Bath & North East Somerset Council

Monitoring Review of Proxy Voting 2012

Avon Pension Fund

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the proxy voting agency

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1 Introduction

1.1 Aim of Vote Monitoring

This is the second year for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund (APF), putting 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 lays a foundation for assessment of progress in terms of company's governance standards versus best practice, and in terms of assessing fund managers' use of votes in putting their investment governance preferences, including relating to governance issues, across to companies.

Importantly, this report looks at the full picture of how Avon's fund managers are making use of the Fund's voting rights and will therefore enable Avon to better understand and challenge fund managers about the role their voting activity plays in ownership strategy. The report enables Avon to fulfil the objectives of the Stewardship Code in constructively challenging external fund managers in their stewardship activities.

1.2 Voting in Context

Avon's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require 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 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.

1.3 Scope of Analysis

The period covered by this report encompasses the period between the 1st January 2012 to the 31st December 2012. It represents a full years' voting.

Manifest analyses the issues at hand to provide a 'Template Guidance' for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a voting template framed upon corporate governance best practice developed by Manifest for Avon. 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 precise tactical use of voting rights is in itself a strategic investment consideration.

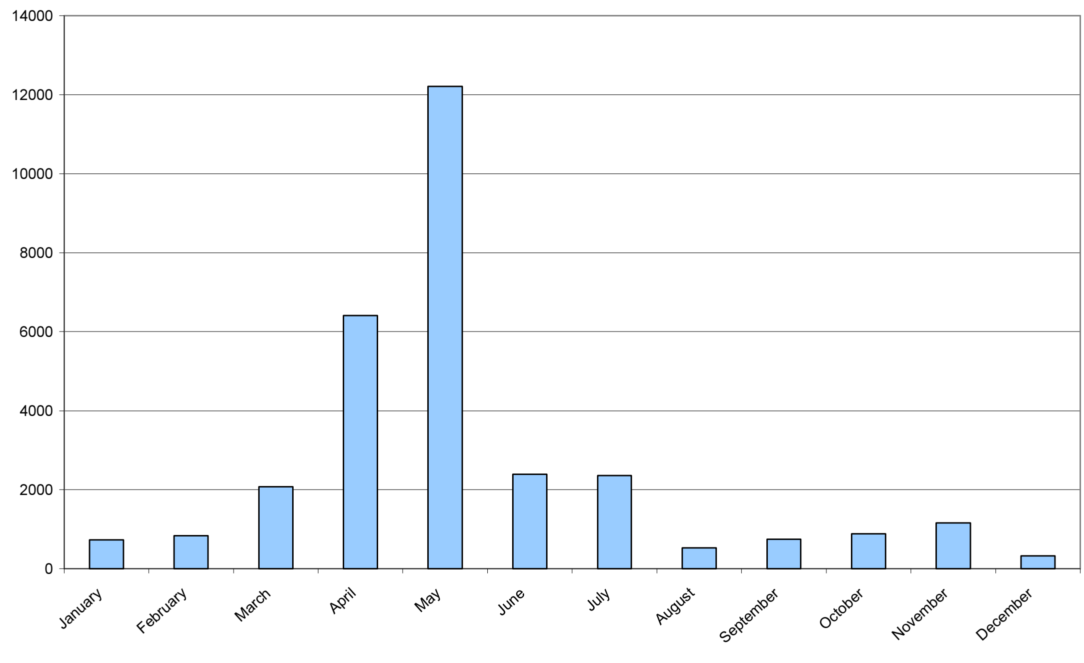
Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution, is more significant than whether the template suggests an 'Abstain', 'Against'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

1.4 Peak workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, there is a resultant surge in the number of annual meetings relating to that year end during quarter 2 of the calendar year, especially in April and May. Figure 1: Resolutions Voted Per Month below shows the total number of resolutions voted by Avon's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year.

Asset owners like the Avon Pension Fund should be aware that such a high concentration of work inevitably leads to the commoditisation of voting decisions and especially the likelihood of outsourcing voting decision-making responsibility to outside consultants. This dynamic is becoming the focus of regulatory scrutiny in the UK, France, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions.

Figure 1: Resolutions Voted Per Month



1.5 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 2012.

2 Executive Summary

Section 3 ("Explanation of Voting Activity and Monitoring Approach") explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It will also identify the number of meetings voted by Avon's fund managers in 2012, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings of companies in mainstream markets (the UK, Europe and North America). The research brought a total of 1,804 meetings in the UK, Europe and the US. These 1,804 meetings presented a total of 23,255 resolutions for voting, a number of which were voted by more than one manager, resulting in 30,657 resolution analyses. Of these:

- 21,966 were voted by BlackRock, representing the largest proportion of the report data;
- 15,121 were resolutions where best practice template highlighted potential governance concerns and fund managers supported management.
- 1,426 were voted against management.

The "Common Policy Issues At Investee Companies" section 4 examines the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for. Board balance and remuneration issues are the most frequently identified concerns. As was the case in 2011, the most common specific best practice governance criteria against which manifest found Avon's portfolio companies to fall short 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, and lack of performance pay caps. These are the substantial issues on which investors should focus, more than the black and white of whether resolutions were opposed or otherwise.

The next step of the analysis is to study patterns of voting behaviour, both in terms of Avon's fund managers as well as shareholders in general (Section 5), as well as to examine which types of resolution were the most contentious (Section 6). None of Avon's fund managers voted with management consistently more than shareholders in general; Invesco and Genesis supported management noticeably less.

As we noted in the 2011 voting report was likely to be the case, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. Common issues were the quantum of incentive pay and the absence of provisions to claw back incentive pay. It should be noted that key themes such as remuneration practices and board independence should be assessed over the longer term when looking for changes in company practices and considered to be an evolution process over time.

Overall, Avon's managers were a little 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, slightly above the institutional ‘norm’. Specific observations regarding individual investment managers’ approaches can be found in Section 10.

3 Explanation of Voting Activity and Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Avon's fund managers in 2012, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the 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 potential 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 in return for the company in question addressing concerns in the longer term.

This report will analyse voting resolutions and look at the Fund's investment manager's 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.

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,804 meetings in the full monitoring sample Avon Fund Managers voted at, 85.9% were AGMs (79.2% in 2011), with the majority of the rest constituting GMs (5.93%, 5.96%) and EGMs (4.38%, 9.8%). The remaining were nearly all Special General Meetings (1.88%, 3.51%) or Court Meetings (1.16%, 1.41%). There were 13 Class meetings in 2012 (0.72%, 0 during 2011).

This is broken down per manager as follows. The total number of meetings voted by managers (2,257) exceeds the total number voted at for the fund (1,804) because of instances where more than one fund manager voted at the same meeting:

Fund Manager	Companies	AGM	EGM	GM	SGM	Court	Class	Total
BlackRock	1506	1481	101	69	29	21	12	1713
Jupiter	252	243	0	20	8	0	1	272
TT International	78	73	0	4	5	0	1	83
State Street	61	60	8	1	0	4	0	73
Schroder	53	50	8	2	0	3	0	63
INVESCO	40	38	0	1	1	0	0	40
Genesis	11	8	1	3	1	0	0	13
Total	**1585***	**1953**	**118**	**100**	**44**	**28**	**14**	**2257**

* Represents the total number of unique companies, not the sum total of companies voted at by each manager

The very small number of meetings voted by Genesis in this sample of 'full' monitored meetings means that full detailed analysis is not meaningful. This is in large part due to their Emerging Market mandate.

3.2 Monitoring Approach

The best practice voting template applies best practice governance expectations to the consideration of company meeting business. Where there are local variations to best practice questions (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 seeks to monitor companies using the best practice governance template to identify issues, and also to monitor the voting behaviour of investment managers compared to the average shareholder and to 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 the role of voting within ongoing engagement strategy.

4 Common Policy Issues At Investee Companies

This section picks up on the previous chapter, by examining the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and detailing those which Manifest identified most frequently among the companies Avon's fund managers have voted meetings for.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive of the company and its owners. Without appropriate levels of independence, accountability, remuneration, experience and oversight, corporate governance would offer shareholders little protection from the risk that their investment in the company is badly managed.

Table 1: Most Common Policy Issues

Flags	Description
4048	The percentage of female directors on the (Supervisory) Board is less than 1-50%
3409	Less than 50-100% of the Nomination Committee are independent of management
3333	Less than 50-100% of the Audit Committee are independent of management
3172	Less than 50-100% of the Remuneration Committee are independent directors
2504	Less than 33-50% of the Board is comprised of independent directors.
1532	Nominee is not considered to be independent by the Board
1269	The percentage of the Remuneration Committee (excluding the Board Chairman) considered to be independent is less than 100%
1229	Nominee has served for more than 84-144 months on the board
1130	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
861	The (Supervisory) Board will exceed 15-21 members following the meeting.
837	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee are independent
809	Nominee represents a major shareholder
730	The upper bonus cap, where set and disclosed, exceeds 100-150% of salary
673	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).
671	The Company disclosures do not provide any evidence of clawback measures in place in respect of the long-term incentives.

Analysis of the settings in the best practice voting template allows for an in-depth study of the specific governance issues 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 'problems' with resolutions voted by the Avon fund managers according to the preferences set out in the voting template used by Manifest for monitoring fund manager voting.

Overall, Manifest flagged 47,889 governance related concerns across the 30,657 resolution analyses (which includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution) undertaken for this report. Some resolutions were subject to multiple concerns hence the greater number of flagged concerns compared to the number of resolutions. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the Operation of Best Practice Governance Analysis

Readers should note that Manifest's voting guidance 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 – Board resolutions, and specifically, Director Elections.

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted).

4.2 Audit & Reporting

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.

4.2.1 Audit Fees Exceed Non-Audit Fees

We analyse the relationship between 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.

4.2.2 Overall Board independence

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

Board independence is key to its proper function as a go-between 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.

4.2.3 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.

4.2.4 Auditors - 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.

4.2.5 Auditor pay for non-audit work

We analyse the relationship between non-audit fees and 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.

4.3 Board

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.

4.3.1 Percentage of Female Directors on the board

A number of Manifest customers ask us to track the issue of female representation on the board as a part of the wider debate on board diversity.

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.

4.3.2 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.

4.3.3 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.

4.3.4 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.

4.3.5 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.

4.3.6 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.

4.3.7 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.

4.3.8 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.

4.3.9 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.

4.3.10 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.

4.4 Remuneration

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.

4.4.1 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.

4.4.2 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.

4.4.3 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.

4.4.4 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.

4.4.5 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.

4.5 Capital

4.5.1 The Authority sought exceeds 5-50% of issued share capital

Although it does not feature in Table 1 above, the most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6 Corporate Actions

The Corporate Actions category covers a fairly narrow and specific set of considerations. As a result, none of the governance concerns typically associated with this category featured in our analysis of the most common concerns identified by the policy, simply because the issues to which they relate don’t come up on a typical corporate agenda very regularly.

However, of those times when they did come up, the two most common flags concerned were to identify that a proposal was about a related party transaction, or that it is a Scheme of Arrangement.

4.7 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

4.8 Sustainability

4.8.1 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.

4.8.2 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.

4.9 Conclusions on common policy issues identified

Taken as a whole, the analysis above shows just how many different considerations there are that go into assessing the governance of a typical company.

Although the volume (in absolute terms) of the most common governance concerns Manifest identifies is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board (direct election) related considerations.

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly, and that a wide number of considerations are taken into account. Therefore, 7 of the top 8 concerns (indeed, 10 of the top 15) relate to director independence and the effect that has on the functioning of the boar and its committees. Of the top 8, the only exception to this is the question of gender diversity which should be treated more as a proxy for the likelihood of general diversity of input available to the board.

The second most common group of issues identified relate to remuneration. This is again in part due to some of their association with director elections (executive director elections demand consideration of whether the proposed remuneration and incentive structure for the individual being proposed for (re)-election is appropriate. The remuneration related issues most commonly flagged relate to the level at which the potential for excessive incentive pay might be capped, and the lack of provision for claw-back on bonus pay where necessary.

These two general themes, taken together, raise questions about the significance with which many companies view the quality of board input, as well as their approach and attitude towards pay for performance. These questions are on-going general concerns which are as prevalent today as they were 5 years ago (although commentators would argue that they are higher profile now than then).

5 Aggregate Voting Behaviour

Having discussed above the general themes of the most frequent contentious issues in each resolution category, the next step is to consider how Avon's fund managers voted. This section sets out and compares how Avon's fund managers voted, as compared to general shareholder voting patterns (as shown by the meeting results data collected by Manifest as a part of the monitoring service), in the context of different categories of resolution.

None of Avon's fund managers voted with management consistently more than shareholders in general; Invesco and Genesis supported management noticeably less.

5.1 Fund Manager Voting compared to general shareholder voting and best practice template

Table 2 below shows the total number of resolutions voted by each fund manager during the period under review. It 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 how shareholders were reported to have voted where meeting results were available from the companies in question. 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 30,657 resolutions analysed in this report, Manifest obtained poll data for 25,011 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Voted With Management	Template For Management	General Shareholders Supported Management
BlackRock	21966	95.91%	44.01%	95.50%
State Street	4458	93.70%	60.88%	96.04%
Invesco	1334	89.43%	55.70%	95.42%
Jupiter	1130	97.79%	61.33%	97.47%
TT International	1010	98.61%	57.72%	96.43%
Schroders	602	92.69%	30.90%	94.36%
Genesis	157	85.35%	32.48%	95.83%
Total	**30,657**	**95.35%**	**47.74%**	**95.65%**

Firstly it should be noted that the data within Table 2 cannot be compared to the voting data from last year's report as the majority of voting data in 2011 took place after the voting season where most activity takes place. Therefore a lack of meaningful data is available for comparison at this stage, however we do have meaningful comparisons between our fund managers this year which we can use to fully benchmark for next year.

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 far higher proportion of resolutions than the fund managers choose to oppose.

The companies in the Jupiter, State Street, TT and Invesco portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of BlackRock, Genesis and Schroder's portfolios, which show lower levels of governance best practice.

This reflects Jupiter's practice of accommodating a company's governance characteristics in their investment buying decision making, whereas BlackRock, for example, as a passive investor must hold all stocks in the index irrespective of governance (or other) characteristics. In addition, the Jupiter portfolio is limited to UK whereas the BlackRock, Schroder and Genesis portfolios are global and therefore are subject to a much higher potential variance of general governance standards.

We can compare each fund manager's average overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the poll data (where made available by companies)). Table 2 shows that, overall, Avon's fund managers oppose management to almost exactly the same degree as all shareholders in general do. However, there are some variances between the respective fund managers.

As was the case in the 2011 monitoring report, TT have again supported management more than most shareholders. Conversely, Blackrock's levels of support for management are almost exactly in line with those of shareholders in general. Jupiter's support of management is again almost exactly the same as other shareholders, but notably higher than the general average. It is likely that Jupiter's mandate has the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with.

State Street, Schroders, Genesis and Invesco's support for management is all notably lower than general shareholder support, though in Genesis' case especially, statistical insignificance is a concern. At an aggregate level it is difficult to make thematic observations about why State Street, Schroders and Invesco have supported management less than shareholders in general, other than to say that as overseas equity managers it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

It is interesting to note here the general differences in shareholder support for management. The fact that shareholders in general supported management at company meetings 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 of course a passive investor for Avon. It is also noteworthy that the level of opposition to management by shareholders of Jupiter's portfolio companies is less than half that of BlackRock.

6 Voting Behaviour By Resolution Category

Using the vote outcome data collected in respect of the significant majority of meetings at which Avon fund managers have voted, we have combined the meeting results with our classification of meeting business, so as to identify which were the most contentious resolutions and the reasons for them being contentious.

6.1.1 Dissent By Resolution Category

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').

Where there was no clear recommendation from company Management, we have not counted any votes cast on those resolutions as dissent.

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 Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Sustainability	392	364	11.90%
Remuneration	2,674	2,337	9.98%
Shareholder Rights	1,654	1,308	5.89%
Corporate Actions	427	364	5.80%
Board	16,493	12,917	3.93%
Capital	4,794	4,168	3.45%
Audit & Reporting	4,035	3,424	1.65%
Other	188	129	4.39%
Grand Total	**30,657**	**25,011**	**4.35%**

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

Table 3 above shows the most common categories of resolutions at meetings voted at by Avon's fund managers. 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 4.35% (3.69% last year) - in other words, an approval rating of more than 95% despite showing more dissent than 2011.

Avon's fund managers in 2012 were not significantly more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 1,426 occasions out of 30,657 resolutions, constituting an overall average opposition level of 4.65% (4.22% in 2011). Some patterns within this are demonstrated and explored more fully below.

As we noted in the 2011 voting report was likely to be the case, remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. The following section analyses the above categories in more detail, by exploring patterns of opposition to the resolution sub-categories in each.

6.1.2 Dissent on Shareholder Proposed Resolutions

Table 4: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Resolutions	Average Dissent
Board	330	2.00%	30.97%
Capital	11	0.23%	No Data
Audit & Reporting	12	0.30%	52.91%
Remuneration	117	4.38%	14.90%
Shareholder Rights	77	4.66%	36.63%
Corporate Actions	9	2.11%	20.39%
Sustainability	163	41.58%	23.00%
Other	14	7.45%	8.89%
Grand Total	**733**	**2.39%**	**26.74%**

* “Average Dissent” calculated from resolutions in respect of which shareholder voting results were available.

Board – Director Elections (143), Election Rules (93) and Board Composition (55). The latter two are much more likely to be shareholder resolutions than not (Board Composition resolutions almost entirely so).

Remuneration – 100 of them were miscellaneous shareholder requests, many of them requests for stronger share retention requirements for executives, and some say on pay requests.

Shareholder Rights – nearly half were requesting changes to meeting procedures such as removal of supermajority voting provisions from the articles of association or lowering the threshold required for shareholders to call a shareholder meeting.

Sustainability – nearly half of them were requesting disclosure of political donations, all in the US. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals such as the Statoil resolution to withdraw from (extracting oil from) tar sands in Canada.

Avon’s managers voted with Management on over 95% of all shareholder proposed resolutions.

6.2 Board

Board related resolutions constitute over half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 5 below.

Table 5: Board Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Elect Directors	13,218	30.72%	95.49%	96.31%
Discharge Directors	2,749	84.90%	98.18%	98.26%
Election Rules	152	38.82%	62.50%	70.06%
Other Board/Director related	117	54.70%	92.31%	97.76%
Board Size & Structure	100	89.00%	95.00%	95.80%
Board Committee	93	81.72%	83.87%	98.17%
Board Composition	56	0.00%	78.57%	73.66%
Nomination & Succession	3	0.00%	66.67%	82.32%
Remove Directors	3	33.33%	100.00%	68.43%
Insurance & Indemnification	2	100.00%	50.00%	100.00%
Grand Total	**16,493**	**40.53%**	**95.48%**	**96.07%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Consistent with the pattern of voting on resolutions overall, Jupiter and TT were the only Avon fund managers to support management more frequently than shareholders generally.

Nearly all of the top 10 or 15 governance issues listed in Table 1: Most Common Policy Issues are considerations relevant to the re-election of a director, and therefore to a very large extent explain the low levels of alignment between the governance best practice template and company management recommendations on director elections in Table 5.

Of those resolutions where the fund managers also opposed management on Director Elections (596 resolutions) the most frequent governance issues Manifest identified were:
- The percentage of female directors on the Board (192)
- Nomination Committee independence levels (177)
- Nominee is not considered to be independent by the Board (168)
- Overall board independence levels(157)
- Audit Committee independence levels(150)
- Remuneration Committee independence levels (125)
- Nominee represents a major shareholder (122)
- Tenure (106)

On the vast majority of occasions, there were multiple concerns with each resolution, and it is likely that the quantum of governance concerns, rather than the substance of each individual concern *per se*, is what drives the fund managers to register opposition to their re-election.

6.3 Capital

Resolutions relating to the capital structure of a company frequently pertain to investment specific considerations. For that reason, governance best practice considerations are less frequently relevant, other than the extent to which proposals directly affect shareholders rights, where often the rules are well defined and relatively infrequently breached (such as the UK Pre-Emption Guidelines).

Therefore, many of the issues the policy template identifies are flagged as 'Case-by-Case' rather than as governance concerns *per se*, resulting in a much higher level of template support for management than Board related resolutions because 'Case-by-Case' is not counted as template being against management.

On all of the three main resolution sub-categories, Avon's fund managers voted against management marginally more often than shareholders in general, and in the case of share issues and pre-emption rights more than their own average dissent levels as well.

Table 6: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Issue of Shares & Pre-emption Rights	2,277	83.00%	93.76%	94.38%
Share Buybacks & Return of Capital	1,153	74.93%	97.57%	98.27%
Dividends	1,030	79.51%	98.74%	99.55%
Treasury Shares	208	88.94%	97.12%	97.24%
Capital Structure	83	85.54%	97.59%	97.74%
Bonds & Debt	22	72.73%	90.91%	98.77%
Equity Fundraising	18	11.11%	100.00%	97.77%
Authorised Share Capital	3	0.00%	100.00%	95.29%
Grand Total	**4,794**	**80.25%**	**95.97%**	**96.55%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Nearly half of the resolutions in this category related to the issue of shares and pre-emption rights, which often form part of routine business at company AGMs, giving them the on-going permission to issue new shares up to a certain agreed level for the forthcoming year.

The most frequent issues on resolutions where there was a concern highlighted (as opposed to a 'Case by Case' flag) were:
- New share issue authority exceeds 5-50% of existing share capital (310)
- Ordinary dividends exceed profits (158)
- Authority to buy or issue shares being sought is greater than 12-60 months (121)
- Lack of assurance that the proposed buy-back is intended to increase EPS/ NAV for current shareholders or is in the interests of shareholders (82)

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were the least contentious resolution category of all. However, because it includes resolutions which pertain to questions which are routine AGM meeting business in many countries, it nevertheless merits some analysis.

Table 7: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Auditor Election	1,738	45.17%	99.25%	98.09%
Report & Accounts	1,446	22.06%	98.96%	98.55%
Auditor Remuneration	604	51.82%	99.50%	98.45%
Appropriate Profits	165	89.09%	100.00%	99.21%
Other A&R related	60	86.67%	98.33%	98.26%
Auditor Discharge	15	100.00%	100.00%	99.29%
Special Audit	6	83.33%	66.67%	99.61%
Auditor Liability/Indemnification	1	0.00%	100.00%	N/A
Grand Total	**4,035**	**40.55%**	**99.16%**	**98.35%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

2,296 resolutions had at least one concern highlighted. Some of the most common concerns that Manifest identified on audit and reporting related resolutions are indicated in the table below. The very high degree to which Avon's fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns for which the fund managers wish to oppose these types of resolutions, or that they are concerns they were unaware of.

Table 8: Common Concerns Identified On Audit & Reporting Resolutions

Concern	Instances
Less than 50-100% of the Audit Committee are independent of management	1170
There is no independent verification of the Company's ESG reporting.	355
No meetings held by the non-executives without the executives present	283
There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration	249
Less than 25-66% of the Board is comprised of independent directors.	245
The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	227
The roles of Chairman and CEO are combined	220
The aggregate non-audit fees exceed the aggregate audit fees	216
The auditors have provided statutory audit services to the Company for over 10 years	187
Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	186
The Chairman sits on the Audit Committee	155

6.5 Remuneration

As noted above, Remuneration related resolutions continue to be the most contentious, attracting the highest average level of dissent of all of the resolution types routinely proposed by management as well as the lowest level of alignment with the governance best practice analysis.

Table 9: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Remuneration Report	1,529	13.87%	92.28%	90.39%
Long Term Incentives	486	29.63%	93.00%	90.79%
Non-executive Remuneration	245	63.67%	95.10%	96.91%
Remuneration - Other	198	29.29%	66.67%	80.63%
Short Term Incentives	79	27.85%	96.20%	94.64%
Termination Provisions & Payments	72	65.28%	56.94%	73.61%
All Employee Share Plans	65	98.46%	98.46%	97.20%
Grand Total	**2,674**	**26.29%**	**90.09%**	**90.02%**

* “Votes with Management” calculated from resolutions in respect of which shareholder voting results were available.

However, readers will note the very high differential between the proportion of all resolutions where the governance best practice analysis raised concerns, and the proportion of all resolutions where Avon’s managers (and shareholders in general) supported management. Also, readers will note that termination payments and provisions have attracted a much higher level of opposition from Avon’s managers, one of the most controversial aspects of remuneration considerations.

Table 10: Common Concerns On Remuneration Resolutions

Concern	Instances
No indication of consideration of ESG issues in performance targets for incentive pay	881
The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	727
The largest aggregate LTIP award during the year exceeded 100-250% of salary of the director (on a market value basis, based on maximum possible vesting)	673
No evidence of clawback measures in place in respect of the long-term incentives.	671
No evidence of clawback measures in place in respect of the short-term incentives.	619
Less than 50-100% of the Remuneration Committee are independent directors	556
The exercise of options/ vesting of awards is not subject to performance conditions	484
The minimum performance measurement or options/share awards holding period is less than 2-3 years	442
The maximum potential severance payment exceeds 12 months' salary	380
Accelerated vesting of LTIP awards on termination is permitted (i.e. vesting of awards not pro-rated down on termination following a change of control)	305
The authorised dilution for share plans exceeds 10% of the issued share capital	276

Table 10 shows the most common governance best practice concerns identified by Manifest over the year. Despite the fact that the most frequent concern highlighted (a lack of linkage between incentive pay targets and sustainability considerations) may not be 'headline-grabbing', many of the other most prominent concerns certainly are.

The quantum of bonus and long term incentive payments is possibly the most widely debated contentious issue in the corporate governance of public listed companies. Not far behind (indeed, as a part of the same debate) is the question of whether bonus and incentive pay should be clawed back, in the event that performance for which bonuses have previously been paid turns out not to have been actually realised.

Frequently, such considerations are all associated with the Remuneration Report resolutions, which showed the highest divergence between the governance best practice policy and fund manager voting.

The absence of performance conditions for the exercise of awards or options is also noteworthy, especially alongside accelerated vesting of awards in the event of a change of control in the company. Both of these concerns suggest an element of payment of incentive pay without setting down substantive performance targets in order to obtain it.

6.6 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

They are important because they essentially relate to the extent to which investors are able to mitigate themselves against the risk of third parties making decisions which affect their investment in the company.

Table 11: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
General Meeting Procedures	651	87.10%	97.08%	93.00%
Other Articles of Association	602	88.70%	93.85%	97.28%
Meeting Formalities	330	93.94%	97.27%	98.87%
Shareholder Rights	37	5.41%	75.68%	69.97%
Takeover Governance	20	10.00%	60.00%	62.10%
Anti-takeover Provision	14	64.29%	50.00%	84.81%
Grand Total	**1,654**	**86.09%**	**94.62%**	**94.11%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Frequently, many of the issues in this category are relatively straight forward, and many of the resolutions where there is complexity it is down to the proposal being made by shareholders, therefore inevitably likely to introduce some question that is comparatively out of the ordinary.

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 day's notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it.

Because of this, the vast majority of the issues that Manifest research identified were to do with the nature of the resolution, rather than the substance - for example that the resolution is proposed by shareholders, or that the board does not make a recommendation on the resolution (common in US 'Say on Pay' frequency resolutions).

Some concerns related to the technicalities of shareholders rights were identified on a small number of resolutions, including instances where not all shareholders are given access to electronic voting, or where the company has made use of the right to call a meeting at 14 days notice in the preceding year (a valid consideration when deciding whether to approve permission to retain the right to call meetings at 14 days notice in future).

Of the 41 resolutions where fund managers opposed management on Shareholder Rights related considerations, 27 were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Avon's managers are well motivated to protect their interests and those of their clients.

6.7 Corporate Actions

Whilst far less numerous, some statistical significance can be attributed to some of the Resolution Sub-Categories pertaining to Corporate Actions, which can be put to effect to explore why it is the most contentious resolution category for Avon's fund managers.

Table 12: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Related Party Transactions	161	68.32%	77.02%	91.80%
Significant Transactions	104	8.65%	98.08%	96.36%
Transactions - Other	69	47.83%	89.86%	96.61%
Other Corporate Action	28	35.71%	96.43%	91.17%
Change of Name	26	96.15%	88.46%	97.31%
Company Purpose & Strategy	24	62.50%	79.17%	98.47%
Investment Trusts & Funds	15	80.00%	93.33%	89.87%
Grand Total	**427**	**50.12%**	**86.89%**	**94.20%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The majority of Corporate Actions resolutions trigger 'Case by Case' assessments, because of the nature of the issue at hand often being investment or company specific, such as related party transactions, schemes of arrangement, disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions or perspectives in this context becomes decidedly subjective, as do comparisons of fund manager voting with management recommendations.

What can be observed is that Avon's fund managers are much more likely to oppose approvals of related party transactions (commercial transactions between the company and related parties such as other companies for whom officers or directors of the company work). This is because related party transactions may well entail significant potential conflicts of interest.

6.8 Sustainability

Sustainability related resolutions are characterised by being formed by a high percentage of shareholder proposals. With the exception of political donations and sustainability reports, nearly all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, routine categorisation of these issues is night on impossible, because the specific content of proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

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Table 13: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Sh'holder Votes With Mgt
Political Donations & Expenditure	279	12.46%	96.19%	90.76%
ESG Reporting	31	0.00%	100.00%	75.67%
Other ESG	20	10.00%	76.67%	83.23%
Sustainability Report	11	23.08%	92.31%	81.71%
Human Rights & Equality	10	8.33%	75.00%	75.40%
Charitable Donations	6	42.86%	100.00%	92.62%
Animal Welfare	4	0.00%	100.00%	83.15%
Environmental Practices	3	0.00%	100.00%	78.79%
Grand Total	**364**	**11.73%**	**94.39%**	**88.10%**

* "Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

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.

7 Aggregate Analyses

Manifest has also assessed the aggregate voting patterns undertaken by the fund managers mainly in respect of voting in emerging or developing markets (including Far Eastern and African markets). Aggregate analysis does not drill down to identifying governance concerns on individual resolutions, but does look at the aggregate patterns of voting decisions taken by the fund managers. This is largely due to the fact the disclosure practices in these markets is traditionally not as high as we are used to in Europe and the US in particular, thereby hindering the statistical reliability of detailed analysis.

7.1 Genesis

Table 14 below shows the number of resolutions in each category type voted by Genesis, as well as their average support of management on each.

It shows overall a slightly lower level of support for management than the fund managers in the detailed analysis above, which might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Genesis was voting. This shows that Genesis has taken a more active approach as required in these markets.

Table 14: Genesis Voting By Category

Category	Total Resolutions	Voted with Management
Board	682	96.19%
Audit & Reporting	284	95.42%
Capital	246	87.40%
Shareholder Rights	199	87.94%
Remuneration	132	94.70%
Corporate Actions	120	71.67%
Other	16	25.00%
Sustainability	10	60.00%
Grand Total	**1689**	**91.06%**

What is interesting is the breakdown of the average support of management by resolution category. Whilst Board (including director elections) and Audit & Reporting are roughly in line with the patterns shown in section 6 above, the level of support on remuneration issues is comparatively higher than in comparison with Section 6 which might be explained by Genesis's focus on Capital Structure and Shareholder Rights which in Emerging Markets is considered crucial.

By contrast, the markedly lower level of support for management on Corporate Actions resolutions were largely accounted for by Russian companies seeking ratification of Related Party transactions – a feature of Russian corporate meetings.

Table 15 shows a list of all of the countries in which Genesis reported voting, as well as how many resolutions were voted in each. As mentioned above, with so few resolutions in developed markets, a detailed statistical analysis including Genesis was not possible in the sections above.

Furthermore, given the high proportion of resolutions voted by Genesis which were in developing and eastern markets (with Brazil, India, China, and Mexico 4 of the top 6 countries in which Genesis voted), analysis of Genesis' voting patterns sits most comfortably in this aggregate analysis section.

Table 15: Genesis Resolutions Voted By Country

Country	Total Resolutions	Voted With Management
Russia	269	88.48%
Brazil	151	97.35%
India	145	94.48%
United Kingdom	111	98.20%
China	96	96.88%
Mexico	95	95.79%
Cayman Islands	81	85.19%
Turkey	76	65.79%
Nigeria	71	100.00%
South Africa	69	95.65%
Chile	68	88.24%
Egypt	65	100.00%
Indonesia	55	85.45%
South Korea	49	97.96%
USA	47	82.98%
Taiwan	41	87.80%
Thailand	37	91.89%
Hong Kong	35	74.29%
Malaysia	26	100.00%
Hungary	24	87.50%
Bermuda	20	70.00%
Colombia	13	76.92%
Greece	13	92.31%
Canada	10	100.00%
Jersey	10	80.00%
Zimbabwe	6	100.00%
Austria	6	83.33%
Grand Total	**1689**	**91.06%**

Readers should consider that a typical AGM normally consists of an average 10 resolutions (though this can vary from market to market), and that therefore markets where there are fewer than 150 resolutions voted constituted a very small number of meetings.

7.2 BlackRock

The aggregate analysis for the other fund managers relates to those markets where no detailed meeting analysis was carried out.

In the case of BlackRock, the total number of resolutions voted by market is shown in Table 16 below.

The majority of the resolutions in question related to Japanese meetings. What is particularly noteworthy is the much lower average level of voting with management in all of these markets (Liberia was just one single meeting, so can be discounted as a statistical pattern), especially in Hong Kong and South Korea, in comparison to BlackRock's average of 95% support for management in the detailed analysis.

Table 16: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Japan	5824	88.51%
Hong Kong	1196	76.59%
South Korea	721	78.78%
Singapore	507	93.49%
Liberia	7	100.00%
Grand Total	**8255**	**86.25%**

Table 17 shows the overall patterns of support for Management shown by BlackRock broken down by resolution category across all of the resolutions in the aggregate analysis.

Table 17: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	6008	88.58%
Audit & Reporting	936	77.88%
Capital	539	83.67%
Shareholder Rights	370	80.27%
Remuneration	218	71.10%
Corporate Actions	129	93.80%
Other	10	10.00%
Sustainability	45	97.78%
Grand Total	**8255**	**86.25%**

Consistent with the detailed analysis section, the most contentious resolutions in terms of BlackRock's voting decisions are remuneration related resolutions. It is also notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form a much smaller percentage than the detailed analysis. This is strong evidence that a shareholder say on pay is much less well established in these markets.

Also consistent with the detailed analysis is the high proportion of resolutions which are to do with Board considerations. This is again due to the very high proportion of resolutions which are director elections.

The level of support for management on Audit and Reporting issues is comparatively very low.

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally. However, a large proportion of the sustainability themed resolutions in 2011 were in Japan, which was subject to some very specific circumstances. With Japan relying so comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of the viability of the company. This explains the higher level of support for management from BlackRock on sustainability issues in this section.

7.3 State Street

State Street's voting in the aggregate analysis markets is also relatively statistically significant, especially in Japan. Table 18 shows a higher level of support for management than BlackRock, but still slightly lower than the average level for Schroder voted events in the detailed analysis.

Table 18: State Street Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Japan	3007	95.18%
Hong Kong	732	82.10%
South Korea	453	90.51%
Singapore	338	94.67%
Grand Total	**4530**	**92.56%**

Similar to BlackRock, State Street's support for management at meetings of Hong Kong companies is noticeably lower than for Japan or Singapore, though this is far less the case for voting at South Korean meetings.

Table 19: State Street Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	3204	95.47%
Capital	550	76.73%
Remuneration	295	94.58%
Audit & Reporting	223	97.76%
Shareholder Rights	138	78.26%
Corporate Actions	61	93.44%
Sustainability	47	93.62%
Other	12	50.00%
Grand Total	**4530**	**92.56%**

The breakdown of the resolutions voted by State Street in the aggregate analysis by category in Table 19 shows that the majority of resolutions were board-related, due to the large number of director elections.

Of those with a sufficient number of examples to draw patterns from, Capital (equity and debt structures in particular) and Shareholder Rights (including many shareholder proposals) are the two resolution types where the fund manager is most likely to oppose management.

It is again noteworthy that the proportion of the resolutions which were remuneration related is comparatively small compared to the detailed analysis section.

7.4 Schroders

The number of resolutions voted by Schroders in this part of the analysis is comparatively very small, with only a few hundred resolutions voted. This means that analysis of any potential patterns in the data is not really possible, especially given the wider number of markets in which meetings were voted by Schroders.

Table 20: Schroders Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management
Hong Kong	61	73.77%
Brazil	58	67.24%
Japan	49	93.88%
Russia	32	40.63%
Singapore	15	80.00%
South Korea	11	36.36%
Israel	8	100.00%
Grand Total	**234**	**71.37%**

However, two observations can be made. Firstly, support for management on resolutions in the aggregate analysis is much lower than in the detailed analysis. Secondly, voting on Japanese meeting resolutions also shows a higher level of support for management than in all other countries in this part of the analysis for Schroder's voting (Israel was a single meeting and may be discounted as a 'pattern'), just as was the case for other fund managers.

Analysis of Schroders voting on resolutions broken down by category again show a high proportion of board related proposals, again due to director elections.

However, despite the cautionary note about drawing patterns from a small data set, it is difficult to ignore the

It can be noted that Schroders voted in support of management a significantly lower percentage of the time compared to other fund managers on the topic of Board related resolutions. This can be explained in part due to particularly low levels of support for Board related proposals at companies in Brazil (65%) and Russia (34%) which shows that managers take a more active approach on voting topics that are considered to be most influential to company value and where there are particular governance concerns in specific geographical regions.

Table 21: Schroders Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management
Board	128	74.22%
Capital	42	50.00%
Audit & Reporting	28	78.57%
Remuneration	16	87.50%
Shareholder Rights	13	84.62%
Corporate Actions	7	57.14%
Grand Total	**234**	**71.37%**

7.5 Invesco, Jupiter & TT International

Invesco, Jupiter and TT international didn't have any events to vote in the markets for which the aggregate analysis is undertaken.

8 Conclusions

The report on the 2012 voting of Avon's fund managers is the first year of complete analysis. By comparison with the partial analysis carried out on 2011 voting, there are certainly common themes. This can be explained by the fact that the broad pattern of corporate governance practices evolves over the long term. Whilst individual companies may have made positive adjustments to their governance arrangements since last year, others may have lapsed and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.

For this reason, readers should not expect to see a discernible change in governance standards from year to year. What is more important to understand is how the fund's managers respond and react to identified concerns, which is why fund manager vote monitoring plays a central role in understanding this question.

The debate on corporate governance continues to grow in importance, illustrated recently by the high profile debate on the position of joint chair and CEO held by JP Morgan's Jamie Dimon. This, and other examples of high profile governance issues making the news (such as board remuneration practices, risk management and arrangements regarding professional audit services), show that the quality of governance scrutiny is on the increase. It is up to asset owners like the Avon Pension Fund to ensure that the quality and focus of this scrutiny is maintained by professional investors.

The way in which fund managers use their voting rights is an important part of this. However, one should avoid falling into the trap of using voting records as a proxy for understanding whether a fund manager is an 'active' owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement by the fund manager.

For 2013, whilst remuneration remains a high profile question, the notion of holding individual directors (especially chairs) to account for governance arrangements (including independence) is likely to rise in prominence, as is the question of audit rotation.

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9 Appendix - Hot Governance Topics

9.1 Changes To The UK Corporate Governance Code in 2012

As an institutional investor from the UK, developments in corporate governance soft regulation in the UK are of prime importance to Avon. It goes a long way to defining the business environment within which the expectations of investors such as Avon are set.

Furthermore, given the prominent position of the UK market as a global centre for investment, and the leading role that the UK corporate governance codes have played in spearheading developments globally, new developments in the UK Corporate Governance Code are also of general importance.

In September 2012, the Financial Reporting Council (FRC) published a revision of the UK Corporate Governance Code.

It incorporated the results of a consultation which had taken place earlier in the year. The consultation results included the following adjustments:

- With regard to the statement made by the board, it should confirm that it considers the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy. It also states that the board should establish arrangements that will enable it to make this assessment. It will be left to boards to decide what role the audit committee should play in these arrangements.
- Provisions for public reporting by the audit committee have been slightly strengthened so that the committee should give an account of how they have arrived at their assessment of the external audit, rather than simply state whether they are satisfied with it.
- Companies should put their external audit out to tender at least once every ten years. The purpose of holding a tender is not to achieve mandatory rotation of auditors, but is for companies to benchmark the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit. Audit appointment remains subject to shareholder approval.
- Companies should disclose who their executive search, board evaluation and remuneration advisors are, and whether they have any other links with the company.

In addition, new provisions relating to board diversity were also included, as the FRC said would be the case in October 2011 when they were announced. These provisions require the board to set out their policy on diversity, including gender, and to state what targets the policy includes and what progress has been made towards achieving them. Boards should also consider the full range of skillsets required for the achievement of the boards aims and objectives, including diversity, as a part of the board evaluation process.

During 2012 there was also the publication of the final report of the Sharman Inquiry onto Going Concern. The FRC will therefore be amending the 'Guidance of Audit Committees' in order to adopt the recommendations of the report, following consultation which was due to begin in the latter stages of 2012, through revision of the 'Going Concern and Liquidity Risk: Guidance for Directors'. In addition, the FRC intends to update the 'Turnbull Guidance' on internal controls, again consultation to begin by December 2012.

9.2 The EU Corporate Governance Action Plan

As a follow up to the EU Green Paper on Corporate governance outlined in last year's report, in December 2012, the European Commission set out its 16 priorities for promoting sustainable and competitive companies in the EU. After two years of investigation, the Commission has decided to focus its workplan on three main areas:

- Transparency
- Long-Term Shareholder Engagement
- Company Law Reforms

Each area has identified within it a number of objectives which further develop the broad theme.

Transparency

- Increasing transparency on board diversity and risk management;
- Improving corporate governance reporting;
- Better shareholder identification;
- Strengthening transparency rules for institutional investors on their voting and engagement policies.

Shareholder Engagement

- More transparency on remuneration policies and individual remuneration of directors, as well as a shareholders' right to vote on remuneration policy and the remuneration report;
- Better shareholders' oversight on related party transactions;
- Possibly transparency and conflicts of interest rules for proxy advisors;
- Clarification of the 'acting in concert' rules to facilitate co-operative engagement;
- Further encouragement of employee share ownership.

Company Law Reform

- Further investigation on a possible initiative on the cross-border transfer of seats for companies;
- Facilitating cross-border mergers;
- Clear EU rules for cross-border divisions;
- Targeted measures on groups of companies, i.e. recognition of the concept of the interest of the group and more transparency regarding the group structure.
- Follow-up of the European Private Company statute proposal with a view to enhancing cross-border opportunities for SMEs;
- An information campaign on the European Company/European Cooperative Society Statute;
- The likely codification of all EU company law rules into a single instrument.

At the time of writing we have no indication from the Commission of the timetable for implementation or further consultations.

EU Action Plan - Main Initiatives

<table>
<tr><th>Initiative</th><th>Instrument/Expected Timing</th></tr>
<tr><td>Disclosure of board diversity policy and of risk management arrangements</td><td>Amendment of the Accounting Directive, 2013</td></tr>
<tr><td>Improving the visibility of shareholdings in listed companies in Europe</td><td>Securities legislation, 2013</td></tr>
<tr><td>Improving the quality of corporate governance reports and in particular the quality of explanations which should be provided by listed companies that depart from the corporate governance code provisions</td><td>Possibly non-legislative initiative, 2013</td></tr>
<tr><td>Disclosure of voting and engagement policies as well as voting records by institutional investors</td><td rowspan="5">Possibly Shareholders’ Rights Directive, 2013</td></tr>
<tr><td>Improving transparency on remuneration policies and individual remuneration of directors, and granting shareholders the right to vote on the remuneration policy</td></tr>
<tr><td>Improving shareholder control over related party transactions</td></tr>
<tr><td>Improving the transparency and the conflict of interest frameworks applicable to proxy advisors</td></tr>
<tr><td>Working closely with competent national authorities and the European Securities and Markets Authority (ESMA) with a view to developing guidance to increase legal certainty as regards the relationship between investor cooperation on corporate governance issues and the rules on acting in concert</td></tr>
<tr><td>Increasing awareness of the European Company (SE) Statute (including employees’ involvement) and possibly of the European Cooperative (SCE) Statute.</td><td>Information campaign, 2013</td></tr>
<tr><td>The Commission will continue to work on the follow-up to the SPE proposal with a view to enhancing cross-border opportunities for SMEs</td><td>Further exploration</td></tr>
<tr><td>Identification of obstacles to employee share ownership in Member States</td><td>On-going analysis</td></tr>
</table>

Rules on cross-border transfer of registered office	Further investigation, 2013
Revision of the rules on cross-border mergers Rules on cross-border divisions	Study, 2013 and possibly amending the cross-border mergers Directive
Codification of major company law Directives	Proposal for a codified company law Directive, 2013
Improving the information available on groups and recognition of the concept of 'group interest'	Initiative to be determined, 2014