Voting and Engagement Report: January – June 2019

At Findlay Park we are committed to being active stewards of our clients' assets. We aim to generate compelling compound returns measured over decades and prefer to invest in companies that take a similarly long-term view. Through regular dialogue and the proactive exercise of our voting rights, we engage consistently with management teams on their financial and business strategy, challenging companies where we see scope for improvements that could deliver long-term value to investors.

This document explains our significant voting decisions for the first half of 2019. We group them thematically according to the stewardship issue at stake. At the end, we provide some case studies of our ESG-specific engagement with management teams.

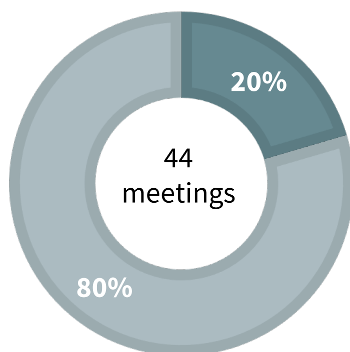
The following should be read in conjunction with:

- Our Voting and Engagement Policy, which describes our process for reaching these decisions
- Our Responsible Investment Policy
- Our Statement on the UK Stewardship Code

All three documents are available on our website: www.findlaypark.com.

Voting Summary

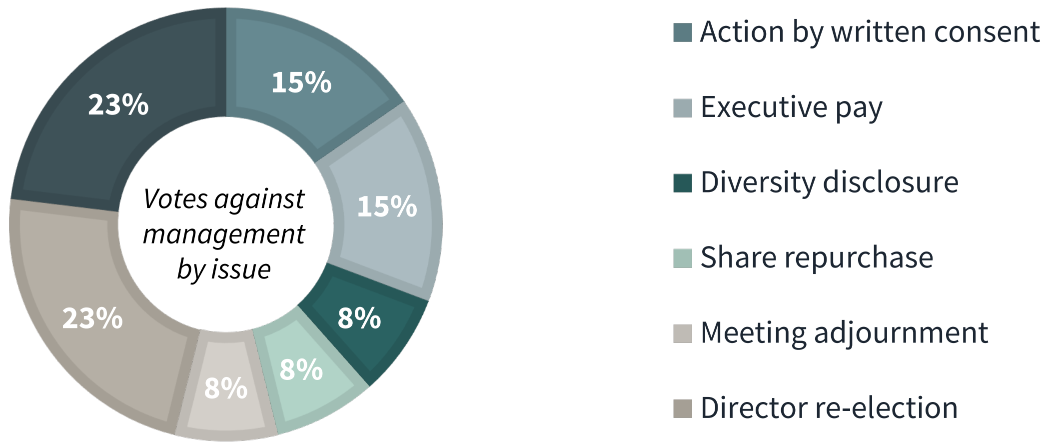
During the first half of the year, we have opposed management on at least one resolution at one in five annual general meetings. Compared to the same period last year, there were fewer resolutions on issues over which we oppose management by policy, such as political contributions disclosure. However, we have opposed the re-election of individual directors much more frequently as a way of challenging the performance of board committees we believe could be doing better or to highlight board composition we think could be improved.



In line with our policy to abstain only in exceptional circumstances, we voted on all resolutions at all meetings this half.

We were consistent in voting to secure:

- Executive compensation aligned with shareholders' interests.
- Transparency on lobbying and political contributions.
- Effective boards with appropriate independent representation.



On one of the headings that follow – action by written consent – the two leading proxy service providers, ISS and Glass Lewis, have conflicting policies. They have also taken opposite sides this half on a number of individual directors, executive pay plans, and shareholder resolutions on other issues. The large role these service providers play in deciding the votes of investors who do not research proxy statements and the governance questions at issue in-house has attracted recent criticism in the financial press. For us, this has brought home the importance of speaking to company management teams before taking voting decisions and approaching every resolution open-mindedly. **Although we use ISS to implement our voting decisions, their recommendations are just one input to our decision making process, and we depart from them when we deem it appropriate to do so.**

Executive Pay

SS&C

AGM – 15 May

We were disappointed to see that **SS&C** hadn't revised its increasingly unpopular executive compensation arrangements (support fell from 87% in 2017 to 66% in 2018) or consulted with shareholders on why they were voting against them. So as well as voting against the pay plan itself, we withheld our vote on the re-election of the director who chairs the company's compensation committee. Once again, CEO Bill Stone is being paid around double the appropriate peer benchmark in equity. We don't believe this is necessary to retain an executive who already owns nearly $2 billion worth of his company's stock. The plan also includes single-trigger vesting on change-in-control – so that executive officers earn all their equity immediately after a takeover even if they don't stop working for the company – and a gratuitous tax gross-up provision. We see no reason to support such unnecessary expenses in our voting, even if Mr Stone's large equity stake leaves us confident in his alignment with our interests as shareholders.

However, we did side with management to ratify **SS&C**'s omnibus stock plan. The company's employee share incentives are significant – with annual issuance running at 2.4% of shares outstanding – and we believe that the single performance-based metric that senior management compensation is tied to, EBITDA, would work better if it was complimented by additional metrics such as EPS growth. We explained this to management, who will feed our concerns back to the board, which is looking at adding more metrics to help appease an increasingly vocal shareholder base. Our decision to back the share grant despite these features was mostly down to its level of penetration through the company: 60% of SS&C employees are compensated with options. We believe this is an important motivational tool for an organisation constantly engaged in challenging acquisition and cost-saving activity.

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T Mobile

AGM – 13 June

See also 'Other Issues' below

We opposed the re-election of **T Mobile**'s compensation committee members as a protest against compensation arrangements. The company has issued its CEO, John Legere, with $44 million in extra long-term equity in recognition of his work on T Mobile's potential acquisition of Sprint. We view Mr Legere and his work on Sprint favourably, but are unsure of the necessity or suitability of this award for retention purposes, even in the context of the high pay norms of the media/telecoms industry.

Waste Connections

AGM – 17 May

See also 'ESG Disclosure', below

ISS and Glass Lewis were divided over **Waste Connections**' executive compensation plan. ISS took issue with the severance package, which grants the CEO, Ron Mittelstat, 3.6 times his salary and bonus if he is fired after a change-in-control. That multiple is a little higher than the average. However, it applies to a significantly below-average total pay figure which we believe represents good value for money. The company's performance has held above the 75th percentile over a ten-year period, while its total outlay on executive compensation was in the 25th percentile. We were happy to support such a disciplined plan.

Berkshire Hathaway

AGM – 4 May

Berkshire Hathaway's AGM was a test case for some of the assumptions behind consensus best practice for executive pay. While the direction of travel was positive – for the first time, the company supplied pay breakdowns for Warren Buffett's succession prospects Gregory Abel and Ajit Jain – the arrangements that this uncovered were controversial.

Buffett has decided to reward Jain and Abel through a large cash salary which he will vary based on his opinion of their performance each year. Most companies compensate their executives through three elements: a small cash salary, a larger annual incentive tied to one-year financial metrics, and a much larger long-term equity package, mostly made up of share units that vest slowly subject to the company's stock price appreciating well. Buffett made the case that executives paid in this way sometimes benefit from share price increases that have little to do with their successes or suffer from share price falls over factors beyond their control. Instead he believes we should trust his judgment to deliver closer alignment with our interests.

We have some sympathy for this view, but in the long-term our support will depend on whether Buffett varies his subordinates' salaries to appropriately reflect Berkshire's performance for its shareholders. Ideally, we would have some history to go on to help us decide if trying to win Buffett's approval year-to-year is a better objective for Berkshire managers than trying to keep the stock price rising over more typical three-year vesting periods. So while we didn't protest the plan this time – it does represent an increase in disclosure – we will be monitoring Jain and Abel's pay closely to see if the flexibility these arrangements give Buffet is justified.

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Comcast

AGM –5 June

See also ‘Other Issues’ below

Comcast faced controversy on three counts this year and as explained below (under ‘Other Issues’) we mostly sided with shareholder resolutions rather than management. However, after voicing concerns over some of its features on a call with management, we did eventually decide to support the company’s executive compensation plan. The direction of travel this year was positive, with the introduction of an exceptionally long vesting period for options (9.5 years) and a move to compensate NBCUniversal head Steve Burke through scheduled, transparent plan elements rather than discretionary grants.

AON

AGM – 15 May

We were surprised to see ISS oppose **Aon**’s share issuance programme on the grounds of its dilutive effect, which is significantly smaller than the industry average. Moreover, the company compares favourably on the breadth of staff it issues shares to: less than 6% are given to the CEO, and less than 12% to all NEOs combined (the median figures are 13.7% and 31.6%). More than three thousand Aon managers are compensated in equity, and we believe this has contributed to the company’s consistent outperformance of the market. We were therefore happy to support the plan.

Diversity

We think it makes sense for companies to take every initiative to access the broadest talent pool possible. While we are wary of summary statistics that introduce the potential for manipulation or misinterpretation, we will support shareholder resolutions mandating such disclosure if we are not convinced that companies are taking meaningful steps in the right direction.

Charles Schwab was the subject of a motion requesting a breakdown of the race and gender composition of each level in the company’s hierarchy. We pointed out that when Goldman Sachs faced a similar proposal in 2011 they avoided controversy by releasing the information voluntarily. We were unpersuaded by Schwab’s defence: they cited a diversity study that didn’t actually assess race and gender as evidence they were already making an effort. They couldn’t give us concrete evidence that they were taking diversity issues seriously enough to warrant our support. We were up-front with management about our decision to oppose them on this issue.

Some of our other holdings were more convincing. **Adobe** voluntarily publishes its EEO-1 (race and gender composition) data, which is what we voted to require Schwab to do; the company also runs a successful ‘Girls Who Code’ initiative to break down stereotypes and develop female computing talent at schools and universities. **American Express** builds quantitative diversity targets into compensation for senior managers. **Wells Fargo** has a very strong record on gender diversity, with the first female chair of any US bank and industry-leading representation of women in the company’s executive management (40%). In the cases of these companies, which faced motions to mandate median gender pay gap disclosure, our discussions with management left us confident in their engagement with diversity issues, and we were comfortable voting with their recommendations to signal our support.

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Analog Devices

AGM – 13 March

Analog Devices also faced a shareholder resolution on diversity disclosure; this was an irregular case. The company was already working on more appropriate (and in fact more detailed) disclosure for its corporate social responsibility reporting. We were not convinced that the proponents, who held a token number of shares, and appeared to have copied the same resolution text across several companies, knew this. We raised the proposal during a day-long sequence of meetings with Analog's founder, CEO, CFO and other executives. We established that the new disclosure they are preparing forms part of a diversity effort which has seen Analog amass employment fairness trophies from Forbes, Reuters and Just Capital and create formal mentorship channels for female employees in this male dominated industry.

Waste Connections

AGM – 17 May

See also 'Executive Pay' above

We also supported **Waste Connections** over a shareholder proposal that essentially required the company to impose a quota on itself to improve female board representation. We didn't feel that this was the right way to replace individual members of a mostly young board in a highly specialised industry. That said, our decision to vote with management only followed their assurance that diversity is their top priority as they look to fill a recently vacated directorship.

Action by Written Consent

Action by written consent presents an example of how strong governance can mean different things to different kinds of investors. It also shows the value of constantly reviewing rationales and conducting further in-house research to arrive at the best voting decisions. We voted for shareholder motions to approve action by written consent for **Deere** and **Nasdaq**, but then against a motion on the same issue at **Amex**.

We had thought of action by written consent as providing an additional avenue of stewardship. It allows shareholders to pass motions without waiting for an AGM by circulating 'consent solicitations' to each other and gathering signatures.

However, we learned before the Amex vote that it is usually possible for proponents who can get the votes they need from ten or fewer other shareholders to pass a resolution without notifying the rest of the shareholder base that they are trying to. Moreover, in recent history consent solicitations have mainly been used in mid-year attempts to depose boards. We prefer to avoid companies we think are governed weakly rather than invest in them.

For most shareholder proposals, action by written consent has no advantages as a mechanism over waiting for an AGM or calling a special meeting. In fact, the quality of debate will be lower, because there isn't time built into the process for proxy services to distribute research or for management teams to respond.

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Other Issues

Comcast

AGM –5 June

See also ‘Executive Pay’

We voted against **Comcast**’s management to support a shareholder resolution requiring the appointment of an Independent Chairman once Brian Roberts’ tenure as Chair and CEO is over. Comcast has a complex dual share class structure and in such cases we do believe that shareholders benefit from the impartiality of an independent chair. We also voted against management – as we did last year – to support a shareholder resolution mandating the company to report on its lobbying payments and policy. Findlay Park is committed to supporting disclosure on political activity. We think shareholders benefit from being able to map out companies’ exposure, and we are not convinced by counterarguments that preparing such disclosure is expensive or unnecessary. We also voted in favour of similar disclosure at **American Tower Corporation** and **Fiserv**.

T-Mobile

AGM – 13 June

While we recognise that Deutsche Telekom’s (DT) majority stake entitles it to a majority on the board of T Mobile US, we didn’t feel that 9:3 was the appropriate ratio. Nor were we happy that DT representatives made up 50% of the compensation committee – especially given that we protested the company’s executive pay this year. We therefore opposed the re-election of all the non-independent directors.

Danaher

AGM – 7 May

We continued our policy of opposing the re-election of **Danaher**’s Audit Committee. Since the 1980s, the Rales brothers, who transformed the company from a sleepy industrial into the innovative giant it is today, have held most of their significant equity positions in legal vehicles which they have pledged as collateral to borrow against. We understand that the value of the stock they have pledged greatly over-collateralises what are actually quite small debts and that the arrangement is reviewed by the board’s risk and audit committees every time they meet. Nonetheless, we would prefer disclosure of the exact numbers or a termination of the policy.

Given his aforementioned excellent track record and the board’s impressive crop of independent directors, we continue, however, to support Stephen Rales’s position as Chairman, and we therefore voted against a shareholder resolution to mandate the company to appoint an independent chair.

TE Connectivity

AGM – 13 March

TE Connectivity sought our approval for holding more than 10% of their shares in treasury together with authorisation to adjourn the meeting if they couldn’t get the support they needed to win this vote at first. We approve of TE’s management team and we think their positive culture pervades the whole organisation, but we weren’t sure of a reason they needed to be able to hold so many of their own shares at once. We therefore voted against both motions.

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Live Nation

AGM – 6 June

Live Nation Entertainment presented another case that demonstrates the importance of tackling each company's governance arrangements on their own terms. The company has a shareholder rights agreement (colloquially: 'poison pill') in place empowering small shareholders to dilute Liberty Media, which currently owns 34% of the company, if it breaks a 35% ownership threshold. Ordinarily, we would look unfavourably on such arrangements, which constrain our optionality as shareholders by discouraging acquisitions. But in Live Nation's case, after we called the company to confirm that the 'pill' would not affect a bona-fide tender offer, we decided that the constraint on Liberty's ownership was in fact an attractive protection for other shareholders such as the American Fund.

Wells Fargo

AGM – 23 April

See also: 'Diversity'

Wells Fargo eventually won our support over a shareholder proposal for disclosure on employee incentive structure and associated risks of material losses; the resolution appeared to be tailored to arrangements that have been phased out and to fail to account for the bank's extensive reporting on these subjects. Wells Fargo's reorganised governance basis for risk management, implemented according to regulators' recommendations, is central to our comfort owning the stock.

Engagement case studies

Most of our engagement on ESG related issues occurs in the context of our regular dialogue with company management teams: we see analysis of ESG factors as an essential part of any thorough investment research process.

EOG Resources

Environmental management disclosure

Though we don't apply screening exclusions to our portfolio, the industries that screening funds typically rule out – for instance energy and tobacco – tend to be poor fits for our philosophy. The financial sustainability we look for is hard to achieve without pursuing sustainability more broadly.

EOG is the rare example of an exploration and production company that is a good fit for our philosophy. EOG is highly differentiated in the energy space through its low costs, self-funding, and excellent capital allocation and free cash flow conversion. Their strategy is to concentrate on 'premium wells', those which are profitable even in a low oil price environment. Their highly decentralised approach to well management – facilitated by technology that allows the head office to monitor the results real time in detail – attracts the top engineering talent in the sector. In essence EOG is an applied technology company with a great deal of proprietary Intellectual Property.

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We visited EOG in Houston in February to meet managers in various parts of the organisation. EOG has the lowest flaring intensity in the Permian basin, is the most efficient water user of its peer set, and was the first exploration company to develop electric fracking (a significantly cleaner alternative to the predominant diesel-powered approach). But we felt that the company wasn't paying enough attention to matching its ESG disclosure and environmental management policies to the priorities of the ESG ratings services, which has led to its excellent record being under-rewarded. Moreover, we felt that senior management figures could have been better informed on ESG issues given their materiality in this industry.

We were therefore pleased to find a dramatic improvement when we discussed ESG with the CEO, Bill Thomas, in June. Thomas drew attention to the importance of creating a sense of larger purpose for the organisation if it is to continue to attract the best young engineers. He pointed to the company's charitable contributions programme, which matches employee donations 1:1 up to $70,000. Furthermore, the company has engaged sustainability consultants to reduce its environmental impact and develop policies that the ratings services will reward. They noted that these changes have been driven by investor questions such as our own, which shows the difference active stewardship can make. EOG is hosting a two-day ESG event in Texas October 1-2 which Findlay Park will attend.

Coca Cola

Packaging recycling

Coca-Cola's overall sustainability profile has improved in the last decade, with the greatest progress made in water stewardship and the shift towards a 'total beverages portfolio'. The company has also taken steps to reduce the impact of their packaging, for instance by sharing proprietary IP called 'PlantBottle', which enables bottles to be made partly out of biomass rather than petroleum, with their competitors, as well as boosting the recyclable proportion of their packaging to 88% and setting up an impact fund dedicated to venture capital funding for companies that develop tech to reduce plastic waste in oceans.

However, the company's most ambitious target – collecting and refilling or recycling 100% of containers by 2030 – appeared to have suffered a setback this year, as the figure released for 2018, 56%, represented a decline from 2017's 59%. In May, we took this disclosure as an opportunity to probe management on how the company can reduce the impact of its packaging, which we believe would constitute a competitive advantage.

It transpired that the reduction in this metric was due to a change in methodology in 2018 (which made it harder for the company to meet its targets) - and that previous years were not restated for this new methodology. But we pressed on why this was not offset by progress towards the 100% target. Though the company does point out that the broader universe of stakeholders (e.g. government – in Germany, where state intervention is heavy, 98% of bottles are recycled) must come together to drive meaningful improvement, we feel, and they acknowledged, that it is Coca Cola's responsibility to take the lead on this. As such, we were pleased to hear that the World Without Waste project banner under which these efforts are being made is concentrated on engagement with national, state and municipal governments. The company anticipates meaningful progress towards the 100% target over the next five years, and we will keep engaging with them on this issue for as long as we have a position.

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