Monitoring Review of Proxy Voting 2011

Avon Pension Fund

Prepared by:

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Bath & North East Somerset Council

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1 Introduction

1.1 Aim of Vote Monitoring

This is the first year for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund (Avon), putting the trends and tendencies of Avon's fund manager voting behaviour into a comparative and wider context.

The aim of the report is to provide further understanding of:

- voting activity taken on behalf of the Fund
- wider voting issues
- governance standards at companies
- how the Fund's investment managers use voting rights

As an ongoing annual report, the report provides a foundation for assessment of progress in terms of companies' governance standards versus best practice, and looks at the full picture of how Avon's fund managers are making use of the Fund's voting rights. It will enable Avon to better understand and challenge fund managers about the role their voting activity plays in ownership strategy.

1.2 Voting in Context

Avon's voting policy gives discretion to investment managers to vote in line with their own voting policy and therefore does not require investment managers to follow Manifests' best practice template. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for best practice investee company behaviour.

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management process.

1.3 Scope of Analysis

The analysis covers the Fund's equity managers, who vote at investee company meeting throughout global markets, with the large majority in the developed markets of UK, Europe and North America. The period covered by this report encompasses the period up to the 31st December 2011. It represents at most three quarters of a calendar years' voting, as a proportion of the year was prior to the completion of the set up process. Future annual reports will encompass a full years' voting.

The earliest full monitoring meetings covered occurred, in respect of each fund manager, on the following dates (these dates differ due to the time taken to set up the monitoring service with each individual manager):

Fund Manager	Date of earliest meeting
BlackRock	30th September
INVESCO	19th July
Jupiter	20th April
Schroder	19th October
State Street Global Advisors	3rd November
TT International	13th April

Avon's fund managers voted at a total of 285 meetings in the UK, Europe and the US. These 285 meetings brought a total of 3,396 resolutions for consideration, a number of which were voted by more than one manager, resulting in 3,796 resolution analyses. Of these, 1,560 were voted by BlackRock, representing the largest proportion of the report data.

Manifest analyses the issues at hand to provide a 'Template Recommendation' for each voting resolution. This Template recommendation is the result of assessing the company and the resolutions proposed for the meeting in light of Manifest's best practice voting template.

Members should consider the template itself as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of voting decisions by investors. The voting advice, whilst helpful, is less useful as a guide for 'best practice', as the precise tactical use of voting rights is in itself a strategic investment consideration.

Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution is more significant than whether the template suggests an 'Abstain', 'Against' or 'Case by Case' consideration. It is in this light that we have analysed and compared fund manager voting against issues of potential concern identified by the template, with the emphasis on 'potential'.

1.4 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2011/2012.

2 Executive Summary

The opportunity to vote at Investee company meetings forms part of the Fund's risk management framework. It is a way in which the Fund can seek to influence companies in which it invests to address risks to shareholder value. In essence, companies should have the governance structure in place to adequately address such risks.

Governance risks that the Fund is particularly concerned with include:

- Ensuring there is an independent and accountable control of accounting and finance functions
- Fostering a strong independent Board and sub-committees that reflect a diversity of skills and experience
- Maintaining a link between (executive and board) reward and strategic performance

Within this context, this report seeks to analyse the voting activity taken on behalf of the Fund. It looks at the governance standards at underlying investee companies, and at the Fund's investment managers' voting activity in the context of their investment approach.

The analysis of shareholder meeting voting results shows the most controversial types of resolution in general were those concerning remuneration (remuneration reports, remuneration amounts and non-salary compensation) and resolutions pertaining to company Articles of Association.

The most common governance criteria that were identified as issues of concern by the monitoring template were gender diversity, committee independence, board size, overall board independence, the proportion of executive directors on the board, length of tenure of non-executive positions, lack of ESG considerations in performance pay, lack of performance pay caps. These are the substantial issues on which shareholders should focus, more than merely whether resolutions were opposed or otherwise.

Overall, Avon's managers are marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent stands at a little over 4% on average, Avon's fund managers opposed management on 4.68% of resolutions, a little above the institutional 'norm'. There is some evidence to suggest Avon manager voting on resolutions associated with compensation did not oppose management as much as the average shareholder. This is an area in which Avon should place some focus as part of the issues highlighted above, especially given the heightened prominence of remuneration in the 2012 voting year so far.

In terms of specific fund manager observations, the voting activity is in line with expectations given each mandate and the manager's approach to investing. The large global passive portfolio of BlackRock brings into play a higher exposure to potential governance risks at underlying investee companies. This places a greater emphasis on the use of shareholder rights to mitigate governance risks in this portfolio. The companies held in the UK SRI portfolio managed by Jupiter exhibited a higher than average compliance with the best practice governance standards, demonstrating that governance concerns form a part of the stock selection and management process. Companies in the UK portfolio managed by TT exhibit an average degree of compliance, and voting records show an average response from TT, suggesting a relatively neutral approach to governance in terms of stock selection and use of share voting.

Overall, this report serves as an important benchmark against which to evaluate fund manager voting practices in forthcoming years, in order to be able to better understand the role of governance considerations in the investment management practices they employ in carrying out their mandates for the fund.

3 Explanation of Voting Activity and Monitoring Approach

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings. The overwhelming number of resolutions are proposed by management with the occasional resolution proposed by shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Like investment decisions, the consideration of shareholder voting decisions often takes into account multiple questions, including company disclosures, company practices, shareholder preferences and wider engagement strategy undertaken by fund managers.

This is especially true on the report and accounts resolution. A vote against a particular resolution such as the report and accounts may be explained by any number of various factors.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio. This may mean that, despite the presence of some potentially significant issues, investors may agree to support management in the short term with their votes as part of an engagement process for addressing longer term concerns.

This report will analyse voting resolutions and look at the Fund's investment managers' approach to voting in more detail in a subsequent section of the report.

Meeting Types

Manifest's experience is that companies have approximately 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders.

Mandatory business includes:
- Receiving of the annual report and accounts;
- Director (re)elections;
- Director remuneration;
- Approval of annual dividend; and
- Reappointment and remuneration of auditors.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (usually one third of current Issued Share Capital (ISC)), along with an accompanying request for the dis-application of pre-emption rights which is usually used for the payment of share-based remuneration schemes for employees. This is why, as noted above, AGMs have a significantly larger number of resolutions on average than do other types of meetings.

This pattern has become more marked this year due to the introduction in the UK of annual director elections, which has added more resolutions to corporate AGM agendas. During the year UK and European companies in particular began to change the legal terminology for non-Annual General Meetings. As a consequence, some meetings during the period under review were reported as an EGM, whilst other meetings identical in nature were reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting is what some companies might use to refer to an EGM, where a Special resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout.

Other types of meetings include Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management, and Class Meetings where only shareholders of a specified class of share may vote.

During the period under review, of the 285 meetings in the full monitoring sample Avon Fund Managers voted at,79.2% were AGMs (226 out of 285), with the majority of the rest constituting EGMs (9.8%) and GMs (5.96%). The remaining 14 were Court Meetings or Special General Meetings. There were no Class meetings in the data set. This is broken down per manager as follows.

Fund Manager	AGM	EGM	GM	SGM	Court	Total
BlackRock	107	15	13	8	3	146
Jupiter	59	2	1	-	-	62
TT International	47	2	3	-	1	53
State Street	9	8	-	2	-	19
Schroder	3	1	-	-	-	4
INVESCO	1	-	-	-	-	1
Total	**226**	**28**	**17**	**10**	**4**	**285**

The relatively significant number of meetings analysed for BlackRock, Jupiter and TT International enable some meaningful analysis to be made this year to then act as a benchmark, both in terms of progress in next years' summary report for those three managers, and as a benchmark for a full year's voting data for State Street, INVESCO and Schroders.

3.2 Monitoring Approach

The best practice template applies best practice governance expectations to the consideration of company meeting business. Where there are local variations to best practice (for example, the length of time after which an independent director may no longer be deemed independent), Manifest apply the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the voting template will naturally suggest supporting management.

Manifest uses the best practice governance template to identify issues, and to monitor the voting behaviour of investment managers compared to both the average shareholder and the best practice template for company governance. It is understood that investment managers voting will differ from the template, due to variances in views on governance and voting issues, investment strategy and voting strategy.

4 Common Policy Issues At Investee Companies

4.1 Introduction

Analysis of the settings in the best practice voting template allows for an in-depth study of the specific governance issues at investee companies which have been identified by Manifest's research systems. We have selected the most common issues which have been triggered in the voting template, to illustrate the most common issues with companies in the Avon portfolios set out in the template used for monitoring fund manager voting.

Table 1: Most Common Policy Issues

Flags	Description
199	The percentage of female directors on the (Supervisory) Board is less than 15%
177	Less than 50% of the Nomination Committee are independent of management
167	Less than (50-100)% of the Remuneration Committee are independent directors
137	Less than (50-100)% of the Audit Committee are independent of management
121	The (Supervisory) Board will exceed (15-21) members following the meeting.
100	Nominee is a non-independent member of the Audit Committee and less than 100% of the Audit Committee are independent
98	The percentage of the Remuneration Committee (excluding the Board Chairman) considered to be independent is less than (50-100)%
97	Less than (33.3 - 50)% of the Board is comprised of independent directors.
93	Nominee has served for more than (84-144) months on the board
93	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
77	Nominee is not considered to be independent by the Board
76	Nominee is a non-independent member of the Remuneration Committee and less than (50-100)% of the Remuneration Committee are independent
60	The upper bonus cap, where set and disclosed, exceeds (100-200)% of salary
57	Nominee represents a major shareholder
54	The aggregate non-audit fees exceed 100% of the aggregate audit fees
49	Nominee is a member of the Audit Committee in cases where the non-audit fees exceed 100% of the audit fees
48	A Nomination Committee does not exist (or its membership is not disclosed).
43	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded (100-250)% of salary (on a market value basis, based on maximum possible vesting).
40	The authority sought exceeds (5-50)% of issued share capital (UK 5-33.3%)
40	Fewer than (2-3) members on the Audit Committee
39	The potential severance payment in the event of early termination of the directors' employment following a change in control exceeds 12 months' salary
37	The amount of the proposed authority exceeds £25,000
37	The potential severance payment in the event of early termination of the directors' employment exceeds 12 months' salary
36	Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan

( ) indicate where there is variance in local best practice throughout global markets

Overall, Manifest flagged 3,712 governance related concerns across the 3,796 resolutions analysed for this report. This high number is because some resolutions were subject to multiple concerns. Manifest's voting templates system allows for an individual issue to be taken into consideration in the context of more than one resolution at a company. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – Director Elections.

For example, concerns relating to board or committee independence may be taken into consideration in the approval of the report and accounts, director elections and possibly remuneration related resolutions (where the remuneration committee is thought to be insufficiently independent).

Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.2 Director Election Resolutions

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 42.9% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.2.1 Percentage of Female Directors on the board

Whilst the issue of female directors on the board may not be a critical risk consideration on its own, the fact that director independence in general is so frequently flagged might point to a wider problem with adequate application of diversity considerations when making board appointments, of which female presence on the board is perhaps the most obvious measure.

Please see the discussion in the appendix on the issue of board diversity.

4.2.2 Nomination Committee Independence

Globally it is acknowledged that the Nomination Committee should consist of at least a majority of independent directors. Independence and objectivity of input are the best conditions for the nomination of suitably independent and diverse candidates for future board positions.

4.2.3 Board Considers the Nominee is Not Independent

Most frequently the board will acknowledge that the nominee fails one or more of the independence criteria that apply to non-executive directors, and that the individual's independence may be compromised. This code therefore is nearly always flagged alongside one of the other independence criteria.

4.2.4 Independence Criterion: Tenure

This consideration is applied to the re-election of non-executive directors, and the 'trigger' varies between 7 and 12 years depending on the market. The UK (and most common) standard is 9 years.

Whilst tenure is frequently one of the independence criteria set out in the governance codes, it is perhaps the least critical of the criteria in terms of strict application. The Financial Reporting Council (FRC) is the guardian of the UK

Corporate Governance Code and their research has witnessed a visible relaxation of investors' attitudes towards holding issuers responsible to the letter on this specific issue.

Because of this, issuers are, in turn, less worried about putting forward for election directors who may have been at the company for a little (but not much) over nine years, on the basis that their character of independence is not suddenly compromised materially and that their expertise is of more value to the board. Investors should expect to see some degree of succession management, however.

4.2.5 Individual is Non-Independent Member of a Committee Which is Not Suitably Independent

Where an individual is partly or fully the reason why a committee is not deemed sufficiently independent, the re-election of that individual to the board may be called into question.

The committee independence criterion may vary across markets and company size.

4.2.6 Member of an Audit Committee Allowing High Non-Audit Fees

The relationship between the fees paid to the auditor for audit work and that paid for non-audit work is a core consideration regarding the independence of the auditor and, correspondingly, the potential reliability of company reporting.

Directors who are responsible (through their membership of the audit committee) for the auditor being paid for additional non-audit-related work to an extent which may compromise the independence of the audit work (usually where non-audit fees exceed audit fees), may be held individually accountable through this consideration.

4.2.7 Independence Criterion: Represents a Major Shareholder

Where an individual represents a major shareholder, their ability to serve all shareholders as an independent non-executive may be compromised. Some markets establish an explicit threshold for establishing a majority shareholder for the purposes of this consideration (10% in Belgium, for example), whereas most do not.

4.2.8 Executive Director Elections: Severance Arrangements Greater than One Years Pay

Where the potential severance payment in the event of early termination of the directors' employment following a change in control exceeds 12 months' salary, the issue has been flagged in relation to the resolution proposing the individual's election.

This issue is designed to be a part of the checks and balances in place to prevent executive directors from acting in their own interests with the long term future of the company, by placing a limit on the 'compensation' they might receive in the event of the company being taken over.

4.2.9 Audit Committee Size

The size of the committee responsible for overseeing the work of the auditor is a critical consideration in terms of assessing their capacity to fulfil their very important role. Therefore, the size of the audit committee is a consideration for director election resolutions as well as reporting and auditor-related resolutions.

4.2.10 A Nomination Committee does not exist (or its membership is not disclosed).

Without a clear nomination committee, the provenance of director election proposals is unclear. This is therefore a consideration which has flagged on director elections.

4.3 Remuneration Resolutions

Remuneration related resolutions are most frequently to do with the proposal and approval of the Remuneration Report or the approval of new or amended incentive plans, and sometimes the approval of specific payments made to directors.

4.3.1 Remuneration Committee independence

Independence of the remuneration committee is a criterion which is taken into consideration in a number of contexts, including the approval of the remuneration report and other remuneration-specific resolutions (Remuneration Reports, bonuses and long term incentive plans) and election of directors who are currently on the committee.

The importance of independent input from the Remuneration Committee needs little introduction in the current climate. Remuneration committees may sometimes contain the chief executive, because of the link between remuneration and company strategic implementation. This may often trigger an independence concern.

4.3.2 Consideration of ESG Issues When Setting Performance Targets

This consideration was flagged mainly on Remuneration Report resolutions but also significantly on financial reporting resolutions.

The growth of the importance of ESG considerations not just from the point of view of responsible investment but also the strategic importance of sustainable business means that investors often now look for the inclusion of ESG related targets within the framework of performance related pay.

4.3.3 The upper bonus cap, where set and disclosed, exceeds (100-150)% of salary

This consideration was triggered by remuneration report resolutions. The market standard limit for the bonus cap, expressed as a percentage of salary, varies from market to market.

4.3.4 The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded (100-250)% of salary (on a market value basis, maximum possible vesting).

This consideration was also triggered uniquely by remuneration report resolutions. Clearly, this relates to the structural quantum of incentive pay, by picking up on the ‘worst case scenario’ of full vesting of an award. As with upper bonus caps, the standard limit applied varies from market to market.

4.3.5 Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan

Again, this consideration has been triggered on remuneration report resolutions. It relates to whether there is a limit in the extent to which any one individual may benefit from a company Long Term Incentive Plan.

It is one of the aspects in which the quantum of individual pay received may be checked, and the distribution of benefits from Long Term Incentives may be more evenly spread.

4.4 Annual Report

Annual report resolutions are frequently those on which concerns about general board structures and practices may be concentrated, in addition to issues relating to the verification and reporting of information.

4.4.1 Audit Fees Exceed Non-Audit Fees

We analyse the relationship between non-audit fees and non-audit fees both on an annual basis and separately on an aggregate three year basis.

It is a consideration for the approval of financial and non-financial reporting, because it relates to judging the independence of the audit process which underpins company reporting and therefore has been flagged on Report & Accounts resolutions.

4.4.2 Overall Board independence

Best practice provisions vary between proposing board composition of a minimum of 25% independent directors up to 66%. The UK (and most common) standard is 50%.

Board independence is key to its proper function as the representative for the shareholders in implementing the strategy agreed. This criterion is highlighted most frequently in the context of a specific director election where that director is themselves not deemed to be independent, however it is also flagged under financial reporting.

4.4.3 Overall board size

Most codes contain provisions relating to board size, varying between 15 and 21 members where explicit numbers are referred to.

Whilst some maintain that defining at which point board size becomes an impediment to effective corporate governance is to an extent an arbitrary exercise, the general consensus is that the bigger a board gets, the more unwieldy it becomes. Investors therefore frequently have a preference for an acceptable level of board size when considering board effectiveness.

It is worth noting perhaps that in the main, those companies that tend to have boards considered to be too large often tend to be large companies, therefore a portfolio consisting of many large companies is more likely to encounter this particular governance concern.

4.5 Auditors

4.5.1 Audit Committee independence

Audit committee independence is important in the consideration of not only the approval of the report and accounts but also the election of auditors and their remuneration as well as often the management of internal control. The independence of participants on this committee is clearly central to the authenticity of the company reporting function.

4.5.2 Auditor pay for non-audit work

We analyse the relationship between non-audit fees and non-audit fees both on an annual basis and separately on an aggregate three year basis.

The value of non-audit related consultancy work is naturally a consideration for the approval of auditor elections and remuneration, given the potential for conflicts of interest and the importance of audit independence, and therefore has been flagged on Auditor resolutions.

4.6 Political Donations

Under European jurisdictions, companies are required to seek approval for political donations, which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying.

4.6.1 The amount of the proposed authority exceeds £25,000

Whilst it may seem arbitrary to set an absolute figure on such a resolution, this is actually in line with investor preferences in the sense that it would not seem appropriate for shareholders to approve a figure expressed relative to company size or turnover as that would imply that political donations are an acceptable routine aspect of corporate life. Secondly, given that laws relating to disclosures require absolute amounts to be disclosed, an absolute limit is also a more transparent means of applying a preference.

5 Aggregate Voting Behaviour

5.1 Fund Manager Voting compared to general shareholder voting and best practice template - Support for Management

Table 2 below shows the total number of resolutions voted by each fund manager during the period under review. It also shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice voting template suggested supporting management. Lastly, it shows the number of those resolutions for which Manifest obtained meeting results from the companies in question, and of those, how shareholders were reported to have voted.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Voted With Management	Template For Management	Resolutions With Poll Results	General Shareholders Supported Management
BlackRock	1,560	93.78%	43.14%	1330	94.81%
Jupiter	1071	97.48%	81.23%	1008	97.51%
TT International	953	97.59%	70.83%	914	96.67%
State Street	139	92.09%	32.37%	57	94.03%
INVESCO	54	96.30%	64.81%	19	97.11%
Schroder	19	94.74%	84.21%	18	91.13%
Total	**3,796**	**95.76%**	**60.96%**	**3346**	**96.11%**

The table shows that fund managers vote with management a high proportion of the time, and that the voting template identifies potential issues of concern on a much higher proportion of resolutions than the fund managers choose to oppose.

In respect of BlackRock, Jupiter and TT, it is also interesting to note the proportion of resolutions for which the template suggests supporting management. In particular, the companies in the Jupiter portfolio display a comparatively high level of compliance with governance best practice, with 81% of resolutions free from governance best practice concern. Jupiter's portfolio of companies compares particularly favourably with those of BlackRock's portfolio, which are less in line with best practice. This reflects Jupiter's ability to reflect a company's governance characteristics in their investment decision making, whereas BlackRock as a passive investor, must hold all stocks in the index. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock portfolio is global and therefore has a higher variance of governance standards.

We can compare each fund manager's average overall voting pattern with how other shareholders voted on the same resolutions, to see whether the fund managers are voting with management more often than shareholders in general.

We do this by using our own analysis of the poll data (where made available by companies).

Table 2 shows that, overall, Avon's fund managers oppose management very slightly more often than shareholders in general do. Given the small number of resolutions in the data set voted by State Street, Schroders and INVESCO, the following comments are made in respect of BlackRock, Jupiter and TT only.

TT have supported management marginally more than most shareholders, Blackrock have tended to oppose management more often than shareholders in general, and Jupiter's support of management is almost exactly the same as other shareholders.

It is interesting to note here the general differences in shareholder support for management. The fact that shareholders supported management at companies in the BlackRock portfolio rather less often than at TT and Jupiter is indicative that in general, there are perhaps more concerns at companies in the BlackRock portfolio which is to be expected given it is a passive index portfolio .

The differences between the investment manager portfolios (in terms of shareholder support for management) also reflects the nature of the different mandates and investment approach taken by the manager. This is explained further in section 6.

5.2 Fund Manager Voting compared to general shareholder voting and best practice template - by Resolution

Manifest seeks to collect the meeting results data for all meetings analysed. In many jurisdictions, provision of such information by companies is not guaranteed. However, of the 3,796 resolutions analysed in this report, Manifest obtained poll data for 3,346 resolutions, allowing for a meaningful analysis of the resolution data set.

Using the vote outcome data collected in respect of the significant majority of meetings at which Avon fund managers have voted, we have used the same information to identify which were the most contentious resolutions and the reasons for them being contentious.

5.2.1 Dissent By Resolution Type

Where we use the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and "For plus 'Abstain' votes where Management recommended 'Against').In respect of shareholder resolutions, dissent is measured by 'For' votes, being in support of the shareholder rather than management.

Table 3: General Dissent By Resolution Type

Resolution Type	Number of Resolutions	Average Dissent
Director Appointment	1518	2.53%
Capital Raising	327	3.30%
Auditor & Oversight	314	1.38%
Distributions to Shareholders	291	0.79%
Annual Reporting	169	1.04%
Remuneration Reports	162	9.93%
Meeting Procedures	137	5.32%
Say On Pay Frequency	93	18.92%
Political Donations	59	3.26%
All-employee Share Plans	48	3.76%
Incentive Pay Plans	46	10.64%
Remuneration - Approve Amounts	39	9.18%
Transactions	31	2.35%
Company Constitution	20	1.30%
Shareholder	19	24.00%
Non-executive Remuneration	18	3.92%

Table 3: General Dissent By Resolution Type above shows the most common types of resolutions at meetings voted at by Avon's fund managers. We calculate the average dissent figure by aggregating all the poll data (expressed in terms of % of votes cast 'For') on all resolutions of that type, then dividing the aggregate figure by the number of resolutions. In most cases, this gives an accurate statistical indication of the dissent that a typical resolution type attracts, relative to others.

When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions was 3.89% - in other words, an approval rating of more than 96%.

Avon's fund managers are marginally more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 161 occasions out of 3,796 resolutions, constituting an overall average opposition level of 4.24%. Some patterns within this are demonstrated and explored more fully below.

One general observation that may be made is that, compared to the previous year, general dissent has increased slightly in most categories, with Remuneration in particular increasing as a focus again, having been relatively flat in the 2010 season. This is also in the context of Remuneration still being by far the most contentious regular issue. Judging by events in the 2012 season so far, this trend is likely to continue upward.

Table 4 shows patterns of voting on various significant types of resolution. The specific wording of corporate meeting resolutions varies from company to company, so the headings below represent meaningful summaries of the types of resolutions voted on.

The list is sorted in relation to the best practice voting template used to monitor the fund manager voting. The more frequently a resolution type is flagged by the template, the higher up the list it appears, due to the lower percentage of resolutions of that type on which the voting template suggested supporting management. The 'Avon Voted with Management' column uses the same basis as the 'Average Shareholder Votes with Management' column, but relates to the actual votes of Avon's fund managers.

Table 4: Aggregate Voting by Resolution Type

Resolution Type	Template with Management	Average Shareholder Votes with Management	Avon Voted with Management
Remuneration - Approve Amounts	5.00%	90.82%	100.00%
Transactions	11.90%	97.65%	100.00%
Share Capital Structure	20.00%	97.36%	90.00%
Remuneration Reports	20.34%	90.07%	93.79%
Political Donations	21.67%	96.74%	100.00%
Incentive Pay Plans	23.40%	89.36%	93.62%
Corporate Governance Policies	33.33%	99.84%	100.00%
Company Constitution	51.16%	98.70%	100.00%
Annual Reporting	52.33%	98.96%	99.48%
Remuneration - Non-executive	57.14%	96.08%	100.00%
Director Appointment	57.48%	97.47%	96.26%
Director Discharge	62.16%	99.63%	100.00%
Auditor & Oversight	66.57%	98.62%	100.00%
Treasury Shares	69.23%	96.30%	92.31%
All-employee Share Plans	78.00%	96.24%	98.00%
Distributions to Shareholders	83.63%	99.21%	98.81%
Capital Raising	85.90%	96.70%	97.91%
Say on Pay Frequency	90.32%	81.08%	38.71%
Shareholder	0.00%*	76.00%	86.96%

* Shareholder Resolutions are flagged as 'Case by Case', therefore no template votes with Management are possible

The following sub sections explain some of the resolution types from the list above which are not featured in the key themes analysis in section 6, and provides some more background to the issues that are reflected in various voting resolutions.

5.2.2 Auditor & Oversight

Most annual meetings include a resolution approving the election and remuneration of the auditors. It is not normally a particularly contentious resolution in shareholder voting terms, though the relevant considerations have very important implications. Obviously, the work of the auditors is vital in enabling the shareholders to obtain a fair, true and balanced view of the performance of the company and verification of its reporting. Therefore the main issues of concern pertain to the independence of auditors.

Across the 347 such resolutions voted, the most common concerns identified by Manifest are outlined in Table 5 below. Where a single resolution was proposed for both the (re-)election and remuneration of auditors, frequently the same concern was flagged twice on the same resolution in respect of each consideration.

Table 5: Auditor & Oversight Main Issues of Concern

Frequency	Issue
54	The aggregate non-audit fees exceed 100% of the aggregate audit fees
50	Less than 100% of the Audit Committee are independent of management
31	The aggregate non-audit fees exceed 100% of the aggregate audit fees paid on a three year average
15	The number of years for which the auditors have provided services to the Company for statutory audit purposes exceeds 10
14	The Chairman sits on the Audit Committee

5.2.3 Company Constitution

Resolutions of this type relate to the company by-laws, and therefore can relate to a wide range of issues from share capital, continuation of the company to definition of shareholder rights. Most of the resolutions returned a ‘Case by Case’ recommendation, meaning that they are issues which are less likely to be contentious but require close attention due to the specific nature of the considerations.

5.2.4 Say on Pay Frequency

Many US companies had three resolutions on their agenda relating to proposals to have a say on pay vote each year, every other year, or every three years. On each agenda, management would oppose two of the three resolutions (by definition, if they support one, they are in opposition to the others) and the same is for shareholders. In total there were 31 companies who between them accounted for 93 resolutions.

This goes some way to explaining the otherwise very high level of general dissent of 48%. Most shareholders - in common with the template recommendation - tended to vote in favour of annual say on pay (proposals for an annual vote received almost 90% general support on average), and most boards recommended annual as well. A handful of boards recommended supporting the tri-ennial proposal, which largely accounts for the general dissent when it occurred (87% dissent on average).

Avon’s Fund managers tended to vote in favour of a tri-ennial say on pay – therefore against Management on such proposals. The result was Avon’s fund managers dissenting a high proportion of the time both by by generally opposing proposals for annual say on pay and supporting proposals for a triennial say on pay. Nearly all of the 38% support for management from Avon's fund managers on say on pay resolutions came from normally opposing proposals for a bi-ennial say on pay.

5.2.5 All Employee Share Plans

With an overall level of 3.76% general dissent, All Employee Share Plans are generally much less controversial than incentive plans specifically designed for board members. It is common for executive board members to be able to participate in all employee share plans as well.

Key considerations on such resolutions include share dilution, and, where there might be an additional incentive plan in place for executive directors, linkage between performance criteria of the all employee plans and the board-specific plans in place.

5.2.6 Remuneration – Approve Amounts

Remuneration reports normally contain within them both forward-looking policy proposals, as well as an account of amounts paid to directors in the year under review. However, some resolutions are proposed to approve specific payments to directors, either retrospectively or to approve proposed payments. This type of resolution is therefore often out of the ordinary, or at least gives shareholders the opportunity to pass judgement on specific amounts paid to directors.

These resolutions attracted a general dissent level of 9.18%, which is reasonably consistent with the dissent levels seen on remuneration reports.

These 40 resolutions between them triggered 285 code concerns, an average of over 7 triggered per resolution, which is a high concentration suggesting a potentially high level of contention. The most common concerns identified are listed in Table 6, all of which were triggered on the majority of the resolutions.

Table 6: Frequent Policy Concerns on Remuneration Amounts Approvals

Frequency	Issue
29	The aggregate award of the director receiving the largest aggregate LTIP award during the year exceeded 100% of salary (on a market value basis, based on maximum possible vesting).
28	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
26	Accelerated vesting of LTIP awards on termination is permitted for any of the executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control)
23	The maximum potential severance payment in the event of early termination of any of the directors' employment exceeds 12 months' salary
21	The upper bonus cap, where set and disclosed, exceeds 100% of salary
21	More than 30% of the award tranche vests for threshold performance.
20	The authorised dilution for share plans exceeds 10% of the issued share capital

6 Key Themes and Investment Manager Approach

The following section identifies the key resolution themes, and explores how each fund manager addressed, through their use of voting rights, issues that Manifest identified.

Manifest monitored BlackRock, Jupiter and TT International on a sufficient number of resolutions during the year to enable some meaningful identification of thematic patterns of voting behaviour between them – that is, looking at how they voted in the context of specific types of resolutions.

In all cases, we have identified prominent resolution types using percentage measures of the degree to which Manifest identified issues of potential concern. We have used percentages rather than absolute numbers to balance for the fact that some resolution types occur much more frequently than others (for example, Director Elections account for 43% of all resolutions analysed).

It is useful to be mindful of the difference between a concern as identified by Manifest's best practice analysis, and a vote against management. Voting decisions are rarely made in isolation from the wider investment process. A voting template gives a comprehensive context of the governance concerns which are relevant to the resolution, but the way in which a fund manager may act upon that concern may not necessarily be through a voting instruction on the resolution.

Share voting is an important part of a wider responsible investment management framework which may include portfolio screening, engagement with investee (and potential investee) companies, the taking of a longer term view on an issue(i.e. to put a marker down to take action if the issue is still apparent the following year) and a strategic decision that the importance of supporting management at that particular company outweighs the importance of voting against them.

The result is that we would not expect fund managers to automatically vote against management on every concern the template identifies. But the result of the voting template is a useful guide to establish what are the underlying issues of governance concern, in order to then be able to evaluate how the fund manager is addressing such concerns.

6.1 General comments

In respect of each of the three managers analysed above, we outline overall characteristics of the approach to voting in the context of the mandate they are responsible for.

Within their passive equity portfolio, companies held by **BlackRock** had the lowest level of alignment with the governance standards in the monitoring template. BlackRock also opposed management on over 6% of all resolutions – more than Jupiter or TT; the data also suggests they had more reason to do so than the others.

The passive nature of BlackRock's mandate means they have to hold the vast majority of companies in the relevant index and therefore cannot take governance issues into account in their investment decision. This highlights the importance of expressing governance concerns through voting and engagement activity.

BlackRock's approach to governance and voting is to identify key areas of risk to focus their voting and engagement activity on, rather than trying to research each resolution at each meeting in detail. In January 2012, the Chief Executive of BlackRock, Laurence Fink, wrote a letter to the 600 largest constituent companies of the BlackRock equity portfolios to encourage those companies to engage directly with BlackRock on pre-meeting issues of concern, prior to engaging with proxy advisors. This renewed emphasis on investor ownership of voting decisions is a welcome development which promises much towards promoting genuine responsibility for all aspects of the investment process.

The companies in the **Jupiter** portfolio had the highest level of compliance with the voting template of all of the fund managers. More than 80% of the resolutions proposed by the portfolio companies were free of any potential governance policy concerns.

Only three types of resolution attracted a higher than average level of concern compared to all resolutions in the portfolio.

This is to be expected given the SRI characteristics of the mandate and shows Jupiter does take governance standards into account when making investment decisions.

Overall, **TT**'s portfolio companies were broadly in line with the global average in terms of general shareholder dissent, which TT more or less matched with their actual voting decisions. This is inline with expectations as TT take a more neutral approach to voting.

6.2 Report & Accounts Resolutions

Report & Accounts resolutions are the backbone of most AGMs, as they pertain to shareholders approving the actions of the company during the reported year. There are numerous governance considerations associated with this, including disclosure, audit and internal control management and board independence.

BlackRock supported management on all Report & Accounts resolutions, whereas Manifest identified potential concerns with 88% of them. The most common concerns identified included an absence of a Senior Independent Director, lack of linkage of Environmental, Social and Governance (ESG) targets to remuneration, lack of ESG reporting verification, lack of sufficient Audit Committee independence, overall board independence and an absence of meetings of non-executives without executives present.

6.3 Director Appointments

Board proposed director elections include the election of executive and non-executive directors. They are the most common type of resolution to be voted, given that largely, the practice is for directors to be re-elected on an individual basis and that in some markets (including the UK) this is now normally done in respect of all directors every year.

BlackRock opposed management on 4.35% of all director resolutions; Manifest identified some level of concern with nearly 73%. Common issues of concern included independence concerns with the Nomination Committee, the Board in general, Remuneration and Audit Committees, all of which are considered of concern with executive and non-executive elections alike.

With regard to Non-Executive Director elections, prominent issues highlighted included the fact the board did not consider the nominee independent, the percentage of female directors on the board and duration of tenure of the current office.

The most prominent concern specific to executive director elections related to the level of potential severance payments and bonuses payable upon termination.

Director elections in the **TT** portfolio were less contentious compared to the remuneration issues identified below, but nevertheless Manifest identified concerns in 26% of cases across the 458 resolutions voted. TT opposed 3.28% of them.

Common issues included board size being too large, non-independent nominees who are members of the Audit Committee, non-executives deemed no longer independent because of length of tenure and non-independent nominees who are members of the Remuneration Committee.

6.4 Remuneration Reports

Through a mixture of hard and soft law, the proposal of a specific resolution on general remuneration arrangements (both *ex-post* and *ex-ante*) is increasingly common, and may be expected at most meetings in the survey data sample.

BlackRock opposed 5% of Remuneration Report resolutions, Manifest highlighted concerns in respect of 66% of them. After the concern identified above relating to an absence of ESG linkage to remuneration strategy, the next most frequent concerns identified in the context of Remuneration Reports were the upper bonus cap, and the aggregate value of Long Term Incentive Plan (LTIP) awards made during the year, being too high in comparison with salary.

Manifest identified concerns with 87% of these resolutions in the **Jupiter** portfolio, of which 9% resulted in a vote against management by Jupiter.

Common concerns related to the fact that maximum LTIP awards were made during the year under review and remuneration committee independence. Also highlighted were arrangements for payment of unearned bonus as part of termination provisions, upper bonus cap levels, recruitment or retention payments and lack of director shareholding requirements.

Manifest highlighted concerns with 93% of all Remuneration Reports in the **TT** portfolio. TT supported management on all but one.

The most common issues Manifest found included Remuneration Committee independence, LTIP awards set at the maximum allowed under plan rules, upper bonus cap exceeding 150% of salary and arrangements for payment of unearned bonus as part of termination provisions.

6.5 Incentive Pay Plans

Incentive pay plans are resolutions which are specifically tabled to approve a new plan, or an amendment to an existing plan. They are therefore typically more specific in nature than Remuneration Report Resolutions.

The resolution type that **Jupiter** opposed most (2 out of 17) was Incentive Pay Plans. Manifest identified concerns in respect of 12 of them: 8 shared the same issue which was in relation to the maximum percentage of salary that may be granted/awarded under the plan in 1 year exceeding 200% (based on face value).

Only two of these resolutions received a notable level of dissent at over 25%: BT Group plc and Hansen Transmissions International NV.

Manifest identified issues on 16 of the 20 Incentive Pay Plan resolutions, one of which **TT** opposed.

By far the most common issue we identified (in 12 of the 16 cases) was that the maximum that may be granted/awarded under the plan in 1 year exceeded 200% of salary based on face value.

6.6 Political Donations

Under European jurisdictions, companies are required to seek approval for political donations, which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying.

Jupiter approved all resolutions pertaining to political donations, which is not uncommon to do. However, four of the resolutions did attract rather high levels of dissent: Barclays and Centrica both received in the region of 11% dissent, British Land and First Group around 8%.

16 of the 28 Political Donations resolutions sought approval for amounts of more than £25,000, and a further 4 had made direct contributions to political parties during the previous year.

Jupiter's decisions on 'political' donations takes into account whether the donation is to a pressure group whose aims are in alignment with the SRI goals of the mandate.

6.7 Genesis

Genesis' voting reports did not include issue categories to facilitate reliable, consistent comparison across issue types, meaning that only aggregate analysis of all resolutions was possible.

Genesis reported a total of 1,107 resolutions voted during quarters 2, 3 and 4. In line with global patterns, the distribution of resolutions across the quarters was far from equal. Quarter 2 saw 851 of the resolutions voted – over 76% of all resolutions in the reporting period.

26 of the resolutions had "No Voting Instruction", as they were unvotable items.

Of the remaining items, Genesis' proxy advisor recommended supporting management on 84% of resolutions. Genesis supported Management on 89.55% of resolutions.

Of the resolutions where Genesis was advised to vote against management, Manifest manually categorised them as follows:

Resolution Type	**Advised to Oppose**	**Genesis Opposed**
Director Appointment	86	53
Transaction	17	6
Capital Raising	12	4
Share Structure	11	4
Company Constitution	9	4
Remuneration Approve Amounts	9	2
Remuneration - Incentive Pay Plan	8	0
Remuneration Policy	4	1
Other	3	2
Distribution to Shareholders	2	1
Donations	1	0
Grand Total	**162**	**77**

It is notable that there are proportionally more resolutions pertaining to capital raising, share structures and corporate and significant transactions, all of which are characteristic of emerging, evolving markets, as are the higher risks of such issues to minority shareholders in these markets.

However, Genesis also opposed 5 resolutions which their advisor had advised supporting. Three of them were on the grounds of insufficient data to make a decision, one was a resolution to omit dividends, and one was a share issue for which there was insufficient justification in the eyes of the fund manager.

7 Conclusions

Despite the fact that the data set for 2011 was incomplete due to set-up during the second quarter of the year, this report provides a sound comparison point for a review of a full years' voting in 2012.

In particular, the volume of voting data and analysis, enabled partly by the size of BlackRock's passive portfolio and partly due to the fact that Jupiter and TT International were both able to report in respect of Quarter 2 2011 onwards, means that there is enough benchmark material against which to measure other fund managers with their voting in 2012, as well as to be able to monitor progress in the BlackRock, Jupiter and TT portfolios.

The comparison with a best governance practice analysis template and voting behaviour both between managers and against general shareholder voting behaviour enables a detailed understanding of the key issues in terms of governance and voting throughout the Avon equity portfolios.

With regard to governance issues identified throughout the portfolio, the most numerous questions unsurprisingly relate to director elections, the resolution type which occurs most frequently. Much of this relates to concerns about the tenure of Non Executive Directors, and the knock-on effect they have on the technical independence assessment of committees and boards. An issue we expect to see develop is that of gender diversity, which did also feature in the analysis.

Remuneration is also a prominent theme, with the most common concerns being related to the potential and actual quantum of annual and long term incentives in relation to salary. Remuneration Committee independence is also noteworthy, though this is often as a result of the tenure issue highlighted above.

Lastly, the role of environmental and social sustainability considerations (ESG) is a growing theme for investors. Incidents such as the Deepwater Horizon oil spill and the mis-management of highly complex hybrid securities in the financial sector are but two examples which highlight the relevance of 'extra-financial' considerations in business processes in terms of potential damage to returns on investment. As a consequence, reporting of ESG information by companies, and its relevance to the incentive structures in place, are becoming more and more common as considerations in the investment process, including voting decisions.

With regard to voting, in general terms, the analysis shows that Avon's fund managers are selective in their use of voting power to oppose management, but nevertheless are marginally more active than shareholders in general.

As noted above, Avon does not give fund managers explicit direction as to how shares should be voted, expecting each fund manager to apply their own investment judgement to voting decisions. The immediate materiality of many voting decisions is rarely significant, however the medium to long term risks of neglecting such considerations are well documented. Expectations of fund managers in this regard should therefore be placed not on the 'what' of their voting decisions, but on the 'why' and 'how' of their management of such issues through the portfolio. Vote monitoring is therefore an essential tool in this process, because it enables fund manager ownership strategy to be better understood and placed in context.

In terms of specific fund manager observations, it is clear that the passive portfolio of BlackRock brings into play a higher exposure to potential governance risks, as is reflected in the relatively poor alignment of the companies in the portfolio with the governance standards of the monitoring template. This places a greater emphasis on the use of shareholder rights to mitigate governance risks to which the portfolio is inevitably exposed. Specific issues to observe are Report and Accounts resolutions, Director Elections and Remuneration Reports.

As expected, the active Jupiter portfolio exhibited a higher than average compliance with the best practice governance standards reflected in the monitoring template, demonstrating that governance concerns form a part of the stock selection and management process. Although Jupiter supported management with their votes to a greater extent than all but one of the other managers, average shareholder dissent across their portfolio was even lower, indicating that not only Manifest and Jupiter analysis concludes generally favourably but also other shareholders do as well. Notwithstanding the above, readers may wish to observe voting on Remuneration Reports, Political Donations and Incentive Pay Plans.

The active TT portfolio exhibits an average degree of compliance, and voting records show an average response from TT, in terms of comparison with general shareholder voting activity. This would suggest a relatively neutral approach to governance in terms of stock selection and use of share voting in line with their investment strategy. In terms of divergence from identification of potential concerns and actual voting behaviour, issues to observe in particular are Remuneration Reports, Incentive Pay Plans and Director Elections.

With the 2012 season one of the most spectacular yet, this report will form a solid backdrop to put 2012 analysis into a helpful perspective.

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8 Appendix - Hot Governance Topics

8.1 The EU Paper on Corporate Governance

In the spring of 2011, the European Commission published a Green Paper (discussion paper) on Corporate Governance. It followed on from the 2010 paper on Corporate Governance in Financial Institutions (CGFI), recognising that many of the reforms proposed in the CGFI paper bore relevance to varying degrees to other listed entities.

One of the lessons of the financial crisis is that corporate governance, until now usually based on self-regulation, was not as effective as it could have been. It is important that companies are better run. If companies are better run, not only is a future crisis less likely but they should also be more competitive.

It was a truly wide ranging consultation, exploring three broad themes:

- **Board of directors**: questions addressed referred to their effective functioning and ensuring they are composed of a mixed group of people, e.g. by enhancing gender diversity, a variety of professional backgrounds and skills as well as nationalities. Functioning of boards, namely in terms of availability and time commitment of directors were also under scrutiny as well as questions on risk management and directors' pay.
- how to enhance **shareholders' involvement** on corporate governance issues and encourage more of them to take an interest in sustainable returns and longer term performance, but also how to enhance the protection of minority shareholders. It also sought to understand whether there is a need for shareholder identification, i.e. for a mechanism to allow issuers to see who their shareholders are, and for an improved framework for shareholder cooperation.
- How to improve **monitoring and enforcement of the existing national corporate governance codes** in order to provide investors and the public with meaningful information. Companies who don't comply with national corporate governance recommendations have to explain why they deviate from them. Too often, this doesn't occur. The Green Paper asked whether there should be more detailed rules on these explanations and whether national monitoring bodies should have more say on companies' corporate governance statements.

The Commission is now in the process of considering whether to take any further action. If a decision is made to do so, the next step will be a regulatory impact assessment (which will mean, in practice, another consultation).

8.2 Independent Commission on Banking

On 16 June 2010, the Chancellor of the Exchequer announced the creation of the Independent Commission on Banking, chaired by Sir John Vickers. The Commission was asked to consider structural and related non-structural reforms to the UK banking sector to promote financial stability and competition, and to make recommendations to the Government by the end of September 2011.

The 363 page Vickers Report was published in September 2011, recommending in essence the 'ring-fencing' of risky investment banking activities from retail banking, so that in the event investment banking caused significant losses, as happened as the main trigger point in the financial crisis of 2008-9, the retail bank would not be critically affected.

Ring-fencing was chosen in preference to complete separation so as to maximise diversification of earnings for shareholders, maintenance of a 'one-stop shop' model for those who wish to access retail and investment banking in one place (a significant portion of the UK banking market), retention of economies of scope and shared knowledge, and retention of valuable branding and some operational infrastructure.

At the heart of the report was the recognition of the important role that retail banking plays in the daily economic life of Britain, and that this should not be adversely affect or overshadowed by the lucrative but global economic activity of investment banking which is also carried out in significant volume by institutions based in the UK. It is widely recognised that the former is why the main UK banks are considered 'too big (important?) to fail' (hence, why government intervention was deemed necessary), but that the latter is important to our economy in terms of revenue, trade and economic innovation keeping Britain's economy prominent on the world stage.

8.3 Board Diversity - Gender

In February 2011, Lord Davies published his report on gender diversity in boards. Board diversity as a theme can be traced back through the development of corporate governance in the UK, but has not until now been treated as a 'solo' topic.

Fundamentally, it is recognized that boards perform best with the best people appointed to them, and that for that reason, diversity of all kinds (including gender diversity) should be encouraged.

Whilst stopping short of promoting the idea of quotas, Lord Davies recommended that UK listed companies in the FTSE 100 should be aiming for a minimum of 25% female board member representation by 2015. He recommended in his report for government that FTSE 350 companies should be setting their own, challenging targets and expects that many will achieve a much higher figure than this minimum.

The report said that companies should set targets for 2013 and 2015 to ensure that more talented and gifted women can get into the top jobs in companies across the UK. Lord Davies also called on chairmen to announce these goals in the next six months (to September 2011) and Chief Executives to review the percentage of women they aim to have on their Executive Committees in 2013 and 2015.

As part of the report Lord Davies and his panel stated that companies should fully disclose the number of women sitting on their boards and working in their organisations as a whole, to drive up the numbers of women with top jobs in business.

The report also recommended:
- Investors should pay close attention to the recommendations from the report when considering re-appointments to a company board.

- Companies should periodically advertise non-executive board positions to encourage greater diversity in applications.
- Headhunting firms should draw up a voluntary code of practice addressing gender diversity in relation to board level appointments to FTSE 350 companies.
- The Financial Reporting Council to amend the UK Corporate Governance Code to require listed companies to establish a policy concerning boardroom diversity. This should include how they would implement such a policy, and disclose annually a summary the progress made.

Manifest has been monitoring board diversity for some time and we report on gender, nationality and experience in our research. It is difficult for investors to put the information reported into context at present. However, a "one-size-fits-all" approach is not ideal for companies or investors, as it leads to box-ticking and has little effect on the underlying issues. UK companies are being given a chance to develop their own policies so that their boards can reflect the diversity within their company as a whole. It's possible that the threat of imposed quotas from the EU will convince companies to take this seriously enough that we will see some meaningful disclosures in the next 12 months.

We would hope that in the spirit of comply or explain, company-defined targets will be given a chance to prevail before regulation is imposed.

8.4 Direct Shareholder Engagement – BlackRock

In January 2012, the Chief Executive of BlackRock, Laurence Fink, wrote a letter to the 600 largest constituent companies of the BlackRock equity portfolios. The aim of the letter was to encourage those companies to engage directly with BlackRock on pre-meeting issues of concern, prior to engaging with proxy advisors.

At first glance, this may seem a perfectly normal practice, but the fact that Mr Fink felt the need to emphasise it is indicative of the current state of play in the debate about the influence of proxy advisory services.

Regulators in the US and Europe are turning their attention to the degree to which institutional investors, including fund managers, are effectively following the advice they get from third party professional proxy advisors. Recent developments in best practice for institutional investors as shareholders, such as the UK Stewardship Code, have placed an extra focus on how they approach shareholder voting.

As one of the largest global institutional shareholders, BlackRock's stance has served to question popular assumptions about issuers having to negotiate with proxy advisors in order to secure a favourable recommendation and, by 'proxy' a favourable shareholder vote. It has moved attention back to the vitally important relationship between the investor decision-maker and the investee. In terms of voting, BlackRock's renewed emphasis on investor ownership of voting decisions is a welcome development which promises much towards promoting genuine responsibility for all aspects of the investment process.