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INVESCO UPDATES 2021 GLOBAL GOVERNANCE AND PROXY VOTING POLICIES

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Invesco has comprehensively revised its proxy voting policies applicable to 2021 annual meetings. While some revisions are structural, Invesco has implemented or revised policies in a number of substantive areas. This alert summarizes some of the most significant updates to Invesco's policies applicable to the US market. Invesco's complete Policy Statement on Global Governance and Proxy Voting is available **here**.

Environmental, Social and Governance (ESG)

Invesco maintains its case-by-case approach to evaluating shareholder proposals addressing ESG issues, but has rewritten its policy in a manner that suggests it may be more inclined to support a range of ESG-focused proposals. Invesco's prior policy indicated that it was generally supportive of proposals that addressed gender pay gaps, political contributions and lobbying, data security/privacy, climate change reporting and board gender diversity, while reserving the possibility to abstain from voting on proposals relating to "environmental, social and corporate responsibility issues." As updated, it continues to specify the above-noted topics (with the exception of board diversity, now addressed in a separate section discussed below) as topics it may support, but has removed the language regarding possible abstentions and broadened its policy to include that it will generally support a proposal that addresses a material ESG risk, provided that such request is not unduly burdensome or duplicative with a company's existing reporting.

Additional new policy sections also address ESG risk oversight and risk reporting considerations. With respect to risk oversight, Invesco provides that where it has concerns regarding oversight of material risks that adversely affect shareholder value, it may vote against responsible director nominees. From a reporting standpoint, Invesco expects companies to report on ESG risks and opportunities that are material to a company's operations. It indicates that gaps in terms of management or disclosure of ESG risks will generally result in votes against a company's annual accounts or an equivalent resolution. As US companies are not required to seek approval of annual accounts, we expect this policy will most likely impact director elections.

Diversity

While Invesco has removed board diversity as an explicit shareholder proposal topic it will generally support, it has added a new expectations with respect to diversity. Its policy now provides that it examines a company's diversity practices at the board and executive management level, as well as in the context of a company's succession pipeline. With respect to board diversity, Invesco has added a new policy that it will vote against nominating committee chairs at companies where women constitute less than two board members or 25% of the board, whichever is lower, for two or more consecutive years, unless incremental improvements are underway. It will also vote against nominating committee chairs where multiple concerns exist with respect to board diversity broadly speaking, including diversity of skills represented on the board, director tenure, ethnicity or other factors.

Separation of the Roles of Chair and CEO

As revised, Invesco appears to continue to accept a lead independent director as an acceptable alternative to independent board leadership. However, it has strengthened its policy language to provide that companies with combined leadership structures should "provide strong justification" for their choice of leadership structure and establish safeguards by appointing a lead independent director with "clearly defined responsibilities." Further, Invesco now will generally vote against the incumbent nominating committee chair where the board chair is not independent unless a lead independent or senior director is appointed. In addition, while it previously indicated that it evaluated proposals seeking separation of the roles of chair and CEO on a case by case basis, it now indicates it will generally support such shareholder proposals. Lastly, it provides that it may vote against CEOs serving in combined roles where significant concerns exist with respect to a company's governance, capital allocation or compensation practices.

Annual Election of Directors

Historically, Invesco's policy provided that it would support proposals seeking annual director elections. It has now strengthened its policies on this topic to provide that in addition to supporting such proposals, it will vote against nominating committee chairs or lead independent directors at companies where classified boards are not being phased out.[1]

Overboarding

Invesco has tightened its overboarding policy, reducing the number of acceptable board mandates from six total mandates to four. It provides that it will provide a lower threshold for executive directors and board chairs, but no longer specifies a specific number of acceptable board seats for such directors (previously, it indicated a CEO should not sit on more than two public company boards in addition to the CEO's own company).

Board and Management Accountability

Invesco has implemented a number of new policies aimed at enhancing board and management accountability to shareholders, including:

- **One share one vote.** Among other things, Invesco will not support proposals that establish or perpetuate dual class structures or other differentiated voting rights, and will vote in favor of proposals to decommission differentiated voting rights. Where unequal voting rights exist, it expects reasonable safeguards to protect minority shareholders' interests

- **Bundling.** Invesco is generally opposed to bundling unrelated proposals or multiple article or bylaw amendments into a single voting item, unless it believes all underlying aspects of the proposal align with best practices in its view.

- **Responsiveness.** Invesco will generally vote against the lead independent director and/or nominating committee chair where a board has not adequately responded to items receiving "significant" opposition from shareholders, or shareholders that have received significant support. With respect to compensation specifically, it will vote against the compensation committee chair where compensation concerns have not been addressed or egregious practices persist for two years consecutively.

Audit Matters

Invesco has updated its guidelines to more specifically outline the circumstances pursuant to which it would vote against audit committee members or ratification of the independent auditor. Specifically, it will vote against incumbent audit committee chairs where non-audit fees exceed audit fees for two consecutive years or other problematic accounting practices exist, such as fraud, misapplication of audit standards, or persistent material weaknesses/deficiencies in internal controls over financial reporting. Further, it will not support ratification of the auditor if non-audit fees exceed audit and audit-related fees, or auditing controversies or questions regarding auditor independence exist. It will also consider the auditor's length of service in deciding whether to support auditor ratification. At the same time, it has removed prior policies indicating it would generally oppose proposals that would limit the liability of or indemnify auditors.

Capital Stewardship

Invesco has added policies addressing its approach to capital allocation authorizations, share issuances and repurchases, stock splits, increases in authorized share capital and mergers, acquisitions and other corporate transactions. Broadly speaking, it will be supportive of such proposals so long as they are executed in alignment with shareholders' best interests. In addition, Invesco has added guidance with respect to the factors it considers with respect to contested director elections, which includes company performance, management's track record, background information related to the contest, qualifications of all director nominees, the strategic merits of each side's approaches and stock ownership positions.

Proxy Voting Operational Procedures Updates

Invesco has substantially revised its policy to provide additional information regarding its voting structure and procedural considerations. These changes include a new section outlining Invesco's commitment to ESG. This section also explains that Invesco's global ESG team functions as a center of excellence within the firm that provides input on voting and, together with Proxy Operations functions, leads Invesco's Global Proxy Advisory Committee. Ultimately, however, proxy voting decision-making lies with portfolio managers. In addition, new policy language regarding the importance of engagement may signal Invesco's increased willingness to engage with issuers going forward. As revised, the policy also provides increased transparency on Invesco's voting execution practices and willingness to recall shares on loan for voting purposes.

Please contact Georgeson with questions. We can be reached by email at info@georgeson.com or call us at (212) 440-9800.

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[1] As revised, Invesco's policy states it will vote against such directors if a company has a "declassified board structure that is not being phased out," absent regions where staggered elections are market practice. Based on the new language addressing annual director elections together with other revisions as a whole, we believe "declassified" is a typographical error, and is meant to refer to classified board structures.