Manifest Monitoring Review
of
Shareholder Voting 2016
for
The Avon Pension Fund

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the sixth year (fifth full year of analysis) for which Manifest has undertaken a thematic review of the shareholder voting of the Avon Pension Fund, 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; and
- 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 2016 to the 31st December 2016.

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.

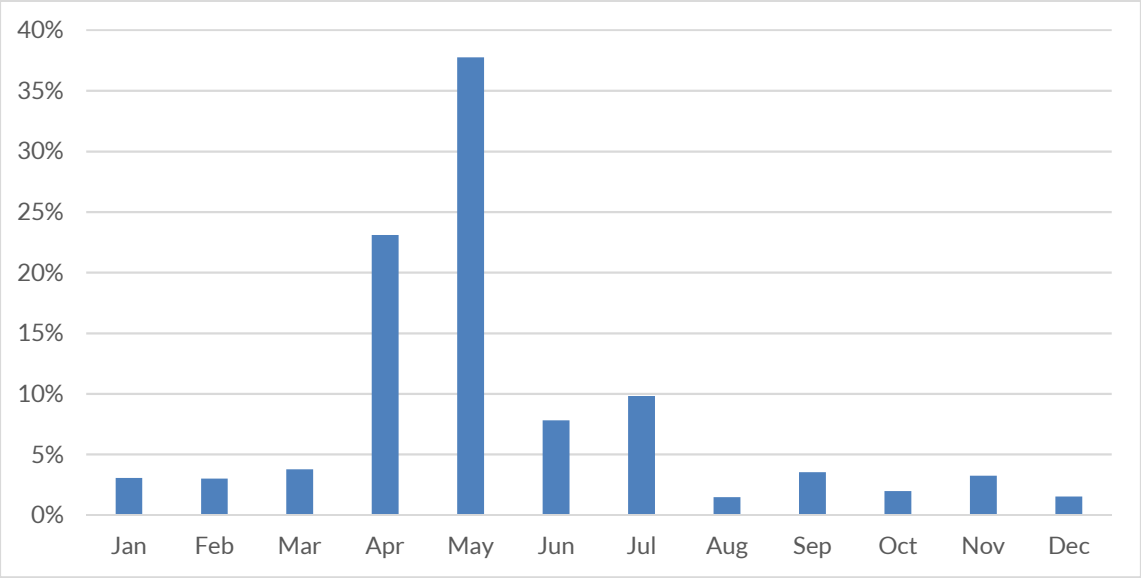
The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, it is understood that managers voting will differ from the Voting Template, due to variances in views on governance and voting issues, investment strategy and the role of voting within ongoing engagement strategy. Members should bear in mind that the fact the Voting Template identifies an issue of concern 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 majority of companies reporting a financial year ending the 31st December, the largest proportion of annual company meetings takes place in 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, as covered by the full monitoring survey, voted by Avon's fund managers per month.
Figure 1 shows that majority of voting decisions occur in April and May (61%), and the second largest proportion during June and July (18%).

Asset owners, like the Avon Pension Fund, should be aware that such a high concentration of work inevitably risks the commoditisation of voting decisions. This in turn increases the likelihood of outsourcing voting decision-making responsibility to outside consultants. In recent years, this dynamic has become 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 asserting 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 the 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 2016, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America). The research brought a total of 1,002 meetings (905, in 2015), comprising a total of 14,616 resolutions (13,532, in 2015).

Taking into account occurrences of more than one fund manager voting on the same resolution, in 1,189 meetings (1,053 in 2015), a total of 17,801 resolution analyses have been undertaken (16,424, in 2015).

- 8,733 (8,450, in 2015) resolutions were voted by BlackRock, again representing the largest proportion of the report data;
- 6,904 (5,977, in 2015) were resolutions where the Voting Template highlighted potential governance concerns and fund managers supported management;
- 651 (613, in 2015) resolutions were voted against management; and
- Management provided no recommendation on 118 resolutions; fund managers voted for 36, against 76 and abstained on 6.

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; and
- Board size.

Many of these are issues were consistently identified in this analysis in the prior year. Many of these instances will have seen portfolio companies provide explanations for non-compliance, following the "comply-or-explain" regime. These are the substantial issues on which investors should focus, rather than whether specific resolutions were opposed or otherwise.

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 is still in prominence, which mirrors some progress being made on the issue by companies. In 2016 the Davies Review Five Year Summary Report recommended for the target of 25% female board representation by 2015 at FTSE100 companies to be expanded to the FTSE350 and to 33% of boards. The expanded target was subsequently adopted by the current and on-going Hampton-Alexander Review, this review has a particular focus on getting more women into executive positions as well as onto boards. There have also been business-backed initiatives launched such as the Women in Finance Charter and the 30% Club. According to Manifest's data there is still room for improvement on this issue as current board female representation averages 26.8% in the FTSE100 and 21.8% in the FTSE250.

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 26). We also examine which types of resolution have been the most contentious (Section 6 Voting Behaviour by Resolution Category page 29).

Overall, Avon's managers in 2016 were marginally more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent in 2016 stood at 3.41% on average (compared to 3.27% in 2015), Avon's fund managers opposed management on 3.68% of resolutions (down from 3.75% in 2015). Concurrently, although Avon's managers opposed management more often than general shareholders, overall level of support to management from Avon fund managers has modestly increased by 0.27% from last year (96.32% in 2016 and 96.25% in 2015).

The number of potential corporate governance issues identified in Avon's holdings increased from the prior year, the level of compliance with the best practice template decreased by 5.5% (i.e. 2016's template with management is 58.46%, and 63.96% in 2015).

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 voice their concerns before using their share voting rights.

Conversely, the report also shows evidence where managers have opposed management even where no governance concerns were highlighted, which may suggest an organic, active use of voting rights to enhance the wider ownership process.

As with last year's analysis, Avon's managers have opposed management more often than general shareholders; this is situated against a backdrop where shareholders in general have (on average) voted against management more, and an increase in the number of issues of concern identified in the Manifest research.

This suggests that whilst the level of governance risk in the Avon portfolio might be higher in 2016, fund managers assertively make use of Avon's voting rights to ensure that good practices of corporate governance and sustainability are at place amongst Avon's holdings.

In this 2016 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. 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. This year's report very much supports this hypothesis, with comparatively higher levels of concerns identified and increased dissent from 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 Stewardship Code, EU Shareholders Rights Directive Part II, EU Non-Financial Reporting Guidelines, the Pension and Lifetime Savings Association Guidelines, Investment Association guidance updates, new GC100 Remuneration Guidance, and stakeholder initiatives like Caring for Climate Initiative and human capital initiatives.

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 2016, 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.

Since UK and European companies may sometimes challenge the legal terminology for non-Annual General Meetings; some meetings during the period under review were reported as an EGM (Extra-ordinary General Meeting) and 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 1,002 (905, in 2015) meetings Avon Fund Managers voted at, 87.52% were AGMs (88.62% in 2015), with the majority of the rest constituting GMs 6.49% (6.41% in 2015) and EGMs 3.39% (2.10% in 2015). The remaining were Court Meetings 1.40% (1.55%), or Special General Meetings 0.90% (1.22%) and Class meetings 0.30% (0.11%).

Table 1 details the types of meetings voted at by each fund manager during the review period. The total number of meetings voted by managers (1,189) exceeds the total number of companies (895) because of instances where more than one fund manager voted at the same meeting, and also due to 82 companies holding more than one meeting:

Table 1: Meeting types by fund manager

Fund Manager	Companies	AGM	GM	EGM	SGM	Class	Court	Total
BlackRock	530	524	62	13	5	3	13	620
Invesco	173	170	0	4	3	0	0	177
State Street	158	156	0	7	1	0	0	164
Jupiter	58	57	8	0	0	0	1	66
TT International	40	38	10	2	0	0	3	53
Schroders	50	50	1	0	1	0	0	52
Unigestion	27	23	0	4	0	0	1	28
Genesis	14	12	0	6	0	0	0	18
Pyrford	10	10	1	0	0	0	0	11
Total	895*	1,040	82	36	10	3	18	1,189

* 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 Unigestion, Genesis and Pyrford 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, more 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 7,509 (5,977, in 2015) resolution analyses where one or more concerns were identified by Manifest during 2016.

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, a larger number of issues of concern were identified at companies during 2016. This is explained in part by there being a higher 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.

Table 2: Most Common Policy Issues

Table Position	2016	2015	Position Change	Description
1	1454	1310	=	Less than 50-100% of the Nomination Committee is independent of management.
2	594	608	↑ (1)	Nominee is not considered to be independent by the Board.
3	588	627	↓ (1)	Nominee has served for more than 84-144 months on the board.
4	518	494	↑ (1)	Less than 50-100% of the Audit Committee is independent of management.
5	511	276	↑ (8)	The authority sought exceeds 0-50%.
6	506	535	↓ (2)	There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration.
7	491	468	↓ (1)	The (Supervisory) Board will exceed 15-21 members following the meeting.
8	387	296	↑ (4)	The resolution has been proposed by shareholders.
9	380	99	NEW	There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators
10	375	407	↓ (3)	Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent.
11	368	115	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.
12	363	370	↓ (4)	The upper bonus cap for any of the executive directors exceeds100-150% of salary.
13	361	344	↓ (4)	Nominee represents a major shareholder.
14	315	314	↓ (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, based on maximum possible vesting).
15	310	268	↓ (1)	The Board does not recommend a vote For the proposal.
16	293	303	↓ (5)	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100%.
17	232	236	↓ (2)	There is no independent verification of the Company's ESG reporting.

* Resolution Category: colour coding key:

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

This year two new policy issues entered the most common policy issue table – executive pay alignment with KPIs and non-audit policy disclosure.

The alignment of executive pay with performance is an important issue for shareholders, incentive pay arrangements should be designed to facilitate the creation and sustainability of long-term shareholder value. The design of remuneration structures is an ever-growing area of prominence in the executive pay debate and institutional investors are increasingly taking stricter views on how structures should be aligned with business strategy. Linking performance metrics utilised in incentive arrangements with the KPIs identified by a company in its communications with shareholders presents one way of aligning pay with the delivery of corporate strategy. This specific policy issue has seen year-on-year increases in the number of flags in Avon's portfolio reflecting the ongoing executive pay debate.

Recent EU legislation introduced limits on the type of non-audit services an auditor can undertake as well a cap on non-audit fees of 70% of the average fees paid for audit related services in the previous three consecutive financial years. This has had the effect of establishing greater investor expectation irrespective of local market traditions and therefore a stricter application of related concerns such as the disclosure of a policy on non-audit services in a wider range of markets.

Overall, Manifest flagged 14,020 policy issues across the 17,801 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 sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of Board related considerations. Board and Remuneration governance concerns continue to be the two most common flagged issues, as was the case in previous reports.

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 previous years, 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 size of a requested capital authority, the integration of Environmental, Social and Governance (ESG) issues into incentive remuneration setting, and resolutions being proposed by shareholders.

The second most common group of issues identified relate to remuneration. This is again in part due to some of their association with director elections (executive director elections demand consideration of whether the proposed remuneration and incentive structure for the individual being proposed for (re)-election is appropriate). The remuneration related issues most commonly flagged relate to the level at which the potential for excessive incentive pay might be capped (both short and long term incentive pay), the lack of linkage to ESG issues and key performance indicators, 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.

Recent EU legislation introduced limits on the type of non-audit services, including tax advice and services linked to financial and investment strategy, an auditor can provide. A cap on fees for non-audit services of 70% of the average fees paid for audit services in the previous three consecutive financial years has also been introduced. As is the case with the audit tenure this has had the effect of establishing greater investor expectation irrespective of local market traditions.

4.4 Board

Many of the most common governance criteria that were triggered 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 47.91% 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 board presence is perhaps the most obvious measure. It is recognized that boards perform best with the best people appointed to them, and for that reason; diversity of all kinds (including gender) should be encouraged.

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 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.

The size of a capital requests was also identified on share buyback authority requests. A share buyback is when a company repurchases its own shares from the marketplace, reducing the number of shares in issue. Repurchased shares are typically either held in Treasury or cancelled. Over the last couple of decades share repurchase activity has experienced an extraordinary growth globally. Of late, many institutional investors have argued against share buy-backs as an effective tool to return capital to shareholders.

An issue to consider with buyback authorities is the potential impact on targets under director incentive plans, potentially making them easier to achieve. This is pertinent if a company has an active buy-back programme in place. Best practice recommendations on the size of buyback authority requests tend to come from institutional guidelines and corporate governance codes, in addition company law typically stipulates a maximum size that may be repurchased.

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 most common flags concerned were scheme of arrangement, related party, acquisition, merger and disposal. 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. TT International, Blackrock, and State Street's level of support of management remained at a similar level as to last year (less than 0.2 percentile change). In contrast, Invesco, Jupiter, and Genesis's level of support to management increased by over 1 percentile point, Genesis's level of support saw the largest increase of 13 percentile points, and Schroder and Pyrford's level of opposition to management increased by over 1 percentile point.

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 17,801 resolutions analysed, Manifest obtained poll data for 16,596 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	8,733	64.70%	98.66%	97.26%
State Street	2,872	64.66%	92.95%	95.88%
Invesco	2,685	35.12%	92.98%	95.17%
Jupiter	1,151	69.59%	99.39%	97.38%
Schroder	833	33.61%	90.16%	94.76%
TT International	828	65.94%	99.52%	96.86%
Genesis	251	40.24%	95.22%	97.14%
Unigestion	241	31.12%	82.99%	96.42%
Pyrford	207	74.40%	97.58%	96.43%
Total	17,801	58.46%	96.32%	96.59 %

* "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, TT International, 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, Unigestion, Genesis and Schorder's portfolios, which show lower levels of convergence with the template.

This continues to reflect Jupiter's practice of accommodating a company's governance characteristics in their investment decision-making. Although BlackRock is an index investor which preclude them to hold the entire set of stocks in the index, Blackrock has the third highest level of compliance after Pyrford and TT International. Pyrford's active stock picking approach is perhaps also reflected by a high level of compliance with governance best practice. Jupiter portfolio, on the other hand, is limited to UK whereas the Unigestion, 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.

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 whereas made available by companies). Table 3: Overall Voting Patterns shows that, as in previous years, Avon's fund managers oppose management to almost at the same degree as the overall shareholders. However, there are some divergences amongst the respective fund managers.

While TT International has supported management more than most shareholders, like in the previous year, there has been a marked increased level of compliance with corporate governance best practice amongst its managed assets on behalf of Avon. TT International's portfolio has the third highest level of compliance, this represents a significant increase from last year whereby the portfolio had the lowest level of compliance (38.22%). The change may in part be explained by a significant reduction (31%) in the number of resolutions voted by TT International, it could be inferred that the companies with the lowest levels of compliance are no longer in the portfolio resulting in a higher level of compliance. In comparison, all other fund managers saw an increase in the number of resolutions apart from Genesis (2.71% decrease) and Unigestion which was not included in last year's aggregate analysis.

With the exception of TT International, Blackrock's levels of support of management is higher than the other fund managers, Blackrock's support of management is also slightly higher than its support in 2015 (98.57%). This is despite the fact that overall level of compliance with corporate governance best practice amongst its managed assets has decreased by 5% (68.52% in 2015).

Like previous years, 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.

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 Unigestion, Schroder, State Street, Genesis, 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 has opposed management more so than Genesis and Invesco both in terms of overall support and difference with general shareholders, 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 attracted far more governance concerns under the "Template For Management". Schroder and Unigestion's lower levels of support of management is also reflected in more governance concerns identified in their portfolios.

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 whereas 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	8,528	7,971	2.64%
Capital	3,364	3,208	3.16%
Audit & Reporting	2,548	2,351	1.40%
Remuneration	1,751	1,637	7.87%
Shareholder Rights	952	869	6.39%
Sustainability	378	336	8.01%
Corporate Actions	241	216	4.31%
Other	39	7	1.41%
Total	17,801	16,596	3.41%

* "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 shareholder dissent (at 3.41%) across all resolutions in 2016 was comparably higher than the average dissent in 2015, although lower than 2014 (3.27% in 2015, and 3.64% in 2014). This also represents a rate of support of greater than 96% overall.

Avon's fund managers in 2016 were, on average, slightly more active than general shareholders in expressing concerns through votes at shareholder meetings. The managers voted against management on 651 occasions out of 17,801 resolutions, constituting an overall average opposition level of 3.68% (excluding resolutions where management provided no recommendation).

However, the overall level of fund manager dissent, although higher than general shareholders, is lower than 2015's dissent level (3.75%). This presents a case where general shareholder dissent increased and fund manager dissent decreased yet remains higher than general shareholders. Further 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	174	46.03%	15.29%
Board	82	0.96%	25.82%
Shareholder Rights	79	8.30%	24.93%
Remuneration	39	2.23%	13.23%
Other	26	66.67%	1.64%
Capital	15	0.45%	5.72%
Audit & Reporting	15	0.59%	2.25%
Corporate Actions	3	1.24%	2.15%
Total	433	2.43%	17.60%

* "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 two largest types of shareholder resolutions relating to aspects of Shareholder Rights related to requests to amend voting standards and/or voting rights and 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 (82 of the instances of shareholder proposed resolutions); Board Composition (26), Director Elections (23) and Election Rules (25) 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 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 previous years the largest proportion of resolutions were requesting enhanced disclosure on political donations and/or lobbying, all in the US, where corporate political donations are a significant feature of the US system. Other common proposals related to targets on gender and diversity, and climate change risk. Of the rest, nearly all were related to the improvement of sustainability reporting, human rights, environmental practices, and miscellaneous specific sustainability proposals.

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 the adoption of a policy that in an event of a change in control there shall be no accelerated vesting of equity awards, adoption of share retention policies, and adoption of clawback provisions. This apparent focus on the quantum of remuneration, potential for reward for failure, as well as the format is to be noted.

Avon's managers voted with Management on just 42.49% of all shareholder-proposed resolutions (compared with 46.89% in 2015); with particular support shown for shareholder proposals on shareholder rights and sustainability issues especially political donations (where shareholder proposals were supported over 75% 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 104 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	Total Resolutions	Template With Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Directors - Elect	8,003	58.13%	97.13%	97.56%
Directors - Discharge	288	67.36%	96.18%	96.85%
Board Committee	104	80.77%	94.23%	71.88%
Other Board/Director related	41	60.98%	97.22%	95.56%
Board Size & Structure	35	85.71%	100.00%	99.248%
Election Rules	29	24.14%	42.31%	71.160%
Board Composition	27	90.00%	44.44%	71.88%
Directors - Remove	1	0.00%	100.00%	63.896%
Total	8,528	58.54%	96.74%	97.36%

* "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.

Some of the top governance issues listed on page 12 are considerations relevant to the re-election of a director, and therefore to a very large extent explain the relatively low levels of alignment (58.13%) 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 a director (re-)election (229) (251 in 2015) resolutions, 52 were instances with no governance issues highlighted by the Manifest.

In regards to the resolutions where governance issues were highlighted, on many occasions, there were multiple concerns with 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.

Table 7: Common Concerns Identified On Board Resolutions

Issues	Instances (2015)
1 = Less than 50-100% of the Nomination Committee is independent of management	1,443 (1,299)
2 (1) ↑ Nominee is not considered to be independent by the Board	594 (608)
3 (1) ↓ Nominee has served for more than 84-144 months on the board	588 (627)
4 = The (Supervisory) Board will exceed 15-21 members following the meeting	487 (466)
5 = Nominee is a non-independent member of the Remuneration Committee and less than 50-100% of the Remuneration Committee is independent	375 (407)
6 = Nominee represents a major shareholder	361 (344)
7 = Nominee is a non-independent member of the Audit Committee and less than 50-100% of the Audit Committee is independent	293 (303)
8 (1) ↑ Nominee is non-executive and not independent and less than 33-66% of the Board is independent	178 (148)
9 = A Nomination Committee does not exist (or its membership is not disclosed)	144 (170)
10 (NEW) Nominee is a non-independent member of the Nomination Committee and less than 50-100% of the Nomination Committee is independent	144 (119)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) ↑ means the issue has moved up one place within the top 10 from the prior year.

A notable proportion (22.02%) of board resolutions where management was opposed did not have a potential governance concern identified. Although the proportion has fallen (25.52% in 2015), the continued presence of such resolutions suggests fund managers are not afraid to apply their own (investment) judgement on governance 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. A Case-by-Case guidance cannot technically be considered as a direct opposition to management recommendation or to a fund manager's voting direction. However, a Case-by-Case consideration does indicate that a potential governance issue has been identified for review. On the two largest resolution sub-categories, Avon's fund managers voted against management less often than shareholders in general, particularly 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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Issue of Shares & Pre-emption Rights	1,725	65.91%	97.62%	94.94%
Share Buybacks & Return of Capital	749	87.05%	98.93%	98.63%
Dividends	703	74.25%	98.72%	99.57%
Treasury Shares	125	73.60%	92.80%	97.26%
Authorised Share Capital	33	51.52%	96.97%	97.67%
Capital Structure	14	50.00%	100.00%	99.06%
Bonds & Debt	13	38.46%	100.00%	97.86%
Equity Fundraising	2	50.00%	100.00%	95.29%
Total	3,364	72.32%	97.98%	96.84%

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

The 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 2015 and 2014. In 2016 there were 125 treasury share related resolutions compared to 70 in 2015. Resolutions relating to share issues, share buybacks and dividends also saw an increase in the number of resolutions compared to last year. This trend is explained by an overall 14.07%increase in the number of capital related resolutions from last year's dataset.

Total instances observed in 2016 are indicated by the arrows next to the figures for:

1. New capital authority exceeds 5-50% of existing share capital (507↑)
2. Ordinary dividends paid as a percentage of profits exceeds 100% (202↑)
3. Authority being sought is greater than 12-60 months (39↓)

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Auditor Election	1,012	47.33%	99.21%	98.08%
Report & Accounts	892	20.74%	99.55%	99.11%
Auditor Remuneration	532	66.73%	99.44%	98.89%
Appropriate Profits	58	79.31%	98.28%	97.89%
Other A&R related	47	74.47%	93.62%	97.43%
Special Audit	4	100.00%	-	-
Auditor Discharge	2	100.00%	100.00%	99.32%
Auditor Independence	1	0.00%	0.00%	95.64%
Total	2,548	43.41%	99.21%	98.60%

* "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.

1,275 resolutions had at least one concern highlighted (not including 172 "Case-by-case" resolutions). Some of the most common concerns that Manifest identified are indicated in the table below. Management did not provide a recommendation on all four Special Audit related resolutions.

Avon Fund Managers slightly expressed a higher rate of concern on resolutions pertaining Appropriate Profits, and miscellaneous Audit & Reporting matters as well as Auditor Independence than general shareholders. Regarding resolutions on Audit Election, Report & Accounts, Auditor Remuneration and Auditor Discharge, the very high degree to which Avon's fund managers have voted with management on resolutions of this type is an 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 (2015)
1 = Less than 50-100% of the Audit Committee are independent of management	516 (493)
2 (3) ↑ Non-audit services have been provided however the Audit Committee has not disclosed its policy in relation to the allocation of non-audit work	365 (115)
3 (1) ↓ There is no independent verification of the Company's ESG reporting	231 (236)
4 (1) ↓There are no disclosures to indicate that the remuneration committee considers ESG issues when setting performance targets for incentive remuneration	182 (197)
5 (1) ↓ No meetings held by the non-executives without the executives present	146 (148)
6 (1) ↑The auditors have provided statutory audit services to the Company for over 10 years	111 (95)
7 (NEW) The roles of Chairman and CEO are combined	93 (53)
8 (NEW) Less than 33-50% of the Board is independent	84 (52)
9 = Less than 50% of the Board, excluding the chairman, are considered to be independent according to local best practice	81 (83)
10 (NEW) A separate senior non-executive director / senior independent director has not been appointed	65 (73)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) ↑ means the issue has moved up one place within the top 10 from the prior year.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Remuneration Report	851	22.33%	94.36%	92.32%
Long Term Incentives	287	58.19%	89.90%	92.96%
Remuneration Policy	141	92.91%	94.24%	91.58%
Total Aggregate Remuneration	138	84.78%	92.03%	89.75%
Non-executive Remuneration	120	70.83%	95.80%	97.47%
Total Individual Remuneration	69	98.55%	97.10%	92.50%
Remuneration - Other	57	50.88%	85.71%	94.89%
All Employee Share Plans	41	85.37%	97.56%	97.45%
Policy –Contracts	28	92.86%	64.29%	84.39%
Item Individual Remuneration	10	90.00%	100.00%	89.26%
Item Aggregate Remuneration	7	71.43%	85.71%	97.40%
Short Term Incentives	2	0.00%	50.00%	95.44%
Total	1,751	49.23%	92.90%	92.95%

* "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.

Readers will note that Policy Contract and "Remuneration – Other" (including termination payments and provisions), and item aggregate remuneration received the highest levels of opposition from Avon's managers.

Table 12: Common Concerns on Remuneration Resolutions

Concerns	Instances (2015)
1 (5) ↑There is no clear linkage between the performance measures used in the incentive pay elements and the key performance indicators	380(99)
2 (1) ↓The upper bonus cap, where set and disclosed, exceeds 100-150% of salary	363(370)
3 (1) ↓No indication of consideration of ESG issues in performance targets for incentive pay	324 (336)
4 (1) ↓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)	315 (314)
5 (1) ↓Less than 50-100% of the remuneration committee are independent directors	134 (108)
6 (NEW) The nature of the targets utilised under the bonus scheme are not disclosed	121 (31)
7 (1) ↓ The exercise of options/ vesting of awards is not subject to performance conditions	109 (98)
8 (NEW) Accelerated vesting of LTIP awards on termination is permitted for any of the executive directors (i.e. vesting of awards not pro-rated down on termination following a change of control)	95 (56)
9 (2) ↓ The maximum potential severance payment exceeds 12 months' salary	93(93)
10 (2) ↓ The minimum performance measurement or options/share awards holding period is less than 2-3 years	84 (85)

* The number in brackets (thus) represents the position change from the previous year. Hence (1) ↑ means the issue has moved up one place within the top 10 from the prior year.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.

Whilst the quantum of bonus and long term incentive payments are the widely debated contentious issue in the corporate governance of public listed companies, questions about alignment between KPIs and incentive pay and integration of ESG in performance targets are stepping forwards as critical issues for asset owners.

Frequently, such considerations are all associated with the Remuneration Report resolutions, which showed a high 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.

The regulatory requirements surrounding remuneration votes vary widely across market. Following the enactment of the UK Enterprise and Regulatory Reform Bill amendment in October 2013 shareholders have a tri-annual binding remuneration policy vote, an annual non-binding vote on policy implementation, a vote on approving severance payments exceeding 12 months, and a vote on amendments to LTIPs.

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.

Across Europe, the shareholder approvals on remuneration issues differ widely between markets, although increasingly shareholders are being asked to consider an advisory vote on the remuneration report and in some markets a binding vote on remuneration policy. Since 2004, there has been an EU-wide Recommendation inviting Member States to have provisions for companies that "remuneration policy for directors should be on the agenda of the shareholders' general meeting". While the Shareholders Rights Directive is set to introduce new rules on a say on pay votes allowing shareholders to vote at least every three years on a listed company's remuneration policy. It will be up to each Member State to decide whether the vote will be binding or advisory.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
General Meeting Procedures	449	94.65%	97.32%	92.26%
Other Articles of Association	278	87.41%	94.18%	96.88%
Meeting Formalities	147	84.35%	98.64%	99.01%
Shareholder Rights	52	40.83%	37.50%	75.27%
Anti-takeover Provision	12	16.67%	75.00%	89.72%
Takeover Governance	11	0.00%	72.73%	64.20%
Corporate Governance	3	0.00%	33.33%	82.86%
Total	952	85.61%	93.75%	93.61%

* "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 58 resolutions where fund managers opposed management on Shareholder Rights related considerations, 40 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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Related-Party Transactions	93	59.14%	87.10%	92.76%
Significant Transactions	84	3.57%	98.81%	97.24%
Other Corporate Action	42	80.95%	100.00%	97.29%
Transactions – Other	12	50.00%	100.00%	99.37%
Change of Name	7	100.00%	100.00%	98.17%
Company Purpose & Strategy	3	0.00%	66.67%	97.85%
Total	241	43.57%	94.19%	96.08%

* "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. The "Template With Mg't" results should be considered within this context.

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 Mg't	Avon Voted With Mg't	Overall Votes With Mg't
Political Activity	241	12.45%	84.10%	93.27%
Human Rights & Workforce	57	42.11%	71.43%	91.94%
Other ESG	37	8.11%	38.24%	83.38%
Ethical Business Practices	15	46.67%	25.00%	86.16%
Sustainability Reporting	15	46.67%	78.57%	95.23%
Environmental Practices	10	0.00%	60.00%	90.46%
Charitable Engagement	3	100.00%	100.00%	100.00%
Total	378	19.58%	76.09%	91.99%

* "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.

In 2016 (similar to 2015) Avon's fund managers have opposed management significantly more than shareholders in general on sustainability-related issues.

Avon's fund managers level of support for management has seen large changes in a number of the sustainability resolution sub-categories, for example 78.57% support of management on sustainability reporting resolutions compared to 40% in 2015. The change in support levels is largely explained by the overall low number of resolutions in each of the resolution sub-categories and the fact that sustainability related proposals, excluding political activity, are typically put forward by shareholders.

Therefore, what sustainability related resolutions are voted on by fund managers each year, and the content of such resolutions, depends on what proposals are put forward shareholders. Due

to the low number of resolutions in the subcategories a small change proposal content and consequently manager voting direction can have a significant impact on the calculation of support. Further, the actual content of proposals in the same sub-category can therefore also vary.

Demonstrating this, the number of human rights & workforce resolutions increased from 14 in 2015 to 57 in 2016 which indicates a growing shareholder concern over human capital reporting and/or management by companies. In recent years, a number of institutional investor backed initiatives have been launched on human capital and diversity which could explain the increased number of shareholder proposals. Prominent examples of initiatives include the PLSA's workforce reporting project, ShareAction's Workforce Disclosure Initiative, and the US-based Human Capital Management Coalition. 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 more resolutions of this type in 2016 than in 2015.

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 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 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 2016**	**Voted with Management 2016**	Voted with Management 2015
Board	814	89.90%	71.72%
Audit & Reporting	318	98.11%	100.00%
Capital	275	91.64%	95.45%
Remuneration	194	93.26%	90.48%
Shareholder Rights	161	94.41%	93.75%
Corporate Actions	118	88.98%	87.50%
Other	20	31.58%	-
Sustainability	8	62.50%	100.00%
Total	1,908	91.56%	83.18%

* "Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

There were 2,024 resolutions recorded in total, however 70 resolutions were either non-voting or Genesis issued a do not vote instruction proving a total of 1,908 voted resolutions.

Genesis's overall level of support of management is higher than in 2015. Higher dissent has however been recorded in the Audit & Reporting, Capital, and Sustainability resolution categories. The Capital resolutions opposed related to authorities to issue shares where

concerns were held with potential shareholder dilution whilst 83.33% of Audit & Reporting opposed resolutions related to auditor elections and/or remuneration. The low number of Sustainability related resolutions means readers should be careful in drawing statistical significance in the data.

Genesis opposed the majority of resolutions in the "Other" resolution category, all of the opposed resolutions related to approvals of "any other business". Many institutional shareholders oppose such open-ended proposals as they are considered to be unfair to those shareholders wishing to submit voting instructions ahead of the meeting as they are unable to come to an informed voting decision on the proposal.

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

7.2 Unigestion

Table 17 below shows the number of votable resolutions in each market voted by Unigestion, as well as their average support of management on each.

Caution should be used regarding the statistical significance of this data when making inferences at the market level.

Table 17: Unigestion Aggregate Resolutions Voting By Market

Country	Total Resolutions 2016	Voted with Management 2016	Voted with Management 2015
Taiwan	171	89.47%	97.67%
Poland	142	90.14%	95.56%
India	96	90.63%	93.65%
Mexico	80	87.50%	93.10%
Malaysia	74	100.00%	94.29%
Cayman Islands	63	82.54%	77.42%
China	47	76.60%	90.55%
Hong Kong	43	81.40%	74.65%
Brazil	41	65.85%	89.19%
Thailand	36	91.67%	90.91%
Turkey	30	86.67%	97.73%
Bermuda	30	73.33%	75.00%
Hungary	23	100.00%	-
United Arab Emirates	22	72.73%	-
Czech Republic	19	94.74%	85.00%
Indonesia	12	91.67%	88.24%
South Korea	11	81.82%	93.83%
Total	940	87.23%	90.37%

Although 1,010 resolutions were recorded in 2016, 70 were not voting resolutions. Unigestion's overall support level stands at around 87.23%, which is lower than the average, this might not be a surprise given the relatively lower levels of disclosure and governance standards in many of the markets in which Unigestion is voting.

Table 18: Unigestion Voting By Category

Category	Total Resolutions 2016	Voted with Management 2016	Voted with Management 2015
Board	389	84.32%	88.24%
Audit & Reporting	197	100.00%	100.00%
Capital	170	82.94%	86.67%
Shareholder Rights	93	84.95%	76.67%
Remuneration	58	77.59%	89.89%
Other	21	95.24%	100.00%
Corporate Actions	7	100.00%	92.00%
Sustainability	5	60.00%	100.00%
Total	940	87.23%	90.37%

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 on each.

Unigestion consistently opposed management more frequently on Remuneration related resolutions than any other, with Capital, Shareholder Rights and Board related resolutions being notable in their dissent levels too. This is explained largely because many of the issues in those three resolution categories 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, and control of the board which oversees these issues.).

With regards to Sustainability, the low number of resolutions in the category means statistical significance is an issue. Unigestion voted against resolutions to approve charitable donations where assurance that political donations would not be made was not explicitly provided. Unigestion also opposed Board related resolutions frequently.

7.3 BlackRock

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. Curacao and Papua New Guinea constituted a very small number of resolutions, so they should be discounted as a statistical pattern, BlackRock issued a Do Not Vote instruction on all resolutions in Mauritius. In the Blackrock portfolio for the selected markets there were 8,122 resolutions in 2016, of which 13 of them were not votable (excluded from the analysis in Table 19 and 20).

With the exception of Hong Kong, over the past three years, the general pattern of overall support for management by BlackRock has increased both in the detailed and aggregate analyses. Hong Kong proved an exception to this with BlackRock's dissent increasing by 2.28%.The majority of resolutions opposed in the market related to share issue authorities where dilution concerns were held.

Table 19: BlackRock Aggregate Resolutions Voting By Market

Country	**Total Resolutions 2016**	**Voted With Management 2016**	Voted With Management 2015	Voted With Management 2014
Japan	6,417	95.81%	92.83%	91.72%
South Korea	799	93.99%	93.88%	87.16%
Singapore	460	94.35%	91.91%	94.58%
Hong Kong	399	76.94%	79.22%	76.40%
Curacao	16	93.75%	98.86%	100.00%
Mauritius	10	-	-	-
Papua New Guinea	8	100.00%	-	-
Total	8,109	94.62%	90.31%	89.86%

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. In 2016, like in previous years, Blackrock unanimously supported 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.

As per previous years, sustainability-themed resolutions in 2016 were in Japan, which was subject to some very specific circumstances (more than 50% of the resolution related to safe management of nuclear energy). With Japan relying comparatively heavily on nuclear power for electricity generation, and the devastating effect of the earthquake and Tsunami of April 2011 on the Japanese nuclear power industry, Japanese shareholders in the many Japanese power companies tabled resolutions which generally had as their goal the reduction or eradication of the use of nuclear reactors to generate electricity, a proposal which was impractical in terms of

the viability of the company. These resolutions recurred in 2016, as they have been in previous years since 2011.This explains the comparatively higher level of support for management from BlackRock on sustainability issues in this section.

Blackrock supported management recommendations to a high degree on resolutions relating to Audit & Reporting, as well as Corporate Actions and Board. Similar to previous years, there is a 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 6.8% of resolutions and almost 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 are 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 2016**	**Voted with Management 2016**	Voted with Management 2015	Voted with Management 2014
Board	6,322	95.54%	92.82%	91.23%
Capital	639	89.17%	77.52%	83.13%
Remuneration	548	91.59%	89.54%	83.53%
Audit & Reporting	293	99.66%	99.65%	99.13%
Shareholder Rights	184	79.23%	70.07%	69.79%
Sustainability	64	100.00%	100.00%	100.00%
Corporate Actions	55	100.00%	100.00%	95.56%
Other	4	100.00%	-	-
Total	8,109	94.62%	90.31%	89.86%

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 lower level of support for management than BlackRock.

Table 21: State Street Aggregate Resolutions Voting By Market

Country	**Total Resolutions 2016**	**Voted With Management 2016**	**Voted With Management 2015**	Voted With Management 2014
Japan	3,115	94.32%	95.28%	95.74%
Hong Kong	67	71.64%%	76.33%	76.97%
South Korea	736	90.22%	94.77%	95.04%
Singapore	146	91.10%	90.29%	94.14%
Total	4,064	93.18%	92.09%	93.28%

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.

Table 22: State Street Aggregate Voting Patterns By Resolution Category

Category	**Total Resolutions 2016**	**Voted with Management 2016**	**Voted with Management 2015**	Voted with Management 2014
Board	3,157	93.35%	93.53%	95.71%
Capital	296	88.85%	88.47%	80.88%
Remuneration	262	93.89%	89.69%	89.58%
Audit & Reporting	171	98.25%	87.63%	98.85%
Corporate Actions	115	95.65%	63.64%	78.95%
Sustainability	41	75.61%	93.75%	94.29%
Shareholder Rights	19	100.00%	88.12%	90.63%
Other	3	100.00%	-	100.00%
Total	4,064	93.18%	92.09%	93.28%

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 Capital issues (the issue or re-issue of equity) is the resolution type where the fund manager is most likely to oppose management.

It should be noted that the 2016's proportion of the resolutions opposed to management by State Street is lower than in 2015

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 sixth annual report Manifest has produced for the Avon Pension Fund (fifth year with full analysis). The report examines the range of governance issues and considerations which lie behind the resolutions on which shareholders are asked to vote, and details those which Manifest identified most frequently among the companies Avon's fund managers voted at.

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.

Board and remuneration related resolutions continue to be most flagged. These two general themes, taken together, remuneration and board issues, raise questions about the significance which many companies attribute to the quality of board input, as well as their approach and attitude towards pay for performance.

We anticipate that the design of remuneration structures, incentive performance measures, and board & committee composition will continue to be prominent themes. Climate change and auditor independence may also prove to be prominent themes in commentary about 2017, which will also be characterised by regulatory developments in the role and rights of shareholders.

In summary, this report shows evidence that governance concerns at portfolio companies during 2016 were at a higher level than in previous years, in 2016 41.54% of resolutions has a potential governance issue identified whereas in 2015 36.04% of resolutions had a policy flag and 37.11% of resolutions in 2014..

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

The results of the analysis show that in 2016 fund managers continued to vote against management more than shareholders in general. Whereas general shareholder dissent in 2016 stood at 3.41% on average (compared to 3.27% in 2015), Avon's fund managers opposed management on 3.68% of resolutions (down from 3.75% in 2015). Concurrently, whilst Avon's

managers opposed management more often than general shareholders, fund manager overall level of support modestly increased by 0.27% from last year (96.32% in 2016 and 96.25% in 2015). 2016 presents a case where despite general shareholder dissent increasing and fund manager dissent decreasing, Avon's fund manager's level of dissent remained higher than general shareholders.

However, one should avoid falling into the trap of using voting records as a substitute for understanding whether a fund manager is an "active" owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement.

There are some key regulatory developments which come into play during 2016 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 Corporate Governance Reform (including the Green Paper);
- UK Stewardship Code Tiering;
- EU Audit Reform;
- The EU Shareholders Rights Directive Part II;
- EU Non-Financial Reporting Guidance;
- The Pension Lifetimes Association update Guidelines;
- GC100 and Investor Group update Remuneration Guidance;
- Executive Remuneration Working Group Pay Simplification Project;
- The UK's Investment Association's Executive Pay Guidelines;
- Individual Shareholders Society's Remuneration Guidelines;
- Human Capital Initiatives (e.g. PLSA); and
- Climate Change Initiatives (e.g. Caring for Climate Initiative).

The debate on corporate governance continues to grow in importance, and the quality of governance scrutiny is on the increase. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, ongoing monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

Prepared By:

Sheila Stefani MA – Stewardship Manager

Thomas Bolger MA – Senior Stewardship Analyst

Manifest Information Services Ltd | 9 Freebournes Court |
Newland Street | Witham | Essex | CM8 2BL | Tel: 01376 503500

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 "The Manifest Global Governance Review 2016" which is available upon request.

9.1 UK Corporate Governance Reform

In the UK, several government-led corporate governance consultations were launched during 2016. Notable consultations include the Parker Review which focuses on ethnic diversity and the Hampton-Alexander Report which succeeds the now concluded Davies Review on gender diversity. The Parker Review recommended for each FTSE100 board to have at least one non-white director by 2021 and each FTSE250 board by 2024. The Hampton-Alexander Initial Report endorsed the Davies Review Five-Year Summary's recommended target of 33% representation of women on FTSE350 boards by 2020 and called for FTSE100 companies to have at least 33% of their executive pipeline positions filled by women by 2020.

The most discussed consultation is the Government's widely trailed Corporate Governance Reform Green Paper. The Green Paper, published in November 2016, focuses on three areas: executive pay, strengthening the employee and wider stakeholder voice, and extending current corporate governance regulations to private business.

In the Green Paper the Government provided a range of options to give shareholders more say on pay. Among the proposals suggested is that there could be binding votes for shareholders either on all executive pay packages or the variable pay elements of the pay award. It is suggesting that either this could be annual or apply to companies that have suffered high rates of opposition to their remuneration reports. Another option the Government suggests is to be tougher on companies that lose the current advisory vote on pay – which could mean bringing forward the policy pay vote and requiring a 75% majority shareholder support for this or just requiring a binding vote the following year.

Questions are also asked about pay disclosure and improving transparency including on bonus targets and how long-term incentives could be better aligned with the long-term interests of companies and shareholders. The Green Paper asks if the current total remuneration figure is working effectively and whether the disclosure of pay ratios between chief executives and employees should be published.

Regarding stakeholder representation, a range of options as to how the interests of employees and other stakeholders could be represented are put forward including the appointment of non-executive directors designated to ensure stakeholder interests are considered at the board level.

The Green Paper followed the Business Energy and Industry Strategy (BEIS) Select Committee's inquiry on corporate governance launched in September 2016. The inquiry, set up in response to corporate failings at retailers Sports Direct and BHS and Prime Minister Theresa May's speech on governance reform, focused on executive pay, directors' duties, and the composition of

boardrooms including worker representation and gender diversity, and was separate from the Green Paper.

Following the inquiry, the Select Committee published its Corporate Governance Report in April 2017 which set out a raft of measures on corporate governance designed to improve trust in British business. One significant recommendation was the call for LTIPS to be phased with no new LTIPs to be agreed from the start of 2018. The Committee considers LTIPs to be too complex and unpredictable and recommended the use of annual share awards without performance conditions in replacement. The Committee also called for the introduction of pay ratio reporting and for companies to set out their "people policy" – their rationale the employment model used and their overall approach to investing in and rewarding employees at all levels. The Committee whilst supportive of worker Board representations did not consider this should be made a requirement, the report did however recommend for employee representation on remuneration committees to be included in the UK Corporate Governance Code.

In response, the Financial Reporting Council (FRC) has announced its intention to undertake a fundamental review of the UK Code. The review will take into account the work done by the FRC on corporate culture and succession planning, and the issues raised in the Government's Green Paper and the BEIS Select Committee's inquiry. To guide this review, the FRC will seek input from a wide range of stakeholders including its recently established Stakeholder Advisory Panel.

In a letter to the BEIS Select Committee the FRC outlined its approach to future developments in corporate governance and suggested it needed more powers to take enforcement action against directors who flout their duties under Section 172 of the Companies Act.

Addressing executive remuneration, the FRC said that the role and remit of the remuneration committee should be extended to cover pay policies throughout the organisation. The FRC believes remuneration policy and payments should have a much clearer link to delivery of strategy, focusing strategy and outcomes which deliver long-term company performance.

The FRC also suggested the UK Code should be revised to make it clearer when companies should report on significant levels of opposition to a particular resolution. When the opposition related to a vote on remuneration the FRC said that the Code should be supported by legislation which would outline escalating actions that would be required if companies received recurring votes against remuneration reports such as a requirement for a remuneration policy vote being brought forward or for a binding vote on the remuneration report.

Manifest Impact

- Manifest has been contributing to the governance debate in the UK and provided background research and data to the Government for its Green Paper;
- Manifest has welcomed the Green Paper and the opportunity with a detailed and potentially far-reaching consultation which touches on a wide variety of topical issues. Manifest particularly welcomes the Government's questions in relation to proxy advisors and other shareholder advisors who support investment managers and asset owners in their stewardship activities;
- Manifest provided written evidence to the BEIS Select Committee's inquiry. Manifest's submission covered the full range of issues. Manifest called on the Committee to review the levels of disenfranchisement of asset owners, a direct consequence of the use of pooled nominees by custodian banks and other intermediaries. In terms of director duties, Manifest called for an explicit fiduciary duty of directors and an overhaul of the current vague language; and
- In November 2016, Manifest gave evidence to the BEIS Select Committee. The session focused on director duties and whether the duty to promote the long-term success of a company is clear and enforceable and how the interests of shareholders and employees are best balanced.

9.2 UK Stewardship Code Tiering

In November 2016, the FRC released its Stewardship Code tiering. The FRC has categorised signatories to the Code into three tiers based on the quality of descriptions of signatories' approach to stewardship and their explanations in accordance with the 'comply or explain' basis of the Code. Tiering distinguishes between signatories who report well and display their commitment to stewardship, and those where reporting improvements are necessary.

Asset managers in Tier 3 who have not achieved at least Tier 2 status after six months will be removed from the list of signatories as their reporting does not demonstrate commitment to the objectives of the Code.

The UK Code has been influential since its introduction in 2010 and codes have since been launched in a number of other countries with the UK Code often cited as a key inspiration. In 2016 codes were launched in Brazil, Denmark, Hong Kong, Singapore, Taiwan, and Thailand. Whilst in 2017 codes have been launched in India, Kenya, and South Korea. Investor-led initiatives have also launched codes - the Investor Stewardship Group, a coalition of US-based and international investors, produced a set of six stewardship principles to guide fund managers and the Canadian Coalition for Good Governance also published its own Code in 2017.

9.3 EU Audit Reform Goes Live

The EU's audit reforms will be taking effect for financial years beginning on or after 17 June 2016. The audit reforms were approved in 2014 and Member states were given two years to adopt new national laws to apply the reforms. The provisions it imposes include mandatory audit firm rotation and significant restrictions on non-audit services for EU Public Interest Entities (PIEs) including a cap on the average fees paid for audit services in the previous three consecutive financial years. In April 2016, the FRC published final draft updates to the UK Corporate Governance Code, its Guidance on Audit Committees and Auditing and Ethical Standards implementing the reforms.

9.4 EU Non-Financial Reporting Guidance Published

The European Directive on disclosure of non-financial and diversity information (2014/95/EU) entered force in December 2014. The legislation requires qualifying companies to disclose relevant environmental and social information in the management report, with the first reports to be published in 2018. Member States had to finalise the transposition into national legislation by 6 December 2016. The European Commission published non-binding guidelines in early 2017 to help companies disclose information in a relevant, useful, consistent, and more comparable manner.

9.5 EU Shareholders Rights Directive Part II Approved

The European Union has adopted the latest revision to its shareholder rights directive. Following approval by the European Parliament in March, the European Council formally adopted the directive at the beginning of April 2017. Member states now have up to two years to incorporate the new provisions into domestic law.

Key recommendations include:

- Shareholders should have the right to vote on company remuneration policies. Member states may decide whether the vote is on a binding or advisory basis;
- Companies should be able to identify their shareholders and obtain information regarding shareholder identify from any intermediary in the chain that holds relevant information to facilitate the exercise of shareholders' rights;
- Increased transparency of voting and engagement policies of asset managers and institutional investors. They will have either to develop and publicly disclose a policy on shareholder engagement or explain why they have chosen not to do so. Proxy advisers will also be subject to transparency requirements and will be subject to a code of conduct; and
- Require companies to be more transparent about related party transactions that are most likely to create risks for minority shareholders at the latest at the time of their conclusion.

9.6 The Pension and Lifetime Savings Association Updates Guidelines

The Pension and Lifetime Savings Association's (PLSA) published its 2017 Corporate Governance policy and Voting Guidelines in January 2017. The Guidelines calls on members to take a stronger line against the re-election of remuneration committee chairs at companies with problematic remuneration practices, recommending that shareholders voting against a remuneration policy should also vote against the re-election of the remuneration committee chair.

The Guidelines remuneration updates was outlined in the PLSA's 2016 AGM report which had a particular focus on executive pay. The report found that boards must do more to address shareholder concerns over CEO pay, asset managers must also do more to hold boards to account, and the value of pay packages should be considered as much of as an issue as remuneration structure.

The 2017 Guidelines also incorporated recommendations on the PLSA's toolkit on reporting of corporate cultures and working practices and now express support for a target of 33% representation of women on boards.

9.7 Executive Remuneration Working Group Pay Simplification Project

The Investment Association (IA) backed Executive Remuneration Working Group published its final report on 26 July 2016 which produced recommendations aimed at regaining the public's trust on executive pay, simplifying the pay structures of top company bosses, and improving the alignment of their interests with those of their shareholders.

The report produced 10 recommendations grouped into five themes which consider how a more flexible remuneration system can be implemented:

- **Flexibility:** The group signalled the need for a move away from one size fits all approaches so that companies can choose the most appropriate remuneration structures for their business needs and company strategy. Alternatives are suggested to LTIPs such as the use of restricted shares;
- **Remuneration Committee Accountability:** A proposal that the company chairman and whole boards be required to engage in the remuneration-setting process, and for non-executive directors to have at least a year's experience on a remuneration committee before being appointed as its Chair, plus remuneration committees should not be over reliant on their remuneration consultants and put their remuneration advice out to tender;
- **Shareholder Engagement:** Shareholder should focus engagement on the strategic rationale for remuneration structures and companies should focus their engagement on the material issues for consultation and understanding investor views;

- **Target Transparency:** Remuneration Committees should disclose the process for setting bonus targets and retrospectively disclose the performance range and provide clear disclosure of the rationale and outcome when discretion is used in awarding pay;
- **Level of Pay:** Boards should explain their company's maximum pay level with consideration of relativities such as the pay ratios between CEOs and different employees and should guard against the potential inflationary impact of market data on remuneration decisions.

9.8 The UK's Investment Association Updates Executive Pay Guidelines

The IA responded to the recommendations of its independent Executive Remuneration Working Group by amending its Principles of Executive Remuneration ahead of the 2017 voting season. The IA sent an open letter to remuneration committee chairmen of FTSE350 companies detailing the changes which suggested that rather than opting for the default Salary/ Bonus/ LTIP pay structure, firms should consider pay structures which fit their business and strategy.

The letter also reminds remuneration committees of the importance of discretion. Discretion can ensure that the remuneration outcomes are appropriate for the overall performance of the company, shareholder experience, and fair to executives. To that end the updated Principles encourage boards to improve shareholder consultation on remuneration issues and to ensure that this engagement is based upon how pay is in line with the company's strategy.

In its updated Principles, the IA encourages remuneration committees to adopt the remuneration structure most appropriate for their context. As part of this emphasis on flexibility a new section on restricted share awards has been added to the guidelines. The IA recommends that if restricted shares are introduced as an alternative to LTIPs then a material reduction in the size of awards should be applied of at least 50% to reflect the increased certainty in outcomes and be accompanied by increased shareholding guidelines.

Similarly, the IA suggest that companies that recalibrate remuneration structures in favour of annual incentives over long term incentives should also reduce the maximum opportunity due to increased certainty of measuring performance over a shorter-period. To encourage long-term alignment the guidelines state that executives should be expected to continue to hold shares after termination of employment.

Reflecting wider political concerns about chief executive pay rates a new section has been added to the Principles on the level of remuneration calling for boards to act on the levels of pay. Specifically, they are encouraged to disclose the pay ratio between the chief executive and median employee, and the chief executive and the executive team to provide investors with the context they need to understand the scale of the awards being granted, and to explain why the chosen maximum remuneration level is appropriate for the company.

9.9 GC100 and Investor Group Update Remuneration Guidance

The UK's GC100 and Investor Group – made up of top general counsel, company secretaries and corporate governance heads at fund manager groups – has published its latest remuneration reporting guidance replacing the original version which was produced following the updating of pay disclosure regulations in 2013. The Group considered that the approaching end of the first three-year cycle provided "an opportunity to conduct a thorough review of the document."

The key changes include:

- Clarification of the remuneration committee's use of discretion;
- Expanding the guidance on companies' use of commercial sensitivity as a reason not to disclose performance measures or targets in the remuneration report; and
- Reinforcing that in the future policy table the maximum amount that may be paid for each component of remuneration, including salary, must be specified.

The changes outline investor expectations in these areas for example outlining situations when investors generally expect the remuneration committee to consider exercising discretion when following existing formulas might result in excessive pay and in respect to the prospective and retrospective disclosure of performance targets and measures related to short-term and long-term incentives. The revised guidance also indicates that investors and other stakeholders expect a meaningful employee comparator group and not a narrow group consisting of senior managers when reporting on changes in a chief executive's remuneration.

9.10 Individual Shareholders Society Launches Remuneration Guidelines

On 25 May 2016, the UK Individual Shareholders Society (ShareSoc) published its remuneration guidelines. The guidelines have adopted guidance for large and small companies as ShareSoc considers there are significant differences in the way remuneration is approached between large and small companies

Large company guidelines:

- FTSE100 CEO pay is too high. It should be less than half of current amounts.
- FTSE100 CEO's maximum bonus and LTIP should both be set at 100% of salary. Although it may be necessary to offer more to externally recruited CEOs, in their first year.
- Remuneration creep needs to be reversed. Remuneration has tripled over the last 18 years, but the FTSE100 share index has barely increased at all.
- To strengthen the focus on the genuine long term, share options should be an element in the remuneration package and shareholding requirements should be strengthened including a meaningful portion of share incentives held to retirement or beyond.

Small company (market cap less than £200 million) guidelines:

- Salaries should not be more than median of comparable sized companies.
- Fast growth companies should conserve cash. ShareSoc prefers such companies to reward management through equity incentives. Once a company is profitable a bonus may be appropriate. For a profitable company the maximum bonus for a CEO should be 100% of salary: a lower limit is often sufficient.
- Share Options are a simple and clear incentive for managers of small companies. The exercise price of share options should be set at not less than the market price at the date of grant. LTIPs and nil cost options with complex performance conditions are unnecessary for small companies and should not be used. Value Creation Schemes should also not be used.

The guidelines states dilution should be less than 10% of equity over a 10-year period. This can be front ended, but some should be reserved for top ups and new recruits. A typical structure might be 2% for the CEO with another 3% for top team, so the CEO and top team have 5%, but how this is shared out will depend on the roles and skills of the top team.

The guidelines also recommend companies should provide clear disclosure of remuneration in annual reports and shareholders should be asked to vote on remuneration and share schemes.

9.11 Profit Expectations and "Kitchen Sinking"

On 20 May 2016, the Investment Association sent a letter to FTSE350 chairmen highlighting concerns over board oversight of profit expectations and dividend policy. In the letter the IA highlighted that in the last year there have been numerous examples of companies where new management had been appointed and within months the value of assets has been written down and future profit expectations and dividends scaled back significantly.

The IA believes that these actions highlight insufficient oversight on the part of independent directors and the audit committee. Arguing, if the prospects of a business are presented as being fundamentally different following the appointment of new management then it raises questions about the board's oversight of the previous management and why these issues, which may have been evident for some time, have not been addressed earlier.

This process is known as "kitchen sinking" where all the bad news is announced at once making the subsequent upturn more impressive. Often at the same time incentive plans are recalibrated to bring targets more in-line with rebased expectations, or alternatively, easier to attain.

9.12 Human Capital Initiatives

In 2016 the PLSA published a toolkit for investors to help them engage with investee companies. The toolkit built on the report published by PLSA in 2015 that made the case that a company's strategy for recruiting, training, developing, retaining, and inspiring its workers is fundamental to its ongoing success. The toolkit outlines the type of workforce-related information investors should look for and how to find it, and calls for investors to ask more questions about the workforce in face-to-face meetings with company representatives.

The toolkit set out the following list of metrics which investors could use as proxies for measuring corporate culture and human capital management at companies:

- Gender diversity;
- Employment type – for example, full-time, part-time or agency workers;
  Staff turnover;
- Accidents, injuries, and workplace illnesses;
- Investment in training and development;
- Pay ratios between the highest paid and median and lowest quartile workers across the company; and
- Employee engagement score.

In 2016 the IA unveiled an industry-wide Productivity Action Plan to boost the UK economy through long-term investment which included a recommendation to raise the profile of human capital management. The IA has since announced that it will be working with the Institute of Chartered Standard Accounts on a joint project to ensure boards understand the views of their employees, and other stakeholders, which should then be factored into their decision making.

Other notable UK investor initiatives have been the Association of Member Nominated Trustees Red Lines Voting Policy, which includes guidelines on the workforce, and the trustee guidance produced by the Local Authority Pension Fund Forum. In the US, the Human Capital Management Coalition was formed in 2013 with a membership of 25 institutional investors, which aims to understand and improve how human capital management contributes to the creation of long-term shareholder value, and in 2017 the Committee on Worker's Capital released guidelines for assessing company behaviour on labour issues.

9.13 Climate Change Initiatives

Climate change has been one issue of keen focus from both investors and regulators in recent years and following the Paris climate agreement investors cannot overlook the implications for investment risks and returns amidst a shift in market sentiments towards a transition to a low-carbon economy – how companies are responding to climate change risks is important to investors.

Some of the recent initiatives undertaken include:

- The Institutional Investors Group on Climate Change published a guide setting out the threats facing the utilities sector and investor expectations for how companies must act to adapt their business strategies and reduce carbon emissions;
- In April 2016, a group of global investors, representing $3.6 trillion in assets under management, released an investor statement of support for US and Canadian efforts to limit methane emissions from the oil and gas sector. This represents more than a doubling of support since July 2015;
- A shareholder position paper signed by representatives from the Local Authority Pension Fund Forum, Royal London Asset Management, Sarasin & Partners LLP, Rathbone Greenbank Investments, and the Church of England called for companies to assess and report their climate-related risks within their annual report to shareholders;
- Climate change continues to be high-profile shareholder proposal topic. During 2016 proposals by the Aiming for A coalition at UK mining companies Rio Tinto, Anglo American and Glencore calling for better climate-risk reporting were passed after receiving management backing. During 2017 shareholder proposals calling for ExxonMobil and Occidental Petroleum to explain how climate change could affect their business were successful;
- The Caring for Climate Initiative set by the UN Global Compact saw over 100 major companies, pledge to set emissions reduction targets in line with what scientists say is necessary to keep global warming below the threshold of 2°C using criteria approved by the Science Based Targets initiative;

- Research published by the Carbon Tracker Initiative suggested that as countries move to meet the 2°C target major oil companies could produce better returns for shareholders and company performance if they reduce their exposure to high-cost, high-carbon projects;
- A 2016 review by the Climate Disclosure Standards Board of FTSE350 companies' environmental reporting and greenhouse gas emission disclosures in annual reports, following the implementation of the Companies Act 2006 (Strategic Report and Directors' Report), found that 41% of companies considered environmental risks in their analysis of the company's principal risks; 87% of companies disclosed environmental policies; and 27% made use of environmental KPIs;
- The Transition Pathway Initiative (TPI) was launched in 2017, TPI is an assessment structure related to the requirements of the Paris Agreement for companies of those countries which have pledged their commitment to reduce their carbon emissions.
- The G20's Task Force on Climate-Related Financial Disclosures has published guidelines for companies on the disclosure the financial impact of climate-related risks and opportunities.

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

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