
Bath & North East Somerset Council

Monitoring Review of Proxy Voting 2013

Avon Pension Fund

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manifest
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June 2014

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1 Introduction

1.1 Aim of Vote Monitoring

This is the third year (second full year of analysis) 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 assesses progress in terms of company's governance standards versus best practice, as well as Avon's fund managers' use of votes in putting their investment governance preferences across to companies. Throughout the report, where there are comparisons to be made to the previous year's data, the previous year's data is shown in brackets (thus).

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 of the 1st January 2013 to the 31st December 2013. 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 taken by managers.

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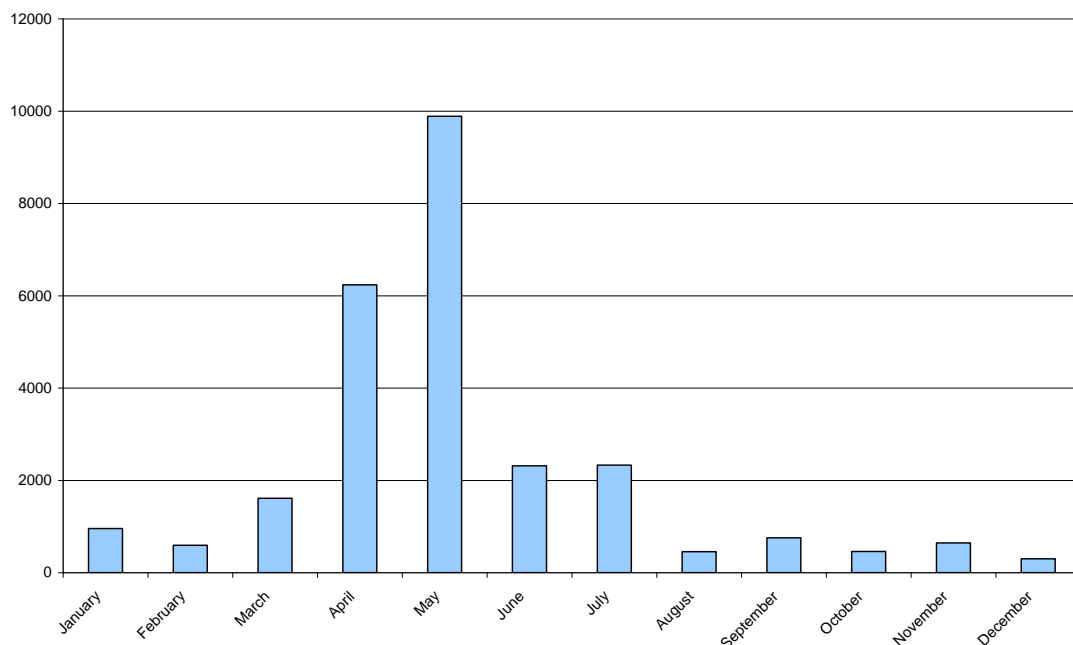
Therefore, for the purposes of this report, Members should bear in mind that the fact the voting template identifies an issue of concern (i.e. suggests there may be a reason to not support management) in relation to a resolution, is more significant than whether the template suggests an ‘Abstain’, ‘Against’ 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 2013.

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 also sets out the number of meetings voted by Avon’s fund managers in 2013, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 1,940 meetings, comprising a total of 21,785 resolutions. Taking into account occurrences of more than one fund manager voting on the same resolution, a total of 26,535 resolution analyses have been undertaken. Of these:

- 19,267 were voted by BlackRock, again representing the largest proportion of the report data;
- 13,261 were resolutions where the best practice policy template highlighted potential governance concerns and fund managers supported management; and
- 1,373 were voted against management.

Whilst the proportion of resolutions where concerns were identified but the funds managers supported management seems relatively high, this is ultimately evidence to support the significance of the word ‘potential’. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights. Conversely, the report also shows evidence where investors have opposed management even where no governance concerns were highlighted, which suggests an organic, active use of voting rights to enhance the wider ownership process.

Section 4 (“Common Policy Issues At Investee Companies”) examines the range of governance issues and considerations which lie behind the resolutions on which Avon’s fund managers were asked to vote, and detailing those which Manifest identified most frequently among the companies at whose meetings the fund managers voted.

Board balance and remuneration issues are the most frequently identified concerns. The most common specific best practice governance criteria against which Manifest found Avon’s portfolio companies to fall short were:

- Gender diversity on the Board;
- Committee independence;
- Overall Board independence;
- Lack of performance measures relating to ESG issues in incentive pay;
- Individual director independence concerns;
- Bonus as a percentage of salary;
- Board size; and
- Lack of performance conditions for incentive pay.

These are the substantial issues on which investors should focus, rather than the black-and-white of whether specific resolutions were opposed or otherwise. Many of these are issues which have been consistently identified in this analysis every year. New company law Regulations have come into force in the UK which may have an effect upon the way in which

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remuneration issues are taken into account and voted upon, with the introduction of a new separate binding vote on remuneration policy.

In the case of board considerations this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far and away the most numerous resolution type). It should be noted that there may be multiple concerns highlighted in terms of board structure or director elections and that generally there are therefore much fewer actual resolutions to vote on than identified concerns.

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 "Aggregate Voting Behaviour"). We also examine which types of resolution have been the most contentious (Section 6 "Voting Behaviour By Resolution Category"). In terms of overall patterns of voting behaviour, with the marginal exception of TT International, none of Avon's fund managers voted with management noticeably more than shareholders in general. Invesco and Genesis supported management noticeably less.

As has continued to be the case, remuneration related resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management as well as the lowest level of alignment with the governance best practice analysis. Common issues were absence of ESG considerations in setting incentive pay, and over-generous caps on annual incentive pay plans. The absence of claw-back provisions (one of the features of remuneration concerns in last year's report) was far lower down the list of concerns this year.

Overall, Avon's managers continue to be marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2013 stood at just shy of 5% on average (compared to just over 4% in 2012 – a notable increase), Avon's fund managers opposed management on 5.17% of resolutions (up from 4.63% in 2012), which remains slightly above the institutional 'norm'.

In terms of specific themes, one prominent concern from 2012 related to absence of arrangements for claw-back of bonus, which this year's research shows has receded in prominence. In this 2013 report, board independence related concerns are comparatively greater in prominence, although there are also signs that companies in general are addressing independence concerns. With a rising focus on board diversity, we expect to see board composition as a prominent theme.

In general terms this research suggest that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may wax and wane in line with contemporary concerns and developments.

A summary of the major developments and debates in global corporate governance and voting follows in the Appendix - Hot Governance Topics, featuring summary of the new Directors' Remuneration Report Regulations in the UK, changes to the UK Stock Exchange Rules and the UK Takeover Code, the issue of Gender Diversity on UK Boards and the EU Shareholders Rights Directive Part II.

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 2013, 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 1.1 to 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

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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 will continue to become more marked this year due to the introduction in the UK of two remuneration report votes – one on policy and the other on practice (refer to appendix for definition). Recently, UK and European companies in particular have begun 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 1,940 meetings in the full monitoring sample Avon Fund Managers voted at, 88.04% were AGMs (85.9% in 2012), with the majority of the rest constituting GMs 6.29% (5.93% in 2012) and EGMs 3.2% (4.38%). The remaining were nearly all Special General Meetings 1.75% (compared to 1.88%) , Court Meetings 0.31% (1.16%) or Class meetings 0.31% (0.72% during 2012), with 2 Ordinary General Meetings 0.10% (0 in 2012).

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	GM	EGM	SGM	Class	Court	OGM	Grand Total
BlackRock	1,338	1,312	104	40	26	5	5		1,492
State Street	183	181	1	17	4	1	1	2	207
Invesco	66	62	1	2	3				68
Jupiter	58	58	8						66
TT International	50	47	8		1				56
Schroders	38	38							38
Genesis	10	10		3					13
Total	1,743*	1,708	122	62	34	6	6	2	1,940

* 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 due to the investment universe of their 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 monitors company meetings 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.

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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. This can be considered as a measure for governance standards at companies.

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.

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.

There were 14,322 resolution analyses where one or more concerns were identified by Manifest.

When considering the most common policy issues Manifest identified at the meetings researched in the Avon portfolios, comparison with last year's analysis shows that, in general, fewer issues of concern were identified at companies during 2013. This is explained in part by there being a slightly smaller number of resolutions in the data set. However, changes in the patterns of frequency also suggest some inferences.

We have compared the relative positions of each of the most common concerns identified within the list between this year and last year.

Of those which have moved up the list, or are new to it altogether, many relate in some way to remuneration. Whilst the highest of them strictly speaking relates to governance (Remuneration Committee composition), the fact that so many other remuneration issues seem to have also increased in relative frequency underlines the importance of governance as a management issue. In this case, the inference is that there is a relationship between the level of independence of the remuneration committee and the level of control over incentive pay.

The substance of the Remuneration related concerns which have moved up the list includes consideration of ESG issues in setting performance targets for incentive remuneration, the level of the upper bonus cap expressed as a percentage of salary for executive directors and a lack of disclosure of performance measures used for the exercise of options or vesting of awards.

Table 1: Most Common Policy Issues

Table Position	Flags	(2012)	Position Change	Description
1	3,837	(4,048)	=	The percentage of female directors on the (Supervisory) Board is less than 1-50%
2	3,320	(3,409)	=	Less than 50-100% of the Nomination Committee are independent of management
3	3,229	(3,333)	=	Less than 50-100% of the Audit Committee are independent of management
4	2,940	(3,172)	=	Less than 50-100% of the Remuneration Committee are independent directors
5	2,353	(2,504)	=	Less than 33-50% of the Board is comprised of independent directors.
6	1,141	(1,269)	↑ (7)	The proportion of the Remuneration Committee (excl. the Board Chairman) considered to be independent is less than 100%
7	1,124	(1,130)	↑ (9)	There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration
8	1,055	(1,532)	↓(6)	Nominee is not considered to be independent by the Board
9	1,049	(1,229)	↓(8)	Nominee has served for more than 84-144 months on the board
10	786	(730)	↑ (13)	The upper bonus cap for any of the executive directors as a percentage of salary exceeds 100-150% of salary
11	642	(837)	=	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee are independent
12	626	(861)	↓(10)	The (Supervisory) Board will exceed 15-21 members following the meeting.
13	584	-	NEW	Nominee is non-executive and not independent and the percentage of independent directors on the Board comprises less than 33-50%
14	564	(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).
15	558	-	NEW	The exercise of options/ vesting of awards is not subject to performance conditions
16	550	-	NEW	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%
17	549	(809)	↓(12)	Nominee represents a major shareholder

Overall, Manifest flagged 43,042 (47,889 in 2012) governance related concerns across the 26,536 resolution analyses undertaken for this report (which includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution). 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

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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). We now reflect this relevance of board accountability in our research, by placing the analysis of the relevant board committee in the context of analysis of the governance matters) for which they are responsible.

4.2 Conclusions on common policy issues identified

Taken as a whole, this analysis 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, 6 of the top 8 concerns (indeed, 11 of the top 17) relate to director independence and the effect that has on the functioning of the board and its committees. Of the top 8, the only exceptions to this are 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) and integration of ESG issues into incentive remuneration setting.

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 (both short and long term incentive pay), the lack of linkage to ESG issues as well as the governance of remuneration policy itself.

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).

4.3 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.

4.3.1 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.

4.3.2 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.

4.3.3 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.

4.3.4 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.

4.3.5 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.

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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.

4.4 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 46.2% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 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.

4.4.2 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.

4.4.3 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.

4.4.4 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.

4.4.5 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.

4.4.6 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.

4.4.7 Independence Criterion: Represents a Major Shareholder

An individual's ability to serve all shareholders as an independent non-executive may be compromised where they represent a major shareholder on the board. 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.

4.4.8 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.

4.4.9 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.

4.4.10 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.

4.5 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.

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4.5.1 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.

4.5.2 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.

4.5.3 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.

4.5.4 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.

4.5.5 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.

4.6 Capital

4.6.1 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.

4.7 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.

4.8 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. It is therefore still a relatively rare resolution type to occur. 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.

4.9 Sustainability

4.9.1 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.

4.9.2 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.

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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.

With the exception of TT International, none of Avon’s fund managers voted with management noticeably 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 26,535 resolutions analysed in this report, Manifest obtained poll data for 18,576 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 2: Overall Voting Patterns

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	19,267	96.09%	95.14%	43.18%
State Street	3,474	88.57%	92.44%	55.73%
Jupiter	1,110	98.92%	97.47%	66.85%
TT International	973	99.79%	95.68%	59.61%
Invesco	854	85.13%	90.25%	34.66%
Schroders	659	91.96%	94.19%	41.58%
Genesis	198	85.35%	97.58%	31.82%
Total	26,535	94.83%	95.03%	46.02%

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

Using the “Template For Management” data as a proxy, the companies in the Jupiter, State Street, and TT 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 convergence with the voting policy template.

This continues to reflect 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, Invesco and Genesis portfolios in particular are global and therefore are exposed 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, as in previous years, 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 2012 monitoring report, TT have again supported management more than most shareholders, though this year to a more marked degree, supporting management practically all the time. Conversely, Blackrock’s levels of support for management are slightly higher than those of shareholders in general compared to 2012. Jupiter’s support of management is also further in excess of other shareholders compared to 2012, and remains 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. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends Jupiter to being in a position to continue to support management even where technical concerns may appear to persist.

State Street, Schrodgers, 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, 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 and the opportunities for engaging directly with companies are fewer. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

Schrodgers, although supporting management to a lesser degree than shareholders in general, do so to a much less marked extent than State Street and Invesco. However, taking the “Template for Management” measure as a proxy, the degree to which portfolio companies display potential issues of concern is broadly comparable to those in the BlackRock portfolios, in comparison with whom Schrodgers voting is notably less supportive of management.

Whereas in 2012 there was discernible pattern from fund manager to fund manager in terms of general shareholder support for management and the degree to which the policy template identified potential concerns, in 2013 this was not the case.

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Jupiter and TT International portfolio companies remained the highest both in terms of shareholder support and meeting the requirements of the policy template, with Invesco portfolio companies notably at the other end of both spectrums. However, State Street companies were certainly comparable in their “compliance” with those in the TT portfolio, but received a notably lower level of support from shareholders and State Street themselves, compared to the average.

6 Voting Behaviour By Resolution Category

Table 3 and Table 4 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

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
Board	13,691	10,016	4.46%
Capital	4,484	2,841	3.37%
Audit & Reporting	3,574	2,481	2.15%
Remuneration	2,409	1,774	10.16%
Shareholder Rights	1,501	903	8.78%
Sustainability	339	305	14.86%
Corporate Actions	315	145	5.63%
Other	222	110	13.73%
Grand Total	26,535	18,575	4.97%

* "Average Dissent" calculated from general shareholder voting results where 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.

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Average dissent across all resolutions in 2013 was again up compared to the previous year 4.97% (4.35% last year), though still with an approval rating of just more than 95% despite showing more dissent than 2011 and 2012.

Avon’s fund managers in 2013 were not significantly more active in expressing concerns through votes at corporate meetings than the average shareholder, voting against management on 1,373 occasions out of 25,162 resolutions, constituting an overall average opposition level of 5.17% up from (4.65% in 2012 and 4.22% in 2011). This shows that, in line with general shareholder dissent, Avon’s fund managers also voted against management to a marginally greater extent compared to the prior year for the second year running. Some more patterns within this are demonstrated and explored more fully below.

As was the case in 2012, 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	198	1.45%	41.98%
Sustainability	128	37.76%	31.31%
Other	105	47.30%	17.39%
Shareholder Rights	91	6.06%	42.02%
Remuneration	87	3.61%	23.31%
Capital	10	0.22%	61.02%
Audit & Reporting	6	0.17%	2.93%
Corporate Actions	2	0.63%	7.18%
Grand Total	627	2.36%	33.12%

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

Regarding Board-related resolutions, Board Composition (62 of the instances of shareholder proposed resolutions), Director Elections (51), Election Rules (51) and. Board Composition and Election Rules are much more likely to be shareholder resolutions than not (Board Composition resolutions almost entirely so). The majority of the Board Composition resolutions were requests to adopt a policy of the Chairman being an independent director, which is currently a significant area of debate in US corporate governance. Many of the Election Rules related to requests at US companies to de-classify the board, or to introduce a majority-vote standard for the election of directors.

In terms of Sustainability-related resolutions, as was the case in 2012 the largest proportion (over half in 2013) 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, most of which were in the extractive industries sector, again as was the case in 2012.

The largest proportion of the remuneration related shareholder proposals again came in the US, requesting that companies adopt a policy for senior executives to have to retain shares in the company (either in relation to share-based incentive payments, or general share ownership requirements) in order to attempt to better align interests of executives with those of shareholders.

The largest single proportion of the resolutions relating to aspects of Shareholder Rights pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this. These proposals proved relatively popular and management was defeated a number of times.

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

6.2 Board

Board related resolutions again 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
(Re-)Elect Directors	12,277	36.50%	95.27%	96.12%
Directors Discharge	1,132	87.46%	88.78%	93.34%
Board Size & Structure	67	87.31%	94.03%	78.90%
Board Composition	62	50.00%	72.58%	67.75%
Election Rules	54	52.78%	51.85%	51.14%
Board Committee	46	66.30%	86.96%	81.86%
Other	31	64.52%	83.87%	88.19%
Remove Directors	22	56.82%	86.36%	64.38%
Grand Total	13,691	41.29%	94.38%	94.54%

* "Overall 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 significantly more frequently than shareholders generally.

Nearly all of the top 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

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explain the low levels of alignment (just 36.5%) between the governance best practice template and company management recommendations on director elections in Table 5.

Of those resolutions where the fund managers opposed management on Director Elections (581 (596 in 2012)) resolutions – of which 56 were instances where no governance issues were highlighted) the most frequent governance issues Manifest identified were:

- 1 (1) = The percentage of female directors on the Board (193 in total ↑ from 2012)
- 2 (4) ↑ Overall board independence levels (185↑)
- 3 (5) ↑ Audit Committee independence levels (167↑)
- 4 (2) ↓ Nomination Committee independence levels (155↓)
- 5 (6) ↑ Remuneration Committee independence levels (136↑)
- 6 (3) ↓ Nominee is not considered to be independent by the Board (168 -)
- 7 (8) ↑ Tenure (79↓)
- 8 (7) ↓ Nominee represents a major shareholder (77↓)

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 makes the fund managers more likely to register opposition to their re-election.

The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 10% of all instances where management was opposed) would suggest that fund managers are also not afraid to apply their own investment judgement on these issues, even where this implies a vote against management.

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 the two largest 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.

Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business. Furthermore, especially in the case of “income” stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed.

Table 6: Capital Resolutions Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Issue of Shares & Pre-emption Rights	2,316	82.47%	93.44%	95.03%
Share Buybacks & Return of Capital	1,027	81.89%	97.96%	98.15%
Dividends	907	79.49%	99.45%	99.04%
Treasury Shares	154	83.44%	96.10%	96.22%
Capital Structure	52	75.00%	84.62%	94.24%
Authorised Share Capital	21	71.43%	95.24%	95.92%
Equity Fundraising	7	85.71%	71.43%	92.20%
Grand Total	4,484	81.63%	95.65%	96.63%

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

Over 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 capital related resolutions where there was a voting concern highlighted (as opposed to a 'Case by Case' flag) were the same as in 2012, but in all cases less numerous, as indicated by the arrows next to the figures for total instances observed in 2013:

- 1 New share issue authority exceeds 5-50% of existing share capital (280↓)
- 2 Ordinary dividends exceed profits (130↓)
- 3 Authority being sought is greater than 12-60 months (85↓)
- 4 Lack of assurance that the proposed buy-back is intended to increase EPS/ NAV for current shareholders or is in the interests of shareholders (59↓)

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were again 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.

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Table 7: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Auditor Election	1,553	46.20%	99.29%	97.77%
Report & Accounts	1,278	22.97%	99.61%	98.45%
Auditor Remuneration	596	58.64%	99.50%	97.49%
Appropriate Profits	95	89.47%	100.00%	98.54%
Other A&R related	43	84.88%	100.00%	73.73%
Auditor Discharge	7	71.43%	71.43%	92.06%
Auditor Liability/Indemnification	2	50.00%	100.00%	99.24%
Grand Total	3,574	41.63%	99.41%	97.85%

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

1,985 resolutions had at least one concern highlighted (not including 101 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified 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 over which the fund managers wish to oppose management.

Table 8: Common Concerns Identified On Audit & Reporting Resolutions

Concern	Instances (2012)
1 (1) - Less than 50-100% of the Audit Committee are independent of management	980 (1,170)
2 (2) - There is no independent verification of the Company's ESG reporting.	370 (355)
3 (4) ↑ There are no disclosures to indicate that the Remuneration Committee considers ESG issues when setting performance targets for incentive remuneration	310 (249)
4 (9) ↑ The auditors have provided statutory audit services to the Company for over 10 years	281 (187)
5 (3) ↓ No meetings held by the non-executives without the executives present	215 (283)
6 (6) - The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	210 (227)
7 (7) - The roles of Chairman and CEO are combined	187 (220)
8 (8) - The aggregate non-audit fees exceed the aggregate audit fees	157 (216)
9 (5) ↓ Less than 25-66% of the Board is comprised of independent directors.	146 (245)
10 (10) - Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	136 (186)
11 The Chairman sits on the Audit Committee	134 (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 Votes With Mgt
Remuneration Report	1,408	18.61%	91.12%	90.32%
Long Term Incentives	538	31.32%	90.89%	91.65%
Remuneration - Other	214	56.54%	76.17%	76.50%
Non-executive Remuneration	205	69.51%	96.10%	92.80%
Policy – Other Components	27	74.07%	100.00%	98.58%
Short Term Incentives	15	13.33%	100.00%	96.17%
Policy - Contracts	2	100.00%	100.00%	N/A
Grand Total	2,409	29.80%	90.33%	89.84%

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

However, readers will note the marked contrast between the proportion of all resolutions where the governance best practice template analysis raised concerns, and the proportion of all resolutions where Avon’s managers (and shareholders in general) supported management. Also, readers will note that “Remuneration – Other” (including 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
1 (1) - No indication of consideration of ESG issues in performance targets for incentive pay	813 (881)
2 (2) - The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	783 (727)
3 (3) - 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)	562 (673)
4 (7) ↑ The exercise of options/ vesting of awards is not subject to performance conditions	552 (484)
5 (8) ↑ The minimum performance measurement or options/share awards holding period is less than 2-3 years	511 (442)
6 (6) - Less than 50-100% of the Remuneration Committee are independent directors	451 (556)
7 (4) ↓ No evidence of claw back measures in place in respect of the long-term incentives.	432 (671)
8 (5) ↓ No evidence of claw back measures in place in respect of the short-term incentives.	391 (619)
9 (9) - The maximum potential severance payment exceeds 12 months' salary	320 (380)
10 (10) - 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)	307 (305)
11 (-) Where an upper individual limit has not been set or disclosed in respect of a long-term incentive plan	258

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Table 10 shows the most common governance best practice concerns associated with remuneration-related resolutions 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. All but one of the most prominent concerns above featured in last year's list as well.

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.

A separate, binding forward-looking policy vote has been introduced for UK companies for 2014, which has a bearing on how investors will vote this year. This came into force in respect of AGMs applying to financial years starting on or after the 1st October 2013, thereby affecting the 2014 AGM season.

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 Votes With Mgt
General Meeting Procedures	560	93.39%	96.96%	89.04%
Other Articles of Association	523	90.82%	93.31%	95.38%
Meeting Formalities	355	92.96%	99.15%	97.81%
Corporate Governance	29	55.17%	75.86%	71.19%
Takeover Governance	21	54.76%	76.19%	63.57%
Anti-takeover Provision	7	64.29%	85.71%	75.32%
Shareholder Rights	6	66.67%	16.67%	N/A
Grand Total	1,501	90.87%	95.14%	91.22%

* "Overall 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 73 (41) resolutions where fund managers opposed management on Shareholder Rights related considerations, 32 (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.

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Table 12: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Related Party Transactions	133	78.57%	81.95%	90.39%
Significant Transactions	85	53.53%	98.82%	96.09%
Other Corporate Action	58	62.07%	98.28%	96.20%
Transactions - Other	17	58.82%	94.12%	98.39%
Change of Name	12	100.00%	100.00%	96.07%
Company Purpose & Strategy	9	72.22%	88.89%	97.29%
Investment Trusts & Funds	1	100.00%	100.00%	70.32%
Grand Total	315	68.41%	91.11%	94.37%

* "Overall 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 consistently 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

With the exception of political activity, charitable engagement and sustainability reports, 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 nigh 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.

It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself.

Table 13: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Political Activity	276	20.83%	96.01%	88.19%
Other ESG	49	50.00%	97.96%	69.27%
Charitable Engagement	7	85.71%	100.00%	86.20%
Environmental Practices	3	50.00%	100.00%	89.91%
Ethical business Practices	2	50.00%	50.00%	63.04%
Human Rights & Equality	1	50.00%	100.00%	N/A
Sustainability Report	1	100.00%	100.00%	99.51%
Grand Total	339	27.14%	96.17%	85.14%

* "Overall 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.

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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 notably 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 progressively more active approach as often required in these markets.

Table 14: Genesis Voting By Category

Category	Total Resolutions	Voted with Management 2013	Voted with Management 2012
Board	681	77.24%	96.19%
Audit & Reporting	301	98.01%	95.42%
Capital	236	81.36%	87.40%
Remuneration	124	95.97%	94.70%
Corporate Actions	96	92.71%	71.67%
Shareholder Rights	73	89.04%	87.94%
Sustainability	4	50.00%	60.00%
Grand Total	1,515	85.02%	91.06%

What is interesting is the breakdown of the average support of management by resolution category. Whilst 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.

Board related resolutions (including director elections) show a significant drop compared to last year. This is largely explained by a high number of instances of “cumulative voting” resolutions (108). Cumulative voting is where a list of directors is presented to shareholders to vote, from which shareholders vote for their preferred candidate(s). As there is no management recommendation, any vote on these resolutions counts as “against” management recommendation. However, even controlling for these resolution types,

Genesis supported management only 91.80% of the time on the remaining Board-related resolutions, which may reflect the specific issues arising with Emerging Market companies.

Table 15: Genesis Resolutions Voted By Country

Country	Total Resolutions	Voted With Management
Russia	207	46.38%
India	156	91.67%
Cayman Islands	119	78.99%
Brazil	102	94.12%
Mexico	99	96.97%
South Africa	95	98.95%
China	94	91.49%
Great Britain	88	97.73%
Thailand	75	94.67%
United States	74	95.95%
Turkey	56	89.29%
South Korea	53	92.45%
Hong Kong	40	77.50%
Nigeria	40	80.00%
Malaysia	30	100.00%
Bermuda	27	70.37%
Indonesia	27	85.19%
Poland	27	100.00%
Canada	21	100.00%
Colombia	17	76.47%
Taiwan	13	100.00%
Hungary	12	83.33%
Jersey	10	80.00%
Chile	9	88.89%
Austria	8	62.50%
Zimbabwe	7	100.00%
Switzerland	5	100.00%
Netherlands	4	100.00%
Grand Total	1,515	85.02%

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

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top 6 countries in which Genesis voted), analysis of Genesis' voting patterns sits most comfortably in this aggregate analysis section.

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 (Panama, Curacao and Liberia constituted a very small number of resolutions, so should be discounted as a statistical pattern), especially in Hong Kong and South Korea, in comparison to BlackRock's average of 96% support for management in the detailed analysis.

Table 16: BlackRock Aggregate Resolutions Voting By Market

Country	Total Resolutions	Voted With Management 2013	Voted With Management 2012
Japan	5,653	90.55%	88.51%
Hong Kong	795	77.99%	76.59%
South Korea	701	73.47%	78.78%
Singapore	481	91.48%	93.49%
Panama	19	100.00%	N/A
Curacao	16	100.00%	N/A
Liberia	6	83.33%	100.00%
Grand Total	7,671	87.79%	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.

Noteworthy in the data set is the comparatively very low level of support for management on Audit & Reporting resolutions. Lack of sufficient disclosure in order to be able to ascertain whether the financial statements could be approved was a significant problem in Singapore, and accounts for this apparent anomaly.

Also noteworthy is the very low level of support for resolutions pertaining to Shareholder Rights. This is explained almost entirely by opposition to resolutions seeking approval of takeover defence plans (poison pills). Takeover defence mechanisms serve to artificially prevent hostile takeovers which may ultimately be in the interests of higher shareholder returns.

Table 17: BlackRock Aggregate Voting Patterns By Resolution Category

Category	Total Resolutions	Voted with Management 2013	Voted with Management 2012
Board	5,711	90.44%	88.58%
Capital	723	82.02%	83.67%
Remuneration	444	83.33%	71.10%
Audit & Reporting	365	69.32%	77.88%
Corporate Actions	365	92.88%	93.80%
Shareholder Rights	49	12.24%	80.27%
Sustainability	8	100.00%	97.78%
Other	6	0.00%	10.00%
Grand Total	7,671	87.79%	86.25%

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, although readers will note an encouraging upward trend in these figures.

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.

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, as was the case the previous year, a large proportion of the sustainability themed resolutions in 2013 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. These resolutions recurred in 2013 as a follow-up to the 2012 resolutions observed last year.

This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

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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 2013	Voted With Management 2012
Japan	2,941	94.32%	95.18%
Hong Kong	502	74.50%	82.10%
South Korea	451	91.35%	90.51%
Singapore	300	89.33%	94.67%
Grand Total	4,194	91.27%	92.56%

Similar to BlackRock, and identically to last year’s report, State Street’s support for management at meetings of Hong Kong companies is noticeably lower than for Japan or Singapore, though this is again 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 2013	Voted with Management 2012
Board	3,113	92.96%	95.47%
Capital	430	81.40%	76.73%
Remuneration	260	87.31%	94.58%
Audit & Reporting	222	98.20%	97.76%
Corporate Actions	160	81.25%	93.44%
Sustainability	38	97.37%	93.62%
Shareholder Rights	16	81.25%	78.26%
Other	7	57.14%	50.00%
Grand Total	4,530	91.22%	92.56%

As is the case throughout this and previous reports, 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), Corporate Actions and Shareholder Rights (including many shareholder proposals) are the three resolution types where the fund manager is most likely to oppose management. Given the subject matter (questions related to capital structures or related party transactions for example are most likely to catch the eye of financial analysts),

it is unsurprising that these three are areas characterised by higher dissent levels from the fund manager.

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 Invesco, Jupiter, TT International & Schroder

Invesco, Jupiter and TT international didn't have any events to vote in the markets for which the aggregate analysis is undertaken. Given the very small number of meetings in the Schroder voting portfolio, there was not much meaningful analysis that could be added to the detailed analysis section.

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8 Conclusions

This is the 3rd annual report Manifest has produced for the Avon Pension Fund (the second with full year analysis). Consistent with the report on 2012 voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. As is evidenced with the example of shareholder proposed resolutions in the US in 2013, specific themes can be and are raised with companies on a campaign/ strategic basis on specific questions which, over time, contribute to positive progress.

We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may 'lapse' 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. Consequently, although we expect trends to improve over the long term, successfully indentifying them year on year is much harder to do.

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

2013 has shown that both Avon's fund managers and shareholders in general are gradually making more use of their voting rights to oppose management on governance issues. The themes of the shareholder resolutions in North America bear testament to this in particular.

In terms of specific governance themes, the 2012 report identified the issue of lack of claw-back in remuneration policy arrangements; 2013 has shown that claw back is relatively much less of a concern. This is one example of the dynamic of how specific issues can be addressed successfully. We anticipate that board diversity, audit independence and use of discretion in remuneration arrangements may prove to be prominent themes in commentary about 2014, which will be characterised by regulatory developments in the role and rights of shareholders over remuneration policy.

In the context of the new Remuneration Policy votes in the UK, we anticipate that claw back may once again be a prominent theme for 2014, now that policy has an explicit vote of its own. Given the direction of thinking at the FRC regarding issuer-investor engagement, we also anticipate companies may start to set out how they intend to engage with investors in the event of significant dissent on remuneration issues.

There are some key regulatory developments which come into play during 2014 that may have a bearing on next year's report. These include votes on remuneration policy, gender diversity, and shareholder voting rights where there is a majority owner. Further details on these developments may be found in the appendix, which covers:

- New directors remuneration report regulations in the UK;
- UK stock exchange rules;
- UK Takeover code;

- Gender Diversity on UK Boards; and
- The EU Shareholder Rights Directive (part II)

In summary, this report shows evidence that suggests a positive impact from the identification of governance related concerns and voting (for example, in the comparative reduction in concerns over claw-back, coupled with an increase in fund manager dissent on the issue). Whilst governance change is a long term investment issue, signs of positive change in the short term are reason for cautious optimism that fund managers are having a constructive impact with their use of voting rights on behalf of the fund.

Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term.

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Monitoring Review of Proxy Voting 2013**9 Appendix - Hot Governance Topics**

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2013" which is available upon request.

9.1 New Directors' Remuneration Report Regulations in the UK.

In July 2013, the UK government introduced revisions to the Companies Act 2006 relating to director's remuneration policy votes and reporting. In short, the previous arrangements for a single vote on a remuneration report which included review of pay in the financial year under review as well as proposals for future pay policy are being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review, and a second binding vote on proposed pay policy.

Quoted companies with year ends on or after the 30th September 2013 are required to put their proposed remuneration policy to a simple majority binding vote at the AGM. Thereafter, companies can only provide remuneration or loss of office payments that are consistent with the approved policy unless they obtain shareholder approval at a general meeting to a revised policy or to the specific payments. Once approved by shareholders, a company can retain the policy for up to three years before being required to hold another binding policy vote, unless the separate vote on the remuneration report (implementation) is lost in the intervening period in which case a fresh policy vote is required the following year.

In addition to the future looking policy vote, the main changes to the reporting of pay include:

- Requirement to show an illustration of the level of awards that could pay out for various levels of performance;
- Requirement for reporting pay in a single, cumulative figure, including methodology for calculation to ensure consistency in approach; and
- Improved disclosure on the performance conditions used to assess variable pay of directors.

The aim of the regulations is to encourage better shareholder engagement with companies regarding remuneration, It is intended to do this by giving shareholders more powers to hold companies to account at AGM's for their pay practices and policies, in particular with the introduction of the binding policy vote and the reporting of a "single figure" for the purposes of evaluating total remuneration paid.

9.2 UK Stock Exchange Rules

In November 2013 the Financial Conduct Authority (FCA) published its follow up consultation on the 2012 paper 'Enhancing the effectiveness of the Listing Regime', the policy proposals aim to strengthen minority shareholder rights and protections where they are at risk of being abused.

In particular in cases when a controlling shareholder does not maintain an appropriate relationship with a premium listed company. The FCA has focused on three areas which will

improve shareholder tools necessary for active ownership; transparency; strengthening the minority voice at key points in the dialogue between a company and its shareholders; and providing enhanced protections when this dialogue is at risk of breaking down.

In order to achieve this, the package proposes three measures;

- Placing requirements on the interaction between a premium listed company and a controlling shareholder, when one exists, via a mandatory 'agreement'. This would impose a standard of behaviour that is considered fundamental to the independent operation of a listed company;
- Providing additional voting power for minority shareholders when electing independent directors where a controlling shareholder is present by requiring that they must be separately approved both by the shareholders as a whole and the independent shareholders as a separate class; and
- Enhancing voting power for the minority shareholders where a company with a controlling shareholder wishes to cancel its premium listing. Cancellation of a listing removes from shareholders significant rights of participation in the governance of a company.

During 2013 there was also the publication of the Department of Business, Innovation and Skills (BIS) consultation on 'Company ownership: transparency and trust discussion'. This was followed by an announcement that the UK government plans to implement a central registry of company beneficial ownership. The changes are the culmination of a consultation that responded to concerns from the investment community over the governance of premium-listed companies with a controlling shareholder as well as the rights of minority shareholders. The updated rules give shareowners in premium-listed companies additional voting rights and greater influence on some decisions.

The BIS consultation proposed to introduce new rules requiring companies to obtain and hold information on who owns and controls them; implement a central registry of company beneficial ownership information (the beneficial owners are the individuals that ultimately own or control the company – either because they hold an interest in more than 25% of the company's shares or voting rights; or because they control the management of the company in some other way); and to review the use of bearer shares (which do not require the identity of the holder to be entered in the company's publicly available register of members) and nominee directors (which can be used to conceal the identity of the person really controlling the company).

9.3 UK Takeover Code

The UK Takeover Panel announced the City Code on Takeovers and Mergers will be effective from 30 September 2013; the new Code takes into account the consultation the Takeover Panel conducted in 2012 on profit forecasts, quantified financial benefits statements and material changes in information.

9.4 Gender Diversity on UK Boards

During the year the Cranfield School of Management published a progress report on the Davies Report Recommendations on Women on boards and the 2012 UK Corporate Governance Code amendments. Since the Davies Report in March 2011, the Cranfield report showed that the percentage of female-held directorships on FTSE 100 boards had increased to 18.9% by October 1st 2013 and on FTSE 250 boards to 14.9% by the same point. However,

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given reasonably stable turnover rates, the report considers that the percentage of new appointments going to women needs to increase substantially if Lord Davies' target of 25% by 2015 is to be hit

9.5 The EU Shareholders Rights Directive Part II

During 2014 (likely to be published in Quarter 2), the European Commission will be commencing the process of revising and updating the Shareholders Rights Directive, which came into force in 2007. The proposals will seek to address some of the issues identified in the EU Corporate Governance Action Plan referred to in last year's report.

The Commission is likely to be focussing upon five broad themes that it deems need improving.

Most significant in the context of this report is the fact that the Commission is likely to propose measures designed to encourage better engagement with companies by institutional investors, because of a perceived link to the problem of short-term investment decisions facilitating excessive risk-taking by companies. This implies disclosure of aspects of investment mandates which encourage:

- strategic alignment with the liabilities and duration of the investor;
- how the asset manager takes decisions based on the long term performance of a company;
- how the asset manager's performance is evaluated; and
- information on portfolio turnover.

The proposals will also touch upon remuneration policy, and it is likely the Commission will propose all Member States should require listed companies to have a "Say on Pay Policy" vote.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It is likely to require shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals.

The Commission will also seek to address perceived concerns with what they call "proxy advisors" (i.e. companies like Manifest who provide research or voting guidance to institutional investors), relating to the transparency of methodologies used for producing voting guidance for clients and potential conflicts of interest.

Finally, it is likely the proposed Directive will include provisions on improving the ability to identify shareholders, in order to facilitate more efficient transmission of information and the exercise of shareholders rights.