vote for or against the other. Shareholders should view the separate resolutions independently.

On the remuneration report resolution specifically: given that this is advisory and that many companies remain too slow to heed the message on remuneration, Pensions UK believes it is more appropriate for investors to vote against any remuneration report that they feel unable to support, rather than abstain.

Investors should consider voting against the remuneration policy if:

- The company's remuneration policy fails to meet the standards outlined above.
- Pay policies may result in pay awards that could bring the company into public disrepute or foster internal resentment.
- The pay policy awards 'sign-on' bonuses without the inclusion of any conditionality or allows for the payment of awards not already vested at the previous employer.
- The process of engagement prior to the AGM vote fails to produce a remuneration policy that shareholders can support. This represents a serious failure on the part of the chair of the remuneration committee in what is the most fundamental aspect of their role.
- There is no provision to enable the company to claw back sums paid or scale back unvested awards. Such provisions should not be restricted solely to material misstatements of the financial statements.

⁶⁰ Financial Reporting Council, 2024, Corporate Governance Code Guidance', <https://www.frc.org.uk/library/standards-codes-policy/corporate-governance/corporate-governance-code-guidance/>

- The pension payments or payments in lieu of pension (as a percentage of salary) for new appointments are not in line with the proportion paid to the rest of the workforce.
- There is no plan to bring pension payments to incumbent directors in line with the proportion paid to the rest of the workforce over the next few years.
- There is an excessive amount of flexibility being provided for ‘exceptional circumstances’.
- The recruitment policy is vague and unlimited or substantial headroom is given and not accompanied by substantial additional hurdles.
- There are guaranteed pensionable, discretionary or ‘one-off’ annual bonuses or termination payments.
- There is any re-testing of performance conditions to enable awards to be made.
- New share award schemes are layered on top of existing schemes.

Investors should consider voting against the remuneration report if:

- There is insufficient evidence of alignment with shareholders’ interests and company long-term strategy. This could include, but is not limited to, a shareholding requirement for which the level is set at less than two times salary.
- The metrics used are inappropriate or there are insufficiently stretching targets for annual bonus or LTIP.
- There are annual pay increases in excess of those awarded to the rest of the workforce and an absence of a convincing rationale.
- Pension payments to incumbent directors (as a percentage of salary) are higher than the rest of the workforce and there is no evidence that this will be reduced.
- The pension payments, or payments in lieu of pension (as a percentage of salary) for new appointments, are not in line with the proportion paid to the rest of the workforce.
- There is a failure to disclose (or to have a retrospective disclosure of) variable pay performance conditions for annual bonuses or ex-gratia and other non-contractual payments.
- There is a change in control provisions which trigger earlier and/or larger payments and rewards and there is an absence of service contracts for executive directors.
- The process of engagement prior to the AGM vote fails to produce a remuneration policy that shareholders can support – this represents a serious failure on the part of the chair of the remuneration committee in what is the most fundamental aspect of their role.

Investors should consider voting against the remuneration committee chair (director’s election) if they have been in post for more than one year and:

- The company has repeatedly failed to take investors’ concerns into account and fail to respond in what investors consider to be an appropriate fashion.

- The process of engagement pre-AGM has failed to result in a remuneration policy that shareholders can support, or shareholders feel that the chair has failed to take on board their concerns about the remuneration report.
- Any revised policy continues, on a repeat basis, to fail to meet the principles outlined above.
- ESG-linked pay metrics are absent or poorly defined.
- The company fails to disclose or justify significant increases in executive pay amid stagnant workforce pay.

Section 6: Climate change and sustainability

The 2025 voting season has been consequential in terms of its impact on the future of how investors think about climate change and sustainability. We have seen a continued decline in Say on Climate votes, with many companies continuing to opt for triennial votes rather than annual ones. Notably, many companies that introduced Say on Climate votes in 2022 have not held follow-up votes, suggesting these were one-off events rather than embedded governance practices. Investors should monitor this trend closely and consider escalating engagement where transparency and accountability are reduced.

The UK has largely maintained its commitment to sustainable finance. The Mansion House speech delivered by the Chancellor in November 2024 made clear that sustainable finance is an area of focus for the Government during this Parliament.⁶¹ This year, following their commitment to mandate transition plans, the Government launched a series of consultations on proposals to mandate UK-regulated financial institutions and FTSE 100 companies to publish credible transition plans as well as the rollout of UK SRS.⁶²

In June 2025, the Financial Reporting Council published a revised Stewardship Code, effective from January 2026. This marks the most significant update since 2020, aiming to streamline reporting while reinforcing high standards. Reporting is now split into two components: Policy & Context (every four years) and Activities & Outcomes (annually). The number of principles has been reduced, with new dedicated principles for proxy advisors and service providers.

In relation to transition plans, Pensions UK responded recognising how any implementation of transition plans must be considered in the wider context of the TCFD review, the rollout of the UK Sustainability Reporting Standards (UK SRS), updates to the Stewardship Code, and a broader Government commitment to reduce the corporate reporting burden by 25%. We believe these developments, considered holistically, can signal a shift towards a reporting landscape that drives real-world impact reflecting a transition from disclosure for compliance to disclosure for impact. Regarding the Stewardship Code, Pensions UK responded to the consultation, welcoming the focus on real-world impact but raising concerns about implementation clarity and potential unintended consequences for shareholder rights. We will continue to support members in navigating the new Code and ensuring it drives meaningful stewardship outcomes.

More widely, we maintain that climate change is a systemic risk affecting every industry and nearly every firm. But the global sustainability landscape is becoming

⁶¹ HM Treasury, 2024, Mansion House 2024 Speech, <https://www.gov.uk/government/speeches/mansion-house-2024-speech>

⁶² Department for Energy Security and Net Zero, 2025, Climate-related transition plan requirements, <https://www.gov.uk/government/consultations/climate-related-transition-plan-requirements>

increasingly polarised, and we see that pressure is mounting on the UK government to act to support trustees and investors:

- From our perspective, our latest member survey showed that 96% of respondents say sustainability is important in their investment decision-making, with 71% saying it is extremely or very important. While most say the importance has remained unchanged, 26% report that it has increased. These findings reinforce our members’ commitment to sustainability and our ambition to be bolder in driving real-world outcomes.
- Despite this, as Minerva’s 2025 proxy season review⁶³ highlights, while ESG remains mainstream it has become a contested concept. In the US, this can be attributed to political backlash, and in Europe to uncertainty around regulation on ESG labelling and greenwashing, amidst a shift toward economic growth, competitiveness and defence.
- In addition, we are seeing high levels of support within the developing Pension Schemes Bill for an amendment proposing changes to the legal definition of fiduciary duty. This is clearly driven by a sense that despite UK support, and in light of global developments, more needs to be done and more quickly to support pension schemes trustees in how they consider what it in the best interests of their scheme members.

In a year of significant change, politically but also from a policy perspective, we think it is crucial to continue to hold the Government to account for its sustainability commitments to ensure momentum is not lost. The Government’s decision to scrap plans for a UK Green Taxonomy⁶⁴ represented a significant policy shift. While we accept that this move may reduce complexity, it also risks undermining investor confidence in the UK’s sustainability framework and Pensions UK is alive to this risk.

Nature and biodiversity

The Convention on Biological Diversity defines nature as, “all the existing systems created at the same time as the Earth, all the features, forces and processes, such as the weather, the sea and mountains”.⁶⁵

The World Wildlife Fund (WWF) defines biodiversity as the “...variety of animals, plants, fungi, and even microorganisms like bacteria that make up our natural

⁶³ Minerva Analytics, 2025, Minerva Briefing: 2025 Proxy Season Review, <https://www.manifest.co.uk/downloads/2025-proxy-season-review/>

⁶⁴ HM Treasury, 2025, UK Green Taxonomy Consultation response, https://assets.publishing.service.gov.uk/media/687659e6a8d0255f9fe28edd/UK_Taxonomy_consultation_response.pdf

⁶⁵ Convention on Biological Diversity, 2021, Definitions of biodiversity and nature, <https://www.cbd.int/idb/activities/difference-biodiversity-nature.pdf>.

world. Each of these species and organisms work together in ecosystems, like an intricate web, to maintain balance and support life.”⁶⁶ Essentially, nature is all life on earth and biodiversity is the part of nature that is alive – they are interconnected, but different.

The accelerating loss of global biodiversity is driven by several factors, including global warming from climate change, industrial activities (such as deforestation or water usage) and farming to fuel high consumption demands worldwide. These contribute to habitat destruction through the extensive transformations in how land and oceans are being used. Transport for trade and tourism are also drivers of the spread of invasive alien species which threaten ecosystems. International trade and habitat destruction have also been identified as factors in the spread of disease that threatens both humans and wildlife.⁶⁷

These changes in the natural world have direct impacts on financial markets, supply chains and corporate profitability, with knock-on impacts on pension scheme investments tied to sectors linked to biodiversity loss. As a result, pension schemes will need to begin to treat biodiversity with the same prominence given to climate change. While the issue requires greater attention, our latest Responsible Investment Survey showed that just under a third (31%) of members have taken steps to identify nature-related risks in their portfolios, over a half (55%) have not.

Last year, we published *Nature’s Impact: Why biodiversity loss matters to pension schemes and what to do about it*.⁶⁸ This report highlighted how there is a growing urgency to take action to understand the key challenges associated with nature and biodiversity loss and subsequently take practical steps to address them. We have identified five top tips:

- Engage with training opportunities: Ask questions and actively seek training opportunities to build knowledge on biodiversity and nature-related risks and opportunities.
- Conduct portfolio assessments: Familiarise yourself with the different approaches being taken by asset managers, develop an understanding of the different data sets that exist, begin to understand the metrics being used and make assessments about the wider state of play and how to engage.
- Clarify your approach to engagement and stewardship: This can take many forms, whether that’s engagement with asset managers, establishing a

⁶⁶ WWF, What is biodiversity? Why it’s under threat and why it matters, <https://www.worldwildlife.org/pages/what-is-biodiversity>

⁶⁷ LSE, Grantham Research Institute on Climate Change and the Environment, 2022, What are the extent and causes of biodiversity loss, <https://www.lse.ac.uk/granthaminstitute/explainers/what-are-the-extent-and-causes-of-biodiversity-loss/>

⁶⁸ Pensions UK, 2024, Nature’s Impact: Why biodiversity loss matters to pension schemes and what to do about it, <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2024/Natures-Impact-Dec-24.pdf>

programme of monitoring and oversight or actively contributing to ongoing policy and advocacy work across the industry.

- Consider nature-based investment opportunities that are available: It can be complex to manage nature-related risks, but there are nature-based investment opportunities available that provide the opportunity to signal positive intent.
- Undertake policy advocacy and target-setting exercises: Detailed target setting may be a way off for many, but that should not stop thinking around the development of an internal policy position and how you would like your investments to line up with that.

While attention to nature-related risks continues to grow, and interest in how nature can be integrated into wider sustainability reporting (through transition plans and UK SRS) increases, we do think that schemes should now consider going a step further to encourage companies to address direct or underlying drivers of biodiversity loss.

Schemes should continue to encourage investee companies in at-risk sectors to engage with the Taskforce on Nature-related Financial Disclosures (TNFD) on approaches to better integrate impact on nature into decision-making, as well as on approaches to identify and access biodiversity data.⁶⁹ Our latest report provides an example of this which should be referred to for further information.

We also think investors should consider voting against the chair of the sustainability committee, risk committee, or board where the company is deemed to have breached the 'Do No Significant Harm' (DNSH) criteria as defined by the EU Taxonomy Framework. This is an escalation in our approach, but we believe it reflects positive progress in a way that does not set unrealistic expectations on how companies should be thinking about nature impact.

Climate change resolutions: What should investors look for?

After a stabilisation in the number of climate-related resolutions and 'Say on Climate' votes being tabled at AGMs, we are now seeing a decline.

With this trend continuing to play out, we think it is increasingly important for investors to consider how they can maximise their impact where they judge that climate risk is particularly material to a holding in their portfolio. Increasingly, investors should strongly consider supporting resolutions tabled by others (or tabling a resolution themselves with the support of others if they have sufficient resources) where this is in the broader shareholder interest.

⁶⁹ Ibid.

Questions which investors should be asking when deciding whether to support a given resolution include:

- Does it conflict with other climate resolutions? If so, which one will be most effective in achieving aims in line with the impact on the portfolio?
- Has it been supported by management?
- Does it focus on disclosure of activities and action (i.e. taking a behavioural approach which is trying to nudge companies into certain behaviours) or on the substance?
- If the resolution covers issues applicable across a sector, have similar requests been made of other companies in the industry or is there a justifiable reason why the company has been singled out for attention?
- Does it clearly link to internationally agreed upon targets and other agreements such as the Paris Agreement?
- Is the resolution binding? If so, is the request proportionate? Is there a good understanding of its likely impact on all relevant stakeholders if passed? Would it impact the ability of the company to make strategic decisions without seeking further shareholder approval in the future? Or does it offer some flexibility?
- If the resolution is non-binding (sometimes known as 'precatory'), is the aspiration appropriate and consistent with the business' long-term success? What actions would be appropriate for the company to take in response to the resolution? If those actions were not taken, how concerned would the investor be?
- Would voting against resolutions on political donations, re-election of the responsible director or the annual report and accounts better reflect specific concerns on a particular area (i.e. lobbying)?
 - For Say on Climate and other shareholder voting resolutions, are the plans put forward for approval underpinned by credible targets? (Ideally plans should reflect an established industry frameworks and be in keeping with the UK TPT guidance⁷⁰).

Nature and biodiversity resolutions: What should investors look for?

This year, we are urging investors to continue a phased escalation in how nature and biodiversity issues are approached. Biodiversity plays a key role in regulating the climate through carbon sequestration, maintaining healthy ecosystems, and

⁷⁰ Transition Plan Taskforce, 2022, Consultation The Transition Plan Taskforce Implementation Guidance, <https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Implementation-Guidance-1.pdf>

supporting resilience to climate change impacts.⁷¹ Sustained biodiversity loss poses a significant systemic risk to the health of the planet. The WWF is clear that continued reductions in biodiversity will mean “millions of people face a future where food supplies are more vulnerable to pests and disease, and where fresh water is in irregular or short supply”.⁷²

While the importance of this as an issue is clear, it is also evident that efforts to tackle biodiversity loss continue to lag the efforts to address climate change. The Kunming-Montreal Global Biodiversity Framework,⁷³ often described as the 'Paris Agreement for nature' was agreed in 2022 and starts to shift this. It is a landmark international agreement on biodiversity conservation and was signed by 196 countries at the UN Biodiversity Conference (COP15) in Montreal, Canada, though more now needs to be done, particularly at an investor stewardship level.

Governments, businesses and pension schemes are still universally in the early stages of developing their approaches to nature and biodiversity loss, and there are a number of challenges that still need to be worked through - the metrics are complex and there are many risks (physical, transitional, systemic and legal) that pension schemes face and need to consider. Despite these challenges, this year we are for the first time encouraging investors to consider voting action against companies who they have deemed to not take sufficient action in relation to nature and biodiversity. While we still stop short of proposing action that places biodiversity considerations on a par with climate, we do believe more needs to be done.

This year, we propose that investors should consider voting against the chair of the sustainability committee, risk committee, or board where the company is deemed to have breached the 'Do No Significant Harm' (DNSH) criteria in relation to nature-related risk as defined by the EU Taxonomy Framework. We see this as a proportionate and appropriate escalation in approach and will continue to advocate for a steady progression in investor action in relation to nature and biodiversity.

Given, as set out above, many are still in the early stages of developing their approach to nature and biodiversity loss, investor action does not need to be perfect or well developed at this stage. But we do need to see action that

⁷¹ Thinking Ahead Institute, 2024, Nature’s nexus: Exploring the interconnectedness of biodiversity and climate change, <https://www.thinkingaheadinstitute.org/news/article/exploring-the-interconnectedness-of-biodiversity-and-climate-change/#:~:text=Biodiversity%20plays%20a%20key%20role,preservation%20of%20habitats%20and%20ecosystems>

⁷² WWF, "I understand there may be a biodiversity crisis, but how does that affect me?" https://www.panda.org/discover/our_focus/biodiversity/biodiversity_and_you/

⁷³ UN Environment Programme, 2022, Convention on Biological Diversity, Kunming-Montreal Global Biodiversity Framework, <https://www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf>

demonstrates it is being prioritised and believe there are several things for investors to consider:

- As outlined earlier, our recent report *Nature's Impact: Why biodiversity loss matters to pension schemes and what to do about it*, identifies five top tips. These are designed to provide practical support on how action can be taken in a variety of different ways depending on the stage of the journey that different members will be at.
- Investors should take steps to identify crucial areas of natural capital loss where they think they can exert influence.
 - As an example, Nest identified deforestation as a crucial area of natural capital loss and in their 2024 voting policy,⁷⁴ committed to engaging with companies in the Global Canopy Forest 350 list⁷⁵ with a score below 40 (0 being the worst, 100 being the best).
 - Railpen⁷⁶ will consider voting in support of resolutions which seek to encourage companies to address drivers on a wider range of biodiversity loss issues including deforestation, packaging and pollution, water usage and pesticides.
 - Investors should consider voting against the chair of the sustainability committee, risk committee, or board where the company is deemed to have breached the 'Do No Significant Harm' (DNSH) criteria⁷⁷ in relation to nature-related risk as defined by the EU Taxonomy Framework.⁷⁸

Evidence base

Pensions UK believes that pension schemes should have access to as much information as possible (including metrics and climate scenario testing) to enable them to invest well. It is mandatory for listed companies to measure and report on the greenhouse gas emissions that they are responsible for producing. However, although this information is vital, it is not sufficient. This should therefore be accompanied by a clear narrative surrounding the approach that the

⁷⁴ Nest, 2024, Nest's global voting and engagement policy, <https://www.nestpensions.org.uk/schemeweb/dam/nestlibrary/voting-policy-global.pdf>

⁷⁵ Global Canopy, 2023, Global Canopy Forest 350 list, <https://forest500.org/rankings/companies/?totalscore=2%20out%20of%205>

⁷⁶ Railpen, Global Voting Policy 2024, 2023, <https://www.railpen.com/knowledge-hub/reports/voting-policy-2024/>

⁷⁷ Activities defined as "DNSH" by the European Securities and Markets authority do not significantly harm any of the six environmental objectives set out in the EU taxonomy framework (climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems).

⁷⁸ ESMA – European Securities and Markets Authority, 2023, Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework, https://www.esma.europa.eu/sites/default/files/2023-11/ESMA30-379-2281_Note_DNSH_definitions_and_criteria_across_the_EU_Sustainable_Finance_framework.pdf

company is taking to ensure it manages this risk through its governance, processes and internal control arrangements.

Investors may prefer that companies take a joined-up, industry-wide approach to climate change and other sustainability issues, both environmental and social. Due to the interrelated nature of climate change impacts, system-wide approaches and discussions (rather than single-issue responses) may yield more insights.

Given the systemic nature of the risk that climate change poses to companies, there could also be implications for capital structure and allocation. Investors should also carefully scrutinise disclosures regarding any planned capital expenditure on climate change-related research and development, or whether any relevant merger and acquisition activity has been planned.

What does good company behaviour look like?

- Climate change is discussed in terms of strategic, financial and operational factors. The potential impact of different scenarios, such as the reactions of policymakers and regulators on value creation in the long term, should be clearly discussed. There should also be a clear link to risk management at the executive level and risk oversight at the board level. The impact of climate risk and opportunities of the firm's strategy over the short, medium and long term should be clearly outlined.
- There are clear climate-related governance and oversight structures and processes. This includes climate change expertise at the board level, identification of which director is accountable for climate issues and management's role in assessing and managing climate-related risks and opportunities. Every director should demonstrate an understanding and awareness of the potential range of impacts which climate change may have on the company.
- A proactive approach both to identifying and managing climate risks and opportunities and sufficient disclosures on climate change. The company should be referencing the TCFD framework in disclosures. There should be clear evidence that the company is considering the issue of climate change across the high-level TCFD areas of governance, risk management, strategy, metrics and targets and scenario analysis.
- The potential consequences of the expected physical impacts of climate change are actively considered and discussed in reporting. The resilience of assets and supply chains in the face of, for example, changing weather patterns and rising sea levels, should be considered as relevant.
- The company also needs to demonstrate its consideration of the potential impact of changes in public policy and regulation around the transition to a

low-carbon economy. The narrative reporting should reflect the level of financial disclosures provided.

- Clear reference to and use of credible industry climate reporting metrics in the annual report and accounts. This should include reference to the TCFD, Sustainability Accounting Standards Board (SASB),⁷⁹ Climate Disclosures Standards Board (CDSB),⁸⁰ or other established third-party frameworks. The company should provide explanations as to the rationale for their choice of framework and the extent to which, if at all, relevant metrics have been blended with others. Please note that smaller and medium-sized companies should be allowed some discretion and flexibility regarding their choice of framework and timescales.
- Disclosures refer to the Paris Agreement and mention the UK's Net Zero goal. The company should disclose whether it has assessed if its business model is compatible with commitments to mitigate global temperature increases (at either 2 or 1.5 degrees) and, where it does not feel this is currently the case, have outlined a process (complete with relevant timescales) under which it hopes to achieve compatibility.
 - This should include a discussion of the metrics which the company has chosen to assess climate-related risks and opportunities in line with its strategy and risk management. These metrics should include Scope 1, 2 and (where relevant) Scope 3 greenhouse gas (GHG) emissions.⁸¹
- Credible transition plans set out clear interim targets and milestones, material actions, activities and accountability mechanisms.
- Financial disclosures include transparency on the underlying assumptions used to calculate balance sheet valuations and earnings. Many key valuation and profit measures disclosed by companies depend on assumptions about future returns. Investors may wish to challenge the calculations and/or substitute alternative assumptions in their own financial analysis, should there be concern that these may be dependent on the Paris Agreement not being delivered in practice. In order to be open to such discussion, the company should be transparent on the assumptions underlying its calculations.
- A company's political donations and its trade associations membership are aligned with its stance on climate change. Investors have become increasingly concerned about corporate support for organisations and

⁷⁹ Sustainability Accounting Standards Board 'SABS Standards', Sustainability Accounting Standards Board <https://www.sasb.org/standards/download/>

⁸⁰ Climate Disclosure Standards Board, 2022, CDSB Framework for reporting environmental & social information, [cdsb-framework-2022.pdf \(ifrs.org\)](https://www.cdsb.org/standards/framework-2022.pdf)

⁸¹ Greenhouse Gas Protocol, <https://ghgprotocol.org/>

individuals whose lobbying activities and objectives are considered to frustrate climate change mitigation. Such support may take the form of political donations, trade association membership or the establishment of charitable or educational trusts that undertake lobbying against progressive climate legislation.

- The company has produced a summary of biodiversity impacts caused by its activities in its corporate scope of biodiversity influence and has a list of goals and objectives that can be focused, and against which company biodiversity performance can be measured.
- The company should demonstrate an awareness of The Kunming-Montreal Global Biodiversity Framework and be able to demonstrate how it plans to support the ambition of halting and reversing biodiversity loss by 2050.
- The company could begin implementing, or considering how to implement, sustainable sourcing practices, ensuring that materials are obtained in ways that do not harm ecosystems.
- The company should consider working with local communities, governments, and NGOs to develop and implement biodiversity strategies. This ensures that efforts are inclusive and consider the needs of all stakeholders.
- The company will be formulating a plan for reporting on biodiversity impacts or will have begun reporting on nature-related financial impacts with consideration to the Taskforce on Nature-related Financial Disclosures (TNFD) recommendations.
- The company could demonstrate best practice within its own workforce by providing education opportunities and encouraging participation in conservation activities. This can foster a culture of sustainability within the organisation. The company has developed strategic and monitoring plans describing indicators to be used and mapping out how data will be collected, when, how, where and by whom.
 - The company has, or plans to create, a database of relevant data on indicators, and a monitoring and reporting systems which ensure data is provided in a standardised format that can be displayed in appropriate data products, such as maps and dashboards, to meet decision-makers' needs at each level of the company.⁸²

⁸² International Union for Conservation of Nature, 2021, 'Guidelines for planning and monitoring corporate biodiversity performance, <https://portals.iucn.org/library/sites/library/files/documents/2021-009-En.pdf>

How investors should consider voting

Investors should consider voting against the annual report and accounts if:

- There is insufficient disclosure on how a company intends to monitor and manage the risks and opportunities brought about by climate change.
- The business has operations which are highly carbon intensive and there has been no disclosure of the climate-related assumptions which underlie its financial calculations, or where those assumptions are not consistent with the Paris Agreement.
- The business has operations which are highly carbon intensive and there is no commitment to disclose memberships and involvement in trade associations that engage on climate-related issues.

Investors should consider voting against the remuneration policy if:

- There are no plans to align senior executive remuneration to performance against relevant sustainability metrics within a reasonable timeframe.
- The business has operations which are highly carbon intensive and has not included at least one climate-related metric in the calculation of executive incentives. The metrics also should not be contradictory.

Investors should consider voting against the re-election of the director or the re-election of the chair if:

- Shareholders have attempted to engage on the issue, and the company has still failed to demonstrate effective board ownership, for example providing a detailed risk assessment and response to the effect of climate change on the business, or incorporating appropriate expertise on the board.
- The business is not already moving towards disclosures consistent with mandatory TCFD obligations or, where relevant CDSB, SASB or another established third-party framework. For smaller businesses, they are not readying themselves at a pace proportional to the resources available and the TCFD roadmap.
- The business has operations which are highly carbon intensive and has not made sufficient progress in providing the market with investment-relevant climate disclosures including committing to publish science-based targets.
- The company has not listened to investor concerns about any direct or indirect corporate lobbying activity whose objectives are considered to frustrate climate change mitigation.
- The company has not responded appropriately to the result of a climate change-related resolution, whether binding or not, and whether it was passed or not.
- The company efforts to mitigate agricultural commodity-driven deforestation are considered insufficient.
 - In relation to nature, a company is deemed to have breached the 'Do No Significant Harm' (DNSH) to the environment criteria as defined

by the EU Taxonomy Framework.⁸³ In these cases, investors should consider voting against the chair of the sustainability committee, chair of the risk committee or the chair of the board as appropriate.

Investors should consider voting in favour of relevant climate-related or similar resolutions – including Say on Climate resolutions – by making assessments on a case-by-case basis.

⁸³ ESMA – European Securities and Markets Authority, 2023, Do No Significant Harm' definitions and criteria across the EU Sustainable Finance framework, https://www.esma.europa.eu/sites/default/files/2023-11/ESMA30-379-2281_Note_DNSH_definitions_and_criteria_across_the_EU_Sustainable_Finance_framework.pdf

Section 7: Social factors and workforce

Social factors include a wide range of topics from health and safety in supply chains, modern slavery, product quality and safety, customer privacy and data security, community engagement and impact on local businesses, to name a few. According to the DWP call for evidence on ‘consideration of social risks and opportunities by occupational pension schemes’,⁸⁴ published in 2021, there are several lenses through which it is useful to view social factors: practices within a company, practices within a company’s supply chain, company products and selling practices, and a company’s impact on the community.

A study by Deutsche Bank Wealth Management conducted in 2019⁸⁵ showed that companies that take into consideration social factors can reduce systematic risk, idiosyncratic risk and total firm risk, and that in fact only the ‘S’ in ESG is able to lower systematic risk.

The 2025 proxy season has seen a marked rise in the prominence of social factors within stewardship and voting considerations. While climate remains a material concern, the growing complexity of social risks, ranging from workforce wellbeing to geopolitical developments, has prompted UK investors to deepen their focus and adapt their stewardship approaches accordingly.

This shift in focus towards paying greater attention to social factors has been coming and we are seeing the UK Government’s previous decision to prioritise social issues, most notably through the creation of the Taskforce on Social Factors for the UK pensions industry, paying off. Launched in 2023 and supported by the Department for Work and Pensions, the Taskforce was established to help pension schemes identify, assess and manage financially material social risks and opportunities. Its final guidance⁸⁶, published in March 2024, outlined how social factors align with trustees’ fiduciary duties and provided a structured framework for integrating these considerations into investment and stewardship policies.

The guide includes a materiality assessment framework, indicators of baseline to leading practice, and practical tools for addressing issues such as modern slavery and supply chain risks. Trustees are encouraged to prioritise relevant social factors, embed them into voting guidelines, and communicate expectations to managers through mechanisms such as Expressions of Wish or direct proxy voting.

⁸⁴ Department for Work and Pensions, 2021, Consideration of social risks and opportunities by occupational pension schemes, <https://assets.publishing.service.gov.uk/media/6059fc5ce90e0724cfff4492/consideration-of-social-risks-and-opportunities-by-occupational-pension-schemes.pdf>.

⁸⁵ Professor Alfonso Del Giudice, 2019, Guest contribution by Professor Del Giudice: Social criteria can reduce risk – with clear corporate and investor benefits’, Deutsche Bank Wealth Management, <https://www.deutschewealth.com/content/dam/deutschewealth/cio-perspectives/cio-special-assets/s-in-esg/CIO%20Special%20-%20The%20S%20in%20ESG.pdf>

⁸⁶ Taskforce on Social Factors, 2024, Considering Social Factors in Pension Scheme Investments: Guide from the Taskforce on Social Factors, <https://assets.publishing.service.gov.uk/media/65e72c6d7bc3290adab8c22a/considering-social-factors-in-pension-scheme-investments-guide.pdf>

Pensions UK has previously supported this work through its publication of best practice case studies in *Putting the Spotlight on Social Factors*,⁸⁷ which showcase how schemes are approaching social issues across the investment cycle. While awareness is growing, many trustees still find social factors challenging to navigate, underscoring the need for continued guidance and capacity-building.

In acknowledgement of the Government’s clear commitment to increasing local investment, particularly through reforms to the LGPS, we have sought to do more.

Place-based investing is expected to become a growing priority in the coming years. Pensions UK is looking to find ways to support this direction and contributed to the debate through our sponsorship of The Good Economy’s white paper⁸⁸ on local investment for place-based impact which outlines how pension schemes can invest in local economies to deliver social impact and long-term value.

In parallel, the emergence of the Taskforce on Inequality and Social Factor Disclosures (TISFD)⁸⁹ signals a broader international effort to standardise and elevate social risk reporting. This is particularly relevant as investors grapple with the implications of escalating global conflict and the ethical dimensions of defence investment.

Defence investment is an area that continues to grow in profile and importance both to governments and investors, particularly in the context of national security and human rights protection. There are many complexities around defence investment and at Pensions UK, we encourage schemes to make their own decisions based on ethical and values-based considerations. We recognise that this will lead different investors to come to different conclusions but encourage all schemes to ensure these conclusions derive from a principled and considered approach.

The shift in perception has been accelerated by escalating global crises, notably the ongoing conflicts in Ukraine and the Israel–Gaza region, which have underscored the role of defence in safeguarding democratic institutions, civilian populations, and critical infrastructure. These events have highlighted defence as not only a matter of national security but also a contributor to global stability and the protection of human rights in times of conflict.

Some investors are recognising that defence companies, when operating within international law and responsible business frameworks, can align with ESG principles by supporting humanitarian objectives and resilience against systemic geopolitical risks. However, trustees should carefully weigh these considerations against their scheme’s ethical stance and member expectations, ensuring that any

⁸⁷ Pensions UK, 2024, *Putting the Spotlight on Social Factors*, <https://www.plsa.co.uk/Policy-and-Research/Document-library/Putting-the-spotlight-on-social-factors-best-practise-case-studies>

⁸⁸ The Good Economy, 2025, *Scaling-up local investing for place-based impact: A strategic framework and guidance for LGPS*, https://thegoodeconomy.co.uk/portfolio_cat/white-papers/#.

⁸⁹ Taskforce on Inequality and Social-related Financial Disclosures (TISFD), 2024, <https://www.tisfd.org/>

investment decisions are underpinned by transparent policies and robust governance.

Last year, we flagged several social issues in the guidelines as emerging issues. These continue to attract attention and evolve:

- Mental health remains underreported relative to physical health, despite its material impact on workforce performance and corporate culture.
- Menopause is gaining recognition as a workplace issue, with growing calls for employer support and policy reform.
- Maternity and paternity pay is increasingly viewed as a driver of gender inequality, with evidence suggesting that more equitable parental leave could boost economic output and narrow the gender pay gap.
- Anti-microbial resistance (AMR) has been identified as a top global public health threat, and companies in high-risk sectors are expected to disclose robust AMR management strategies.
- Harmful content and misinformation in the tech and media sectors remain under scrutiny, with investors urging companies to improve oversight and transparency to avoid regulatory backlash.

As the ESG landscape continues to evolve, UK investors will need to think creatively and strategically, particularly in markets like the US, where political and regulatory headwinds are reshaping the tools available for stewardship. Traditional shareholder proposals may face procedural barriers, requiring investors to leverage alternative mechanisms such as director elections, collaborative engagement, and targeted voting strategies to uphold social standards and drive meaningful change.

Ongoing key issues

Workforce

A company's workforce is one of the main contributors to its long-term success, with clear and significant reporting being in the best interest of organisations. Investors will value the disclosure of this information, especially when companies recognise the risk poor employment practices can pose and include people matters as a key element of their strategy.

Workforce issues are increasingly at the forefront of social factors stewardship policies. In 2025, investors expect parity between mental and physical health reporting, with mental health metrics integrated into health and safety frameworks. Menopause support and equitable parental leave are increasingly recognised as drivers of workforce retention and gender equality, while modern slavery reporting must move beyond policy statements to demonstrate effectiveness. Diversity disclosures remain under scrutiny, with calls for improved

ethnicity pay gap reporting and workforce composition transparency beyond board level.

Wellbeing

Wellbeing in the workplace relates to all aspects of the working life, from the quality and safety of the physical environment, to how workers feel about their work and their working environment. According to the International Labour Organization, the goal of workplace wellbeing measures is to complement occupational safety and health measures and to make sure workers are safe, healthy, satisfied and engaged at work.⁹⁰

As part of the Government's 2024 King's Speech announcement, the Employment Rights Bill⁹¹ proposed action to strengthen workers' rights. The Bill, introduced in October 2024 and expected to receive Royal Assent in late 2025, significantly expands worker protections and is likely to influence corporate workforce practices. Key provisions include changes to day-one rights for unfair dismissal with the qualifying period being reduced from two years to six months (from 2027), a ban on 'fire and rehire' (2026), expanded family leave and statutory sick pay from day one (2026), and stronger collective redundancy consultation rules. These changes will raise expectations for fair work standards and employee wellbeing, making compliance and proactive workforce management a stewardship priority. For pension schemes, the Bill may also affect sponsor financial resilience and HR strategies, which should be factored into covenant assessments for DB schemes.

Physical health

Under health and safety law, all workers are entitled to work in environments where risks to their health and safety are properly controlled, with employers having the primary responsibility for this.

According to the Health and Safety Executive, companies have duties under law to assess risks in the workplace, which includes identifying work activities that could cause injury or illness and taking action to eliminate the hazard, or if this is not possible, control this risk. Employers must also give information about the risks in the workplace and how staff are protected and consult with employees on health and safety issues. Companies also have a legal duty under the Health and Safety Information for Employees Regulations to provide health and safety information.⁹²

Recent studies from the World Health Organization and the International Labour Organization have shown a correlation between working long hours and increasing

⁹⁰ International Labour Organization, https://www.ilo.org/safework/areasofwork/workplace-health-promotion-and-well-being/WCMS_118396/lang--en/index.html.

⁹¹ UK Government, 2024, Factsheet: Employment Rights Bill overview, <https://assets.publishing.service.gov.uk/media/67125a75386bf0964853d7ff/employment-rights-bill-overview.pdf>

⁹² Health and Safety Executive, <https://www.hse.gov.uk/simple-health-safety/index.htm>

deaths from heart disease and stroke.⁹³ Research published in 2011 estimated that, in 2016, 398,000 people died from stroke and 347,000 from heart disease as a result of having worked at least 55 hours a week.

Recently, more attention has been paid to corporate employment practices, especially in the areas of physical health and safety, mental health and sick pay entitlements, due to the pandemic.

Human rights and modern slavery

Although modern slavery is not yet defined in international law, it is described as a crime and a violation of fundamental human rights. The UK Government states it can take many forms including the trafficking of people, forced labour, servitude and slavery. It is a global problem that interlinks with age, gender and ethnicity.⁹⁴ It is not an issue confined to history or an issue that only exists in certain countries.⁹⁵

It is estimated that 49.6 million people were living in modern slavery in 2021, of which 27.6 million were in forced labour and 22 million in forced marriage.⁹⁶ Of the 27.6 million people in forced labour, 17.3 million are exploited in the private sector; 6.3 million in forced commercial sexual exploitation, and 3.9 million in forced labour imposed by state actors.

There have been several initiatives from governments to prevent modern slavery. In the UK, the Modern Slavery Act 2015 contains a section which requires commercial organisations – which are a body corporate or a partnership, carry on a business, supply goods or services and have an annual turnover of £36 million or more – to develop a slavery and human trafficking statement each year. Section 54 dictates the statement is expected to set out what steps companies have taken to ensure modern slavery is not taking place in their business or supply chains.

However, an independent review of the Act,⁹⁷ commissioned by the Government and published in 2019, concluded that although the new requirement contributed to raising awareness of these issues and has encouraged many companies to start

⁹³ World Health Organization & International Labour Organization, 2021, Long working hours increasing deaths from heart disease and stroke: WHO, ILO, <https://www.who.int/news/item/17-05-2021-long-working-hours-increasing-deaths-from-heart-disease-and-stroke-who-ilo>

⁹⁴ Genevieve LeBaron, Neil Howard, Cameron Thibos and Penelope Kyritsis, 2018, 'Confronting root causes: forced labour in global supply chains', openDemocracy and Sheffield Political Economy Research Institute (SPERI), University of Sheffield, https://cdn-prod.opendemocracy.net/media/documents/Confronting_Root_Causes_Forced_Labour_In_Global_Supply_Chains.pdf

⁹⁵ Home Office 'Frequently Asked Questions on Modern Slavery', Home Office, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/638369/What_is_Modern_Slavery_NCA_v1.pdf

⁹⁶ International Labour Organization, 2022, Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, https://www.ilo.org/global/topics/forced-labour/publications/WCMS_854733/lang--en/index.htm

⁹⁷ Home Office, 2019. Independent review of the Modern Slavery Act 2015: final report', <https://www.gov.uk/government/publications/independent-review-of-the-modern-slavery-act-final-report>

considering and addressing it, its impact has been limited to date. Evidence gathered by the reviewers showed that a lack of enforcement and penalties, as well as confusion surrounding reporting obligations, resulted in poor-quality statements and an estimated lack of compliance from over a third of eligible firms.

In 2022, the FRC’s review of corporate governance⁹⁸ found that overall, while nearly half of companies report on their policies and procedures as they relate to modern slavery, reporting fails to address the effectiveness of these measures. Furthermore, not one company in the FRC sample disclosed that it had found any cases of modern slavery in the reporting year. There were also no reports of finding instances of modern slavery in the businesses’ supply chain as a result of the modern slavery audits.

In a bid to tackle modern slavery in supply chains, the UK Government published new statutory guidance⁹⁹ in March 2025 for businesses on how to tackle modern slavery in supply chains and how to report this in modern slavery statements. This accompanies the guidance published in February 2023¹⁰⁰ for commercial and procurement professionals. Although the 2023 guidance is aimed at helping government practitioners to comply with their supply chain obligations, it is expected it will filter through to a much wider group of businesses, and is considered as an example of how the trend towards greater transparency and engagement with supply chains will affect not just those caught directly by new laws in this area.¹⁰¹

The guidance focuses on four key areas: identifying and managing risks in new procurements, managing risks in existing contracts, action when victims of modern slavery are identified, and training. In addition, trustees should use the Taskforce on Social Factors’ guidance and case studies for best practice, and press for reporting on effectiveness rather than policy statements alone.

Diversity and inclusion

Workforce gender and ethnic diversity remain a cornerstone of good governance and long-term value creation, even as investor attention in 2025 appears to have shifted toward other social priorities. While EDI has come under attack in some places, and faced less-positive public prominence, our commitment is unchanged.

⁹⁸ Financial Reporting Council, 2022, Review of Corporate Governance Reporting, https://www.frc.org.uk/getattachment/6a896f6b-8f4a-4a19-8662-f87a269ffce3/Review-of-Corporate-Governance-Reporting_-2022.pdf

⁹⁹ Home Office, 2025, Transparency in Supply Chains (TISC) – Statutory Guidance, https://assets.publishing.service.gov.uk/media/68873308cecc9ccd515ae09b0/Transparency_in_supply_chains_a_practical_guide.pdf

¹⁰⁰ Cabinet Office, 2023, Update to Tackling Modern Slavery in Government Supply Chains, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1135523/PPN_02_23_-_Update_to_Tackling_Modern_Slavery_in_Government_Supply_Chains_2023_-_Guidance.pdf

¹⁰¹ Osborne Clarke, 2023, New guidance issued on tackling modern slavery in UK government supply chains, <https://www.osborneclarke.com/insights/new-guidance-issued-tackling-modern-slavery-uk-government-supply-chains>

We continue to support investors to expect that companies demonstrate progress and transparency on workforce composition, inclusion policies, and pay gap reporting.

More information on this topic of diversity and inclusion can be found in Section 3: Composition, succession and evaluation; and Section 5: Remuneration discusses the gender pay gap and ethnicity pay gap.

Emerging issues

Artificial intelligence governance and workforce impact

In 2025, investor scrutiny of artificial intelligence (AI) has intensified, with a sharp rise in shareholder proposals and board-level oversight disclosures. AI is no longer viewed solely as a technological innovation but as a governance and social risk. Investors are increasingly concerned about how companies deploy AI in ways that affect workforce dynamics, privacy, bias, and ethical decision-making. The percentage of companies disclosing board oversight of AI has surged, and proposals now call for transparency on AI ethics, human rights implications, and the impact on job displacement. This reflects a growing recognition that AI governance is central to long-term value creation and risk mitigation.

For UK pension schemes, this issue intersects with workforce wellbeing and systemic stewardship. AI's potential to reshape employment structures, amplify inequalities, and introduce new forms of surveillance or discrimination means trustees must consider how investee companies are managing these risks. Advancements in technologies, particularly AI and information processing; robotics and automation; and energy generation, storage and distribution, are expected to be transformative.¹⁰²

Stewardship policies may need to evolve to include expectations around AI governance frameworks, ethical safeguards, and board accountability. The emergence of responsible AI assessment tools and global governance initiatives, such as the EU AI Act and UK's AI White Paper, further reinforces the need for investor engagement on this issue.

Reproductive health and rights

Reproductive health has emerged as a material social factor in 2025, shaped by global legal shifts and investor concern over workforce equity. In the U.S., the post-Roe landscape has made this a politically sensitive issue, with state-level restrictions creating reputational and operational risks for companies. While not universally accepted, evidence suggests younger workers and those planning

¹⁰² World Economic Forum, 2025, Future of Jobs Report – Insight Report January 2025, https://reports.weforum.org/docs/WEF_Future_of_Jobs_Report_2025.pdf

families increasingly consider employer policies on reproductive health when making career decisions, linking access to talent retention and workforce stability.

Reproductive health is broadly defined, covering contraception, abortion access, and maternal care. It is starting to include fertility benefits such as IVF and egg freezing, once niche but now offered by major employers as part of inclusive workforce strategies. These benefits are gaining traction in competitive sectors, with nearly half of large U.S. employers covering IVF and many expanding family-building support to attract and retain talent.

For UK investors, the relevance extends beyond global portfolios to domestic contexts where reproductive and maternal health intersects with gender equity. The business case for strong maternity and paternity policies is well established, and reproductive health is now framed as a financial and reputational risk. Trustees may wish to consider how investee companies support reproductive health across geographies and whether stewardship policies should include expectations around inclusive healthcare benefits, privacy protections, and alignment with international human rights standards.

Child safety and online harm

Child safety online has gained significant traction in 2025, driven by regulatory developments and technological risks. The rise of AI-generated content has exacerbated threats such as deepfakes, sextortion, and the spread of harmful material. Investors are increasingly engaging with tech and media companies on their governance of child safety, demanding robust content moderation, transparent reporting mechanisms, and ethical design standards. Initiatives like the LexisNexis ADAM Program and Safe Online's expanded funding for child protection technologies reflect growing momentum in this space.

For pension schemes, child safety is emerging as a systemic social risk, particularly in portfolios exposed to digital platforms, telecoms, and AI developers. Stewardship policies may need to address how companies safeguard vulnerable users, comply with evolving regulations, and contribute to a safer digital environment. The issue also aligns with broader concerns around misinformation, platform accountability, and the social license to operate. Trustees should consider whether child safety is reflected in their voting guidelines and engagement priorities, especially as investor tools for assessing corporate performance on children's rights become more widely available.

Evidence base

At present, modelling the impact of social factors is difficult. This is because schemes normally use asset and liability modelling, with the process focussing on the more 'traditional' factors. Systemic issues, and many social factors in particular, do not lend themselves to this type of modelling.

In 2025, there is growing recognition that social factors often manifest as systemic risks, requiring portfolio-level approaches rather than traditional asset-liability modelling. TISFD and PRI's work on system-level stewardship are helping to shape thinking on how to integrate social risks into long-term modelling frameworks.

Currently, the 17 Sustainable Development Goals (SDGs) are the most-used impact performance measurement tool, with investors looking at impact related to one or more of the goals, like promoting inclusive economic growth or gender equality.

The Taskforce on Social Factors guide provides insight into how to effectively utilise social factor data. It is widely acknowledged that it is hard to measure the impact of social factors, but the taskforce guide covers how gathering data on a range of metrics could help to effectively identify problems, opportunities and manage change. The taskforce outlines a range of data that could be standardised and compared across investment portfolios, including:

- Number of full-time equivalent employee roles [total]; proportion of those who are paid a living wage [%]; employee turnover [mean and median]; proportion of workforce on zero hours contracts [%]
- Gender pay gap data [mean and median]
- Ethnic pay gap data [mean and median]
- Accident incidence rate [mean and median]
- Fatality incidence rate [mean and median]
- Maximum supplier payment term [mean and median]
- Frequency with which those terms are exceeded [mean and median].

The taskforce suggests that these aggregated statistics could be supplemented by red flags regarding issues such as the absence of policies on modern slavery, and failure to recognise trade unions. If this data can be captured consistently and with confidence, the number of investments, or proportion of total assets, subject to such red flags could be aggregated across funds and so be assessed by pension trustees. This will allow for poor performance to be recognised and potentially addressed.

We are also seeing these efforts being complemented by international initiatives such as the ISSB and TISFD, which aim to standardise social factor disclosures and enable comparability across markets. This could improve the reliability of inputs for modelling social risks over time.

While it is particularly difficult to get concrete metrics around wellbeing, investors should look for progress over time and evidence that the company's approach is changing for the better.

Investors should look at annual reports for information about health, safety and wellbeing initiatives, alongside examples of practices to mitigate risks in this area. A useful proxy for employee mental and physical health is absence rates. High

absence rates can point to unhealthy and possibly overworked staff.¹⁰³ In addition to traditional metrics such as absence rates, investors are beginning to explore alternative data sources, experimenting with AI-driven analytics, employee sentiment analysis and whistleblowing trends to identify early signals of workforce stress or cultural risk.

Companies with over 250 employees are mandated to report on their gender pay gap, which is normally included in a separate document alongside their annual report.¹⁰⁴ Ethnicity pay gap reporting is not yet compulsory. Though the Employment Rights Bill and the forthcoming Equality (Race and Disability) Bill will expand mandatory reporting on ethnicity and disability pay gaps, creating more consistent datasets for assessing workforce equity risks.

On human rights and modern slavery, companies should include their annually updated statement of compliance with the Modern Slavery Act, signed by a company director and approved by the board, on the homepage of their website, which should be easily accessible. The Government also has a modern slavery statement registry¹⁰⁵ which contains documents issued by companies.

When a company does not publish a modern slavery statement – either because they are not obliged by law to do so or because they elect to state they do not take any steps to help prevent slavery and human trafficking in their supply chain – further analysis should be done by investors to understand risks. This includes focusing on their jurisdiction of operations and industry sector to assess if the level of risk of there being incidences is high, medium or low.

What does good company behaviour look like?

- Contributions to improving social and economic conditions in local communities where the company operates.
- Apply a social lens to markets where the company operates which allows to identify new sources of customer value.
- Investment in the current workforce, which will allow the company to develop the talent it needs for the future by investing in employee learning and development.
 - Enhance supply chain resilience by building socially responsible relationships with suppliers, to ensure fair and equitable practices.¹⁰⁶

¹⁰³ Railpen, High Pay Centre, Chartered Institute of Personnel and Development, Pensions and Lifetime Savings Association and Board Intelligence, 2022, Worthwhile Workforce Reporting: Good practice examples from the UK's biggest companies, <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Worthwhile-Workforce-Reporting-Dec-2022.pdf>

¹⁰⁴ Government Equalities Office, 2020, Gender pay gap reporting: guidance for employers, <https://www.gov.uk/guidance/who-needs-to-report-their-gender-pay-gap>

¹⁰⁵ <<https://modern-slavery-statement-registry.service.gov.uk/>>.

¹⁰⁶ Bain & Company, 2023, The Visionary CEO's Guide to Sustainability, [bain report the visionary ceos guide to sustainability.pdf](https://www.bain.com/insights/the-visionary-ceos-guide-to-sustainability)

- Reporting through the Workforce Disclosure Initiative (WDI),¹⁰⁷ which allows companies to demonstrate to their investors, clients and other stakeholders that they are effectively managing their staff and supply chain workers.
- Practice ethical behaviour and social responsibility, which can be promoted through codes of conduct, transparency and accountability.
- Clear reference to and use of credible social risks mitigation measurement frameworks in the annual report and accounts and/or sustainability report. This could include reference to the UN Global Compact – Sustainable Development Goals, Global Reporting Initiative, or other established third-party frameworks. The company should provide explanations as to the rationale for its choice of framework and the extent to which, if at all, relevant metrics have been blended with others. Please note that smaller and medium-sized companies should be allowed some discretion and flexibility regarding their choice of framework and timescales.
- The company takes into consideration social factors in all its activities, including the products and services they offer. The business should ensure that its products and services do not pose safety risks, and/or minimise the exposure to geopolitical conflicts in its supply chains. The company should also consider wider social considerations in relation to future demographic or consumer changes and how these relate to its products and services.
- Publish a clear commitment to promoting a culture of openness on mental health, with the CEO signalling leadership commitment on this area.
- Publish formal objectives aimed at improving workplace mental health, have formal reporting on mental health metrics in annual reports and integrate mental health into health and safety frameworks. Board members and operational management should have responsibility for mental health initiatives in the company.
 - Include health, safety and wellbeing matters in its risk assessment, and detail how the risk will be managed.¹⁰⁸
- The company board sets objectives and targets to improve mental health and reports annually on progress against these goals.
- Publish gender, ethnicity and disability gap reports annually and in line with anticipated Equality (Race and Disability) Bill requirements for ethnicity and disability pay gap reporting, alongside initiatives to reduce these gaps.
 - The board has diversity and inclusion as one of its priorities and has developed a training/awareness programme for at least the senior leadership in this area. Nevertheless, it should be taken into account there is no evidence unconscious bias training can fully eliminate implicit bias, and its ability to effectively change behaviour is

¹⁰⁷ <<https://workforcedisclosureinitiative.org/>>.

¹⁰⁸ Railpen, High Pay Centre, Chartered Institute of Personnel and Development, Pensions and Lifetime Savings Association and Board Intelligence, 2022, Worthwhile Workforce Reporting: Good practice examples from the UK's biggest companies <https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Worthwhile-Workforce-Reporting-Dec-2022.pdf>

limited,¹⁰⁹ so training programmes should be tailored to the needs of each organisation.

- The Modern Slavery Act statement, which is published on the company's website homepage, as well as new Home Office guidance,¹¹⁰ contains information about not only its policies in this area but also refers to audits and inspections conducted on sites of their suppliers.
- The company has a long-term training plan for employees and contractors on modern slavery if appropriate.
 - Follow the *Transparency in supply chains* guide¹¹¹ issued by the Home Office and has appropriate technology to improve transparency on end-to-end supply chain management.
- Publish clear policies on responsible AI use, including board-level oversight, ethical frameworks, and disclosure of workforce impact.
- Provide transparent policies on reproductive health benefits and expanded family leave, demonstrating alignment with fair work standards.
- For companies in tech and media, disclose governance measures to prevent harmful content and protect vulnerable users, including compliance with emerging regulations.
- Demonstrate how operations and supply chains mitigate exposure to geopolitical risks and support humanitarian objectives where relevant.

How investors should consider voting

Investors should start by engaging in these topics and promote best practices which companies should follow. Due to the lack of a global framework of principles, data and metrics, and standards on social factors, voting against a company on this topic should be a decision only taken if all engagement avenues have been exhausted.

Investors should consider voting against the approval of the annual report and accounts if:

- FTSE 100 companies do not have a formal approach to workplace wellbeing disclosure, including mental health management and disclosure.
- After engagement initiatives with companies, there is insufficient progress on wellbeing activities disclosures.

¹⁰⁹ Civil Service HR, 2020, Unconscious bias and diversity training – what the evidence says, <https://www.gov.uk/government/publications/unconscious-bias-and-diversity-training-what-the-evidence-says>

¹¹⁰ Home Office, 2025, Transparency in Supply Chains (TISC) – Statutory Guidance, https://assets.publishing.service.gov.uk/media/68873308cec9ccd515ae09b0/Transparency_in_supply_chains_a_practical_guide.pdf

¹¹¹ Home Office, 2015, Transparency in supply chains: a practical guide, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/649906/Transparency_in_Supply_Chains_A_Practical_Guide_2017.pdf

- FTSE 350 companies fail to address the legal minimum requirements of the Modern Slavery Act.

Investors should consider voting against the re-election of the responsible director if:

- Companies identified as highly exposed to modern slavery risks, or where there have been confirmed incidents, fail to demonstrate an adequate risk management and a willingness to change their approach.
- Companies do not adopt sufficient measures to prevent, monitor, mitigate or remediate negative human rights impacts within its operations.

Section 8: Capital structure and allocation

Capital structure and allocation is the process of distributing a company’s financial resources to enhance the firm’s long-term financial stability and to protect its capital value. Capital allocation practices include repayment of debt, repurchasing of shares, paying final or interim dividends to shareholders and investment either in organic growth or in mergers and acquisitions activity. There are several stakeholders whose interests need to be balanced in any capital allocation decision including shareholders, employers and customers. In addition, the appropriate ratios between profitability and dividend payments must be maintained.

Investors must continue to be alert to signs that the company continues to fail to honour shareholder rights. In 2016, BHS went into administration¹¹² following several corporate governance failures including the payment of illegal dividends. The total dividends paid by BHS Ltd between 2002 and 2004 were £414 million, almost double the after-tax profits of the company of £208 million.¹¹³ For its part, Carillion paid out £376 million over a five-year period while generating £159 million of net cash from operations.¹¹⁴ Carillion also paid an interim and final dividend every year from 2010.

Capital structure and allocation decisions are, and remain, critical to long-term financial stability and investor confidence. In 2025, governance has dominated global voting trends, with strong shareholder support for management masking growing dissent on specific issues such as dual-class share structures, bundled resolutions, and virtual-only meetings. While regulatory reforms aim to stimulate growth, they have introduced new risks for investor rights. Our approach, and that of the wider industry, has been to support collaborative solutions that balance competitiveness with robust governance. We are a supporter of the Governance for Growth Investor Campaign (GGIC) and support the approach of the Investor Coalition for Equal Votes, which advocate for governance as a driver of sustainable growth. These efforts complement our engagement with regulators to ensure that reforms do not undermine transparency or accountability.

In recent years, there has been a significant increase in the number and proportion of initial public offerings (IPOs) that have dual-class share structures.¹¹⁵ These structures – where a company has two or more share classes, and these differ in terms of voting rights – dilute the ability of minority shareholders to effectively hold companies to account. The Investor Coalition for Equal Votes

¹¹² Murad Ahmed, 2016, BHS goes into administration after sale talks fail', Financial Times, <https://www.ft.com/content/3f83c690-0aad-11e6-b0f1-61f222853ff3>

¹¹³ Work and Pensions and Business, Innovation and Skills Committees, 2006, BHS – Work and Pensions and Business, Innovation and Skills Committees, <https://publications.parliament.uk/pa/cm201617/cmselect/cmworpen/54/54.pdf>

¹¹⁴ Federico Mor, Lorraine Conway, Djuna Thurley, Lorna Booth, 2018, The collapse of Carillion, House of Commons Library, <https://researchbriefings.files.parliament.uk/documents/CBP-8206/CBP-8206.pdf>

¹¹⁵ Ritter, J, 2024, Initial Public Offerings: Dual Class Structure of IPOs Through 2023, Warrington College of Business, <https://site.warrington.ufl.edu/ritter/files/IPOs-Dual-Class.pdf>

highlights¹¹⁶ how in recent years, the US has led the way in this trend, and this has been accompanied by similar regulatory and policy initiatives across the UK, Europe¹¹⁷ and Asia.¹¹⁸

This raises important questions for investors concerned about the integrity and operation of capital markets.¹¹⁹ Particularly in light of an emerging trend of companies bundling resolutions, such as combining strategic listing moves with extensions of dual-class share structures, making it harder for investors to oppose governance changes without voting against strategic proposals. We call for greater transparency and unbundling of resolutions to preserve shareholder choice and investors must be alert to such measures.

These guidelines focus primarily on the implications for the UK market. The FCA's overhaul of UK Listing Rules,¹²⁰ introduced in July 2024, aims to boost growth and innovation by making it easier for companies to list, but this approach signals greater risk for investors. Key changes include the removal of mandatory votes on significant and related party transactions and a more permissive stance on dual class share structures. While we recognise the need to support the Government's growth agenda, these reforms challenge investor rights and require stronger stewardship responses. More recently, the FRC has launched its updated Stewardship Code for 2026, which will shape expectations for asset owners and managers in promoting transparency and accountability. This will also require attention to embed into stewardship practices.

Despite our UK focus, it would be remiss not to consider wider global developments because of their impact on UK investors. Developments, such as the SEC's move to allow mandatory arbitration for shareholder claims, pose systemic risks to transparency and accountability. Pensions UK has joined international coalitions opposing these measures, reaffirming our commitment to robust governance and shareholder protections.

¹¹⁶ ICEV, 2024, Voting on voting rights – how the world's largest investors sanction companies with unequal voting rights, [icev-dcss-voting-policies-2024.pdf](#)

¹¹⁷ Through the EU Listing Act and implementation by the European Securities and Markets Authority (ESMA) and member states, EU Listing Act Has Been Adopted: Countdown to Application Has Started, 2024, <https://www.hannessnelman.com/news-views/blog/eu-listing-act-has-been-adopted-countdown-to-application-has-started/>

¹¹⁸ In the late 2010s, stock exchanges and markets including China's STAR market, the Hong Kong Stock Exchange and Singapore shifted to allow the use of DCSS, although evidence seems to show limited success in boosting IPO numbers.

¹¹⁹ Investor Coalition for Equal Votes, 2023, Undermining the Shareholder Voice: The rise and risks of unequal voting rights', Investor Coalition for Equal Votes, <https://cdn-suk-railpencom-live-001.azureedge.net/media/media/pmcil2eb/icev-report-2023-undermining-the-shareholder-voice.pdf>

¹²⁰ FCA, 2024, PS24/6: Primary Markets Effectiveness Review: Feedback to CP23/31 and final UK Listing Rules, <https://www.fca.org.uk/publications/policy-statements/ps24-6-primary-markets-effectiveness-review-feedback-cp23-31-final-uk-listing-rules>

Our recommendations in this section reflect how investors will need to re-evaluate how they work with investee companies to mitigate risk as effectively as possible.

Dividends

Information on dividend structure, including both policy and practice, will be of interest both to equity investors who are looking for income or growth potential, and bond investors who are considering a company's long-term creditworthiness.

New shares

In company law, companies must secure shareholder approval to be able to issue new shares. Resolutions that allow the company to issue new shares are normally of two types: 'Section 551'¹²¹ and 'Section 570'¹²² Authorities.

Resolution types: Issuance of new shares

- 'Section 551 Authorities' allow companies to allot new shares. Any amount in excess of one-third of existing issued shares should only be applied to fully pre-emptive rights issued in order to protect against shareholder dilution.
- 'Section 570 Authorities' allow companies to issue shares for cash without the application of pre-emption rights. The Pre-Emption Principles are equivalent to 10% of the issued share capital at the time of the authority. An additional 10% is acceptable provided that the company confirms in its AGM that it intends to use this only in connection with an acquisition or specific capital investment – which is announced at the same time as the issue – or which has taken place in the preceding six-month period. A multi-year limit also applies to the issuance of shares for cash in connection with an acquisition of a specific capital investment (typically a maximum of 7.5% shares to be issued over three years without the application of pre-emption rights).

Share buybacks

Takeover Code Rule 9¹²³ waivers are usually sought when a company proposes to institute a share buyback programme in which a large investor or concert party

¹²¹ The Stationary Office, 2006, Companies Act 2006, <https://www.legislation.gov.uk/ukpga/2006/46/section/551>

¹²² Ibid

¹²³ The Panel on Takeovers and Mergers, 2021, The Takeover Code - Thirteenth Edition, [The-Take-Over Bookmarked_20.2.23.1.pdf \(thetakeoverpanel.org.uk\)](https://www.thetakeoverpanel.org.uk/Over_Bookmarked_20.2.23.1.pdf)

intends not to participate. This brings with it the risk of creeping control – which is a clear issue of concern to shareholders.

Resolutions on dividends, share buybacks or issuance and debt constraints in articles need to be set within a considered capital structure framework. This framework should balance the need for shareholder returns with the long-term viability of the business.

Dual-class share structures

Dual-class share structures (DCSS) grant unequal voting rights and can undermine shareholder accountability. While UK listing reforms have made DCSS more permissive, we advocate for best-practice safeguards. Companies should adopt sunset clauses of seven years or less from IPO and seek periodic reapproval by a majority of each share class voting separately. Resolutions on DCSS should not be bundled with unrelated strategic proposals, as this limits shareholder choice. Investors should consider voting against governance committee chairs where DCSS lacks a sunset clause or bundled resolutions are presented without clear justification. We encourage engagement first, but escalation may be warranted where governance protections are absent.

Evidence base

Dividend information can be found in several different corporate communications, including the annual report, interim accounts, press releases and preliminary announcements. It should be noted that companies often fail to clearly articulate the story of the dividend, from policy development – including the rationale for its approach – to declaration and payment. Although there should also be a justifying statement around the dividend, this does not always happen.

The viability statement should also provide a basis for an annual assessment and debate on capital structure. However, these rarely provide as much useful and high-quality information as they could – it is notable that the Brydon Review recommended the production of a resilience statement to perform a similar function.

Key metrics for investors to pay attention to include the 'payout ratio', where dividends are set as a percentage of a defined metric (this could be earnings or free cash flow). Where this is used – and particularly when the ratio is not based on a defined IFRS metric such as earnings of cashflow – the rationale for the selection of metrics should be justified.

The new UK Listing Rules have removed the requirement for shareholder votes on related party transactions, while the obligation for disclosure remains, we are concerned that this does not go far enough. Pensions UK believes that the annual report should disclose related-party transactions (RPT) which are significant, whether by virtue of their significance to the business, the individuals involved or

the perception of potential conflicts. We encourage members to consider a vote against the chair of the board where companies proceed with a significant RPT or a significant transaction without a shareholder vote in advance.

What does good company behaviour look like?

- The company takes capital structure decisions which balance the financing needs of the firm with the interests of broader stakeholders. This includes striking the right balance between dividend payments to shareholders and paying deficit repair contributions (DRCs) to any DB pension scheme. In addition, this includes undertaking share buybacks only when doing so is the best way of achieving long-term value. Dividend resolutions should not simply be approved as a matter of course and moves that weaken a company's balance sheet – and so its long-term stability – are not in the long-term interest of the shareholder.
- While the updated UK Listing Rules have brought in a more permissive approach to dual-class share structures, we still advocate for companies adopting single-class share structures at IPO or as soon as possible thereafter. For any dual-class share structures where sunset clauses are not adopted, the company should adopt provisions that require periodic approval, at least every seven years, from a majority of each share class voting separately, for the dual-class share structure to continue, and adopt supplemental safeguards for pivotal proposals.
- Companies should avoid virtual-only meetings and adopt hybrid formats to safeguard shareholder engagement and transparency.
- While we would not advocate for a virtual-only AGM, if they are granted the options, good practices include:
 - The company specifies the circumstances in which a virtual meeting format will be used, and that shareholder rights will be considered.
 - The board has previously exercised its discretion responsibly by holding hybrid, rather than virtual-only, AGMs.
- There is a sunset clause in place. For example, the German market typically has two-year approval periods for meeting formats.

Dividends

- The company has clear dividend policies. These should set out the circumstances for distributing dividends and returning capital to shareholders. There should be evidence that the financial position (especially distributable reserves), maturity and strategy of the business – including the necessary level of DRC to any DB scheme – have been appropriately considered and reflected. Investors should pay attention to the possibility of the company taking on more leverage to cover dividends to shareholders.

- Dividend policy disclosure is specific. The information given should be at a sufficiently granular level so that investors can understand what the policy means in practice, including the basis for deriving the proposed level of dividend and the specifics of how it is determined. It should describe the governance process over the policy decision, the risks and constraints associated with the policy and the timeframe over which the policy is expected to operate.
- There is a prudent level of interim dividends issued. Such dividends are usually decided solely by directors without the need for shareholder approval. There is a growing trend for companies to pay only interim dividends, which is detrimental to the role of investor oversight on this issue. Where a scrip dividend or equivalent is issued, there should be a cash dividend also available.
- Shareholder approval is sought for the approval of the financial dividend. Should this not be the case, investors should strongly consider submitting a shareholder resolution or voting against the company's report and accounts, except where the company can compellingly demonstrate that changing its practice to seek shareholder approval of the dividend would significantly delay payment and materially disadvantage shareholders.

Share buyback

- There is a clear rationale – one that aligns with the interests of long-term shareholders – for any share buybacks undertaken. Share buybacks can, on occasion, be a useful tool for companies to manage their capital structure and most investors will support these repurchases, provided local market regulations and relevant shareholder guidance are met. However, share buybacks can be manipulated by managers whose pay is aligned with earnings per share, in a way which comes at the expense of long-term investors or the company's long-term success. Metrics and disclosure provided should cover:
 - The weighted average cost of shares bought
 - Total cost
 - Impact on key metrics for buybacks undertaken during the previous year
 - Clear explanation of the process used to identify when buyback is appropriate
 - The maximum price the company is willing to pay and the hurdle rate in respect to the buyback, linking to the overall capital management framework of the company.

Issuance of new shares

- The company recognises that pre-emption rights are important for the protection of stakeholder interests. Companies should seek to abide by the

recommendations of the Pre-Emption Group UK Statement of Principles,¹²⁴ except where they can make a clear case for these not being applied in the context of the best interest of the owners of the company concerned. To protect the rights of existing shareholders and reinforce the accountability of management to the company's owners, companies should avoid the creation of 'poison pill' provisions except in exceptional circumstances.

- Any non-pre-emptive issue is clearly signalled at the earliest opportunity. The company should also seek to establish a dialogue with investors at this stage. It must keep shareholders informed of issues related to an application to disapply their pre-emption rights. The Pre-Emption Group Principles should be followed.

Related-party transactions

- While the updated UK Listing Rules now mean that votes on related-party and significant transactions are no longer mandatory, we are clear that ensuring votes continue to be offered is best practice and is vital for transparency and investor confidence.
- There is a robust and independent process for reviewing, approving and monitoring related-party transactions (RPT). This should include both individual transactions and in aggregate, as well as appropriate procedures to identify and manage conflicts of interest.
- There is a committee of independent directors with the ability to take independent advice that reviews significant RPTs and the board confirms that all RPTs have been reviewed and met with its approval. The committee's review should include aggregate levels of RPTs to determine whether they are necessary, appropriate and in the best interests of the company and shareholders.
- All RPTs should be fully disclosed.
- There should be transparency with stakeholders to ensure that whatever approach is taken, it is clear and the potential impact on the company's financial health is understood.
- There should be evidence of regular consultation with legal and financial advisors to ensure compliance with relevant regulation as well as awareness of best practice.

How investors should consider voting

There are several different resolutions pertinent to various capital allocation issues, including approval of final dividend, issuance of new shares, market purchase of shares, and related party transactions.

¹²⁴ Financial Reporting Council, 2022, Pre-Emption Group Statement of Principles, [PEG_Statement-of-Principles.pdf \(frc.org.uk\)](https://www.frc.org.uk/~/media/2022/07/peg_statement_of_principles.pdf)

Investors should consider voting against approval of the final dividend if:

- The dividend does not seem sustainable and appropriate, when considered in the context of the financial position, maturity and business strategy, or where issues such as DRC are not appropriately reflected.
- There is no cash dividend available as an option to a scrip dividend or equivalent.
- They have concerns regarding the accounting standards and assumptions used in the metrics provided.

Investors should consider voting against a resolution on issuance of new shares if:

- Section 551 and Section 570 resolutions are bundled together. The issuance is not consistent with Pre-Emption Principles without a satisfactory explanation.

Investors should consider voting against a resolution on market purchase of shares if:

- The resolution proposes a waiver of Rule 9 of the Takeover Code.
- The buyback is not deemed a prudent use of the company's cash resources, is not supported by cash flows of the underlying business and introduces excessive and unsustainable leverage.

Investors should consider voting against the chair of the board if:

- Companies proceed with a significant RPT or a significant transaction without a shareholder vote in advance.
- An RPT has not been subject to proper oversight by the board and regular review (through the audit or shareholder approval).
- The RPT is not: clearly justified or beneficial to the company; undertaken in the normal course of business; on fully commercial terms; in line with best practice; or in the interests of all stakeholders.

It is of course important to caveat here that the updated UK Listing Rules mean that resolutions for related party transactions are no longer mandatory. We would still expect that, as best practice, companies will choose to offer resolutions on RPTs as a matter of good governance and transparency. These recommendations apply where that is the case.

Investors should consider voting against a resolution on re-election of the chair if:

- There is an unsustainable level of interim dividends issued and they have reason to believe that this is being done to avoid shareholder scrutiny. Please note that this is a serious issue and if investors have concerns in this space, they could accompany this with a vote against the annual report and accounts.
- Shares are issued outside of the Pre-Emption Group Principles.

Investors should consider voting against the governance committee chair (or equivalent) if:

- Company has a dual-class share structure without a sunset clause of seven years or less from the date of the IPO.

It is again important to caveat here that the updated UK Listing Rules are likely to lead to an increase in companies issuing dual-class share structures. While we accept that as a decision, we still call for investors to encourage companies to adopt best practice in the form of a sunset clause of seven years or less from the date of IPO. We would encourage members to consider the variety of investor approaches to voting-on-voting rights which are set out in ICEV ‘Voting on Voting Rights’¹²⁵ report, published in November 2024.

¹²⁵ ICEV, 2024, Voting on Voting Rights – How the world’s largest investors sanction companies with unequal voting rights, <https://www.railpen.com/media/4yslxhmz/icev-dcss-voting-policies-2024.pdf>

Section 9: Taking a holistic approach

It is important for investors to take stock after working with their advisers and managers to consider their approach to voting on any company issues and to think about their views of the board as a whole. Voting decisions should be made in the context of a company's overall governance arrangements and should include consideration of the progress made and be cognisant of the wider political and economic landscape.

Increasingly, investors are recognising the value of collaborative stewardship, working with peers, industry bodies, and initiatives to pool resources, share insights, and amplify engagement outcomes. This approach can be particularly effective in addressing systemic risks, improving disclosure standards, and influencing board-level change.

For 2026, we have also sought to cover the emerging use of pass-through voting as part of the broader conversation on implementation options. Pass-through voting enables asset owners to exercise voting rights on shares held in pooled or index funds, offering a potential route to strengthen alignment between scheme policies and actual voting outcomes. While it can be a flexible and relatively low-resource solution, it also brings operational challenges and may not suit all schemes immediately. We present it as one of several options for members to consider when assessing their broad stewardship approach.

Investors should also consider the level of responsiveness of the board to investor concerns, particularly given it is no longer mandatory for companies to address significant dissent votes and explain how the board will address the concerns that have led to the dissent. As a result, more effort and increased due diligence will need to go into ensuring directors are responsive to investor concerns throughout the course of the year. As a reference point, The Investment Association publishes a public register¹²⁶ with details of companies which have received significant opposition by shareholders to a resolution.

The level of disclosure

Investors need detailed and meaningful disclosures about a company's board and governance practices. Without this, it is very difficult to arrive at an informed opinion. Investors should expect disclosures that go beyond boilerplate language and offer genuine insight into the company's strategic direction, risks, and governance practices. Where disclosures are vague, inconsistent, or omit material issues, this should raise concerns about transparency and accountability. Investors should reflect on whether the annual report adequately informs investors on the company's strategy, vision and business model. If investors are

¹²⁶ The Investment Association, 2023, Public Register, <https://www.theia.org/public-register>

unhappy with the level of disclosure overall or in key areas, this should be a significant factor in their holistic assessment of how to vote.

Accumulation of minor issues

Although certain minor corporate governance issues would not generally trigger voting consequences, an accumulation of minor issues may be indicative of poor corporate governance and more deep-rooted issues at a company. This is particularly the case if there fails to be meaningful progress – despite expressions of concern and engagement from investors – and it appears that the company management does not prioritise shareholder concerns.

Investors should be alert to cumulative governance failures, patterns of poor practice that persist across reporting cycles or engagement efforts. These may include repeated concerns around board independence, succession planning, responsiveness to shareholder feedback, or inadequate disclosure. While individual issues may not trigger voting action in isolation, their accumulation can signal deeper cultural or leadership weaknesses that warrant escalation.

In March 2025, Pensions UK launched a new industry-developed vote reporting template. Building on the original PLSA template and the work of the Vote Reporting Group, the new version provides standardised, comparable data across asset managers, improving transparency, engagement, and stewardship alignment. It supports sustainable finance goals and regulatory objectives, while reducing reporting burdens for managers. Detailed technical guidance has also been published to support adoption.

The vote reporting template can play a valuable role in helping investors identify patterns of cumulative governance failures. By standardising vote rationale reporting and capturing ‘most significant votes’ across mandates and time periods, the template enables schemes to track recurring governance concerns and assess whether companies are making meaningful progress. It also supports transparency and benchmarking, helping investors align stewardship activity with long-term value creation and accountability.

Pass-through voting: An emerging mechanism for exercising shareholder rights

Pass-through voting is gaining traction as an innovative way for asset owners to exercise voting rights on shares held within pooled or index funds. Traditionally, voting in these structures has been delegated entirely to the asset manager, which can create a disconnect between a scheme’s stewardship policy and the votes cast on its behalf. Pass-through voting seeks to bridge this gap by enabling asset

owners to direct votes on underlying holdings, often through technology platforms provided by large index fund managers.

For schemes, the appeal lies in its potential to enhance alignment with their own voting and engagement policies without requiring a wholesale shift in investment strategy. It can offer flexibility and, in some cases, a relatively low-resource route to greater accountability. Beyond alignment, pass-through voting can also help schemes achieve consistency across their holdings, for example, where they have a mix of segregated mandates and pooled funds, it allows them to apply the same voting approach to both direct and indirect holdings of a company. In some cases, schemes may even choose to vote on specific issues rather than applying a wholesale policy, adding further nuance to their stewardship approach.

However, while the mechanism can strengthen stewardship, it is not without challenges.

- There are operational complexities with pass-through voting that require time and resource to assess and understand.
- Cost considerations.
- The need for robust governance processes mean that pass-through voting may not suit all schemes immediately.
- While we have identified that pass-through voting can enhance alignment, there is of course the risk of potential misalignment between voting policy and engagement policy. Pass-through voting does also remove voting as an escalation tool for managers.
- Finally, managers having less responsibility for voting not only places more onus back on asset owners but may also lead to less commitment to the manager's own voting policy.

Pensions UK encourages members to view pass-through voting as one of several implementation options rather than a universal solution. Schemes considering this approach should assess their readiness, including internal capacity and the compatibility of pass-through voting with their broader stewardship objectives. They should also engage with managers to understand the scope of available options and any limitations, such as partial coverage or restrictions on certain markets.

Looking ahead, pass-through voting is likely to become more widely available as platforms mature and regulatory interest in voting transparency grows. For now, schemes should focus on understanding its benefits and limitations and consider whether it could play a role in reinforcing their stewardship ambitions over time.

How investors should consider voting

Investors should consider voting against the annual report and accounts if:

- The report has not fulfilled its purpose of giving insight into the company's strategy, vision and business model.

Investors should consider voting against the chair or against the senior independent director if:

- There are particularly serious concerns about the company's business model, plan or the implementation of its plan for engagement with long-term shareholders.
- The company seems unwilling to change its approach despite significant investor concerns.
- The company does not follow corporate governance provisions to respond to dissent.
- Cumulative governance failures persist, especially if previous engagement has not led to meaningful change.
- Collaborative stewardship efforts have identified systemic concerns or poor responsiveness across multiple companies, investors may wish to align voting decisions to reinforce collective expectations.

Please note that where investors may wish to take the extremely significant step of voting against the whole board, they should be able to clearly articulate an alternative proposition for the board's approach.

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