Avon Pension Fund

Responsible Investment Report: Policy and Activities 2015/16

Introduction

The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor.

The annual Responsible Investment report summarises the activities undertaken during the year by the Fund to meet and support its Responsible Investing policy. For the purposes of this report, Responsible Investment (RI) and Environmental, Social and Governance (ESG) are used interchangeably and have the same meaning.

The report comprises the following sections:

Sections 1 and 3 of the report reaffirms the Fund's own Responsible Investment policy and the Fund's compliance with the Financial Reporting Council's Stewardship Code. The main focus of the report is Section 2 which details the RI activity of the Fund in fulfilling its RI policy objectives. Section 2 is broken down as follows:

A. Investment Strategy and Change to Investments Mandates: providing an overview on how the Fund integrated RI issues into decision making when implementing changes to strategy or manager structure.
B. Investment manager activity, updates and engagement highlights: summarising the areas of engagement and collaboration undertaken by the Fund's Investment managers throughout the year, the policy updates made and surveys and initiatives partaken in.
C. Voting analysis: Analysis of LAPFF alerts and Manifest Information Services Ltd who undertake analysis of shareholder voting at the Avon Pension Fund. Their report seeks to put Avon's fund manager voting behaviour into a comparative and wider context, this report is included at the Appendix.
D. Engagement activity of LAPFF and the Avon Pension Fund: summarising the ESG areas which LAPFF engaged on throughout the year and the engagement of the Fund.

Executive Summary

As a responsible investor, the Fund sought to manage Responsible Investment risks through the following activity during the year:

Strategy

- Embedded Environmental, Social and Governance and Responsible Investment criteria into the evaluation of the tenders for the Hedge Fund mandate.
- The Fund's R. I. Policy is to be reviewed by committee in 2016.

Manager Monitoring

- Promoted Responsible Investment / Environmental, Social and Governance by:
  - Following through with issues identified throughout the year by the Fund's Committee and Investment Panel.
  - Holding managers to account and querying Responsible Investment / Environmental, Social and Governance factors in their investment process where appropriate.
  - Reviewing whether engagement activity of managers was in line with their stated policies.

Voting Analysis

- The trends in voting by investors undertaken by Manifest suggest that there is a gradual improvement in governance standards within the portfolio and the level of governance risk in the portfolio might be at its lowest point since monitoring began.
- In 2015 governance concerns were lower than for previous years, although in the Emerging and Far Eastern markets the standards are still below those of UK/European markets. Managers showed support for shareholder resolutions on sustainability reporting issues and for the first time opposed management significantly more than average shareholders in this area.
- Following the introduction of the vote on Remuneration Policy in the UK all but the most controversial policy proposals received respectable levels of support with a lot of investors adopting a "wait and see" approach with regards to policy proposals. By contrast, where opposition was expressed by shareholders, it was often at a very high level, suggesting a more targeted approach on the part of investors. A much higher level of opposition has been seen from Avon managers on remuneration.

Engagement and Collaboration

- The Fund continued its participation in the Local Authority Pension Fund Forum (LAPFF) recognising that their collaboration and engagement activities are important tools to manage Responsible Investment (RI) risks. Officers and committee members attended four business meetings during the year.

More detail on each area is provided within Section 2 of this report.

Section 1 - Responsible Investment Policy

The Fund's current RI policy is set out below. The additional blue text shows where and how the fund implemented the policy during the year.

Avon Pension Fund Responsible Investment Policy

This policy was agreed by the Avon Pension Fund's Committee in June 2012. The Avon Pension Fund's (Fund's) Responsible Investment (RI) Policy is based on beliefs that express the Fund's duties as a responsible investor. These beliefs are:

- Responsible Investment issues can have a material impact on investment risk and return in the long run and therefore should be considered within the strategic investment policy.
- Because Responsible Investment issues can impact underlying investments, investment managers should demonstrate a risk based approach to responsible investing issues within their investment decision-making process and where they engage with companies.
- The Fund has a responsibility to carry out its stewardship duties effectively by using its influence as a long term investor to encourage responsible investment behaviour.

The policy sets out how the Fund will implement these beliefs within its strategic and operational decision-making processes. It recognises that the Fund's strategic policy will develop over time and allows flexibility to manage RI issues within an evolving strategy. The policy also sets out how the Fund will monitor and disclose its activities in respect to RI issues.

Policy

	Met	Section
• The Fund seeks to integrate a Responsible Investment approach across the entire investments portfolio, recognising the differing characteristics of asset classes. This is evidenced by evaluating the following as part of the strategic investment review process: o The impact of RI issues on each asset class and the materiality of RI risks within each asset class or approach to investing. o Whether an allocation of capital to specific environmental, social and governance (ESG) opportunities would generate value. o Whether RI/sustainability benchmarks for investments or alternative non-traditional financial analysis could provide a more informed understanding of the RI risks within the Fund.	✓	2. A - Investment Strategy and Change to Investment Mandates
• The Fund believes that an inclusive approach whereby it can utilise all the tools at its disposal to manage rather than avoid RI risks can often be optimal. It recognises that approaches that	✓	Jupiter R.I Mandate

exclude or positively select investments could be appropriate for particular mandates.

- The Fund requires its active investment managers to provide a statement setting out the extent to which they take social, environmental and governance considerations into account in their investment processes. These statements form part of the Statement of Investment Principles (SIP). ✓ [Statement of Investment Principles (SIP)]
- When appointing external investment managers, the Fund: ✓ [2.A - Investment Strategy and Change to Investment Mandates]
    - Includes in tenders an assessment of managers' process for evaluating responsible investment risks within their investment process and makes use of this as an integral part of the selection process when relevant.
    - Considers whether appointing managers with specialist ESG research capability is appropriate for meeting the investment objective of the mandate.
    - Includes the adoption of UNPRI principles in the criteria for evaluating managers and, all other things being equal, it will prefer UNPRI signatories.
- The Fund actively monitors the decisions of its investment managers' regarding RI issues that have a material impact on the value of the Fund's assets. ✓ [2.B.2 Manager Updates]
- The Fund adopts the FRC Stewardship Code and seeks to comply with its principles for best practice when discharging its stewardship role. ✓ [Section 3: Stewardship Code]
- The Fund normally delegates voting and engagement to its investment managers and will monitor how investment managers vote in comparison to relevant Codes of Practice. Managers are required to vote at all company meetings where possible. ✓ [2.C - Voting Analysis]
- The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour. The Fund takes an active role in the Local Authority Pension Fund Forum (LAPFF) to effectively exercise its influence through collaborative initiatives. ✓ [2.D.2 LAPFF Engagement Activity]
- The Fund supports the principles underlying the United Nations Principles for Responsible Investing (UNPRI). The Fund's Responsible Investment Policy seeks to improve compliance with these principles. ✓ [Section 2 - Responsible Investing Activity]
- The Fund encourages its external investment managers to become UNPRI signatories. ✓ [2.B.2 UNPRI]
- The Fund recognises that transparency and disclosure of its Responsible Investing Policy and activities is an important element of being a responsible investor. Therefore the policy forms part of the Statement of Investment Principles and a ✓ [Section 2 - Responsible Investing Activity in]

Responsible Investing report will be published annually from 2013. This annual report will include the RI Policy, the Fund's compliance with the FRC Stewardship Code and UNPRI Principles and the voting report.		2015/16
• This Policy should be reviewed as part of strategic reviews of the investment objectives and management of risk or as required in response to changing regulations or broader governance issues.	✓	Executive Summary

Section 2 - Responsible Investing Activity in 2015/16

The activity of the Fund is described across 4 main areas as follows:

- At the strategic level and how it incorporates assessment of RI risks in strategic decisions
- Investment manager activity – monitor, direct and influence
- Voting analysis – themes, trends and progress
- Engagement and collaboration – manager, LAPFF and Fund

The activity described within the report demonstrates the Fund's support of the UNPRI principles which are:

UNPRI Principle	APF Support
1: Incorporate ESG issues into Investment analysis and decision-making process -	RI Policy
2: Active owners, incorporate ESG issues into our ownership policies and practices	RI Policy
3: APF seeks appropriate disclosure on ESG issues by the entities in which we invest	2.B
4: Promote acceptance and implementation of the principles within the investment industry	RI Policy,2.B.2
5: Work together to enhance our effectiveness in implementing the principles	2.D.2
6: Report on activities and progress towards implementing the principles	2.D.3

2.A - Investment Strategy and Change to Investment Mandates

The following section highlights the Investment Strategy changes for the year and summarises how RI was assessed throughout the process.

In March 2013 the Fund adopted a new Investment Strategy. While there were no changes to the strategic allocation during the year the Fund did implement the revised Hedge Fund Strategy and completed implementing the Infrastructure manager. JP Morgan, the Fund's new Hedge Fund Manager were allocated 5% in July 2015. In addition the Fund is in the process of implementing a Liability Driven Investment (LDI) strategy which will be completed in 2016/17 and covered within next year's report.

The following table summarises the Fund's evaluation of RI characteristics for the new Hedge Fund Manager and the Infrastructure Manager:

Asset Class	**Can ESG Risks be Managed?**	**Notes**
Fund of Hedge Funds (FoHF)	Limited	HF managers focus on short term investment, diversification and alpha whereas ESG analysis tends to have a medium to long-term horizon given that is can be fairly volatile short term and tends to add value over time. Due to the nature of the investment there is less scope to reflect the Fund's ESG policy through a HF investment compared to equity mandates.
Infrastructure	Partially	An investment in infrastructure can support environmental and social projects, although whether a sufficient return is achievable for risks taken on needs to be carefully considered. The risks of disposal of assets that are no longer useful must be carefully considered, as must any environmental impact of building work, both of which could have financial implications for any investment.

In both the FoHF and Infrastructure tenders respondents were required to demonstrate how they incorporate ESG issues and risks into their investment decision making process which was evaluated as part of the assessment of each tender response. This enabled the Fund to understand each manager's approach to ESG risk, how it would be managed and the level of risks the Fund would be exposed to.

Although the scope for reflecting the Fund's ESG policy within the HF search was limited, the tender questionnaire assessed the corporate approach to incorporating ESG into their investment process of each manager as follows:

- Do they have a team responsible for corporate governance and responsible investing?
- Is the organisation a signatory to UNPRI?
- To what extent are the principles of UNPRI reflected in the product offered?

A summary of the current investment mandates and their approach to ESG can be found in Appendix 2.

2.B - Investment Managers Activity and Ongoing Monitoring

This section sets out the Avon Pension Fund's Policy on monitoring Manager activity and provides an overview on the monitoring carried out by the Investment Panel along with updates and engagement highlights from the Fund's Managers.

The Fund seeks to monitor, understand and where appropriate challenge investment managers' activity to gain assurance that policies and practices are being followed and to ensure they take ESG risks into account. In addition the Fund also seeks to influence investment managers where appropriate.

The Fund's investment managers provided a statement on how they take ESG factors into account in their investment decision making processes. These can be found in appendices to the SIP.

2.B.1 Investment Panel Monitoring Activity

The Panel met with 4 investment managers and raised the following specific RI issues.

Blackrock – at the request of the panel Blackrock presented their ESG framework as part of the investment process, in particular stressed governance and the environment.

Pyrford – discussed how MSCI specialist ESG research used during company research process. Senior management interviewed on areas of ESG controversy and ESG on agenda for monthly stock selection committee meetings.

RLAM – highlighted importance of responsible investment in their engagement and discussed how they routinely question company management, exercise voting rights and incorporate ESG risk analysis in investment process.

Unigestion – quantitative and qualitative analysis carried out and voting rights carried out using ISS's Sustainable voting policy. In response to Panel/Officer influence Unigestion are now reporting carbon exposure.

B.2 Manager Updates

Investment managers provided updates on their RI policy and activity which provides an overview of where they focused and engaged throughout the year. The key points are as follows:

- All of the Fund's Investment Managers are now signatories to the Principles for Responsible Investment (PRI) with the addition of TT in 2016.
- BlackRock, Genesis, IFM, JP Morgan, Jupiter, Partners, Pyrford, Royal London, Schroder, SSgA, Standard Life and Unigestion all submitted a 2015/16 RI Transparency Report to the PRI.
- 7 of our Investment Managers were ranked within the 2015 Share Action survey. Jupiter were ranked particularly highly (3rd). The survey is an independent assessment of the managers RI performance in the UK and seeks to identify whether these firms are behaving as responsible investors and addressing ESG

issues with companies. Fund's managers have expressed willingness to participate in the next Survey which is anticipated for 2016/17.

In addition manager specific updates as follows:

Blackrock:

- Updated their Proxy voting guidelines to give more details on the purpose of their engagement and on the topics that they wish to cover during their engagement. They have defined expectations concerning the powers of a lead independent director, stressing that he/she should be a point of contact for shareholders. Amendments were also made to the length of tenure for independent directors and the number of mandates that a board member could have at once.
- Submitted a response to the public consultation on proposed revisions to the Dutch Corporate Governance Code highlighting that there was room for greater clarity on accountability when designing methodologies to measure progress against goals and reporting, and that supervisory boards should engage with shareholders.
- Fed into the European Commission consultation on Long-term and Sustainable Investment highlighting the continued increase in demand from clients to factor ESG into the Investment process.

Invesco Perpetual:

- Invesco started a specialised engagement process regarding Terrorism Oil and Social Media in order to identify companies that are exposed to the highest level of risk in these areas.
- Invesco participated in regular ESG surveys such as FNG (Forum für nachhaltige Geldanlagen), an industry association promoting sustainable investment in Continental Europe and Partners for Sustainability (formerly Care Group) a platform and a forum for sustainability investments and issues.
- Invesco Perpetual continue to utilise EIRIS to carry out engagement in areas such as Bribery, Climate Change, Human Rights and Supply Chain Labour Standards.

Jupiter:

- Updated their UK Stewardship Code Statement in January 2016 and in June were advised that they had been awarded Tier 1 for meeting the FRC's expectations in relation to stewardship activities.
- Submitted a response to the annual UNPRI Transparency report and maintained the top-grade A+ rating.
- At the time of writing this report the Portfolio was fossil free.
- Provided feedback on FRC's UK Succession Planning paper and attended discussions on corporate culture and the role of boards.
- Jupiter provided feedback to the Investment Association (IA) on a disclosure framework which is working on transparency around the stewardship activities of asset managers.

Pyrford:

- Changed ESG provider to MSCI to provide advice and support in the area of research.
- Submitted first UNPRI verification statement after becoming a signatory in June 2014.

Royal London:

- Royal London produced quarterly responsible investment bulletins.
- Royal London has participated in a number of policy consultations with companies, particularly concerning remuneration which has been a key concentration for 2015/16.

Schroders:

- Schroder updated their statement of compliance with the UK Stewardship Code, retained their A+ rating in their PRI 2016 assessment and participated in the EUROSIF Survey.
- They responded to the UK Governments consultation on ‘Investor confidence in the UK energy Sector and submitted a response to the European Securities and Markets Authority (ESMA) on the role of Proxy Voting Research Providers in Corporate Governance.
- Won Charity Times Better Society Awards for Asset Manager of the Year 2015.
- Worked with consultant Sustainable Commercial Solutions to establish an analysis framework for their property portfolios. As a result Schroders completes the GRESB (Global Real Estate Sustainability Benchmark) survey to benchmark performance in the industry.
- Head of RI within Cazenove Capital Business was elected to serve on UK Sustainable Investment and Finance Association (UKSIF) Board.
- Presented at NAPF seminars on the importance of ESG integration into investment processes.
- Produced various thematic reports which Schroder believe play an important part in integrating ESG into the investment process. Such reports covered water risk, carbon risk, sugar and the living wage.

SSgA:

- Updated their proxy voting policy in relation to director elections and board structure and also strengthened their conflicts policy.
- Participated in UN Principles for Responsible Investment and the RUC Fund Manager Voting Survey.
- Identified Debt Issuance and Borrowing Limits as an area of concern and voted against over 50% requests by companies, in comparison to ISS recommendation of 89%.
- Identified their 2016 RI priorities as: targeting Information Technology and Automotive companies as well as following up engagement with Global systemically Important Financial Institutions (SIFIs), a thematic focus on Board

composition and leadership, pay strategies, Climate change and water management.

TT:

- Became a signatory to the UN PRI.
- Identified increasing scrutiny on remuneration packages. TT has been particularly attentive to this issue and been very willing to reject resolutions on pay where the amounts were excessive and not justifiable.

Unigestion:

- Updated their Responsible Investment policy. Unigestion now exclude securities with excessive carbon emissions as well as those involved in controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons).
- Participated in OECD Survey on Investment Governance and the integration of Environmental, Social and Governance (ESG) Factors.
- Participating in a working group with PRI charged with creating a standard ESG due diligence questionnaire for Hedge Funds and in the Corporate Carbon Disclosure collaborative engagement organised by PRI with the aim of increasing the number of corporations reporting on their carbon emissions.
- Signatories of Montreal Carbon Pledge.
- Focus for coming year will be continued work of carbon disclosure and reducing footprint in equities portfolios.
- Moved from a C to an A rating in their PRI Pilot Assessment Report.

Standard Life:

- Taking part in a consultation launched by SEC on sustainable reporting
- Participated in numerous policy consultations such as providing views on the evolution of responsible investment.
- A member of EEFAMA (Europe European Fund and Asset Management Association).
- Publish Quarterly R.I reports and white papers through the year.
- Collaborate with the University of Cambridge on RI/ESG.

2. B.3 Engagement Highlights

The table below demonstrates engagement undertaken by the Fund's Investment Managers. Included in the examples are some companies that the Fund did not hold during the year, these have been included to demonstrate the range of actions undertaken by the Fund's Managers.

Manager	Company	Action	Outcome
Manager A	Glencore	Requested that management address the future of coal and carbon scenario planning	Recognised fossil fuel impacts on climate change as a business risk within its annual report (May 2015)
	BHP Billiton	1. Met with Head of Environment to discuss climate change and requested internal carbon price and scenarios 2. Wrote to the board to re-iterate the request	Company published scenario analysis and climate risk out of 2013 and disclosed internal carbon price (September 2015)
	Deutsche Bank	Encouraged disclosure of steps taken to address risk and compliance issues, in particular those addressing banking culture	Company made clear that external appointments had been made to address concerns, and gave some reassurance on compliance oversight (November 2015)
	J Sainsbury	Raised concerns regarding the company's change of policy on its customer loyalty card, which involved doubling points for fuel which is not consistent with the company's sustainability programme, and also represented a brand risk	We received a letter from the CFO confirming that Nectar points for fuel will return to only one point per pound spent on fuel, versus the previous double point system which was not aligned with the company's environmental strategy
Manager B	Arkema Group	Expressed the importance of adding a lead independent director to strengthen board leadership and oversight of management	Company subsequently introduced a new lead independent director position on the board with a clearly defined role and responsibility
Manager C	Technology & Engineering company	Lobbied for the company to make a public statement that they would not produce cluster munitions or anti-personnel land mines	Initially refused as main customer was government and felt obliged to meet their requirements. After further discussion in November 2015 wrote to commit that they would no longer produce that type of weaponry
Manager D	Sports Direct	Engaged with company on governance concerns principally, zero hour contracts and growing non-core acquisitions/partnerships	Voted against re-election of the chairman due to lack of relevant experience. In October criminal proceedings against CEO signalled that governance concerns were growing, the decision was made to "vote with our feet" and the entire holding was sold

B.4 Trends identified by our investment managers and recent market developments

This section identifies what areas our investment managers noted during the year and their awareness of the RI/ESG risks or benefits of these trends and developments.

Best Practice:

- The Financial Reporting Council announced that it would be introducing public tiering of signatories to the UK Stewardship Code to improve reporting against the principles of the code and in a bid to increase market incentive in support of engagement.

Remuneration:

- Next year will be the second in which a number of UK issuers will have to submit two remuneration-related proposals; the first being an advisory vote on the remuneration report and secondly a binding vote on future policy. This was highlighted in last year's report.

Voting Rights:

- One manager noted a continued concern for a potentially concerning trend across European markets where countries are introducing or re-enforcing the existing rules on multiple voting rights.

Environmental

- During 2015 France passed a law introducing mandatory climate change-related reporting for institutional investors.
- In December 2015 196 countries adopted the Paris agreement to reduce greenhouse gas emission increases with the aim of limiting global temperature increases to below 2oC by 2020.

Social:

- In July 2015 the government announced a compulsory national living wage which would be introduced in April 2016.
- Large companies are now required to publish a statement setting out steps taken to ensure that slavery and human trafficking are not taking place in their supply chain or any part of their business following The Modern Slavery Act receiving Royal Assent and becoming law on 26th March 2015.

2.C - Voting Analysis

Section C examines at a high level the overall voting undertaken on behalf of the Fund by its Managers, the voting themes, shareholder comparisons and conclusion. It summarises the LAPFF alerts the Fund forwarded to the relevant managers for the year and the rationale of managers when voting differed to LAPFF's recommendation.

The Fund seeks to analyse the proxy voting activity of the Fund's investment managers to understand how managers are utilising their voting rights in conjunction with their engagement activity.

Analysis of the proxy voting activity carried out by investment managers on the Fund's behalf was undertaken by Manifest Information Services. The objective of the analysis is to provide greater understanding of:

- Voting activity undertaken on behalf of the Fund
- Wide voting issues
- Governance standards at companies
- How the Fund's investment managers use voting rights

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.

Manifest's report is included in the Appendix. The key points from the 2015 report were as follows:

- It is the 5th annual report from Manifest (4th year where a full year of data was available for analysis).
- Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 3.75% of resolutions.
- Investment managers opposed management marginally more compared to 2014 which may imply a general improvement in governance standards or increased ongoing engagement practices.
- Of the 16,424 resolutions analysed in 2015; 5,977 were resolutions where the Voting Template (best practice) highlighted potential governance concerns and where fund managers supported management. This may seem like a relatively high proportion but it should be noted that not all concerns merit a vote against management, especially where managers use engagement to voice concerns and bring about change.
- The proportion of resolutions where management was opposed without the identification of governance concerns (approximately 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that investment managers are increasingly not afraid to apply their own judgement on these issues.
- The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, Jupiter

incorporate ESG factors into their selection criteria resulting in a relatively high governance standard amongst companies in their portfolio and therefore it should be expected that there is less reason to vote against management.

- Board balance and remuneration issues remain the most frequent concerns identified, partly because they are the substantial issues of the most frequently voted resolutions.
    - Committee independence related concerns were again prominent issues; although there are signs that companies in general are addressing these concerns. With increasing focus on ESG issues, we may be seeing an overall improvement at the same time.
- Remuneration related resolutions remain the most contentious resolutions proposed by management in 2015 and continue to have the lowest level of alignment with governance best practice analysis.
- Some regulatory developments in 2015 give a potential hint as to what issues may be of significance next year. These include incentive performance measures, climate change and auditor independence.

2.C.1 Voting Alerts

The Fund uses LAPFF's voting alerts to help focus manager voting on issues at widely held companies. The below table provides a summary showing the 8 companies for which LAPFF issued a voting alert during the year; the table is split across 8 issue categories. Note that some companies appear across multiple categories.

Election of Chair / CEO / Directors	**Approve / receive annual report / accounts**	**Special resolution: Strategic Resilience for 2035 and Beyond**	**Conduct an independent review of North American school bus operations**
Sports Direct =	Sports Direct ×	BP (SH) ✓	National Express (SH) ✓
Sports Direct ×		Royal Dutch Shell (SH) ✓	
		Statoil-hydro ASA (SH) ✓	

Amendment to Company's Constitution	**Report On carbon Risk**	**Adopt Dividend Policy**	**Adopt targets to reduce GHG emissions**
AGL Energy (SH) ✓	Anadarko ✓	Chevron Corp ✓	Chevron Corp ✓

Colour and symbol denotes LAPFF voting recommendation   SH denotes Shareholder resolution

Oppose ×
Abstain =
For ✓

The Fund circulates these alerts to managers and seeks explanations from managers on how they voted on the specific resolutions.

The below table shows as an example votes cast from 4 of the Fund's equity managers:

Company	Resolution	LAPFF	Management Recommendation	Manager 1	Manager 2	Manager 3	Manager 4
National Express	Conduct an independent review of North American school bus operations (shareholder proposal)	FOR ✓	OPPOSE ×	OPPOSE ×	OPPOSE ×		
Anadarko	Report on Carbon Risk	FOR ✓	OPPOSE ×	OPPOSE ×			FOR ✓
Chevron Corp	Adopt dividend policy	FOR ✓	OPPOSE ×	OPPOSE ×			OPPOSE ×
	Adopt targets to reduce GHG emissions	FOR ✓	OPPOSE ×	OPPOSE ×			OPPOSE ×
Sports Direct	Receive annual report	OPPOSE ×	FOR ✓	FOR ✓		FOR ✓	
	Re-elect Keith Hellawell	Abstain =	FOR ✓	FOR ✓		Abstain =	
	Re-elect Mike Ashley	OPPOSE ×	FOR ✓	FOR ✓		FOR ✓	
AGL Energy	Amendment to Company's Constitution (shareholder proposal)	FOR ✓	OPPOSE ×	OPPOSE ×			

Colour and symbol denotes LAPFF voting recommendation

Oppose ×
Abstain =
For ✓

The individual manager comments explaining their voting decision provides some insight into the issues they take into consideration and how managers use their voting rights.

<u>National Express (shareholder resolution):</u>

- Manager 1 engaged with both the Chairman of National Express as well as Teamsters representatives on a number of occasions. The Focus of discussions was the ongoing Labour Disputes in the US. The level of Board oversight on the issue, the actions taken by the company in response to the allegations, and the progress it had made in specific areas since the previous year were all taken into consideration when making the decision, along with assessing the shareholder proposal against the status of the investigations/case appeal that was in progress at the time.
- Manager 2 based their decision upon dialogue with the Teamsters Union and the International Transport Workers Federation as well as several engagements with the company themselves that covered the matter in detail. This dialogue included two meetings with the Chairman in the year to date as well as routine meetings with the executive management team throughout the financial calendar. The decision therefore built on the manager's extensive engagement with the company in recent years on the subject of employee relations and safety. Manager 2 has confidence that management is acting with appropriate responsibility in respect of these matters and respect the progress demonstrated in recent years.

<u>Anadarko:</u>

- Manager 1 stated that in our assessment of the shareholder proposal seeking a report on carbon risk, we considered, among other things: the company's published approach to risk analysis, the board's longstanding oversight of climate-related risk, the company's participation in the CDP, including reporting of its GHG emissions data, and the potential for diversion of limited resources to additional reporting without commensurate benefit to shareholders. We determined that additional reporting was not in shareholders' best interests at the company at that time.

Chevron Corp (Adopt dividend policy):

- Manager 1 reported that they have engaged with the company a number of times to discuss its climate change risks and potential stranded assets issue. The company ensured us that its carbon cost analysis and investment decisions are based on a thorough assessment of ranges of future policy and economic growth outcomes. The company also emphasized that its management and the Board consistently discuss and oversee the climate change risk issues to better position the company against its peers for the future. We do not believe that a special dividend related to climate change risks at this time is the best use of the company's capital, while investing in more proper energy efficient projects in a potentially low carbon world or during periods of low oil prices would be more beneficial to shareholders in the long-run. As a result, we believe that such a special dividend is not necessary at this time and that Chevron's management is best situated to determine the avenue for shareholder value creation.
- Manager 4 reported that a vote against this proposal is warranted given that a policy to distribute dividends would restrict management's ability to determine where appropriate investments could be made to ensure the company's long-term viability in a changing environment.

Chevron Corp (Targets to reduce GHG Emissions):

- Manager 1 advised that according to the company, setting unilateral emissions targets would be unnecessary, an inefficient use of resources, and a potential competitive disadvantage. The board states that Chevron's CDP (formerly Carbon Disclosure Project) score for its emissions performance disclosure leads integrated oil and gas companies. The company sets yearly targets for its CO2 emissions and breaks down its GHG emissions by sector (upstream, midstream, downstream), source (combustion, flaring & venting, other), GHG type (CO2, methane, nitrous oxide, other), and "type" (direct, indirect, grid credits). Chevron also discloses quantitative metrics related to its energy consumption. We believe the company already has policies in reviewing its GHG emission issues and such corporate policy decisions are best left to the Board, absent demonstrable harm to shareholders by prior Board action or inaction. The board can be held accountable for its decisions through the election of directors.
- Manager 4 advised that the company provides sufficient information regarding its greenhouse gas emissions to allow shareholders to assess the company's management of these emissions and related performance.

Sports Direct (re-elect Mike Ashley):

- Manager 1 has had on-going dialogue with the company in recent years on a number of governance matters, and they continue to engage with the Board. Board skills and composition, including balance of independence, are areas they regularly probe with the companies with whom they meet.
- Manager 3 stated that whilst they shared some of the concerns that relate to Mike Ashley having excessive control over the board, they felt given his central role to

the company and its strategy that it wasn't in the best interests of the company's prospects to vote against his re-election.

Sports Direct (receive annual report):

- Manager 1 regards the primary purpose of this proposal to be to acknowledge that the reports were received in a timely manner and in accordance with the IFRS framework. They do not use it as a tool to signal governance concerns to the company.
- Manager 3 noted that the Forum's principal concern was regarding Mr Hellawell's qualifications for the role of Chairman. We too shared these concerns given his lack of apparent relevant experience, and as such voted to abstain from his re-election. However, given that we were abstaining from his re-election, we felt it wasn't necessary to not receive the Annual Report as well.

AGL Energy (shareholder resolution):

- Manager 1 assessed that the company has already considered these issues and provides robust disclosure on relevant policies, initiatives, oversight mechanisms, and performance and we were not convinced that adoption of this proposal was necessary as a result. We note that the company has significant exposure to climate change risks; however it has communicated information concerning its risk exposure and how it plans to mitigate these risks to shareholders. For example, the company has made a commitment to close all of its coal-fired power plants by 2050 and to not extend the operating life of any of its existing coal-fired power stations, highlighting the company's move to diversification of its power generation and supply activities.

2.C.2 Overall Voting

The Fund's overall voting across all investment managers can be seen within the below table.

Fund	Resolutions Voted	Avon Managers Supported Management	General Shareholders Supported Management	Template For Management
BlackRock	8,450	98.57%	97.45%	68.52%
State Street	2,457	92.90%	95.48%	69.39%
Invesco	2,426	89.90%	94.56%	39.11%
TT International	1,202	99.67%	97.21%	38.22%
Jupiter	1,101	97.64%	97.36%	70.03%
Schroder	360	96.39%	95.99%	51.94%
Genesis	258	86.89%	97.99%	54.65%
Pyrford	170	99.41%	97.47%	82.94%
Total	**16,424**	**96.25%**	**96.73%**	**63.96%**

<u>The above table highlights the following:</u>

- In terms of overall patterns of voting behaviour, Avon's Fund managers voted with management a high proportion of the time (96.25%), marginally behind General Shareholders (96.73%). Shareholders supported management less so in 2014 at 96.36%, Manager support has fallen slightly since 2014 from 96.44% but is still higher than support shown in 2013 94.83%
- As expected the 'Template For Management' (as a proxy for compliance with corporate governance best practice expectations) identified potential governance issues on a far higher proportion of resolutions than the fund managers chose to oppose. The companies in Pyrford, Jupiter, State Street, and BlackRock display a comparatively higher level of compliance with governance best practice.
- Jupiter's high support for management (higher than the average of Avon's managers) and relatively high 'Template For Management' data suggests as would be expected Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making as a Socially Responsible Investment mandate. 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. In addition, 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, Genesis and Invesco's support for management is all notably lower than general shareholder support. 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.

2.C.3 Voting Themes and Conclusion

The Manifest voting analysis also identifies some common themes:

- The results of the analysis show that Fund managers are voting with management marginally less than shareholders in general. The level of governance risk in the Avon portfolios might be at its lowest point since this monitoring began.
- For the first time in analysis, Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.
- Avon's fund managers are consistently much more likely to oppose approvals of related transactions. This is because related party and especially significant transactions may well entail significant potential conflicts of interest.
- When it comes to shareholder rights protections, Avon's managers are very well motivated to protect their interest and those of their clients, and much better so by comparison with the previous year.
- The proportion of resolutions where management opposed without identification of governance concerns (approximately 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that fund managers are increasingly not afraid to apply their own (investment) judgement on board related issues.
- Although the volume (in absolute terms) of the most common governance concerns that Manifest identified 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 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.
    - 5 of the top 8 concerns identified relate to director independence and the effect that has on the functioning of the board and its committees. This is identical to the pattern of 2014.
- The second most common group of issues identified relate to remuneration, along with director elections concerns remain as prevalent today as they did 5 years ago. Remuneration related resolutions continue to be the most contentious, attracting the highest average level of dissent and high levels of opposition from Avon's Managers.
- The introduction of the vote on Remuneration Policy in the UK has had a large effect on shareholder voting. With a lot of investors adopting a "wait and see" approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it

was often at a very high level, suggesting a more targeted approach on the part of investors.

The following conclusions and outlook can be drawn from the Manifest analysis:

- By and large corporate governance risk-related issues change over the long term, rather than due to short term pressures.
- 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.
- 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.
- The four year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.
- The report shows evidence that governance concerns at portfolio companies during 2015 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control.
- It is anticipated that incentive performance measures will continue to be a prominent theme, climate change, auditor independence, auditor tender and audit fees may prove to be prominent themes in commentary in 2016.

2.D - Engagement and Collaboration

Section D contains details of the ESG areas LAPFF engaged on and summarises some of the outcomes achieved along with the Fund's engagement and outcome.

Engagement and collaboration activity is undertaken by the Fund's external investment managers (described in section 2.B) on the Fund's behalf and directly by the Fund through its membership of LAPFF.

2.D.1 Investment Manager Engagement

The extent to which managers undertake engagement with companies depends largely upon their investment approach. The Panel and Officers focus on gaining assurance that managers are undertaking engagement activity in line with their policy and test this at meetings through specific questioning on voting and engagement.

TT and Genesis do not have specific RI engagement programmes but as active investors who put a lot of value in quality of management, they are meeting management continually and where RI issues are impacting performance these are raised with management as part of the investment process.

The Fund encourages managers to actively participate in industry collaborative bodies where appropriate.

Manager activity is described in greater detail in section 2.B.2

2.D.2 LAPFF Engagement Activity

The Fund continues to be an active participant in LAPFF which promotes the investment interests of local authority pension funds, and seeks to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Committee members and Officers attended all three LAPFF business meetings in 2015/16. LAPFF activity and achievements are reported quarterly to Committee via LAPFF's quarterly engagement report. LAPFF groups its engagement activities within the following categories and highlights this year are discussed below.

<u>Leadership on key campaigns:</u>

- Board Diversity (LAPFF continues to engage with companies on this issue):
    - Attended the Sky plc AGM and raised concerns over the proportion of 21st Century Fox representatives on the sky board. The board make-up remains problematic in the face of anti-trust litigation against sky.
    - LAPFF participated in an Equality and Human Rights Commission Inquiry roundtable into the recruitment and appointment of board directors. The appointment of women to boards was of particular interest during the roundtable discussion. Cllr Mary Barnett represented LAPFF at the Inquiry.
    - LAPFF attended a roundtable inquiry hosted by the Equality and Human Right Commission (EHRC) on FTSE 350 recruitment and appointment of

board directors. Raised challenges still faced in improving representation on women on boards.
    - The 30% Club Investor Group, of which LAPFF is a member, has responded to the Government Equality Office's Gender Pay Gap consultation which strongly supports publication of gender pay information to encourage employers to take action to help close this gap.
- Cluster Munitions:
    - Last year LAPFF contacted 9 companies in the aerospace and defence sectors to clarify their awareness and adherence to the Oslo convention. Outcome: Following this the forum received a letter from ST Engineering stating that the company is 'no longer in the business of designing, producing and selling anti-personnel mines and cluster munitions or any related components' and was informed that the letter had a big influence on reaching this decision.

<u>Promoting good governance:</u>

- Reliable Accounts:
    - Held a meeting with Barclays to discuss publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. Subsequently, Sir John has left the Barclays board.
- Executive Pay (LAPFF has taken an increasingly public approach to tackling the complexity of pay and high pay):
    - A letter was sent to Tesco's in February concerning the lack of malus provision in executive remuneration contracts. Outcome: Tesco announced provisions to claw back bonuses from its CEO and Finance Director. The move came after senior executives, who were in place during the accounting scandal, left the company with high pay outs.
- Tax Transparency
    - CTTI Corporate Tax Initiative questionnaire.
    - Tax expert, Richard Murphy, has analysed company responses to the Corporate Tax Transparency Initiative (CTTI) survey sent by LAPFF to the FTSE 100 earlier in the year. His summary report suggests a continued reluctance by many companies to engage on this issue, but there are particular areas that some major companies have identified that suggest possible ways forward to progress corporate tax transparency.
    - As part of its Corporate Tax Transparency Initiative, the Forum has written to the FTSE 100 seeking disclosure on existing tax practices, transparency, reporting, potential risks and assessment of future policy changes. This project leads out of the tax governance reform principles raised in the LAPFF led Pre-G20 Investor Statement.

<u>Managing environment risk:</u>

- Palm Oil:

    - Building on last year’s work that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. The Forum co-signed a letter pressing the Roundtable on Sustainable Palm Oil (RSPO) to adopt more stringent standards on palm oil production. This is now a ‘spot tool’ that investors can use to help identify sustainable producers of palm oil.
- Energy and Environmental Risk:
    - Shareholder resolutions, Co-filed by LAPFF, on strategic resilience achieved unprecedented levels of support with votes in favour of over 90% at BP and nearly 99% at Shell.
    - The Forum also supported a shareholder resolution to Chevron requesting that the board adopt a dividend policy increasing the amount authorised for distribution to shareholders in light of the growing potential for stranded assets and decreasing profitability associated with capital expenditures on high cost projects. Outcome: Resolution was opposed.
    - A voting alert on a shareholder resolution to the Anadarko general meeting supported a request for the company to address the risk of stranded assets and demand reductions for oil and gas, including analysis of long and short term financial and operational risks to the company. Outcome: Resolution was opposed.
    - In unison with other investors a letter was send to Total asking the company for a commitment to disclose according to the five elements of the strategic resilience resolution, which includes the two degree scenario. Outcome: In March minutes were released indicating that directors had agreed to publish this information at the May AGM.
    - LAPFF has also joined other investment institutions in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.
    - LAPFF co-signed a global investor letter aiming to promote a meaningful climate change agreement at the COP in Paris. Asked for a long term global emissions goal: and submission of short to medium-term emissions pledged and country level action plans.
    - At last year’s National Grid AGM LAPFF were informed that they were the first investor group to raise the issue of progress on monitoring scope 3 emissions. The issue of measurement and reporting was raised again at this year’s AGM Outcome: Company announced it is likely to disclose its scope 3 emissions starting next year.
    - Carbon Tracker – international investor meeting on strategies for 2016 and beyond.

Targeting social issues:

- Employment Standards:
    - Several LAPFF funds co-filed a shareholder resolution to the National Express AGM, requesting an independent assessment of labour relations at the company's US subsidiary, Durham school services. Outcome: Almost a quarter of independent shareholders failed to back National Express, the highest level of support for a shareholder resolution on employee rights.
    - LAPFF was once again invited to attend the Nestlé roundtable where a request was made to review the company's reporting on labour rights in the supply change so that the company is compliant with reporting requirements in the new Modern Slavery Act. Outcome: Chairman agreed to review company's reporting.
    - LAPFF members attended AGM's and queried Balfour Beatty about blacklisting and labour standards in supply chains along with Carillion and Next were questioned about second and third-tier supplier risks under Bangladesh Accord. Outcome: The representation has boosted awareness of LAPFF with these companies and with other shareholders and is helpful in securing meetings with board members.
- Social and Reputational Risks:
    - The Forum has signed on to an investor Clinical Trial Transparency Initiative which highlights the importance of clinical trials and request that companies publish complete and accurate information on trial results so that investors can make fully informed decisions.
    - LAPFF met again with Trinity Mirror Group Chairman, David Grigson, to discuss the company's strategy and progress on dealing with phone hacking claims. The Company seems to have taken LAPFF suggestions on board and is taking positive steps to resolve challenges, both in relation to strategy and hacking.

In addition:

- LAPFF wrote to all FTSE 350 companies indicating that they should disregard guidance and statements from the financial reporting council in order for directors to meet their legal obligations.
- LAPFF submitted a consultation response to the Hong Kong Stock Exchange, which is seeking to revise its environmental, social and governance (ESG) guidance to issuers. Support was voiced for the Exchange's intention to move toward comply or explain reporting for a number of ESG metrics.
- LAPFF Chairman, Kieran Quinn, listed as number 17 on Accountancy Age's financial power list for 2016. Membership has increased from 61 to 70 adding to collaboration and influence.
- LAPFF engaged 71 times with a total of 54 companies in 2015/16 through various methods which include attending meetings, attending AGM's, sending letters to and having a dialogue with the company.

2.D.3 Avon Pension Fund Activity

In addition the Fund participated in a variety of activities during the year as follows:

- Following success with BP and Royal Dutch Shell the 'Aiming for A' coalition which includes LAPFF continued this year with preparations for shareholder resolutions for Anglo American April 16, Glencore May 16 and Rio Tinto May 16.

  The Fund was supportive of LAPFF's backing to the coalition. The resolution was publicly supported by the Fund, Co-filed for Rio-Tinto, and covered 5 areas:

  - Ongoing operational emissions management
  - Asset portfolio resilience to post-2035 scenarios
  - Low carbon energy R&D and investment strategies
  - Strategic KPIs and executive incentives
  - Public policy interventions
  - ***Outcome:*** Anglo American resolution received 96.25% support, Glencore 98.07% and Rio Tinto 99.16%
- The Fund forwarded all LAPFF voting alerts to the relevant investment managers, monitored the voting outcomes and questioned the investment managers where they did not vote in line with the LAPFF voting recommendation.
- The Fund continued to engage with its investment managers on a number of topics throughout the year, such as living wage, climate change and board diversity, which the Fund's committee and Investment Panel had identified as particular areas to address. Through this on-going communication and questioning the Fund's managers are reminded of the importance that the Fund places on the engagement activities undertaken by them.
- The Fund sent letters to Managers surrounding Funding of Terrorists asking for Engagement and feedback on the following:
  - Gain reassurance that the underlying investments of the fund (the businesses it is invested in) are not involved in the sale or purchase of ISIS oils or in any funds settlement process associated with any such sales or purchase.
  - Engage with content providers and Internet Service Providers as to the processes they have in place to manage and monitor the user of their service by terrorist organisations, given the use of social media to spread their message and recruit new followers.
  - **Outcome:** Invesco, Jupiter and Standard Life have/are undertaking specific engagement with banks and ISPs in response to the Fund's request. RLAM and Genesis have been actively meeting with banks and management to discuss global concerns and BlackRock has rolled out annual mandatory financial crime training along with implementing a special sanctions working group. As a collective, investment managers are actively engaging with companies and monitoring investments via face to face meetings and database screenings. Along with legislation and engagement with government's, risk of underlying investment of the fund

being involved in the sale or purchase of ISIS oil or arms in any funds settlement process associated with any such sales is low.

- The Fund continued to participate in share action claims through a portfolio monitoring program operated by Robbins Gellar Rudman & Dowd LLP. Such claims arise when the court has ruled that fraudulent activity or misleading information has resulted in losses to shareholders. During the year the Fund took receipt of recoveries for 6 claims with 13 pending. Although most monetary claims are small, this activity is important as it supports the principle of holding companies and management to account.
- The Fund continues to participate in a share action group against Royal Bank of Scotland in relation to the rights issue launched in April 2008 in which it is contended that the information in the prospectus did not reflect a fair view of the financial strength of the bank.
- As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

Section 3: Statement of Compliance with Stewardship Code

AVON PENSION FUND

Statement of Compliance with FRC Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Avon Pension Fund takes its responsibilities as a shareholder seriously and believes that by discharging Stewardship duties it can enhance and protect value to the Fund. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too.

The Fund's policy in this area is set out in its Statement of Investment Principles (SIP) and Responsible Investment Policy which highlights:

- Monitoring of manager decisions
- The exercise of voting rights
- Risk measurement and management
- ESG consideration in the Tender selection, retention and realisation of investments.
- Statement of compliance with the Myners Principles
- Stock lending

In practice the Fund's policy is to apply the Code both through its arrangements with its asset managers and through membership of the Local Authority Pension Fund Forum. The Fund seeks to apply this code across all portfolios.

Each of the Fund's investment managers has an explicit corporate governance policy explaining how and when they will intervene in a company and how they measure the effectiveness of their strategy. 12 of 15 managers have published a statement of commitment to the Stewardship Code, an additional 3 since 2013. Links to manager statements are included in the appendices to this statement. The remaining three managers make investments in infrastructure, overseas property and currency hedging where the opportunity for stewardship activity is limited. 13 managers are signatories to the UK PRI, including the Infrastructure and property managers who are also closely aligned to the UN Global Compact.

The Fund's voting policy requires its UK equity managers to vote at all company meetings and the managers are expected to uphold the principles of the UK Corporate Governance Code. The overseas equity managers are required to vote at all overseas company meetings where practical.

Further details on how the Fund monitors the activity of external managers on an ongoing basis can be found in its response to Principle 3. Its monitoring of Voting can be found in its response to Principle 6.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

The Fund considers that conflicts of interest in relation to stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

Internal sources for conflicts of interest

Committee members and Officers may have other roles within or outside of the Administering Authority that may provide for conflicts unless they are identified and managed. An example may be the potential for the stewardship of any local investments made by the Pension Fund that could be directed to benefit wider Council policy.

The Fund seeks to address these in the following way:

Pension committee and investment panel members are required to make declarations of interest prior to committee and panel meetings in line with the council's code of conduct and interest rules. This is a standing item on every committee agenda and declarations are made public. Annually declarations should be made to the Monitoring Officer.

The Section 151 Officer has delegated responsibility of the Fund to the Head of the Pensions to separate decisions of the Council as Administering Authority and Pensions. This ensures that any stewardship decisions are made in the best interest of the Funds members and are not conflicted by the employer interests of the Administering Authority.

External sources for conflicts of interest

Third party advisors and Investment Managers tasked with representing shareholder interests may perform roles other than which they are employed for and to that extent conflicts may arise.

The Fund seeks to address these in the following way:

The Fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. Transactions should be conducted in the best interests of the client and effected on terms no less favourable to the client than if the conflict of interest did not exist. The need to avoid conflicts of interest is also highlighted in our Investment Management Agreements (IMAs) and contracts with external parties.

All investment managers have conflicts of interest policies in place, which most review annually. Several managers have Conflict of Interest Boards to monitor and investigate conflicts of interest. The third party proxy voters utilised by the Funds managers have Conflicts of Interest Boards and policies in place. Investment Managers annually review their providers voting policy to ensure it remains consistent to their approach to stewardship and that of its clients.

Where the Fund employs the expertise from Advisors and Service providers, conflicts of interest is included within the contracts and service level agreements.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's assets is delegated to external investment managers, and the Fund expects them to monitor the companies they invest in, intervene where necessary, and report back regularly on activity undertaken.

The Fund understands its Stewardship responsibilities and engages with its Investment managers via the following methods:

- Written correspondence
- Phone Calls
- One-to-one meetings

The Fund engages for the following reasons:

- To seek improvement in performance and processes in order to enhance and protect the value of the Fund's investments in order to meet its Fiduciary duty
- To monitor developments in ESG, business strategy, financial performance and management within a company
- To enhance our analysis of risks and opportunities.

The Fund monitors its managers on a quarterly basis by looking at performance against a benchmark, developments, and the rating provided by its investment consultant. On an annual basis manager performance is included in the Annual Report and as part of the Responsible Investment Report. Annually Internal control reports of all managers and custodians are reviewed.

In addition the Fund receives an 'Alerts service' from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies. These alerts are shared with the relevant asset managers. The Fund reviews Quarterly engagement reports provided by LAPFF at Pension Committee meetings. The engagement activity is summarised in the Fund's Annual Responsible Investment Report.

The Fund ensures that is does not become an insider to any trading activity. The policies of the investment managers towards becoming an insider can be found in their Stewardship Statements.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. Escalation by the Fund's managers may include:

- Additional meetings with management
- Intervening jointly with other institutions – e.g. Fund managers have shown support for LAPFF alerts by publishing their voting intention online prior to AGM's
- Promotion of UNPRI principles
- Writing a letter to the board or meeting the board
- Submitting resolutions at general meetings and actively attending to vote
- Divestment of shares

Actions by managers are considered and undertaken on the basis of protecting and enhancing client value. Individual manager guidelines for such activities are disclosed in their own statement of adherence to the Stewardship Code. Case studies of escalated intervention and outcome will be included in the Fund's Responsible Investment report from 2016 onwards.

On occasion, the Fund may itself choose to escalate activity, principally through engagement activity coordinated by the Local Authority Pension Fund Forum. The Fund analyses its own portfolio looking at ESG risks to shareholder value and advises managers of its focus each year. Any concerns with management are escalated to the Investment Panel agenda and where appropriate investment managers will be invited to panel meetings to discuss concerns.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund achieves this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members. Each year Committee members put themselves forward to be a representative at LAPFF meetings together with Officers, contributing towards setting the engagement focus for the year, and reporting back to the Committee. Examples of collaboration in the past include supporting shareholder resolutions for greater disclosure on carbon management strategies at BP and Shell.

In addition to the above collaboration Officers meet with other pension Funds, asset managers and other organisations to discuss developments in the market. As part of the LGPS pooling initiative, the Fund is supportive of collaboration across the LGPS Funds on voting and engagement which should improve transparency of voting and embed best practice.

The Fund's managers work collaboratively with other parties and provide details in their Responsible Investment or Stewardship reports. This collaboration is summarised in the Fund's Responsible Investment Report.

The Fund's contact with regard to Stewardship activities is Liz Woodyard, Investments Manager.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Responsibility for the exercise of voting rights has been delegated to the Fund's appointed investment managers who adopt their own voting guidelines. The Fund requires its managers to exercise all votes attached to its UK equity holdings, and to seek to vote where practical in overseas markets. This includes consideration of company explanations of compliance with the Corporate Governance Code. The Fund believes that the investment managers are best placed and have the necessary insight to vote in the best interests of its clients and align voting to the investment decision. Regular reports are received from asset managers on how votes have been cast.

The Fund itself does not use proxy advisory services but employs Manifest Information Services to provide detailed monitoring analysis of voting activity; this is reported on an annual basis as part of the Responsible Investment Report. Aggregate voting records of managers are reported to the Committee at the quarterly meeting.

Whilst not practical to publish each individual vote on every stock held, the Fund undertakes aggregate analysis to make the information disclosed more meaningful by identifying governance themes across the portfolio and comparing the voting activity of the investment managers against aggregate voting by shareholders. The activity is benchmarked against Manifests view of best practice

Table 1: Summary of Managers vote reporting and explanation where not fully published.

Manager	Report Type	Link
Blackrock	Votes	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	Votes	https://vds.issgovernance.com/vds/#/MTcy/
Invesco	Overview	https://www.invescoperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/ Invesco believes that automatic public disclosure of its voting records may have a detrimental effect on its ability to manage its portfolios and ultimately would not be in the best interest of all clients.
JP Morgan	Votes	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	Votes	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/Voting-Records
Pyrford	Not available	We do not publicly disclose voting records as we believe that information to be confidential to our clients.
Royal London	Votes	http://www.rlam-voting.co.uk/voting/
Schroders	Votes	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/
Standard Life	Votes	http://www.standardlifeinvestments.com/governance_and_stewardship/what_is_corporate_governance/our_voting_records.html
State Street	Votes	https://www.ssga.com/eu/gb/pension-investor/en/investment-goals/environmental-social-governance-esg/vote-summary-report-2015.html

TT	Not available	Does not publicly disclose voting records, as it considers that that information belongs to the clients on whose behalf it has voted and not the general public.
Unigestion	Not available	Provided to clients on request.

The Fund permits holdings in its segregated portfolios to be lent out to market participants. The Fund retains the right to recall loaned stock or block stock from being loaned from its segregated portfolios should the Fund wish to not lend the stock for any reason. The stock lending policy on pooled Funds is determined by the individual investment managers.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on stewardship and voting activity in its annual Responsible Investment Report. The report includes details of investment manager activity, voting analysis, LAPFF alert analysis, engagement and collaboration. Case studies will also be incorporated in the report from 2016 onwards.

The Fund also annually reviews and updates it's SIP, which sets out the Fund's approach to responsible investing and assesses compliance with governance best practice. Periodically the Fund also reviews its Responsible Investment policy. The engagement activity undertaken by LAPFF is reported to the Committee on a quarterly basis. The Fund's investment managers provide a mixture of annual, bi-annual and quarterly reports detailing their activities for the year; these are summarised in the Responsible Investment Report.

As part of its annual review of the Internal Control Reports of its managers, the Fund has identified the voting process as an area which is tested within the controls environment. All of the Fund's managers are independently verified by an external auditor, details of which are found in their ISAE 3402 made available by request or publicly on their websites. Where there are exceptions the Fund seeks clarification from managers and reports its findings to the committee.

For approval by Committee on 23rd September 2016

Manager Stewardship Code Statements

Manager	Link
Blackrock	http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship/voting-guidelines-reports-position-papers
Genesis	https://www.giml.co.uk/legal-notice.html
Invesco	https://www.invescoperpetual.co.uk/portal/site/ip/home/about-us/corporate-governance-and-stewardship-code/
JP Morgan	https://am.jpmorgan.com/uk/institutional/frc-stewardship-code
Jupiter	http://www.jupiteram.com/en/Jupiter-Fund-Management-plc/Governance/UK-Stewardship-Code
Pyrford	https://www.bmo.com/pyrford/responsible-investment/content/uk-stewardship-code
Royal London	https://www.rlam.co.uk/Documents-RLAM/Sustainable%20Investing/Stewardship%20Code%20StatementNovember%202014.pdf
Schroder	http://www.schroders.com/en/about-us/corporate-responsibility/responsible-investment/uk-stewardship-code/
Standard Life	http://www.standardlifeinvestments.com/governance_and_stewardship/the_uk_stewardship_code/index.html
State Street	https://www.ssga.com/investment-topics/environmental-social-governance/2015/Statement-on-the-UK-Stewardship-Code.pdf
TT	http://www.ttint.com/about-us/uk-stewardship-code.ashx
Unigestion	http://www.unigestion.com/wp-content/uploads/2014/10/Stewardship-Code-Policy.pdf

N.B. Signatories from time to time will update their policies. In the instance that the above links are no longer active the most recently submitted statements can be located on the FRC website:

https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code/UK-Stewardship-Code-statements.aspx

Appendix 1: Monitoring Review of Shareholder Voting 2015

Manifest Monitoring Review of Shareholder Voting 2015 for The Avon Pension Fund

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the fifth year (fourth 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 on-going 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. It should therefore be noted that investment managers may be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st January 2015 to the 31st December 2015. It represents a full year's voting.

Manifest analyses the issues at hand to provide customised voting 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 policy developed by Manifest for Avon.

Members should consider the Voting Template as a best practice framework to assess corporate governance standards for investee companies, rather than in terms of voting decisions by investors and therefore not a benchmark target for Avon's managers.

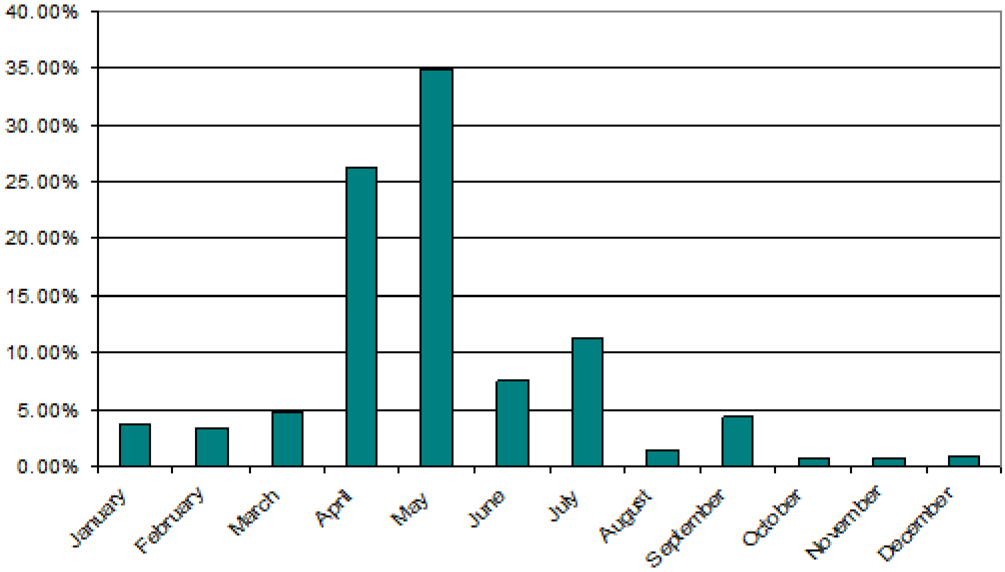
The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, Members should bear in mind that the fact the Voting Template identifies an issue of concern (i.e. suggests there may be a reason to not support management or requiring further fund manager review) 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 Season 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: Percentage of Total Annual Resolutions Voted Per Month below shows the percentage of total annual 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, with 61% of the voting occurring during those two months, and a further 19% during June and July.

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: Percentage of Total Annual Resolutions Voted Per Month



2 Executive Summary

Section 3 ("Explanation of Voting Activity & 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 2015, 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 905 meetings (1,166, in 2014), comprising a total of 13,532 resolutions (17,711, in 2014). Taking into account occurrences of more than one fund manager voting on the same resolution, in 1,053 meetings (1,401 in 2014), a total of 16,424 resolution analyses have been undertaken (21,880, in 2014).

- 8,450 were voted by BlackRock, again representing the largest proportion of the report data;
- 5,977 (7,609, in 2014) were resolutions where the Voting Template highlighted potential governance concerns and fund managers supported management;
- 613 (746, in 2014) were voted against management; and
- Management provided no recommendation on 63 resolutions; fund managers voted for 17, against 43 and abstained on 3.

Whilst the number of resolutions where concerns were identified but the fund's 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 remain the most frequently identified concerns, partly because they are the substantial issues of the most frequently voted resolutions.

The most common specific best practice governance criteria against which Manifest found Avon's portfolio companies to fall short were:

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

These are the substantial issues on which investors should focus, rather than whether specific resolutions were opposed or otherwise. Many of these are issues which have been consistently identified in this analysis every year. In October 2013 new company law regulations came into force in the UK which has had an effect upon the way in which 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.

By comparison with previous years, the concern of gender diversity on the board has diminished in prominence, which mirrors progress being made on the issue by companies (for example, there are now no all-male boards in the FTSE100 and only 15 in the FTSE250, a fact publicised in the Davies Review Five Year Summary Report. The report also identified that there are more women on FTSE350 boards than ever before, with representation of women more than doubling since 2011 – now at 26.1% on FTSE100 boards and 19.6% FTSE250 boards.

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 on page 24). We also examine which types of resolution have been the most contentious (Section 6 Voting Behaviour by Resolution Category page 27). In terms of overall patterns of voting behaviour, there is slight discernible difference from last year's findings. Except from TT International and Blackrock where support to management remained at the same level as last year's, Pyrford and Schroders' level of support to management increased by 4% in absolute terms. Jupiter's support to management decreased slightly resulting in similar support to shareholders, while Invesco, State Street and Genesis supported management noticeably less than last year.

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 claw back and/or malus provisions in incentive pay, absence of ESG considerations in setting incentive pay, and over-generous caps on annual and long term incentive pay plans.

Overall, Avon's managers in 2015 were marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2015 stood at 3.27% on average (compared to just short of 3.64% in 2014), Avon's fund managers opposed management on 3.75% of resolutions (up from 3.56%% in 2014). This is a reversal of last year's analysis where management supported management slightly more than the general shareholder; this is situated against a backdrop where shareholders in general have (on average) voted against management less, and where fewer issues of concern have been identified in the Manifest research. This suggests that the level of governance risk in the Avon portfolio might be at its lowest point since this monitoring began.

In this 2015 report, committee independence related concerns are again of high prominence, although there are also signs that companies in general are addressing board-wide independence concerns. With the increasing focus on ESG issues, we may be seeing an overall improvement at the same time. Remuneration concerns continue to remain highly represented within the top 10 most common policy concerns amongst Avon fund managers' portfolios.

In general terms this research has in the past suggested 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 come and go in line with contemporary concerns and developments. Although Avon's fund managers dissent has marginally increased, this year's report very much supports this hypothesis, with comparatively lower levels of concerns and dissent both from Avon's fund managers and shareholders in general, but many of the identified themes still very familiar.

A summary of the major developments and debates in global (and especially domestic) corporate governance and voting follows in the Hot Governance Topics, including amendments to the UK Corporate Governance Code, changes to the UK Pre-Emption Group Guidelines, progress on the EU Shareholders Rights Directive Part II, a fund manager monitoring initiative, and UK Modern Slavery Bills.

3 Explanation of Voting Activity & Monitoring Approach

This section "Explanation of Voting Activity & Monitoring Approach" 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 2015, 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 managers' approach to voting in more detail in a subsequent section of the report.

3.2 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 (AGMs), at which there is legally defined, mandatory business (Meeting Business) which must be put to the shareholders. These items will vary from market to market and are a function of local company law.

Mandatory business typically 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 (for example in the UK this is usually one third of current Issued Share Capital (ISC)), along with an accompanying request for the dis-application of pre-emption rights which is usually used for the payment of share-based remuneration schemes for employees. This is why, as noted above, AGMs have a significantly larger number of resolutions on average than do other types of meetings.

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 (Extra-ordinary General Meeting), 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 (SGM) 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 (higher) 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.

3.2.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 1,053 (1,401, in 2014) meetings in the full monitoring sample Avon Fund Managers voted at, 88.62% were AGMs (85.80% in 2014), with the majority of the rest constituting GMs 6.41% (7.64% in 2014) and EGMs 2.10% (4.28% in 2014). The remaining were nearly all Court Meetings 1.55% (1.36%), or Special General Meetings 1.22% (compared to 0.79% in 2014) and Class meetings 0.11% (0.14% during 2014), with no Ordinary General Meetings (0 in 2014). This is broken down per manager as follows. The total number of meetings voted by managers (1,053) exceeds the total number of companies (816) because of instances where more than one fund manager voted at the same meeting, and also due to 66 companies holding more than one meeting:

Table 1: Meeting types by fund manager

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	Total
BlackRock	524	511	57	11	6	-	13	598
Invesco	152	151	-	-	2	-	-	153
State Street	129	128	-	6	2	1	-	137
Jupiter	57	56	5	-	-	-	1	62
TT International	55	55	2	1	-	-	-	58
Schroders	22	21	1	1	1	-	-	24
Genesis	13	13	-	-	-	-	-	13
Pyrford	8	8	-	-	-	-	-	8
Total	816*	943	65	19	11	1	14	1,053

* Represents the total number of unique companies, not the sum total of companies or capital types voted by each manager.

Although we would expect there to be a 1:1 ratio between the number of companies voted and the number of AGMs voted (on the basis that all companies should have an AGM during the year), the small differences are likely to be explained by portfolio turnover. For example, if a fund manager sells a position in a company in June whose AGM is normally in September, replacing it with stock in a company whose AGM is in March, the fund manager will have owned two companies but had no AGMs to vote in either. However, where non-AGMs have taken place, these are still counted and therefore explain why the number of companies voted may exceed the number of AGMs voted. This is not as unlikely as it may seem – often when a company de-lists, a shareholder meeting is required, making it quite plausible that a company may have an EGM but no AGM during the year.

The very small number of meetings voted by Pyrford, Schroders and Genesis in this sample of 'full' monitored meetings means that full detailed analysis is less meaningful. This is due to the investment universe of their mandate.

3.3 Monitoring Approach

The Manifest Voting Template (Voting Template) analyses and considers best practice governance expectations in the context of company meeting business (i.e. what can be voted at a shareholder meeting). 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 applies 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 companies using this Voting Template in order to:

- Consistently identify company-specific governance policy issues, and
- Monitor and benchmark the actual voting behaviour of investment managers compared to:
    - ⇒ The average shareholder (based on meeting outcomes), and
    - ⇒ The best practice governance standards (based on regulatory and public policy standard).

The Voting Template is not a prescriptive list of mandatory voting requirements. It is understood that investment managers' actual voting behaviour will differ from the Voting Template. This is due to variances in views on governance and voting issues, investment strategy and the role of voting within on-going engagement and stewardship strategy. As such it offers the Fund a "sense check" of the stewardship approach managers are taking.

4 Common Policy Issues at Investee Companies

This section develops the themes identified in 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. By comparison with previous years, fewer concerns have been identified at portfolio companies.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive management 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 investee company is badly managed.

Analysis of the Voting Template settings allows for an in-depth study of the specific governance issues which have been identified by Manifest's research and analysis process. We have selected the most common issues which have been triggered by the Voting Template, to illustrate the most common 'issues' 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 5,977 (8,138, in 2014) resolution analyses where one or more concerns were identified by Manifest during 2015.

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 2015. 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, many relate to board and committee structures, with some cross-over with remuneration. Whilst the highest of them strictly speaking relates to governance, the fact that some remuneration issues continue to be prominent in relative frequency underlines the importance of governance as a management issue. In this case, as in last year's report the inference is that there is a relationship between the effectiveness of remuneration committee and the level of control over incentive pay.

The substance of the remuneration-related concerns which have moved up the list includes, the level of the upper bonus cap expressed as a percentage of salary for executive directors, a lack of disclosure of performance measures used for the exercise of options or vesting of awards.

Table 2: Most Common Policy Issues

Table Position	2015	2014	Position Change	Description
1	1,310	1,713	=	Less than 50-100% of the Nomination Committee is independent of management.
2	627	725	↑ (2)	Nominee has served for more than 84-144 months on the board.
3	608	786	↓ (1)	Nominee is not considered to be independent by the Board.
4	535	724	↑ (1)	There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration.
5	494	737	↓ (2)	Less than 50-100% of the Audit Committee is independent of management.
6	468	553	↑ (1)	The (Supervisory) Board will exceed 15-21 members following the meeting.
7	407	478	↑ (1)	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent.
8	370	486	↓ (2)	The upper bonus cap for any of the executive directors as a percentage of salary exceeds100-150% of salary.
9	344	426	=	Nominee represents a major shareholder.
10	312	343	↑ (2)	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).
11	303	361	↓ (1)	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%.
12	296	341	↑ (2)	The resolution has been proposed by shareholders.
13	276	223	↑ (7)	The authority sought exceeds 0-50%.
14	268	375	↓ (4)	The Board does not recommend a vote For the proposal.
15	236	337	↓ (2)	There is no independent verification of the Company's ESG reporting.
16	182	279	↓ (1)	A Nomination Committee does not exist (or its membership is not disclosed).
17	178	159	NEW	Nominee is a member of the Audit Committee in cases where the non-audit fees as a percentage of the audit fees exceeded 100%.

* Resolution Category: colour coding key:

- Audit & Reporting
- Board
- Capital
- Remuneration
- Shareholder Rights

Overall, Manifest flagged 12,624 policy issues across the 16,424 resolution analyses undertaken for this report. This 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 issues. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the operation of best practice governance analysis

Readers should note that the Manifest voting guidance system allows for an individual governance issue to be applied to multiple resolutions. This is because, for the most part, there is not a one to one match between a policy issue and a specific resolution. 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). Manifest reflects board accountability in its 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

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 high number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board-related considerations (director election).

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. Similar to 2014, 5 of the top 8 concerns 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 questions of board size, integration of Environmental, Social and Governance (ESG) issues into incentive remuneration setting and the level of annual bonus available to executive directors.

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 continue to 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 committee independence

We assess the independence of the audit committee, in terms of whether there is a sufficient number and/or proportion of directors deemed independent (by reference to the local best practice standards).

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 No independent verification of ESG reporting

The growth in importance of ESG considerations in investment heightens the profile of ESG information provided by companies and hence increases the need for its veracity. As more investors use ESG information in their investment decisions, it follows that such information should be subject to levels of verification equivalent to those of more traditional disclosures such as financial updates and governance reports.

4.3.3 No evidence to suggest ESG performance targets are used for incentive pay

Similar to the point above, the growth in importance of ESG matters for investors leads to a desire to see ESG factors feature among the targets used for determining incentive pay – a part of making executives incentivised to promote better ESG standards through the businesses they manage.

4.3.4 The number of meetings held by the non-executives without the executives present

We identify where there has been no meeting of Non-executives without Executives present disclosed by the company.

It is important for the Non-executives to meet without the Executives present in order to be able to have a free and open discussion about matters which may be more difficult to discuss with the presence of those who are running the business day to day.

4.3.5 The roles of Chairman and Chief Executive Officer are combined

We identify where the roles of Chair and Chief Executive Officer (CEO) are performed by the same person.

The over-concentration of power in one single office or person is a key potential risk factor in any organisation. Despite the fact that some markets (notably France and the US) have much more relaxed standards on this question than most others, investors increasingly expect companies to separate the roles of CEO and Chair. It is associated with the Audit & Reporting category because it is applied to consideration of the report and accounts.

4.3.6 Audit tenure

We analyse how long the audit company has retained its mandate with the company without change.

Recent legislation – including in the UK - has tightened rules relating to the length of time a company may retain the same auditor without re-tendering. The notion is that the longer an audit company (and an auditor) serves the company, the more they may have aligned interests which could affect the objectivity of the audit work they are responsible for. These regulatory developments have had the effect of establishing greater expectation on this question by investors globally, irrespective of local market traditions.

4.3.7 Auditor pay for non-audit work

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

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

4.4 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 48.93% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Nomination Committee Independence

We identify where the Nomination Committee does not have a sufficient number of or proportion of independent directors by reference to the local standards within which the company operates.

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.

4.4.2 Individual is non-independent member of a committee which is not suitably independent

Where an individual is partly or solely 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.

4.4.3 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 research they have commissioned Manifest to do has witnessed a visible relaxation of investors' attitudes towards holding companies responsible to the letter on this specific issue.

Because of this, companies 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 Board size

Many jurisdictions have soft or hard law provisions which determine a maximum size for the board. We therefore highlight where company boards are too large in the context of director election resolutions.

A board which is too large may be unwieldy in its decision-making, and could suffer from a lack of focus in arriving at decisions about strategic direction and in performing its oversight function effectively.

4.4.6 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.

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

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

4.4.8 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.

4.4.9 Nominee is non-executive, non-independent and the board is not sufficiently independent

We monitor whether boards' composition meets the independence criteria of the market where they operate. Where it doesn't, and the individuals who are contributing to this concern are up for (re)election, we highlight board composition as a concern in the context of their (re)election proposal.

4.4.10 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.

4.5 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.

4.5.1 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.

4.5.2 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 or Sustainability 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 Lack of claw back or malus/forfeiture on incentive pay

It has become increasingly important for investors to be able to hold executives to account for adjustments to the performance figures which previously triggered the defrayal of bonuses. We therefore highlight where remuneration policies and bonus schemes do not feature such mechanisms.

This underlines the importance of having all measures which are used for the determination of bonus payments – including ESG performance measures - to be externally verified.

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 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.

4.5.6 Length of the performance period used to measure attainment of long term targets

There has been some debate about what constitutes 'long term' when considering long term incentives. Local best practice codes often stipulate a minimum of three years, though some institutional investors are holding companies to a higher standard of 5 years.

4.6 Capital

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

The most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6.2 Dividends proposed to be paid to shareholders exceed profits

Also worthy of note in the context of capital related resolutions is the question of whether proposed dividends exceed profits. Companies may have a dividend policy which commits them to a certain level of dividend payment over the short to medium term. On occasion it is possible that where profits fall below the levels projected for that same time frame; the company is committed to paying a higher dividend than can be covered by profits attributable to the financial year in question. It is normal for the shortfall to be covered by reserves, but of course it is a question which deserves to be highlighted in the context of the long term financial sustainability of the company.

The other main means of returning capital to shareholders is via share buyback mechanisms.

4.7 Corporate Actions

The Corporate Actions category covers a 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 profit sharing agreements, acquisitions, related party transactions and schemes of arrangement. A scheme of arrangement (or a "scheme of reconstruction") is a court-approved agreement between a company and its shareholders or creditors (e.g. lenders or debenture holders). It may effect mergers and amalgamations and may alter shareholder or creditor rights.

4.8 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to resolutions which may affect the ability of shareholders to exercise some element of their rights (usually in a negative way by reducing ownership 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 so-called political donations. These resolutions are not specifically for party political donations as the EU include expenditure towards the realisation of political aims such as political lobbying, trade association memberships etc.

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.

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 and Pyrford, none of Avon's fund managers voted with management noticeably more than shareholders in general (i.e. by more than a factor of 2%), it should also be noted that Jupiter, Schroders, and BlackRock voted with management more than shareholders in general but not to the same extend as TT. State Street, Invesco and Genesis supported management noticeably less.

5.1 Fund Manager Voting Comparison

Table 3 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 certain jurisdictions, provision of such information by companies is not guaranteed. However, of the 16,424 resolutions analysed, Manifest obtained poll data for 15,058 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 3: Overall Voting Patterns

Fund	Resolutions Voted	Template For Mg't	Avon Managers Supported Management	General Shareholders Supported Mg't
BlackRock	8,450	68.52%	98.57%	97.45%
State Street	2,457	69.39%	92.90%	95.48%
Invesco	2,426	39.11%	89.90%	94.56%
TT Int'l	1,202	38.22%	99.67%	97.21%
Jupiter	1,101	70.03%	97.64%	97.36%
Schroder	360	51.94%	96.39%	95.99%
Genesis	258	54.65%	86.89%	97.99%
Pyrford	170	82.94%	99.41%	97.47%
Total	16,424	63.96%	96.25%	96.73%

* "General Shareholders Supported Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where management provided no

recommendation have not been included in the calculations for fund manager support and general shareholder support.

Table 3 shows that fund managers vote with management a high proportion of the time, and that the best practice Voting Template identifies potential governance issues on a far higher proportion of resolutions than the fund managers choose to oppose.

Using the "Template For Management" data as a proxy for compliance with corporate governance best practice expectations, the companies in the Pyrford, Jupiter, State Street, and BlackRock portfolios display a comparatively higher level of compliance with governance best practice. These portfolios compare particularly favourably with those of Invesco and TT International'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 decision-making, whereas BlackRock, for example, as an index 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 are global and therefore are exposed to a much higher potential variance of general governance standards; in particular this may be more marked for Genesis who invests solely in Emerging Markets. Pyrford's active stock picking approach is perhaps also reflected by a similarly high level of compliance with governance best practice.

We can compare each fund manager's overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the voting results data (where made available by companies)). Table 3: Overall Voting Patterns shows that, as in previous years, Avon's fund managers oppose management to almost exactly the same degree as all shareholders in general do, although Avon's fund managers did oppose management slightly more than shareholders in general. However, there are some variances between the respective fund managers.

As was the case in the 2012, 2013 and 2014 monitoring reports, TT have again supported management more than most shareholders, supporting management practically all the time. This also coincides with the fact that TT portfolio has the lowest level of compliance with the Manifest template. Conversely, Blackrock's levels of support for management are slightly higher than those of shareholders in general compared to the previous year, for the third report running, in the context of generally higher levels of support by comparison to the previous year. Jupiter's support of management is further in excess of other shareholders compared to the previous year. 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.

With regards to Pyrford, it is interesting to note that there is a high level of compliance with the corporate governance standards of the Voting Template, which is reflected in its support towards management. In comparison, Schroder's portfolio has a lower level of compliance with corporate governance standards yet Schroder have voted in support of management to a greater degree than the average shareholder.

State Street, Genesis and Invesco's support for management is 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.

State Street, although supporting management to a lesser degree than shareholders in general, does so to a less marked extent than Genesis 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, whereas the cases of Genesis and Invesco voting is notably less supportive of management, mirroring the fact that those portfolios also attract far more "Template Against Management".

6 Voting Behaviour by Resolution Category

Table 4 and Table 5 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 Dissent by resolution category

Where Manifest uses 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' 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 proposed resolutions, dissent is measured by taking into account votes cast differently to the management recommendation as described above (which may most commonly have been "Against").

Table 4: General Dissent By Resolution Category

Resolution Category	Number of Resolutions	Results Available	Average Dissent
Board	8,037	7,410	2.55%
Capital	2,949	2,763	2.69%
Audit & Reporting	2,274	2,072	1.45%
Remuneration	1,634	1,507	7.57%
Shareholder Rights	1,034	866	6.88%
Corporate Actions	176	145	3.69%
Sustainability	301	288	6.79%
Other	19	7	8.66%
Total	16,424	14,209	3.27%

* "Average Dissent" calculated from general shareholder voting results where available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Table 4 above shows the most common categories of resolutions at meetings voted at by Avon's fund managers. When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Average dissent across all resolutions in 2015 was lower than the previous year (at 3.27 %), this pattern was also identified in 2014 (3.64% compared to 4.97% in 2013). This represents an approval rating of greater than 96% overall.

Avon's fund managers in 2015 were, on average, slightly more active in expressing concerns through votes at shareholder meetings, voting against management on 613 occasions out of 16,424 resolutions, constituting an overall average opposition level of 3.75% excluding resolutions where management provided no recommendation (up from 3.56% in 2013, following 5.17 % in 2012 and 4.65% in 2012). This shows that Avon's fund managers voted against management to a slightly higher degree compared to the prior year, the 2014 monitoring report was the first time since this analysis has been undertaken for the fund that the fund manager's oppositional votes fell compared to the prior year. Therefore this year represents a return to previous trends with managers opposing management more often than shareholders, although only to slight degree. Some more patterns within this are demonstrated and explored more fully below.

As was the case in all previous years, 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.

6.2 Dissent on shareholder proposed resolutions

Table 5: Shareholder Proposed Resolutions

Resolution Category	Number Of Resolutions	Proportion Of All Such Resolutions	Average Dissent
Sustainability	98	32.56%	14.30%
Board	71	0.88%	26.70%
Shareholder Rights	69	6.67%	30.63%
Remuneration	58	3.55%	14.87%
Audit & Reporting	12	0.53%	9.35%
Other	9	47.37%	8.66%
Capital	9	0.31%	5.87%
Corporate Actions	4	2.27%	26.74%
Total	330	2.01%	19.11%

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The largest single proportion of the resolutions relating to aspects of Shareholder Rights once again 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.

Regarding Board-related resolutions (71 of the instances of shareholder proposed resolutions); Board Composition (22), Director Elections (17) and Election Rules (16) all feature prominently. The most common themes among the Election Rules resolutions – all of which were in the USA - were the enhancement of shareholder rights through allowing shareholders to make board nominations, or proposals to provide for majority or cumulative vote standards for director elections. The most common themes among the Board Composition resolutions – again, all were in the USA - were requests to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance.

In terms of Sustainability-related resolutions, as was the case in the previous three years the largest proportion were requesting disclosure of political donations, all in the US, where corporate political donations are a significant feature of the US system. 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 2014 and 2013.

The largest proportion of the Remuneration related shareholder proposals again came in the US, many requesting some sort of limit remuneration in some way, especially with regard to the use of stock options as a form of remuneration and the adoption of a policy that in an event of a change in control there shall be no accelerated vesting of equity awards. This apparent focus on the quantum of remuneration as well as the format is to be noted.

Avon's managers voted with Management on just 46.89% of all shareholder proposed resolutions (compared with 54% in 2014); with particular support shown for shareholder proposals on sustainability reporting issues and political donations (where shareholder proposals were supported over 85% of the time). It is also worth noting that Management routinely recommended voting against shareholder proposals, a vote in favour was recommended on eight proposals and no recommendation was provided on 57 proposals.

6.3 Board

Board related resolutions constitute nearly 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 6 below.

Table 6: Board Resolution Sub-Categories

Resolution Sub-Category	Number Of Resolutions	Template With Mgt	Avon Voted With Mgt	Overall S/Holder Votes With Mgt
(Re-)Elect Directors	7,606	63.62%	96.69%	97.6%
Directors Discharge	207	77.78%	96.60%	98.52%
Board Committee	118	95.76%	96.46%	97.20%
Other	36	61.11%	97.14%	92.14%
Board Size & Structure	30	96.67%	100%	99.09%
Election Rules	18	5.56%	33.33%	65.73%
Board Composition	22	0%	50.00%	72.55%
Total	8,037	64.27%	96.43%	97.45%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

Nearly all of the top governance issues listed on page12 are considerations relevant to the re-election of a director, and therefore to a very large extent explain the relatively low levels of alignment (64.27%) between the governance best practice template and company management recommendations on director elections in Table 6.

Of those resolutions where the fund managers opposed management on Director Election (251) (297 in 2014) resolutions 62 were instances where no governance issues highlighted by the Manifest. Overall, the most frequent governance issues Manifest identified on resolutions voted against management by fund managers were as follow:

Table 7: Board-related governance issues

Issues	Instances
1 (1) = Nominee is not considered to be independent by the Board	129
2 (3) ↑ Nomination Committee independence levels	89
3 (2) ↓ Nominee represents a major shareholder	62
4 (5) ↑ Nominee Tenure	39
5 (5) = Remuneration Committee independence level	32
6 (4) ↑ Overall board size	31
7 (5) ↓ No disclosure of Nomination Committee	27
8 NEW = Board does not recommend a vote FOR the proposal	26

On many 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, are what make 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 25.52% of all instances where management was opposed, compared to 20% in 2014) would suggest that fund managers are increasingly not afraid to apply their own (investment) judgement on these issues.

6.4 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 less often than shareholders in general, in particular in the case of share issues and pre-emption rights.

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. Other means of returning capital to shareholders is through share buy-backs.

Table 8: 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	1,467	79.07%	96.46%	95.56%
Share Buybacks & Return of Capital	700	89.57%	99.57%	99.22%
Dividends	636	75.94%	100%	99.50%
Treasury Shares	70	78.87%	97.14%	97.83%
Authorised Share Capital	34	55.88%	93.94%	93.81%
Capital Structure	27	66.67%	100%	98.40%
Equity Fundraising	4	45.45%	100%	97.56%
Bonds & Debt	11	50.00%	81.82%	98.10%
Total	2,949	80.33%	97.93%	97.31%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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

The top two frequent issues on capital related resolutions where there was a voting concern highlighted (as opposed to a ‘Case by Case’ flag) was the same as in 2014 and 2013. In 2015 there were 70 treasury share related resolutions compared to 109 in 2014. Resolutions relating to share issues, share buybacks and dividends also saw a fall in the number of resolutions compared to last year. This trend is explained by the overall reduction in resolutions in this year’s dataset.

Total instances observed in 2015 are indicated by the arrows next to the figures for:

1 New share issue authority exceeds 5-50% of existing share capital (274↑)
2 Ordinary dividends exceed profits (117↑)
3 Authority being sought is greater than 12-60 months (52↓)

6.5 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.

Table 9: Audit & Reporting Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Auditor Election	886	55.30%	95.55%	97.86%
Report & Accounts	804	22.76%	99.88%	99.28%
Auditor Remuneration	523	64.82%	99.62%	98.66%
Appropriate Profits	37	83.78%	100.00%	97.80%
Other A&R related	18	50.00%	100.00%	98.32%
Special Audit	3	100.00%	100.00%	-
Auditor Discharge	3	66.67%	100.00%	99.76%
Total	2,274	46.48%	99.69%	98.55%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

1,149 resolutions had at least one concern highlighted (not including 71 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. Besides auditor elections' resolutions which support to management was less than general shareholders, 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 with their votes.

Table 10: Common Concerns Identified On Audit & Reporting Resolutions

Issues	Instances (2014)
1 (1) = Less than 50-100% of the Audit Committee are independent of management	493 (595)
2 (2) = There is no independent verification of the Company's ESG reporting	236 (337)
3 (3) =There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration	197 (269)
4 (4) = No meetings held by the non-executives without the executives present	148 (159)
5 NEW ↑ Non-audit services have been provided however the Audit Committee has not disclosed its policy in relation to the allocation of non-audit work	115 (57)
6 (8) ↑ The aggregate non-audit exceed the aggregate audit fees	105 (107)
7 (7) =The auditors have provided statutory audit services to the Company for over 10 years	95 (111)
8 (5) ↓ The aggregate non-audit fees exceed the aggregate audit fees paid on a three year average	90 (137)
9 (9) = Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	83 (97)
10 NEW The Chairman sits on the Audit Committee	77(88)

6.6 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 11: Remuneration Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Remuneration Report	836	26.20%	94.14%	91.86%
Long Term Incentives	298	69.46%	91.95%	93.59%
Total Aggregate Remuneration	149	95.30%	93.96%	89.95%
Remuneration Policy	128	94.53%	92.19%	93.80%
Remuneration - Other	86	46.67%	65.88%	92.07%
Non-executive Remuneration	77	83.12%	98.70%	98.05%
Total Individual Remuneration	26	100.00%	88.46%	91.92%
Policy –Contracts	13	76.92%	84.62%	90.09%
All Employee Share Plans	10	70.00%	100.00%	99.32%
Item Individual Remuneration	9	55.56%	88.89%	94.92%
Short Term Incentives	1	100.00%	100.00%	70.27%
Policy – Other Components	1	100.00%	100.00%	99.06%
Total	1,634	51.65%	92.16%	92.43%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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.

The introduction of the vote on Remuneration Policy in the UK has certainly had an effect on shareholder voting. With a lot of investors adopting a "wait and see" approach with regard to policy proposals (preferring to see how the Regulations bed in over 3-5 years), all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it was often at a very high level, suggesting a more targeted approach on the part of investors.

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, along with resolutions dealing with individual remuneration.

Table 12: Common Concerns on Remuneration Resolutions

Concerns	Instances (2014)
1 (1) = The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	370 (486)
2 (2) = No indication of consideration of ESG issues in performance targets for incentive pay	336 (455)
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)	314 (343)
4 (6) ↑Less than 50-100% of the remuneration committee are independent directors	108 (161)
5 NEW There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators	99 (34)
6 (8) ↑ The exercise of options/ vesting of awards is not subject to performance conditions	98 (126)
7 (9) ↑The maximum potential severance payment exceeds 12 months' salary	93 (103)
8 (7) ↓ The minimum performance measurement or options/share awards holding period is less than 2-3 years	85 (151)
9 (4) ↓ No evidence of claw back measures in place in respect of the long-term incentives	77 (194)
10 (10) = Performance targets are not measured against a peer group or other benchmark	68 (89)

Table 12 shows the most common governance best practice concerns associated with remuneration-related resolutions by Manifest over the year. Many of these issues have been prevalent on a consistent basis over time.

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 was introduced for UK companies for 2014, which had a bearing on how investors voted. 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. The main challenge for all concerned was having the sufficient resources to manage the workload of increased engagement between companies and investors. It should be noted that not all policy votes in the UK region are actually binding.

This is largely due to companies incorporated outside the UK (e.g. in Bermuda, Jersey, Guernsey and Ireland) not being subject to the UK pay regulations, although a number of such companies may voluntarily put forward a remuneration policy. Such "voluntary" policy resolutions may not necessarily be of a binding nature. In addition, binding remuneration policy votes have been a longstanding part of meeting agenda in other markets, for example the Netherlands has provided for a binding remuneration policy shareholder vote since 2004.

6.7 Shareholder Rights

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

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 13: Shareholder Rights Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
General Meeting Procedures	453	94.4%	98.67%	92.83%
Other Articles of Association	363	94.49%	91.29%	95.35%
Meeting Formalities	160	99.38%	100.00%	92.25%
Shareholder Rights	48	27.08%	22.22%	68.02%
Takeover Governance	7	14.29%	85.71%	70.57%
Corporate Governance	2	100.00%	100.00%	99.73%
Anti-takeover Provision	1	100.00%	100.00%	90.83%
Total	1,034	98.16%	93.62%	93.12%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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 days' 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. Avon's fund managers have voted "For" management to a much greater extent than shareholders in general simply because foreign shareholders are more frequently opposing 14 day notice period permissions, simply because their voting mechanisms are not efficient enough to be able to vote a meeting called a less than 21 days' notice.

The 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).

Of the 66 resolutions where fund managers opposed management on Shareholder Rights related considerations, 37 were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Avon's managers are very well motivated to protect their interests and those of their clients, and much better so by comparison with the previous year.

6.8 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 they number among the most contentious resolution sub-categories for Avon's fund managers.

Table 14: Corporate Actions Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Significant Transactions	54	92.59%	100%	98.62%
Related Party Transactions	54	83.33%	83.33%	93.93%
Other Corporate Action	41	58.53%	97.56%	97.71%
Transactions – Other	19	21.05%	100.00%	93.90%
Change of Name	5	100.00%	100.00%	96.83%
Company Purpose & Strategy	2	100.00%	100.00%	-
Investment Trusts & Funds	1	0.00%	0.00%	73.26%
Total	176	48.30%	93.64%	96.31%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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 and especially significant transactions may well entail significant potential conflicts of interest.

6.9 Sustainability

With the exception of political activity, charitable engagement and sustainability reports, once again virtually 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, meaningful routine categorisation of these issues is very challenging, 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 15: Sustainability Resolution Sub-Categories

Resolution Sub-Category	Total Resolutions	Template With Mgt	Avon Voted With Mgt	Overall Votes With Mgt
Political Activity	228	12.82%	88.55%	94.34%
Other ESG	24	12.50%	66.67%	88.51%
Environmental Practices	18	0.00%	83.33%	92.14%
Human Rights & Equality	14	0.00%	57.14%	83.82%
Ethical business Practices	8	25.00%	66.67%	91.97%
Sustainability Report	5	0.00%	40.00%	93.42%
Charitable Engagement	3	33.33%	100.00%	95.88%
Animal Welfare	1	0.00%	100.00%	-
Total	301	11.62%	84.07%	93.21%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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. It is notable that although there is a significant gap between the low proportion of political activity resolutions the policy template implies support for and the actual (higher) proportion of resolutions where the portfolio managers supported such proposals, Avon's fund managers have opposed far more resolutions of this type than before this year. For the first time in this analysis, Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.

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 16 below shows the number of votable 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, and continues to do so.

Table 16: Genesis Voting By Category

Category	**Total Resolutions 2015**	**Voted with Management 2015**	Voted with Management 2014	Voted with Management 2013
Board	145	71.72%	77.99%	77.24%
Audit & Reporting	45	100.00%	96.28%	98.01%
Capital	22	95.45%	84.08%	81.36%
Remuneration	21	90.48%	82.74%	95.97%
Corporate Actions	8	87.50%	91.84%	92.71%
Shareholder Rights	16	93.75%	79.71%	89.04%
Other	0	-	55.56%	-
Sustainability	1	100.00%	75.00%	50.00%
Total	258	83.18%	83.68%	82.17%

What is interesting is the breakdown of the average support of management by resolution category. The level of support on Audit & Reporting and Remuneration related resolutions is much lower in 2015 than in previous years. The emergence of better disclosure of remuneration issues in some of the markets in which Genesis votes may now demand a more discerning approach than was possible before.

Findings on Genesis' board related resolutions (including director elections) show a dramatic decrease in support to management when compared to 2014 and 2013. Genesis supported management only 71.12 % of the time on the remaining Board-related resolutions, which may reflect the specific issues arising (directors in particular for Emerging Market companies) notably regarding independence.

Genesis' vote reporting data does not identify the country of each meeting.

7.2 Unigestion

Table 17: Unigestion Aggregate Resolutions Voting By Market

Country	Total Resolutions 2015	Voted With Management 2015	Voted With Management 2014
China	255	90.55%	97.14%
Taiwan	140	97.67%	92.39%
South Korea	81	93.83%	95.00%
Hong Kong	71	74.65%	83.98%
Malaysia	70	94.29%	90.63%
Thailand	66	90.91%	100.00%
India	63	93.65%	-
Cayman Islands	62	77.42%	-
Poland	51	95.56%	98.85%
Turkey	44	97.73%	78.72%
Brazil	42	89.19%	88.71%
Mexico	29	93.10%	97.50%
Bermuda	24	75.00%	-
Czech Republic	20	85.00%	90.91%
Indonesia	17	88.24%	87.50%
Philippines	14	100.00%	96.43%
South Africa	12	83.33%	88.24%
Russia	0	-	95.24%
Total	1,061	90.37%	90.67%

Not dissimilar to Genesis, caution should be used regarding the statistical significance of this data when making inferences at the market level. By comparison with the data in the BlackRock section of the report, the dissent levels towards Hong Kong and South Korean companies are broadly similar.

Unigestion's overall support level stands at around 90.37%, which is lower than the average, but again, like Genesis, it is best explained by the fact that generally governance standards are lower in many of the markets where Unigestion is voting.

Table 18: Unigestion Voting By Category

Category	Total Resolutions 2015	Voted with Management 2015	Voted With Management 2014
Board	377	88.24%	90.54%
Capital	255	86.67%	84.08%
Audit & Reporting	222	100.00%	97.11%
Corporate Actions	100	92.00%	96.04%
Remuneration	90	89.89%	82.46%
Shareholder Rights	47	76.67%	87.50%
Other	12	100.00%	-
Sustainability	2	100.00%	100.00%
Total	1,061	90.37%	90.67%

Table 18: Unigestion Voting By Category above shows the number of votable resolutions in each category type voted by Unigestion, as well as their average support of management on each. Although 1,105 resolutions were recorded in 2015, 44 were not voting resolutions. Unigestion opposes management more frequently on Shareholder Rights issues than any other, with Capital and Remuneration issues being notable in their dissent levels too. This is explained largely because many of the resolutions in those two issues touch on the question of control (either dilution of ownership in the case of Capital and in the case of Shareholder Rights the voting rights associated with capital types or resolutions of a certain type). Unigestion also opposed Board related resolutions frequently.

7.3 BlackRock

The aggregate analysis for the other fund managers includes 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 19 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 (Curacao and Liberia constituted a very small number of resolutions, so should be discounted as a statistical pattern), especially in Hong Kong, in comparison to BlackRock's average of 97% support for management in the detailed analysis. However, over the past three years, the general pattern of overall support for management by BlackRock for the aggregate analysis has increased both in the detailed and aggregate analyses.

In 2015, there was unanimous support for resolutions related to Audit & Reporting, Corporate Actions and Sustainability. These findings concur with previous years' trends; between 2013 and 2014 there was a 28.81% increase in the management support by the fund manager for Audit & Reporting resolutions and 2.68% increase for Corporate Actions resolutions.

Table 19: BlackRock Aggregate Resolutions Voting By Market

Country	**Total Resolutions 2015**	**Voted With Management 2015**	Voted With Management 2014	Voted With Management 2013
Japan	6,626	92.83%	91.72%	90.55%
South Korea	752	93.88%	87.16%	73.47%
Singapore	482	91.91%	94.58%	91.48%
Hong Kong	409	79.22%	76.40%	77.99%
Panama	17	100.00%	84.21%	100.00%
Curacao	14	98.86%	100.00%	100.00%
Liberia	12	91.67%	87.50%	83.33%
Total	8,312	92.62%	89.86%	87.79%

Table 20 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 change in the level of support for management on Audit & Reporting resolutions. Also noteworthy is the comparatively low level of support for resolutions pertaining to Shareholder Rights. This is again 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.

It is again notable that, as a proportion of the total number of resolutions in this aggregate analysis, remuneration resolutions form 6.7% of resolutions and 10% in the main 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 board related. This is again due to the very high proportion of resolutions which are director elections.

Table 20: BlackRock Aggregate Voting Patterns By Resolution Category

Category	**Total Resolutions 2015**	**Voted with Management 2015**	Voted with Management 2014	Voted with Management 2013
Board	6,717	92.82%	91.23%	90.44%
Capital	636	77.52%	83.13%	82.02%
Remuneration	410	89.54%	83.53%	83.33%
Audit & Reporting	288	99.65%	99.13%	69.32%
Shareholder Rights	137	70.07%	69.79%	12.24%
Corporate Actions	52	100.00%	95.56%	92.88%
Sustainability	72	100.00%	100.00%	100.00%
Total	8,312	89.94%	89.86%	87.79%

Conversely, there is a high level of support for management on sustainability issues. Readers may recall that many resolutions on sustainability issues are largely proposed by shareholders and are therefore often characterised by a comparatively higher level of dissent normally.

However, as was the case the previous years, a large proportion of the sustainability themed resolutions in 2015 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 again in 2015, as they had done in previous years since 2011.

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

7.4 State Street

State Street's voting in the aggregate analysis markets is also relatively statistically significant, especially in Japan. Table 21 shows a higher level of support for management than BlackRock.

Table 21: State Street Aggregate Resolutions Voting By Market

Country	**Total Resolutions 2015**	**Voted With Management 2015**	Voted With Management 2014	Voted With Management 2013
Japan	3,113	95.28%	95.74%	94.32%
Hong Kong	252	76.33%	76.97%	74.50%
South Korea	289	94.77%	95.04%	91.35%
Singapore	175	90.29%	94.14%	89.33%
Total	3,829	89.17%	93.28%	91.27%

Similar to BlackRock, and identically to previous reports, State Street's support for management at meetings of Hong Kong companies is noticeably lower than for other resolutions from the other countries included in the analysis. Findings on Singapore are inconclusive due to low number of resolutions.

Table 22: State Street Aggregate Voting Patterns By Resolution Category

Category	**Total Resolutions 2015**	**Voted with Management 2015**	Voted with Managemen t 2014	Voted with Management 2013
Board	2,598	93.53%	95.71%	92.96%
Capital	285	88.47%	80.88%	81.40%
Remuneration	224	89.69%	89.58%	87.31%
Audit & Reporting	562	87.63%	98.85%	98.20%
Corporate Actions	31	63.64%	78.95%	81.25%
Sustainability	16	93.75%	94.29%	97.37%
Shareholder Rights	101	88.12%	90.63%	81.25%
Other	2	-	100.00%	57.14%
Total	3,829	86.40%	93.28%	91.22%

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 22 shows that the majority of resolutions were board-related, due to the large number of director elections especially prevalent in Far East markets.

Of those with a sufficient number of examples to draw patterns from, resolutions pertaining to share Corporate Actions as well as Capital (issue or re-issue of equity in particular) is the resolution type where the fund manager is most likely to oppose management. Given the subject matter (questions related to the issue of new capital or approve mergers/takeovers are likely to catch the eye of financial analysts), it is unsurprising that this area is characterised by higher dissent levels from the fund manager.

It should be noted that the 2015's proportion of the resolutions opposed to management by State Street is higher than in 2014 and 2013. The average support to management by State Street was below 90% which perhaps reflects that voting takes place in markets which may be thought to be characterised by higher levels of governance related risk (such as control for example) than many others.

7.5 Invesco, Jupiter, TT International & Schroder

Invesco, Jupiter and TT international did not 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.

8 Conclusions

This is the 5th annual report Manifest has produced for the Avon Pension Fund (the fourth year with full year analysis). Consistent with the report on 2014 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, specific themes can be and are raised with companies on a campaign/ strategic basis on specific questions which, over time, contribute to positive progress (for example, proxy access and double voting rights).

We expect to see overall trends of gradual improvement in corporate governance standards continuing, 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. Additionally, developments in the governance risk profile across equity asset allocation caused by changes to investment mandates from year to year may also have an effect upon the overall picture. Consequently, although we expect trends to improve over the long term, positively identifying them year on year is much harder to do.

For this reason, readers should not expect to see a marked change in companies' 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. However, the four year trend both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.

We anticipate that incentive performance measures will continue to be a prominent theme, climate change, auditor independence, auditor tender, audit fees may prove to be prominent themes in commentary about 2016, which will be characterised by regulatory developments in the role and rights of shareholders.

There are some key regulatory developments which come into play during 2015 that may have a bearing on next year's report. These include EU audit reform regulation. Further details on these developments may be found in the appendix, which covers:

- UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing (UK and Ireland);
- UK Corporate Governance Code (including 2016's amendments);
- UK Stewardship Code;
- OECD Principles of Corporate Governance;
- The EU Shareholders Rights Directive Part II;
- EU Transparency Directive;

- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT);
- Pre-Emption Group Guidelines;
- UK Modern Slavery Bill; and
- UK's Investor Association Updates to Executive Pay Guidelines.

In summary, this report shows evidence that governance concerns at portfolio companies during 2015 were at a lower level than in previous years, although in the emerging and Far East markets there is still clearly more cause for concern on certain issues, especially relating to control). 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 engagement strategy alongside use of ownership rights on behalf of the fund.

The results of the analysis show that fund managers are voting with management marginally less than shareholders in general. 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. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, on-going monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

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9 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 2015" which is available upon request.

9.1 UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing (UK and Ireland)

In April 2016 the Financial Reporting Council (FRC) published final draft updates to the UK Corporate Governance Code its Guidance on Audit Committees and Auditing and Ethical Standards. The FRC has introduced all of the changes in a single revision to ease the process of implementation as well as to reduce costs. The FRC has committed to avoid further updates to the Code until at least 2019.

The revised Code, Guidance on Audit Committees and Auditing and Ethical Standards are expected to be effective for the audit of financial statements for periods beginning on or after 17 June 2016.

9.2 Audit and Ethical Standards

The FRC's Ethical Standard covers the independence requirements for auditors as well as reporting accountants (previously in the Ethical Standard for Reporting Accountants) and for engagements to report to the FCA on client assets. The revisions incorporate recent EU reforms and requirements set by the International Ethics Standards Board for Accountants (IESBA). The changes aim to strengthen auditor independence by applying prohibitions to a range of engagements that could result in an auditor facing a conflict of interest.

The key revisions to the Ethical Standard incorporate the EU reforms for public interest entities (PIEs) for non-audit services. There are additional changes over and above the EU reforms affecting existing rules on providing tax services to listed entities on a contingent fee basis – a term covering a listing on any exchange worldwide – as well as a general clarification of the principles relating to advocacy in respect of tax.

In addition, EU rules on capping fees for non-audit services to 70% of the average fees paid for audit services over the previous three consecutive financial years have been inserted. In regards to non-audit services, there are also changes for auditors relating to personal independence – a broadening in scope of "covered persons" and persons connected to engagement team members who cannot have certain prohibited financial, business or employment relationships, and a clarified rule on gifts and hospitality offered to or accepted by the auditor.

9.3 UK Corporate Governance Code

The proposed changes to the Corporate Governance Code are restricted to the Preface and to section C.3 of the Code, which covers the audit committee and auditors. One notable change is the deletion of the requirement for audit retendering to take place every ten years on account of the provision being superseded by the Audit Regulation and Directive and Competition & Market Authority's Remedies to avoid duplication between the Code and the regulations.
The recommendation for audit committees to have at least one member with 'recent and relevant financial experience' has been amended to bring the Code in line with the EU Audit Regulation and Directive, additionally the Code calls for the audit committee as a whole to have competence relevant to the sector in which the company operates. In addition, the audit

committee report should now describe any advance notice of any plans to retender the external audit. Hence, changes to the Guidance on Audit Committees focus on both the activities of the audit committee and the disclosure in the audit committee report.

Lastly the Code now recommends that the annual report should include advance notice of external auditor retendering plans.

We summarise the main changes in the table below.

9.4 UK Governance Code – 2014-2016 Changes at a Glance

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Audit Committee Expertise C.3.1	The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has competence in accounting and/or auditing recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector in which the company operates.
Audit Tender Requirements C.3.7	The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. FTSE 350 companies should put the external audit contract out to tender at least every ten years. If the board does not accept the audit committee's recommendation on the appointment, reappointment and removal of the external auditors, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Advance Retendering Disclosure C.3.8	A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include: - the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of retendering plans; and -if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

9.5 UK Stewardship Code

Since its introduction in 2010 the UK Stewardship Code has been replicated in many countries around the world. In late 2015 the FRC announced plans to introduce public tiering of signatories to the Code in July 2016.

The tiering is intended to improve reporting against the principles of the Code as attention shifts from the quantity to the quality of signatories.

The FRC state this will help asset owners judge how well their fund manager is delivering on their commitments under the Code; help those who value engagement to choose the right manager; and in consequence provide a market incentive in support of engagement.

Signatories will be as assessed as being:

- Tier 1 – meeting reporting expectations in relation to stewardship activities. Asset managers will be asked to provide evidence of the implementation of their approach to stewardship. The FRC will look particularly at conflicts of interest disclosures, evidence of engagement and approach to resourcing and integration of stewardship; or
- Tier 2 - not meeting those reporting expectations.

9.6 OECD Principles of Corporate Governance

On 5 September 2015 the G20/OECD Principles of Corporate Governance were released. The OECD principles are one of the 12 key standards for sound financial systems of the Financial Stability Board and form the basis for the corporate governance of the Report on the Observance of Standards and Codes of the World Bank Group and have long been a reference point for regulators and policymakers as well as companies and investors. The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral agreements for exchange of information. 3.1.1

The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral arrangements for exchange of information. It also states that impediments to cross-border voting by shareholders should be eliminated and shareholders should be allowed to consult each other. This is of importance as one area that has continued to be a significant area of concern for investors is the failure to appropriately address the voting chain in terms of cost, time consumption,, cross-border voting inefficiency and for issuers in many markets to know who their real owners are – the issue of shareholder identification links with the EU Transparency and the issue of cross-border voting with electronic voting.

At the same time as the Principles the OECD simultaneously also published its latest Corporate Governance Factbook (OECD, 2015c). The Factbook compiles information gathered from OECD and certain non-OECD country delegates as part of a series of thematic reviews. The thematic reviews cover major corporate governance challenges that came into focus following the 2008 crisis including; board practices (including remuneration); institutional investors; related party transactions; board member nomination and election; supervision and enforcement; and risk management.

9.7 The EU Shareholders Rights Directive Part II

In July 2015 the European Parliament voted on a number of revisions to the draft policy of the Shareholder Rights Directive (SRD) including the removal of an employees' say on pay and allowing member states to decide as to whether a shareholder vote on remuneration policy is advisory or binding. The SRD has yet to be ratified and lobbying on the final shape of the Directive will continue throughout the technical Trilogue process. Trilogue process is constituted by informal tripartite meetings attended by representatives of the European Parliament, the Council and the Commission.

This follows the steps taken in 2014 by the European Commission when commenced the process of revising and updating the Shareholders Rights Directive, which came into force in 2007.

Most significant in the context of this report is the fact that the Commission proposed measures designed to encourage better engagement with companies by institutional investors, because of a perception that the problem of short-term investment decisions is 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.

During the negotiations, the question of enhanced voting or dividend rights for long term shareholders has been proposed as a solution to the problem of short-termism.

However, this brings more pressure to bear on the need for better ability to identify shareholders, in order to facilitate more efficient transmission of information, the exercise of shareholders rights, and now the allocation of loyalty votes or dividends.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It initially proposed requiring shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals. However, companies across Europe have been successful in watering down many of the requirements.

The Directive is also likely seeking 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.

9.8 EU Transparency Directive

The amended Transparency Directive entered into force on 26 November 2015 across the EU creating a common basis for disclosure and dissemination of regulated information to EU markets on a regular and on-going basis. A briefing paper has been issued by the European Securities and Markets Authority (ESMA) to ensure proper implementation across all member states.

In the UK the Transparency Directive has been adopted through amendments to the Financial Services and Markets Act which introduced new Transparency Regulations and through changes to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules. One of the key changes is that the FCA can apply to court for a voting rights suspension order against a "vote holder" of shares in a company which are admitted to trading on a regulated market where that vote holder has breached the significant shareholder notification regime. Respondents to the FCA's consultation suggested this new power should only apply in respect of the most serious breaches of the rules.

9.9 Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)

A separate but relevant development related to the provisions about fund manager performance evaluation in the Shareholder's Rights Directive has been the launch of the "Red Lines Voting

Initiative" by the Association of Member Nominated Trustees. The aim of this initiative is to better equip AMNT members in holding their fund managers to account for their voting on issues where companies fall short of the governance "Red Lines" of their policy. The initiative is virtually identical in concept to the vote monitoring Avon undertakes with this report.

9.10 Pre-Emption Group Guidelines

In May 2016 the FRC's Pre-Emption Group (PEG) released a monitoring report showing the progress of implementation of the Statement of Principles, which were updated in 2015.

Using data from Manifest as one of its primary sources, the PEG found that the revised principles were largely adhered to while the FRC said the report's findings showed the importance of open dialogue and engagement between investors and the companies to which they have allocated their capital.

The principles provide that a company may seek authority by special resolution to issue non-pre-emptively for cash equity securities representing: – no more than five per cent of issued ordinary share capital in any one year; and – no more than an additional five per cent of issued ordinary share capital provided that, in the circular for the Annual General Meeting at which such additional authority is to be sought, the company confirms that it intends to use it only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The key changes to the principles were making it clear that they apply to both UK and non-UK incorporated companies whose shares are admitted to the premium segment of the Official List of the UK Listing Authority and that they apply to all issues of equity securities that are undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction, including, for example, "cashbox" transactions. The changes also gave flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice and provided greater transparency on the discount at which equity securities are issued non-pre-emptively.

The group has also produced template resolutions for the dis-application of pre-emption rights complying with the PEG's principles to assist companies. This template recommends companies propose two separate resolutions to cover the dis-applications envisaged by the principles. In 2016, the PEG said it will be looking for continued improvement in disclosure of the intended and actual dis-application of pre-emption rights and for all companies to engage with their shareholders and adhere to the letter and spirit of the statement of principles.

9.11 UK Modern Slavery Bill

On 10 June 2014 the UK Modern Slavery Bill was introduced to Parliament and received royal assent on 26 March 2015 and under S.54 of the Act all commercial organisations with a year end of 31 March 2016 or later in any sector, which supplies goods or services, and carries on a business or part of a business in the UK – therefore having a global impact - and is above a specified total turnover, to produce a slavery and human trafficking statement for each financial year of the organisation.

The Act has been criticised for not requiring companies to report on the supply chains of overseas subsidiaries meaning that the Act will not prevent parent companies in the UK from profiting from any slave labour used in their supply chains abroad by non-UK subsidiaries. It is however possible for a business to comply with the provision by simply stating that no steps have been taken during the financial year, although this would have a potential impact on business reputation. However, overall the new rules present a step forward in promoting transparency in relation to company actions related to modern slavery and ensure directors consider the issue of modern slavery risk by requiring the statement to be considered by the company's board and signed by a director.

Regulations have set the total turnover threshold at £36m – according to the Home Office's consultation paper the £36m threshold will apply to 12,259 companies active in the UK. Companies are expected to publish their statements as soon as reasonably practicable after the end of the financial year in which they are producing the statement, in practice this will be within six months of the year end. The Act requires each organisation to publish the statement on their website and include a link in a prominent place on its homepage, if an organisation does not have a website a copy of the statement is to be provided to anyone who requests one in writing.

9.12 UK's Investor Association Updates to Executive Pay Guidelines

In November 2015 the Investment Association (IA) published its annual executive remuneration principles update. In light of the undergoing review by IA's Executive Remuneration Working Group the principles remained largely unchanged and the IA has stated that a major revamp of the principles will be announced in 2016 following the publication of the Working Group's recommendations for the "radical simplification of executive pay" in spring 2016.

The sole change to the principles sets out an expectation that executive directors should not be able to sell LTIP share awards for cash until at least five years after the award was granted rather than an expectation of three years and a suggestion of five which was set out in the 2014 principles.

In tandem with the revised principles the IA's (2015b) annual letter to remuneration committee chairs was also published setting out key issues which IA members have asked for re-emphasis for next season;

- Salary increases –concerns with frequent increases and all increases should be justified with clear and explicit rationale, particularly for any increases in excess of inflation or the increases provided to the general workforce;

- Bonus disclosure - where companies do not disclose any retrospective targets or do not commit to full future disclosure, members have asked IVIS to Red Top those. Where relative achievement is disclosed with no commitment to disclose the actual target ranges, an Amber Top will be given. This policy will take effect for companies with yearends on or after 1 December 2015;

- Service contracts - new contracts should have equal notice periods for both the company and the director and companies should introduce clauses to allow the withholding of pay in lieu of notice where there is any ongoing regulatory or internal disciplinary or misconduct investigation;

- Pensions – executive pension arrangements should be in line with those for the rest of the workforce; and

- Recruitment and leaving arrangements – recruitment awards should not be re-awarded or re-issued in circumstances of a fall in company value and full justification of the treatment of departing directors, particularly when a director is deemed to be a good leaver, should be provided to investors.

In April 2016 the Investment Association's Executive Remuneration Working Group released an Interim Report providing recommendations that it hopes will produce more satisfaction by investors and company bosses. The report notes that remuneration takes up a lot of the time spent in talks between shareholders and management when there may be more significant issues that should be discussed.

The report also states that markets are trading at broadly the same levels as eighteen years ago and 10% below its peak– however executive pay over the same period has more than trebled and there is an increasing disparity between average wages and executive wages. This misalignment has resulted in widespread scepticism and loss of public confidence. Failure has sometimes been rewarded, and use of median comparators has driven disproportionate rises in executive remuneration.

The report states that the Working Group is of the opinion that the near-universal usage of a three-year long-term incentive performance model overly constrains consideration of other remuneration structures, which may be more appropriate to a company's own business model and strategy

The working group will consult stakeholders in a series of roundtables over the next two months before producing a final report. The IA has informed the Working Group of its intention to review whether to adopt their recommendations in its Principles of Remuneration after the publication of the working group's final report.

Topical updates are available throughout the year via the Manifest quarterly Bulletin and the weekly blog, Manifest-I.

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Appendix 2: ESG Approaches of Current Investment Mandates

Manager	ESG Approach
Blackrock	• Recognise the importance of identifying and managing ESG risk and opportunities as a component of investment analysis • Engage with companies on ESG issues relevant to long-term economic performance. • ESG analysis extends across all sectors and geographies to identify companies lagging behind peers. As long-term investors Blackrock seeks for companies to change on their own terms, but are persistent to ensure they adopt sound practices that support long term value creation.
Genesis	• ESG factors are evaluated before investing in a company and through the investment period. Businesses are formally ranked, based on qualitative judgement on sustainable competitive advantage and the likely persistence of excess returns. Assessment of the quality of a company continues for so long as the holding is in client portfolios. • Management quality is assessed by the stock owner through ongoing dialogue with the board and company management via regular meetings, site visits, calls and correspondence. Stock owners engage with management on a variety of material issues, including ESG matters, which impact strategy or performance.
IFM Investors	•Responsible investment factors and their impact are assessed on new investments entered into. IFM aim to improve the performance of investee companies across a range of responsible investment factors. •A detailed proprietary guide has been developed to assess infrastructure ESG factors and risks against IFM policy and with reference to international benchmarks; this includes a checklist of over 80 questions such as greenhouse gas emissions, water supply, waste, environmental pollution, labour and community relations, governance and workplace safety.
Invesco	• Employ EIRIS to provide engagement to assist with RI Policy by providing Research & targeting, reporting, identifying companies and objectives, establishing dialogue and response and analysis. Strategy focuses on five key ESG themes Human Rights, Climate change, Bribery & Corruption, Water, and Supply chain. • Employs Risk Metrics Group Services to provide proxy analysis and voting. • In general Invesco engage in 3 to 5 companies a year.
JP Morgan	• Actively engage managers on a range of issues that may include social, environmental and sustainability concerns. • Review the governance structure prior to making an investment in a manager and when appropriate and material we actively engage with our managers to improve on their governance. Actively strive to ensure that their managers are consistently using best practices and will encourage change when they aren't.
Jupiter (R.I Mandate)	• Use a screening approach that excludes investments in armaments, tobacco, nuclear power as well as extractive sector companies, whilst integrating Environmental, Social and Governance criteria into company selection. • Jupiter monitors investments. They are active investors who engage directly and use voting rights to improve standards of corporate governance, environmental and social responsibility. • Provide regular updates of activities as active shareholders, including involvement in industry initiatives.
Partners	• Identifies and analyses ESG factors from an early stage, using the firm's clear methodology to mitigate risk, allow for active value creation and positive benefits. Judgements on these factors are fully integrated into Partners Group's five step investment process (irrespective of asset class) to ensure that investments respect, and where possible, benefit society and the environment.
Pyrford	•Include Environmental & Social Governance ratings in stock summary analysis in addition to four corporate governance indicators (Ownership structure, Voting structure, Accounting disclosure, Governance track record). It is the responsibility of the portfolio manager/analyst to rate each of these from 1 to 5. • Engage the services of MSCI to provide specialist research into the ESG impacts of investee companies and ratings. The investment team discuss in detail MSCI rating falls, if falls to B or

	CC “out-of-cycle” engagements takes place with company to identify why.
Royal London	• In-house ESG team works closely with Fixed Income team – allows RL to focus analysis on debt issuers. Sustainability research is supplemented by thematic and tailored coverage and engagement, with a particular emphasis on debt specific factors and sectors e.g. Utilities, Social Housing and Oil & Gas • Engage with companies across asset classes; meet with management & directors to discuss topical issues that impact holdings – such as tax, remuneration and planning for a lower-carbon energy portfolio with O&G majors • RL’s longer-term investment approach, which reflects their position as lenders to the companies rather than traders of corporate bonds, places a particular emphasis on sustainability
Schroder Equities	• The Global equity strategy fully integrates ESG analysis within its bottom up fundamental approach. • ESG and sustainability factors are analysed and appraised both within the initial modelling and stock-rating conducted by the regional equity analysts and, separately by the Global & International Equity team’s Global Sector Specialists (GSS), as a part of the team’s assessment of the sustainability of future earnings growth and fundamental risk assessment of each stock. The GSSs assign a formal ESG score for each stock from 1 to 5. • Stocks are selected for portfolios on the basis of an appraisal of both the growth potential of a stock and assessment of fundamental risk, both of which incorporate an assessment of ESG. Schroders seek to balance upside potential and downside risk in the weighting of stocks within portfolios in order to deliver consistent and attractive risk-adjusted returns.
Schroder Property	• The property team considers ESG factors in its investment process and in the on-going monitoring of managers. • We seek to ensure that our Managers are aware of their obligations and have appropriate processes in place, e.g. through evaluation of annual GRESB (Global Real Estate Sustainability Benchmark) submissions on sustainability performance. This is both good practice and also good business.
Standard Life	The RI team is active throughout Standard Life Investments, working closely across asset classes with all investment teams including the Multi- Asset team and the governance & stewardship team (G&S). The overall objective is to ensure every facet of ESG is integrated across the business. Standard Life apply this approach throughout the investment processes.
State Street (SSgA)	• ESG investment considerations extend to the active ownership process. SSGA has developed Proxy Voting and Issuer Engagement Principles that consider ESG issues in the stewardship process • Developed a proprietary ESG portfolio screening tool which flags higher risk companies for priority engagement. • Building strong relationships with the boards and management teams of investee companies and monitoring their performance is an essential component of enhancing long-term value.
TT	• ESG risks are treated in the same way that TT treats other risks to specific investments. • It is the role of every analysts to ensure that their stock analysis takes into consideration ESG factors e.g. regulation changes (GHG emissions), physical threats (climate change), brand and reputational issues (health & safety, labour practice), shareholder rights and corporate governance. Where the risk is perceived too high it is the stock would be rejected as a suitable candidate for the portfolio. • TT continues to monitor for the emergence of ESG risks and will take action depending on the severity e.g. engage with company, vote against resolution at AGM or sell the stock.
Unigestion	In all of our equity portfolios we include ESG analysis at different steps of the process to eliminate stocks with important specific ESG risks such as environmental, excessive carbon emissions, workforce treatment or corporate governance issues, legal problems or fraud. We also exclude stocks with direct exposure to controversial weapons (cluster bombs, landmines, depleted uranium, and chemical and biological weapons) from all our equities portfolios.