Appendix 'A'

PIRC

Lancashire Council

Proxy Voting Review
January 2012 – March 2012

April 2012

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Compass Group plc - AGM 2nd February

Remuneration was an issue at Compass Group.

The remuneration policy was mostly adequate, although there was limited evidence of alignment between remuneration policy and overarching business objectives manifested in the company's key performance indicators. Disclosure was generally acceptable, although the Company did not provide an estimated value of share-based awards granted during the year. There were concerns over the failure to provide quantifiable targets for one of the criteria under the LTIP.

Combined individual awards were potentially excessive and this was the case for the year under review. However, salaries were not excessive when compared to the comparator group. The lack of quantifiable performance targets under the annual bonus scheme and for one of the LTIPs did not allow an assessment of whether the targets applied were challenging. Furthermore, the lower and upper TSR performance targets were not deemed challenging and the vesting scale was not sufficiently wide.

Executive directors had one year rolling contracts. PIRC did not support the policy of including 'on target' bonuses in payments in lieu of notice. These concerns were partially reduced by the fact that that termination payments were made in monthly instalments to apply the principle of mitigation.

We recommended that shareholders oppose the remuneration report.

The board also sought shareholder approval for the authority to: (a) make donations to political parties or independent election candidates; (b) make donations to political organisations other than political parties; and (c) to incur political expenditure. The maximum aggregate payable under each of points a, b, and c should have not exceeded £125,000.

The aggregate amount of the authority was considered to be excessive and there were further concerns that although the Company stated that it operates a policy of not giving any cash contribution to any political party in the ordinary meaning of those words and that it had no intention of changing that policy, the authority sought did not explicitly exclude political parties or organisations. Therefore, an oppose vote was recommended.

We also recommended that shareholders abstain on the election of two directors. Chairman Sir Roy Gardner was considered independent upon appointment by PIRC. However, he was the chairman of the nomination committee and the selection and appointment process regarding newly-appointed director John Bason were not adequately described and justified.

Non-executive director Don Robert was also considered independent. However, there were concerns over his attendance record as he missed two board meetings and one audit committee meeting during the year under review.

UK Corporate Governance Review

The end of the DB era

Oil giant Shell became the last FTSE100 company to close its final salary scheme. It's important in terms of UK pensions policy, but the implications for share ownership have gone curiously unremarked.

The closure of Shell's scheme, which will be replaced with a defined contribution alternative, was part of a medium-term trend that picked up speed at the turn of the century. The collapse of equity markets, as the TMT bubble burst, wiped out surpluses and instead introduced companies to deficits. However, as previously rather vague pension promises offered by companies had been hardened into legal obligations as a result of legislative change (in part responding to the Maxwell scandal), the room for manoeuvre in terms of reducing costs was limited.

The response of many companies was to close their scheme. First this was to new entrants, but more recently schemes have been closed to future accrual. So in the space of just over 10 years the decline in defined benefit scheme membership has been dramatic. In a few cases the shift has been from final salary to career average provision – a different form of DB. But in the large majority of cases it has been a straight DB to DC shift. In a nutshell this is a wholesale transference of risk from companies to their employees. Given the typically lower level of company pension contributions to DC plans it is also arguably a deferred pay cut.

But the DB to DC shift also represents a significant change in the nature of the agency relationship within the investment chain. In a DB scheme, asset managers are employed by the trustee board and, theoretically, can be held accountable for voting and engagement activity. What is more, in large DB schemes at least the value of the mandate is enough for the asset manager to take client concerns seriously. Trustees can and do switch asset managers. Compare and contrast with DC schemes, where typically the 'client' is the individual saver (except for rare cases of trust-based DC). How much accountability can they realistically expect from asset managers? What's more, plenty of research shows that most DC scheme members rarely move fund, and the industry knows this. Therefore, the leverage that DC members have over asset managers is limited in general terms. In respect of voting and engagement it is practically non-existent.

So, in ownership terms, the DB to DC shift potentially represents a strengthening of the agents relative to the principals within the investment chain. This is important given the weight that is being put on the role of shareholders, for example in relation to executive pay. It's an important question for UK corporate governance in the years ahead.

Keeping an eye on BSkyB

Voting data relating to November's 2011 BSkyB AGM started to emerge in the first quarter, providing an insight in the extent of the City's loss of faith in chair James Murdoch.

A quick trawl of asset manager websites confirmed that Legal & General opposed James Murdoch's re-election as chair. He was the only director L&G voted against. This was a shift from L&G's previous position, as they supported Murdoch in 2010. The Co-op Asset Management's voting disclosure also confirmed that it opposed Murdoch's election, along with other News Corp linked directors Tom Mockridge, David DeVoe and Arthur Siskind.

But it wasn't all bad news for the troubled BSkyB chair. M&G's Q4 disclosure revealed that it voted for him, though it opposed David DeVoe and Arthur Siskind, presumably on independence grounds. This marked a shift in M&G's position, as it supported the re-election of all BSkyB directors in 2010. It's worth noting that DeVoe and Siskind did not in any way become 'less' independent between the 2010 an 2011 AGMs. Both were directors of News Corp at the time of the 2010 AGM and had already been on the board for more than nine years.

Clegg details further pay reforms

Typical. You wait years for one of the major political parties to talk seriously about reforming capitalism, and then three come along at once!

There was more evidence of the current vogue for the main parties to set out a vision of the economy – with responsible capitalism now the neologism of choice. With both David Cameron and Ed Miliband having already had a crack at it, Nick Clegg was due a turn.

Given the recent focus on executive pay, it was not surprising to see Clegg flesh out a few reform ideas. He confirmed that the Coalition was looking to bring in a binding vote on remuneration. He also indicated that another element of the Coalition's reform package would be greater disclosure.

He said: "One: shareholders will only need to look at one number, not a dozen, to see how generously top executives are being paid, and they will need a clear policy in place for departing CEOs so that, if they deviate from that policy, and if a hefty payment is made for failure, that decision is up in lights. Two: the way money is spent will need to be crystal clear. So if a company is spending too much on boardroom pay compared to the amount being reinvested in the business, they will have to explain why: show investors where their money is going."

Clegg also announced that the Coalition would look at measures to facilitate greater employee ownership of businesses.

The bank bonus dilemma

The confusion of exactly what RBS chief executive Stephen Hester has been or will be offered as a bonus highlights some of the problems of shareholder oversight of executive pay.

Top pay is a controversial subject, but bankers' bonuses are in a class of their own, both given the scale of reward, and the rather unimpressive track record of the banks in recent years. So, one might argue, it would make sense for shareholders to take a tough line, to save themselves money and to protect the reputation of the banks. That's the theory.

But, if you believe that there is a "war for talent" then perhaps the low-risk option is to not kick up a fuss. Why make a point over a bonus if it leads the recipient to walk? It is this way of thinking that could still cause a problem at RBS. According to Sky's Mark Kleinman, some investors told the bank to stand up to any political pressure and pay Hester a sizeable bonus.

This squares with our own foray into this territory in 2009 when, under a Freedom of Information request, we were able to obtain letters written to the Treasury by asset managers about their stance on pay at the banks. A recurring theme in the letters was the need to pay big to get the top talent, and thus a reluctance to put much pressure on. It doesn't look like much has changed.

A higher threshold for pay votes?

Companies could face a 75% threshold to pass resolutions relating to executive pay, Business Secretary Vince Cable told Parliament as he set out new reforms.

Cable revealed that the Government was putting forward a mixture of greater transparency, increased shareholder powers and further best practice guidance. On shareholder powers the Government said it would consult further, but options under consideration were a binding vote on future pay policy and on notice periods greater than one year, and an increase in the level of support required to pass a policy, possibly to 75%.

In particular we favoured the forward looking vote as we said in our response to a BIS consultation, "We believe that the Government should look at whether upfront approval could be sought for the contractual terms for directors, what we have called the 'heads of terms.' In addition the Government could explore whether shareholder authority could be sought for the future distribution of profits (ie remuneration vs dividends vs reinvestment)."

Secondary legislation will be introduced later this year to split remuneration reports in two - a forward looking section and a section on implementation of existing policy. The forward-looking section will require an explanation of metrics used, any comparison with employee earnings used and how views of employees are taken into account. The section on implementation will require a simple single-figure disclosure for each director, how rewards relate to performance and set out the distribution of pay versus dividends, reinvestment and so on. In addition, the UK Corporate Governance Code will be amended to state that companies should introduce clawback policies.

In order to get an idea of the impact of a higher threshold, we looked at 1,700 votes on remuneration reports at a sample of companies over the last four years. We found the following

· Looking at votes for and against only, there were 85 cases where companies failed to secure a vote in favour of at least 75% during the period;

· Only one bank in one year failed to achieve at least 75% in favour (RBS in 2009);

· In 2011 there were 31 companies (6.5%) that failed to achieve 75% votes in favour of their remuneration report.

· Companies failing to reach 75% in 2011 include WPP, Thomas Cook, ICAP and Aberdeen Asset Management.

Of course it's not a straight read across, as investors may vote differently when they know both that it is easier to inflict a defeat and that the result would be binding. Nonetheless it does look like this reform could have teeth. It would also strengthen the hand of minority shareholders in companies that have a large dominant investor. For example, Xstrata would have *lost* the vote on its remuneration report last year, despite Glencore's support.

Overall, it's two cheers from PIRC for the package of reform. We continue to believe that real reform of remuneration committees, widening the membership to allow direct employee and investor representation, is also required in order to ensure that company decision-making is improved. Unfortunately this has been ducked. We were disappointed too that disclosure of pay ratios has been dropped. Finally, we also believe that the Government should make disclosure of shareholder voting records mandatory. If asset managers in particular are to have even greater powers over pay it is vital that they can be accountable for how they use them.

Hester gave up £1m share award

After almost a week of media and political scrutiny, RBS chief executive Stephen Hester decided to waive a share award worth just shy of £1m. Whilst the public row had been defused, it raised some interesting issues for the corporate governance community.

It seemed that Hester's decision resulted from backdoor negotiating combined with the threat from opposition leader Ed Miliband MP to hold a parliamentary vote on the award. After a week suggesting variously that it was contractually obliged to make the award, didn't have the power to block it, or that to do so would damage the bank, it appears that the Government believed it could not risk appearing to be out of control and put some pressure on.

Whilst Hester's decision was likely to be seen as the right one in the court of public opinion, for many in the corporate governance world the award was not unreasonable. The argument goes that this was part of the deal when Hester joined, and that he was still turning the ship around. What's more, to not make the award would be taking a big risk, lest the talent decamp. Finally, this was a share award, meaning that 'alignment of interests' was achieved. In purely governance terms some would say it is 'fair.' In fact, many people in the governance world appeared perplexed, if not downright annoyed, by the row about the award, and consider that Hester's decision not to take it was a sign of political meddling.

So, there were two competing notions of 'fairness.' What is acceptable in the boardroom is increasingly unacceptable, it seems, to the public. The tension between corporate and public notions of fairness was felt most keenly at RBS because the taxpayer owns most of the bank. But there is a wider disconnect between public views on pay and those of people who make decisions on it. Many in the City, including those who cast shareholder votes, would consider that the public is misinformed, naïve or just plain ‘wrong’ about cases like RBS.

This disconnect is exacerbated by the conflation of corporate governance reform with action on ‘unfairness’ in economic rewards. They are not the same thing. It is striking that of all the arguments the Government advanced before putting pressure on Hester to waive his award, citing governance norms was not one of them. This appeared to be because the Government recognised that a public, rather than corporate, conception of ‘fairness’ was likely to dominate in this case. But what happens at other companies? The proposals floated by Vince Cable certainly had much merit, and should have facilitated greater shareholder engagement if enacted. They were also likely to result in some of the worst pay policies being stopped by shareholders. But they were unlikely to reduce the pay gap, and would have not delivered ‘fair’ outcomes as far as the public was concerned because most people casting most of the shareholder votes do not believe that high PLC pay is necessarily a problem in itself.

None of this would matter ordinarily, but the recent political debate about ‘responsible capitalism’ has suggested significant change in corporate behaviour. This sets expectations high. But governance reforms are likely only to address a corporate conception of fairness, for example, by helping eliminate ‘rewards for failure,’ which all parties agree is unacceptable. They will not address an apparent public desire for lower awards at the top.

This is potentially problematic for institutional shareholders. The Government is setting them up as the countervailing force to address excess at the top. If executive rewards continue to rise in a way that the public regard as ‘unfair’ they could end up criticised for failing to block them. You have been warned.

Murdoch steps down, from GSK

James Murdoch will not stand for re-election at pharma giant GlaxoSmithKline the company announced.

In a statement the company said Murdoch was stepping down to focus on his current duties as chair of BSkyB. It seems shareholder pressure may have played a part. Murdoch’s position had been queried by CTW Investment Group that wrote to the board last October calling for him to stand down. CTW also wrote to Sotheby’s, where Murdoch is a non-executive, so perhaps one to keep an eye on. Meanwhile, the News Corp scandal continued to take its toll with a string of arrests taking place relating to payments to police officers. Notably four of those arrested were current or former employees of The Sun.

Ex-Chancellor Lawson blasts IFRS

Former Chancellor Nigel Lawson, joined the growing list of critics of International Financial Reporting Standards (IFRS).

In a piece for the FT, Lawson pointed out that a fundamental flaw of the “pro-cyclical” IFRS is that it enables executives to receive bonuses based on “paper profits” that are “never subsequently realised.” He said shareholders continually come up short and bank management remains financially unscathed. Also, the fact that IFRS allows tax deductions of debt interest together with non-tax deductibility of dividend payments not only obstructs the ability of banks to stabilise but encourages them to finance themselves through debt as opposed to equity, said Lawson. As such, he suggested that tax deductibility of debt should cease.

Cameron hints at gender quotas

Prime Minister David Cameron suggested that mandatory quotas of female board representation were still a possible option if companies do not pursue diversity themselves.

Cameron attended the Northern Future Forum in Stockholm to discuss ways the UK can “speed up the process” of getting more females on company boards. Everyone at the conference, including Cameron, agreed that having more women on boards is essential to improving the economy. “The evidence is that there is a positive link between women in leadership and business performance, so if we fail to unlock the potential of women in the labour market, we’re not only failing those individuals, we’re failing our whole economy,” said Cameron.

However, a mandatory approach to female board representation would likely face challenge from within Cameron's own party. Conservative backbencher Dominic Raab, a high-profile opponent of positive discrimination, has already penned a piece warning the Prime Minister off the idea.

Incentives versus ethics

It's taken as a given by many in corporate governance that performance related pay is A Good Thing. Over the past couple of years, we've been trying to argue that this is too simplistic.

In fact, there is a long and interesting academic debate about how rewards actually work. The counter argument, popularised by the likes of Alfie Kohn and Dan Pink, has painted a more negative picture, with claims that contingent rewards can undermine intrinsic motivation, lessen creativity and lateral thinking and, ultimately, lead to poorer performance.

However, a further element to the discussion worth considering comes from the emerging field of behavioural ethics. In common with behavioural finance and economics, this field seeks to build on decision-making and other psychological research to understand how people actually made decisions on ethical issues. This includes the concept of 'bounded ethicality,' mirroring that of 'bounded rationality.' The recent book *Blindspots* by Max Bazerman and Ann Tenbrunsel provides a good overview of the area, and has some interesting things to say about goals, and the rewards attached to them.

In addition to undermining intrinsic motivation, they argue that directing too much attention to certain goals can lead to too much focus on one area, more risk-taking and a corrosion of broader organisational goals. This overlaps with their broaden concern with 'ethical fading,' whereby individuals compartmentalise certain decisions as 'business decisions,' thereby overlooking any ethical ramifications. Their advice is tread carefully when setting explicit goals for individual employees. Needless to say, this makes the implementation of performance-related rewards difficult.

It is also a long way away from the classic corporate governance view of the world. Go back to Michael Jensen, and compensation and contract design is all about 'bonding,' or 'do this and you'll get that,' and intended to ensure that executives adhere closely to explicit goals. A further sign of changing ideas?

Lloyds reduces past bonuses

Lloyds Banking Group was to claw back up to £2m in bonuses, including that paid to former chief executive Eric Daniels, in response to the mis-selling of payment protection insurance (PPI).

The news was broken in a report in the Daily Telegraph, which said that at least five current or former executives would be hit. The BBC's Robert Peston stated that 10 executives would be affected, with the total being clawed back reaching up to £2m. The Telegraph stated that Daniels could have lost at least £360,000, whilst Peston had said that the figure could be up to £700,000. The report suggested that those affected would lose a quarter or more of the bonus awards made in respect of 2010.

These were significant sums, even though they were dwarfed by the reported £3.2bn Lloyds had set aside to fund payouts to customers who believe that they were wrongly sold PPI. The importance of the Lloyds' action was that it will start to hack away at the defeatist argument that there is little shareholders can do about awards that have already been made. In reducing past bonuses, Lloyds will demonstrate that something can be done when awards can be shown not to have been merited. In addition, it will set a precedent in terms of the sort of scenario in which a company might look to attempt clawback. Other banks will be watching, but this should have been seen as an example with much wider applicability.

Finally, it's worth noting that the Lloyds decision came a few weeks after reports that the FSA wanted to see the banks seek to claw back awards in light of the PPI mis-selling. So it looked like regulatory pressure was beginning to impact on bank remuneration.

As The Sun rises, dirt is revealed

The first edition of The Sun on Sunday, News International's new paper, fills the hole left by the News of the World. But even as Rupert Murdoch sought to go on the offensive further details about illegal activity in his UK press operations emerged.

By all accounts, the launch of The Sun on Sunday was a success, with the first edition selling 3 million copies. But even before the first edition had hit the presses, there were more developments in the hacking scandal, and the first day of the second module of the Leveson Inquiry, looking at press relations with the police, saw accusations of corrupting public officials.

Some of the most significant developments related to News International's knowledge of wrongdoing, and its response to it. For example, an email from 2006 from former legal manager Tom Crone showed that both Andy Coulson and Rebekah Brooks had been told by a police source about the Met's view of the likely extent of phone-hacking activity.

Separately, the Telegraph reported on NI's strategy once the net started to close. It reported that court documents relating to phone hacking cases appeared to show the attempt by individuals at the company to destroy emails and other evidence.

The Sun also took significant reputational damage. The Deputy Assistant Commissioner Sue Akers told the inquiry that the investigation into illegal payments was not focused on issues such as journalists paying for lunches, but rather on "regular, frequent and sometimes significant sums of money." She also stated that the "vast majority" of disclosures considered related to "salacious gossip." The language used by Akers will heighten concerns that News Corp could be exposed in the US under the Foreign Corrupt Practices Act.

Also giving evidence was former Deputy Assistant Commissioner Brian Paddick. He pointed out that the NOTW may have obtained mobile numbers for people in the witness protection programme. He said: "People are only put into the witness protection programme when their lives are potentially at risk or in serious danger…. For this [information] to be in the hands of Mulcaire and potentially the News of the World is clearly worrying."

This follows the disclosure that Robert Thompson, one of the murderers of the toddler Jamie Bulger, was also seeking compensation for having his phone hacked. Whilst there will be little sympathy for his case, it again raised questions about how News of the World was able to obtain his mobile number, given that he has a new identity.

Elsewhere it was revealed that Cherie Blair filed a claim against News Group Newspapers over illegal interception of her voicemail messages. This meant that there was a possibility that messages left by the then Prime Minister Tony Blair were amongst those accessed by Glenn Mulcaire. Separately, singer Charlotte Church agreed a settlement in her case of £600,000, and there are likely to be a further 200 civil claims, with the process lasting another year.

As if that wasn't enough, there were developments in the computer hacking aspect of the scandal. Philip Campbell Smith was convicted and jailed for conspiring to illegally access private information for profit. Though his conviction was for 'blagging,' he was also accused of computer hacking. According to The Guardian, Smith was alleged to have sent an email containing a Trojan virus to an intelligence officer in order to copy his emails. It was claimed this was commissioned by a News of the World editor.

What we hadn't seen, yet, was a view from Ofcom on whether News Corp is 'fit and proper' as an owner of BSkyB. However, we understand that some investors are already starting to scenario plan what impact a negative Ofcom decision could have.

One thing is entirely clear: News Corp is now in the midst of major and multi-faceted corporate scandal. Illegally obtaining information, bribing public officials, destroying evidence, misleading parliament – there is a long list of major offences here. In another industry we would expect to see formal sanctions and board resignations. Investors cannot allow News Corp to continue without agreeing to significant reform.

Voting disclosure - not happening

Former City minister Lord Myners continued to push governance issues from his seat in the Lords.

In a written question he asked the Government under what circumstances it would enact the clause in the Companies Act that would make public disclosure of shareholder voting records mandatory.

Baroness Wilcox responded: “We do not currently plan to bring this section into force. Section 1277 of the Companies Act 2006 provides a power to require the disclosure of information about the exercise of voting rights by, among others, institutional investors. The Financial Reporting Council's stewardship code requires institutional investors to disclose their voting records on a comply or explain basis.”

As we’ve noted previously, the Code does not “require” disclosure of voting records, it states that “Institutional investors should disclose publicly voting records and if they do not explain why.” So it is an entirely “comply or explain” approach, and in practice the large majority of asset manager signatories to the Code disclose little or no data publicly. PIRC carried out research into how asset managers voted at FTSE100 companies during 2010. We were only able to find significant voting data for 19 asset managers. That’s out of just under 180 asset manager signatories to the Code. Companies wouldn’t get away with this under the Corporate Governance Code, because they know investors would raise questions about the lack of compliance. To date, Stewardship Code signatories face no such pressure.

MP called for review of UKFI role

The public interest role of UK Financial Investments needs to be examined, according to Shadow Financial Secretary to the Treasury Chris Leslie MP.

Speaking at the PIRC Corporate Governance Conference, Leslie said that there was a “massive democratic deficit” in relation to UKFI’s role, and that this should be properly reviewed. He also said that there should be a “fiduciary duty of care” on financial services firms. The conference also heard an impassioned call for executive pay restraint from a former PLC leader. Ex-Greggs managing director Sir Michael Darrington said it was time for a pro-business, anti-greed movement to tackle rewards at the top

Accounts obscure RBS position

The true financial position and performance of RBS was almost totally obscured by faulty accounting standards, with millions of pounds worth of bonuses still missing.

RBS accounts showed:

· The RBS bad book is still overvalued by at least £10bn, due to the defective IFRS accounting standards used by the bank.

· But the “rear-view mirror” IFRS accounting for losses on the bad bank, which results from loans being grossly overvalued at 31 December 2007, and is a case of “catch-up,” is masking a more profitable bank than the IFRS numbers show.

· But, unlike Barclays, RBS is still not charging deferred bonuses or disclosing them, even though they are there. Whilst Barclays is not charging bonuses of £2bn already promised in respect of 2011 and prior years, it is at least disclosing it now. RBS is not.

· PIRC has further evidence that RBS was only notionally deferring bonuses because it was advancing cash to employees simultaneously by separate agreements. The employees therefore got the cash upfront.

PIRC was very disappointed that the Financial Reporting Review Panel (the part of the Financial Reporting Council that polices accounts) did not act proactively across the industry to crack down on hidden bonuses. This was despite PIRC making a written complaint to the FRRP last year about Barclays’ 2010 accounts relating to a systemic fault in the IFRS accounting standards that are inconsistent with the requirement that accounts give a true and fair view of the net asset position of a company.

PIRC noted that the FRRP had not found fault with the accounts of banks prior to the collapse of the banking system, despite those accounts playing a key role in financial governance as well as banking regulation.

Kay Review hinted at a new regime

The Kay Review's interim report highlighted the potential for a significant shift in thinking about corporate governance in the UK, and not before time.

Perhaps the most striking thing about Professor Kay's first public thoughts was the emphasis on stewardship. Whilst shareholder engagement has rapidly risen up the public policy agenda as a solution for various intractable problems such as high pay, the under-representation of women in senior management and environmental responsibility, Kay was under no obligation to endorse this trend.

Yet, whilst the interim report did not make any formal recommendations, the Review clearly had sympathy for the concept of stewardship. The emphasis was such that the report said that the Review will be "largely concerned with these issues." The interim report also, correctly in our view, sees stewardship both as extending beyond matters of corporate governance, and as entailing a long-term relationship.

But how do we foster such a long-term mindset? Here the report was at its most interesting. Kay argued that many respondents, implicitly or otherwise, seemed to accept the potential for preferential treatment for longer-term investors. This might be facilitated by fiscal incentives, differential voting rights, or other mechanisms. The report's language here was enlightening.

It said: "If shareholders were not treated equally, then some shareholders who did not receive the advantages given to others might be discouraged from entering the market. It is not obvious that such discouragement would always be a bad outcome… Measures to favour some shareholders might plausibly be to the benefit of shareholders as a whole if it facilitated better governance and decision making within companies."

It might sound uncontroversial, but this potentially marks an important shift. Until relatively recently it would be heretical to argue that long-term investors should be favoured, since this would conflict with the principle of equal treatment. It would no doubt also be argued that it is impossible to define the difference between short and long-term, so any attempt to do so would be a wasted effort. And an entire army of vested interests would stress the value of "liquidity." Where Kay goes with this line of thinking will be interesting, especially since the paragraph above comes after a discussion of takeovers. PIRC would certainly favour revisiting some of the options rejected by the Takeover Panel, such as a qualifying period for being able to vote on deals.

It is also worth noting that Kay sees asset managers as the principal group capable of enacting change. He pointed out that bodies such as the ABI and NAPF are much reduced in influence, due to the declining share of UK equities held by their members. Certainly their influence on recent public policy issues relating to share-ownership appeared to have been negligible, preferring to cling to old certainties rather than engage in any critical thinking in the wake of the crisis. There is a gap here that is not being filled, certainly not by the phantom Institutional Investor Committee.

Finally, we are also eternally grateful to John Kay for highlighting the importance of voting. He describes votes as one of the most important aspects of ownership. If only the asset managers, which cast most of them, shared this view.

Horses and hacking

A horse came to signify the overlapping relationships exposed by the phone-hacking scandal, whilst the latest reshuffle at News Corp suggested that Murdoch family control continues to weaken.

The horse, of course, was Raisa, a former Metropolitan Police horse that was loaned to former News International (NI) chief executive, and News of the World editor, Rebekah Brooks. That little detail emerged as the Leveson Inquiry continued its exploration of the relationship between the police and the media. But it subsequently emerged that the horse had also been ridden by the Prime Minister. Depending on where you stand this is either a piece of meaningless trivia, or symbolic of the far too cosy relationship between politicians and the media.

The other big news was the announcement by James Murdoch that he was giving up his position as executive chair of NI to focus on pay TV. According to media commentators, the announcement really only confirms the reality on the ground that James had stepped back from the papers since the phone hacking scandal erupted. Nonetheless the announcement was taken as a further sign of his sidelining within News Corp as the company waits for the DCMS committee's report, which will inevitably comment on his role.

And of course this has led to further speculation about his role as chair of BSkyB. Perhaps the most notable development here was the comment by long-standing Murdoch ally Crispin Odey, who publicly backed James as chair of the broadcaster ahead of last November's AGM. He was quoted saying that "There is definitely change afoot" and suggested that Murdoch's giving up of his News International role and move back to the US might signal a step away from the broadcaster.

Barclays: not a taxing problem

Barclays' chief executive Bob Diamond became the poster boy for a 'business as usual' approach to pay in the banking sector.

His spectacularly ill-judged remark in front of a parliamentary committee last year that the "period of remorse and apology" by the banks "needs to be over" cemented his reputation as someone who was not likely to bow to popular opinion. So it wasn't perhaps surprising that he isn't planning to don the hair shirt this year and waive his sizeable incentives.

It emerged that as part of the deal to bring Diamond over from the US, the bank had also compensated him for the increase in his tax bill. If UK institutions find this troublesome, they ought to say so. After all, opposition to this type of arrangement is spelt out in some industry guidelines.

For example, here's what the ABI says on "taxation" in its executive pay guidelines: "Remuneration committees should not seek to make changes to any element of executive remuneration to compensate participants for changes in their personal tax status."

There is a tendency on the part of some investors to over-complicate things in respect of executive pay, always looking for the potential unintended consequences of taking action. This one is pretty easy. If you follow ABI policy, it looks like Barclays is not in line with it. If you don't think Barclays should have paid the tax bill, vote against the remuneration report. There's an unintended consequence of inaction too. If shareholders don't object to breaches of policy by FTSE100 companies, won't that encourage other companies to try it on?

Clouds gather over BSkyB

The hacking scandal was beginning to have an impact on BSkyB, where News Corp owns 39% and James Murdoch is a board director.

An FT scoop revealed that broadcasting regulator Ofcom had set up a dedicated team to look at the 'fit and proper' test as it could apply to BSkyB. According to the paper, the intensified scrutiny by the regulator would consider both James Murdoch and News Corp. A negative ruling by Ofcom could threaten the chair or require News Corp to sell down its holding.

BSkyB (and Ofcom) will also have to take a view on the long-awaited Department of Culture, Media and Sport (DCMS) select committee's report. The BBC's Robert Peston reported that BSkyB sources had told him that if the DCMS committee's report on phone-hacking challenges James Murdoch's testimony then he is likely to lose the support of the company's independent directors. This is undoubtedly true, but probably under-estimates the threat to Murdoch posed by the report.

Even if the committee cannot agree that his testimony was unreliable they may question his management. For independent shareholders failing to spot and deal with the phone-hacking case represents a serious failure. Therefore even if the board concludes that the DCMS committee report isn't bad enough for them to risk taking on News Corp, shareholders may seek change themselves.

BIS pushes on with pay reform

The Government issued its consultation on increasing shareholder powers in respect of executive pay.

The paper, issued by the Department of Business, Innovation and Skills (BIS) proposed -

· An annual binding vote on future remuneration policy

· Increasing the level of support required on votes on future remuneration policy, potentially to 75%

· An annual advisory vote on how remuneration policy has been implemented in the previous year

· A binding vote on exit payments over one year's salary

If implemented together, this adds up to a serious reform effort and could lead to improved shareholder engagement over remuneration. It would certainly give shareholders more effective powers to tackle problems where they arise.

It's worth remembering how we got here. PIRC supported the introduction of an advisory vote on remuneration policy in 2002. It's worth recalling that for a long time many business groups, and some investors, argued that even this power was going too far. In practice, we think it has led to an improvement in shareholder engagement. But it has become increasingly clear that a mixture of company intransigence and changes in share-ownership require a retooling of shareholder rights in respect of pay. PIRC is therefore very supportive of what BIS is trying to achieve.

We should not assume that these reforms will have an easy path to implementation. It's notable that the CBI seems to want to push back. Despite having put out a fairly supportive statement in response to Vince Cable's statement in Parliament in January, it is now starting to focus its lobbying. The business lobby group also took aim at two of the key proposals made by BIS – introducing a binding vote, and raising the threshold for pay votes to pass. If both those ideas were knocked out, the package of reforms would be significantly weakened.

Business tactics in preventing serious reform are likely to be varied. There is too much risk of reputational damage in seeming to defend high pay on its own terms. So watch out instead for much of the inevitable counter attacking to be done by blowing technical issues out of proportion. We might also see professional service providers to PLCs - lawyers and remuneration consultants – get involved in over-egging the technical challenges.

Therefore if investors believe that what BIS is proposing is valuable they should be vocal in support. We also believe that supportive investors could do worse than explaining how they might use the proposed reforms in practice – particularly the binding vote on future policy.

If you want these new rights, fight for them.

It's alive! IIC springs into action

Regular PIRC Alerts readers may have noticed a certain degree of scepticism on our part about the 'senior body' representing institutional shareholders.

What was the Institutional Shareholders Committee, became the Institutional Investor Council and has ended up (after losing the Association of Investment Companies as a member) as the Institutional Investor Committee (IIC), has not always struck us as a particularly impressive body. Until recently, and despite major issues of concern to shareholders, such as the battle over bankers' bonuses, it has been silent.

Well, like buses, you wait ages for an indication that the IIC might actually be a real, functioning organisation, and then two come along at the same time. First came a press release in response to the BIS consultation on strengthening shareholder rights in respect of executive pay. The headline comment in the release was a vague welcome for the Government's encouragement of engagement over pay, without any comment on the actual proposals. This might be because IIC members have previously opposed some of the ideas floated, such as a binding vote.

However, it's the detail after the main comment that is of most interest, as it sketches out an IIC framework for assessing top pay. The key themes here are simplicity, transparency and performance linkage and accountability. It is notable on the last point that the IIC said that companies can expect more votes against remuneration committee members. However, we can't see any reference in there, even a euphemistic one, to the question of quantum. This is despite the ABI guidelines including a section specifically on it. We hope this is an oversight, and not indicative of the problem that beset the ISC of settling on the lowest common denominator in terms of policy positions.

The second IIC statement was on audit issues, and was a response to the European Commission's proposed regulation. Here again we were a little wary that the collective nature of the IIC might mean that it pulls its punches. For example, a number of investors already take a tougher line on the provision by the auditor on non-audit services than that advanced by the IIC.

Still, having goaded the IIC and its predecessor for the best part of three years over its inaction, we can hardly complain that it is finally starting to do things in its own name. A mean-spirited semi-welcome is clearly much deserved.

Trinity Mirror claims backing

Trinity Mirror's chairman Sir Ian Gibson attempted to put an end to speculation over chief exec Sly Bailey's pay after announcing a 40% drop in profits last year.

Bailey has "unanimous and complete" shareholder backing claimed Gibson after rumours of a possible shareholder rebellion began to surface, reported the Guardian. He confirmed that the company is reviewing her remuneration scheme. He pointed out that Bailey's total package of £1.66m (in 2010) has not had a rise in her basic pay since 2008, though he claims it will continue to remain frozen this year. Since taking the role of chief exec nine years ago, Bailey has earned over £12m while the share price has fallen by 90%.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	GRAINGER PLC	AGM	08 Feb 12	2	Approve the Remuneration Report	Oppose	23.78
2	GRAINGER PLC	AGM	08 Feb 12	14	Appoint the auditors	Oppose	17.82
3	GRAINGER PLC	AGM	08 Feb 12	15	Authorise the directors to fix the remuneration of the auditors.	For	15.59
4	BELLWAY PLC	AGM	13 Jan 12	3	Re-elect Mr H C Dawe	For	12.50
5	WH SMITH PLC	AGM	25 Jan 12	14	Approve annual share incentive plan	Oppose	12.31
6	GRAINGER PLC	AGM	08 Feb 12	11	Re-elect John Barnsley	Oppose	11.45
7	GRAINGER PLC	AGM	08 Feb 12	19	To reduce the notice period for general meetings to 14 days.	For	11.20
8	WH SMITH PLC	AGM	25 Jan 12	2	Approve the Remuneration Report	Abstain	11.05
9	COMPASS GROUP PLC	AGM	02 Feb 12	19	Meeting notification related proposal	For	10.58
10	IMPERIAL TOBACCO GROUP PLC	AGM	01 Feb 12	19	Notice period for general meetings	For	10.33

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	0	0	0	0	0	0	0	0	0
Annual Reports	8	50	1	6	7	43	0	0	16
Articles of Association	0	0	0	0	0	0	0	0	0
Auditors	13	81	2	12	1	6	0	0	16
Corporate Actions	2	100	0	0	0	0	0	0	2
Corporate Donations	1	25	0	0	3	75	0	0	4
Debt & Loans	1	100	0	0	0	0	0	0	1
Directors	62	89	5	7	2	2	0	0	69
Dividend	8	100	0	0	0	0	0	0	8
Executive Pay Schemes	2	50	1	25	1	25	0	0	4
Miscellaneous	8	100	0	0	0	0	0	0	8
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0	0	0
Share Issue/Re-purchase	22	88	3	12	0	0	0	0	25
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	0	0	0	0	0

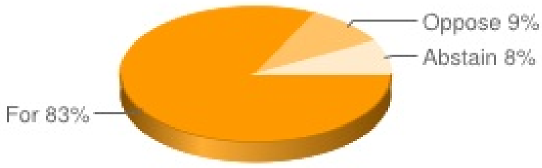
UK Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	127
Oppose	14
Abstain	12
Withdrawn	0
Total	153

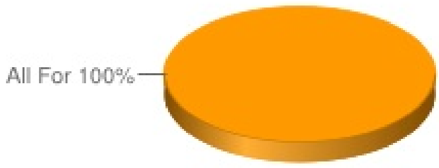
Meetings	AGM	EGM	Total
Total Meetings	8	2	10
1 (or more) oppose or abstain vote	8	0	8

UK Voting Record



UK AGM Record

UK EGM Record



UK Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	ANGLO AMERICAN PLC	06 Jan 12	**EGM**	2011-12-16
2	BELLWAY PLC	13 Jan 12	AGM	2011-12-20
3	WH SMITH PLC	25 Jan 12	AGM	2012-01-09
4	ITE GROUP PLC	26 Jan 12	AGM	2012-01-12
5	IMPERIAL TOBACCO GROUP PLC	01 Feb 12	AGM	2012-01-16
6	COMPASS GROUP PLC	02 Feb 12	AGM	2012-01-17
7	DS SMITH PLC	03 Feb 12	**EGM**	2012-01-23
8	GRAINGER PLC	08 Feb 12	AGM	2012-01-23
9	PARAGON GROUP OF COS PLC	09 Feb 12	AGM	2012-01-24
10	BEAZLEY PLC	27 Mar 12	AGM	2012-03-13

UK Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	LADBROKES PLC	19 Apr 12	AGM
2	HAMMERSON PLC	19 Apr 12	AGM
3	DEVRO PLC	19 Apr 12	AGM
4	PERSIMMON PLC	19 Apr 12	AGM
5	RIO TINTO GROUP (GBP)	19 Apr 12	AGM
6	ANGLO AMERICAN PLC	19 Apr 12	AGM
7	SPECTRIS PLC	20 Apr 12	AGM
8	CAPITAL & COUNTIES PROPERT	20 Apr 12	AGM
9	SHIRE PLC	24 Apr 12	AGM
10	FILTRONA PLC	24 Apr 12	AGM
11	BODYCOTE PLC	25 Apr 12	AGM
12	BRITISH AMERICAN TOBACCO PLC	26 Apr 12	AGM
13	ELEMENTIS PLC	26 Apr 12	AGM
14	TAYLOR WIMPEY PLC	26 Apr 12	AGM
15	ASTRAZENECA PLC	26 Apr 12	AGM
16	BARCLAYS PLC	27 Apr 12	AGM
17	XSTRATA PLC	01 May 12	AGM
18	RANK GROUP PLC	01 May 12	AGM
19	PROVIDENT FINL GROUP	02 May 12	AGM
20	LANCASHIRE HOLDINGS LTD	03 May 12	AGM

21	MORGAN SINDALL GROUP PLC	03 May 12	AGM
22	AVIVA PLC	03 May 12	AGM
23	GLAXOSMITHKLINE PLC	03 May 12	AGM
24	GKN PLC	03 May 12	AGM
25	ROLLS-ROYCE HOLDINGS PLC	04 May 12	AGM
26	MORGAN CRUCIBLE CO PLC	08 May 12	AGM
27	WILLIAM HILL PLC	08 May 12	AGM
28	SAVILLS PLC	09 May 12	AGM
29	RIGHTMOVE PLC	09 May 12	AGM
30	UNILEVER PLC	09 May 12	AGM
31	STANDARD CHARTERED PLC	09 May 12	AGM
32	WEIR GROUP PLC	09 May 12	AGM
33	CATLIN GROUP LTD	10 May 12	AGM
34	CENTRICA PLC	11 May 12	AGM
35	PETROFAC LTD	11 May 12	AGM
36	BOVIS HOMES GROUP PLC	16 May 12	AGM
37	HOWDEN JOINERY GROUP PLC	16 May 12	AGM
38	TULLOW OIL PLC	16 May 12	AGM
39	LEGAL & GENERAL GROUP PLC	16 May 12	AGM
40	BG GROUP PLC	16 May 12	AGM
41	NEXT PLC	17 May 12	AGM
42	PRUDENTIAL PLC	17 May 12	AGM
43	CAIRN ENERGY PLC	17 May 12	AGM
44	THE RESTAURANT GROUP	17 May 12	AGM
45	COMPUTACENTER PLC	18 May 12	AGM
46	KENTZ CORP	18 May 12	AGM
47	DERWENT LONDON PLC	20 May 12	AGM
48	ROYAL DUTCH SHELL PLC	22 May 12	AGM
49	HSBC HLDGS PLC	25 May 12	AGM
50	FERREXPO PLC	26 May 12	AGM
51	HISCOX LTD	30 May 12	AGM
52	KENMARE RESOURCES PLC	01 Jun 12	AGM
53	EURASIAN NATURAL RESOURCES	01 Jun 12	AGM
54	KINGFISHER PLC	01 Jun 12	AGM
55	MORRISON (WM) SUPERMARKETS	01 Jun 12	AGM

AIM UK Market Voting Timetable Q1 2012

There were no meetings held by the client during the period.

AIM UK Market Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q1 2012

There were no meetings held by the client during the period.

Fledgling UK Market Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

European Corporate Governance Review

ABP drops Walmart over labour

One of the world's largest pension funds divested from US retail giant Walmart.

The Netherland's biggest pension fund, Algemeen Burgerlijk Pensioenfonds (ABP), announced that Walmart has been placed on its blacklist for failure to comply with the United Nations' Global Compact principles. This isn't the first time that Walmart has come under criticism for its anti-union stance and poor labour practices. After four years of engaging with Walmart, ABP found the retailing behemoth reluctant to make meaningful changes. The United Food and Commercial Workers International Union praised the decision, hoping that it would send a clear message.

Commodity speculation targeted

An analysis claimed that the investment activities of 29 European banks, pension funds and insurance companies are contributing to the rise in global hunger and poverty as well as financing land grabs in poorer countries.

Friends of the Earth Europe's (FOEE) report, *Farming Money* , alleged that the dramatic increase in financial institutions involvement in agricultural commodity 'futures' has caused massive swings in the cost of world food prices. These investments have diminished the role natural supply and demand play in the price of agricultural commodities, added FOEE. It also found that a number of European banks are directly or indirectly funding large-scale acquisitions of farmland in developing countries. According to the report, Deutsche Bank, Barclays, ABP, Allianz and BNP Paribas are the most involved in trading or marketing investment products based on agricultural commodity futures. FOEE has called on financial institutions to investigate, disclose and minimise their involvement in food speculation and investments in land, and for banks, pension funds, and insurers to 'phase-out' or avoid speculating in staple foods like wheat, rice and corn. It has also recommended European legislature assist with curtailing excessive speculation by placing limits on the size of bets speculators can take.

Ryanair ad criticised, part 7954

Ryanair is too sexy for newspapers. At least according to The Advertising Standards Authority (ASA), which pulled the plug on Ryanair's "Red hot fares & Crew" advertising campaign featuring female cabin crew members wearing lingerie in suggestive poses.

The online campaign against the ads was spearheaded by an unnamed Ryanair flight attendant and gained over 11,000 signatures asking that they be banned. The ASA also received 17 complaints that the ads were sexist and objectified women. A spokesperson from Ryanair dismissed the complaints, stating that the images were taken from their charity calendar, something the airline will continue to produce.

This is the latest in series of clashes between Irish budget airline and advertising authorities over racy or misleading newspaper campaigns. The British authorities banned its 2008 "hottest back to school fares" newspaper ads that featured female models dressed like schoolgirls. Ryanair also had three ads banned in 2007, one attacking Eurostar, another criticising lastminute.com and a third that made misleading claims about carbon emissions.

Dutch bill tightens audit practices

The Dutch Parliament set a stricter tone for the auditing profession by passing three significant amendments to a bill.

The three amendments awaiting approval by the Dutch Senate include the separation of audit and non audit services for public interest entities. However, work that was commissioned prior to the new rules can be performed up to two years after the effectual date of the new law. In addition, mandatory rotation of auditors every eight years was proposed with a “cooling off” period of two years before the same firm is allowed to do the audit work again. This provision will come into force on 1 January 2014. Lastly, the bill called for the removal of the so-called Chinese Walls thus giving more power to the Autoriteit Financiële Markten to improve monitoring of financial reporting.

Volkswagen keeps it in the family

In an increasingly common move among German corporations, Volkswagen chairman Ferdinand Piech proposed the appointment of his wife to the company’s board, said the Financial Times.

Should VW’s shareholders approve Ursula Piech’s appointment, she and her husband would increase their familial representation on the board to five. There are 20 board members in total. Ursula’s addition to the board would further solidify the Piech-Porsche family control over the German carmaker of which the families already own around 50.73% by means of its 90% stake in Porsche – VW’s holding company. Her credentials include kindergarten teacher and qualifications in business and law. Europe’s largest car maker has also nearly doubled the remuneration of its chief executive Martin Winterkorn to €17.5m, making him one of the highest paid chief executives in Germany. He has also publicly announced support for the appointment of Ursula to the board.

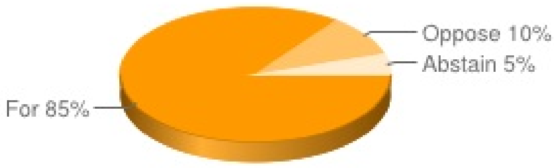
European Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	17
Oppose	2
Abstain	1
Withdrawn	0
Total	20

Meetings	AGM / Combined	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

European Voting Record



European AGM Record / Combined

European EGM Record

There where no EGMs during the last period in the clients portfolio.

European Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 5: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	NOVARTIS AG	23 Feb 12	AGM	2012-02-09

Not Voted Meetings

Table 6: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	ROCHE HOLDING AG	06 Mar 12	AGM	Do not hold ISIN, no voting rights

European Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by European companies currently in the fund's portfolio.

Table 7: Upcoming Meetings

	Company	Meeting Date	Type
1	NESTLE SA	19 Apr 12	AGM
2	SYNGENTA AG	24 Apr 12	AGM
3	DNB NOR ASA	25 Apr 12	AGM
4	AB INBEV (ANHEUSER-BUSCH INBEV) NV	25 Apr 12	AGM
5	BAYER AG	27 Apr 12	AGM
6	ACTELION LTD	04 May 12	AGM
7	AIR LIQUIDE SA	09 May 12	AGM
8	FRESENIUS MEDICAL CARE AG & CO KGAA	10 May 12	AGM
9	TOTAL	11 May 12	AGM
10	THALES	15 May 12	AGM

US Corporate Governance Review

US corporate influence challenge

A number of US states have already begun to launch an attack against corporate personhood and any associated rights, such as corporate political spending.

Vermont became the first state to call for a constitutional amendment to the US Supreme Court decision that gave corporations the same rights as people. Since Vermont's resolution, created with the help of 2004 Green Party presidential candidate David Cobb, California, the New York City Council and the Los Angeles City Council have followed suit by voting in favour of similar resolutions. However, 75% of states' legislatures must ratify the amendment before a constitutional convention can come into effect.

Meanwhile, a recent ruling by the Montana Supreme Court reinstated the state's 100 year-old ban – the Corrupt Practices Act - on corporate political spending. The Court stated that the US Supreme Court's decision to allow for political spending by corporations does not invalidate Montana's law.

US golden parachutes top $100m

21 US CEOs have received golden parachutes worth over $100 million since 2000, according to a report by GovernanceMetrics International (GMI).

These large severance packages known as "walk-away" packages generally include actual and potential stock option profits, full-value stock awards, salary and bonus continuation, benefit and perquisite continuation, executive pension benefits and other deferred compensation. Such walk away packages, which were originally meant to work in the best interest of shareholders by ensuring executive decisions were made in the long-term interest of the company and/or mergers and acquisitions, were applied too widely. GMI added that, the enormity of these packages, regardless of their original intention, now only seem to benefit departing executives and provide very little or no value for shareholders.

AFSCME governance campaign

21 shareholder proxy proposals were filed by the American Federation of State, County and Municipal Employees Pension Plan.

The proposals seeking independent board chairs, annual director elections and disclosure of corporate lobbying expenditures and tax strategies were filed at some of America's largest corporations such as Bank of America, Coca-Cola, Goldman Sachs and JPMorgan Chase. The aim of the proposals was to "increase corporate management's accountability and transparency and better align the interests of management with those of shareholders," at this season's AGM, added AFSCME.

Siemens pushed on lobbying links

Change to Win Investment Group (CtW) called on German conglomerate Siemens to sever its ties with the US Chamber of Commerce.

In a letter, the 5.5 million member union coalition asked CEO Peter Löscher and supervisory board chair Gerhard Cromme to halt the company's contributions and relinquish its position on the US Chamber's board, stating that it undermines Siemens' 2008 pledge to establish "state of the art" anticorruption measures. According to CtW, the US Chamber has engaged in an expensive lobbying campaign to weaken the Foreign Corrupt Practices Act (FCPA).

Unlike Germany, membership is not compulsory in the US and many prominent companies have already left the US Chamber over its extreme positions, added CtW. CtW has been engaging with Siemens for almost two years now over its relationship with the US Chamber. Siemens defended its membership at last year's AGM stating that by being a member, it could "mould the Chamber's position from within." Siemens' AGM was on 24 January.

Lobbyists target voting advisers

As the battle over regulating proxy advisers heated up in the USA various interests were making their views known to the SEC. The latest was the Shareholder Communications Coalition, representing, the corporate community, or 'issuers' in US parlance.

They published their views in a letter to SEC chair Mary Shapiro, setting out several policy positions that were beginning to sound familiar in this debate. Some of their suggestions will resonate with a UK audience: proxy advisory firms (as the debate labels firms like PIRC, ISS etc) should be regulated by the SEC (or the FSA in a UK context); there should be increased transparency by proxy firms and there should be requirements for 'accuracy of factual information' used by firms.

The devil, however, was in the detail. Proxy firms SCC said should meet the following conditions: requiring minimum standards of professional and ethical conduct; these standards should address conflicts of interest (particularly where a firm provides services to issuers as well as proxy advice on the same issuers annual meeting proposals (and whether a shareholder proposal is being submitted by a client of the proxy service); and proxy advisory firms should be regulated by the SEC in the way that the rating agencies are or will be.

Greater transparency was proposed in relation to procedures, guidelines, standards, methodologies, and assumptions used in the development of voting guidelines. This, the Coalition argued was particularly important where "they apply policies without taking into account company-specific or industry-specific facts and circumstances in making such voting recommendations." Also, they advocated that proxy firms should "be required to maintain a public record of all their voting recommendations. Consideration also should be given to requiring disclosure of the underlying data. Information and rationale used to generate specific voting recommendations. These disclosures could have been made at a reasonable time after the recommendation had been made and would still have been relevant and useful to companies, academics, and others who study the influence of such firms." This presumably included the Shareholder Coalition itself, how handy would that be?

These proposals, emanating from a lobby group serving the interests of corporations, deserve consideration. As they represent a weakening of the proxy advisory function in the face of corporate interests, proxy firms must respond and defend themselves. The flaw in the origin of such criticism is that the clients of a proxy firm are not corporations, but investors. Getting that right puts into perspective such proposals and necessarily weakens their case. With so much human and capital resource at the disposal of big business, proposals that weaken proxy firms and compromise their services to the institutional investor community would be a considerably large nail in the coffin of shareholder democracy. The debate has begun.

Insurers face climate disclosure

Insurance commissioners in three US states must now handle the risks to insurers posed by climate change.

California, one of the three states, has been issuing the Climate Risk Survey since it was first established by the National Association of Insurance Commissioners (NAIC) in 2009 but only now has participation of insurers been made mandatory. New York and Washington State are the other two states that have agreed to make it mandatory for insurers writing policies worth over $300 million nationally to reply to the survey. Ceres, the Boston-based coalition of investors, environmental organisations and other public interest groups, has hailed this as a victory. The group has been working for over five years to get this measure passed.

CalSTRS pokes Facebook

The California State Teachers' Retirement System (CalSTRS) wrote to Facebook, asking the social media giant to improve its board diversity ahead of its $5 billion initial public offering (IPO) in May.

Currently, the board has no female representation. In the letter, Anne Sheehan, director of corporate governance at CalSTRS asked Facebook founder Mark Zuckerberg to strengthen its governance by diversifying its all male board to better reflect the company's user demographics. Diversity isn't the only concern at Facebook. The company has a dual-class structure with Zuckerberg holding the largest stake (28%), which, in effect, gives him 56.9% of voting power. And, in its IPO filling, Zuckerberg has announced further governance setbacks, which include running Facebook as a controlled company with a classified board. So, Facebook will sidestep governance best practice by giving Zuckerberg alone decision making power over everything from electing the company's board of directors to determining executive remuneration. He will also remain as both CEO and chairman, and hold exclusive decision over his replacement. This all sounds like a 'poke' in the eye for shareholder rights. As one commentator put it: "we want your money, not your interference."

NY funds pull clawback motions

Shareholders agreed to withdraw resolutions on clawbacks at two investment banking giants.

The coalition of five New York City pension funds, New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, the New York City Police Pension Fund and the New York City Board of Education Retirement System, had jointly filed the clawback provision resolution at Morgan Stanley and Goldman Sachs. The group decided to withdraw the proposal after the banks agreed to "broaden the scope of their policies, hold managers and supervisors accountable to clawbacks and provide public disclosure about clawbacks," reported the Financial News. In exchange, both banks withdrew their filings with the Securities and Exchange Commission seeking permission to block the proposals from their proxies.

Yahoo board shake-up

Yahoo's chairman and three other long-time board members planned to step down as the search engine company began some much need housecleaning.

The company had undergone a series of changes, including the announcement of co-founder Jerry Yang's resignation, the recent appointment of former PayPal executive Scott Thompson to CEO and talks of selling its Asian holdings, reported the New York Times. So far, the board has elected two new directors, Maynard Webb Jr and Alfred Amoroso with plans to add more. The shake-up should give some satisfaction to Yahoo's shareowners who have been putting increasing pressure on the company to overhaul its board after a series of missteps have contributed to its drop in share price and for failure to keep up with competitors Google and Facebook.

US union fund targets auditors

One of North American's largest unions filed shareholder proposals at over a dozen US companies requesting that they reveal how long they have used the same external auditor, according to Reuters.

The United Brotherhood of Carpenters (UBC), with $45 billion in assets, sought similar proposals on auditor rotation last year but failed to gain enough support. The audit related proposals are in three parts, requesting that companies disclose if they cyclically rotate auditors and if not, why; how much auditors have been paid over the years; and if the board's audit committee considers potential risks from having a long-term auditor, added Reuters.

As well, the union petitioned the Securities and Exchange Commission to make auditor rotation mandatory on company ballots last year. The SEC denied the request stating that companies could continue to omit auditor rotation proposals on the grounds of "ordinary business" matters. Ed Durkin, director of corporate affairs at UBC called the SEC's ruling "erroneous." He argued audit rotation is a public interest issue because "it's about auditor independence – not the annual selection of an audit firm."

The issue of auditor rotation has been the subject of much debate in both the US and the UK with accounting regulators on both sides of the Atlantic calling for increased scrutiny of auditor independence. In the US, the Public Company Accounting Oversight Board (created by the Sarbanes-Oxley Act to oversee company auditors) announced last August that it would consider mandatory auditor firm rotation as a means to increasing auditor independence, said Reuters.

Blood and Gore and capitalism

In a recent white paper, entitled Sustainable Capitalism, former US vice president Al Gore and former Goldman Sachs chief executive David Blood called for investors to embrace a more long-term and responsible form of capitalism.

The paper consisted of a series of key recommendations that they believe will accelerate sustainable investment by 2020, including aligning remuneration to long-term sustainable performance and encouraging long-term investments with loyalty-driven securities. The founders of Generation Investment Management also suggested an end to quarterly earnings guidance by chief executives. This default practice, they argued, incentivises executives to view the business in the short term. They would also like to see a new framework that shifts away from a singular focus on profit maximisation to one that considers the cost of all externalities like water and carbon into the balance sheet.

US drive for board diversity

A “Critical Mass Campaign” was launched by a coalition of 27 US industry thought leaders to push CEOs, investors and other stakeholders into action to address the lack of diversity in US corporate boardrooms.

The group stated that the aim of the campaign was to secure a minimum of 30% multicultural women on every US-based publicly listed company board of directors by the end of 2015. The rate of progress has been glacial in the US. Statistics from Catalyst’s 2011 census of Fortune 500 companies showed that the number of female held board seats between 2010 and 2011 increased by just 0.4%, and that female executives and top earners are no further along the corporate ladder than they were six years ago. The group pointed to other nations like Europe that have taken significantly more strides to help women reach the upper echelons by opting in favour of quotas and other “demand-side initiatives” to push companies to change their board composition to include more women.

Apple agrees to majority voting

Technology giant Apple gave in to pressure from shareholders by agreeing to adopt majority voting.

The California Public Employees’ Retirement System (CalPERS) hailed the move as a victory for shareholders. The US’ largest public pension fund had filed the non-binding proposal at both the company’s 23 February AGM as well as last year’s where a similar proposal earned over 73% shareholder support. Though not mandatory, nearly 80% of the companies in the S&P 500 and 60% in the Russell 1000 have some form of majority voting standard. Anne Simpson, senior portfolio manager in charge of corporate governance at CalPERS, said “We strongly commend the board for adopting this good corporate governance measure and for giving its shareowners a voice in the election process.”

Janus bows to investors on pay

Investment firm Janus Capital Group gave in to shareholder pressure over excessive fees paid to executives, announcing it will set up a new pay scheme.

The US-based group revealed the changes in its proxy statement, which was released at the beginning of March. Janus attributed the changes to: last year’s AGM where the company’s pay policy was backed by only 40%, recommendations by the compensation committee’s consultants and discussion with shareholders. Under the new pay scheme, CEO Richard M. Weil's remuneration will be capped at $10 million – a 40% reduction compared to 2010. Other changes include the replacement of time-vesting equity grants with more performance-based awards that are contingent on stock price.

As You Sow proxy season preview

Energy and political spending lead investor concerns this coming proxy season, found shareholder advocates As You Sow in its analysis of hundreds of environmental and social resolutions filed in the US.

According to the US-based group's eighth edition of Proxy Preview, shareholder proposals concerning political spending and lobbying comprised almost a third of the 349 social environmental resolutions filed thus far. The inclusion of resolutions on lobbying during this year's proxy season for the first time exemplifies the growing concern among investors about corporate influence on politics and the economy.

The comprehensive review noted that environmental advocates have broadened their definition of climate change risk to requests in terms of energy efficiency and renewable energy more than in past years. It also found that coal and hydraulic fracturing continue to dominate natural resource management proposals. In contrast, the research showed the number of resolutions on labour and human rights have decreased compared to previous years.

James Murdoch going, going, gone

James Murdoch will not stand for re-election to the board of Sotheby's this May, the auction house has announced.

In an SEC filing, the company said that Murdoch had indicated that he would not be standing for re-election as he wanted to focus on his core responsibilities at News Corp. His decision to step down follows a similar decision to relinquish a non-executive post at Glaxosmithkline. His position at Sotheby's had been vocally challenged by US union shareholder activists, led by Change To Win. It is understood that further pressure on his Sotheby's role was expected ahead of the AGM.

Separately, James Murdoch wrote an unsolicited seven-page letter to the Department of Culture, Media and Sport select committee defending his role at News International. Whilst he accepted that he could have done more to question, he stressed that he was not aware of the extent of phone-hacking, as alleged by other former NI executives. He also sought to give the DCMS committee his own reading of the June 2008 email that appears to provide enough information to conclude that hacking might have gone beyond jailed Royal reporter Clive Goodman.

The committee's report has been delayed as more evidence piles up. Critically for Murdoch more criminal activity at NI has been exposed that appears to have taken place whilst he was in post. Further arrests appeared to relate to the attempt to destroy evidence of knowledge of hacking. So Murdoch may have failed to spot the cover-up as well as the crime. Spin-watchers might also note that Murdoch's letter was trailed in the FT before it appeared on the committee website. This has led some to speculate that a committee member supportive of Murdoch leaked it.

Muppets of the universe

A departing Goldman Sachs executive has issued a stinging rebuke to the firm.

Greg Smith was with the firm for over a decade, with his most recent position being executive director and head of the firm's US equity derivatives business in Europe, the Middle East and Africa. In a New York Times op-ed, Smith described a thriving culture of greed and power where both clients and integrity have been sidelined in pursuit of profit. He went on to describe a replacement of the "secret sauce" he once knew – a place where teamwork, humility and serving the client thrived- with a "slow decline in the moral fibre" where leaders are selected based on their ability to callously rip off "muppets" (clients) in order to increase Goldman's profit. Smith said his moment of truth came when he could no longer look students in the eye and say that Goldman's is a great place to work. He claimed that the firm was on a downward trajectory with morally bankrupt staff taking too many shortcuts and not caring enough about achievement. “People who only care about making money will not sustain this firm – or the trust of its clients – for very much longer,” warned Smith.

NY funds seek board reforms

New York City Comptroller John C. Liu and the New York City Pension Funds filed resolutions at 13 companies seeking more independent directors.

Together they were seeking access to the proxy at companies like Chesapeake Energy and Nabors Industries to nominate directors, independent chairs, declassify boards and encourage majority voting in director elections. Should they be adopted, the bylaws would enable shareholders to avoid the high cost of issuing their own proxy cards when they are dissatisfied with a board and want to run their own candidates for election as directors. Since filing, the Comptroller has withdrawn the board declassification resolution at Juniper Networks and majority voting resolutions at both HollyFrontier and Hersha Hospitality after they agreed to adopt the shareholder proposals.

‘Jobs bill’ is a governance problem

The US Senate recently passed a bill that strips away any corporate governance requirements for companies with annual sales of up to $1 billion, said Global Proxy Watch.

In effect, the provision will allow 90% of all IPOs to be exempt from basic transparency, accountability and disclosure requirements such as say-on-pay enforced under the Sarbanes-Oxley Act. Supporters of the so-called ‘jobs bill’ claim the legislation will increase jobs and economic growth. Sceptics like the Council of Institutional Investors argue that whether or not the bill will create jobs is debatable but it is clear that the passage of it will increase risks for investors by dismantling many investor protections put in place by Congress a decade ago after the dotcom bubble. Obama is expected to sign the bill.

McPackaging goes green

McDonald’s took its first step toward sustainable packaging after a 2011 shareholder proposal asked the company to assess the environmental impacts of its beverage containers.

The proposal, put forward by US-based responsible investment group As You Sow at last year’s AGM, also asked the global food chain behemoth to develop packaging recycling goals. The shareholder advocacy group said in a press release that the vote had earned almost 30% investor support – the highest vote to date for any of As You Sow’s proposals on container recycling. McDonald’s has agreed to test its replacement paper cups at 2,000 or 15% of its US West Coast-based restaurants this year to see how consumers respond and the overall performance of the new double-walled fibre hot cups. As You Sow plans to urge other companies such as Yum! Brands, Tully’s, and Peets to implement recycling measures as well.

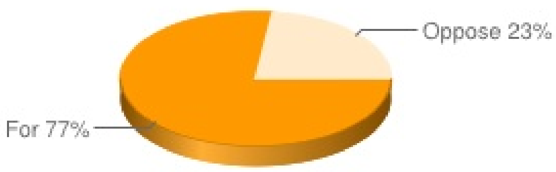
US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	20
Oppose	6
Abstain	0
Withhold	0
Withdrawn	0
Total	26

Meetings	AGM	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

US Voting Record



US AGM Record

US EGM Record

There where no EGMs during the last period in the clients portfolio.

US Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 8: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	ACCENTURE PLC	09 Feb 12	AGM	2012-01-25
2	APPLIED MATERIALS INC	06 Mar 12	AGM	2012-02-21

US Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 9: Upcoming Meetings

	Company	Meeting Date	Type
1	L-3 COMMUNICATIONS HOLDINGS INC	24 Apr 12	AGM
2	PNC FINANCIAL SERVICES GROUP INC	24 Apr 12	AGM
3	eBAY INC.	26 Apr 12	AGM
4	PFIZER INC.	26 Apr 12	AGM
5	BAKER HUGHES INC	26 Apr 12	AGM
6	FLIR SYSTEMS INC.	27 Apr 12	AGM
7	AT&T INC.	27 Apr 12	AGM
8	EMC CORP.	01 May 12	AGM
9	LABORATORY CORP. OF AMERICA	01 May 12	AGM
10	CONSOL ENERGY INC.	01 May 12	AGM
11	WISCONSIN ENERGY CORP.	03 May 12	AGM
12	SPRINT NEXTEL CORP.	15 May 12	AGM
13	PRINCIPAL FINANCIAL GROUP	22 May 12	AGM
14	THERMO FISHER SCIENTIFIC INC.	23 May 12	AGM
15	KRAFT FOODS INC-A.	23 May 12	AGM
16	INTERPUBLIC GROUP OF COMPANIES INC	24 May 12	AGM

Japanese Reporting Timetable Q1 2012

There were no meetings held by the client during the period.

Reported Meetings

There were no meetings held by the client during the period.

Japanese Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

Global Corporate Governance Review

Climate affects asset allocation

A follow up report by Mercer showed that over half of the institutional investors who participated in the 2011 groundbreaking *Climate Change Scenario-Implications for Strategic Asset Allocation* survey have already undertaken or plan to mitigate risks associated with climate change.

Of the 12 investor participants, with almost $2 trillion in assets under management, more than half now include climate change considerations in future risk management and/or strategic asset allocation processes, reported Mercer. Additionally, half of participants have already or plan to amend their actual asset allocations and 80% have or will increase their engagement on climate change with companies and policy makers. One-third of participants have also taken pre-emptive tactics or plan to allocate more to "climate sensitive assets" – identified in the first report as real estate, infrastructure, private equity, sustainable equities, efficiency/renewable and commodities. Climate risks within climate-sensitive asset classes have already or will be reviewed by half of participants.

Mercer's report, *Through the Looking Glass*, was issued at the Investor Network on Climate Risk Meeting and Investor Summit on Climate Risk and Energy Solutions.

Developments in diversity policy

Some developments took place on the board diversity front in both the UK and Australia.

Figures from BoardWatch showed that 15 UK-listed companies have met Lord Davies' recommended 25% female director target, pushing total female board member representation in the FTSE100 to 14.9% (up 2.4%) and FTSE250 to 9.2% (up 1.4%). Similarly, data on the Australian Securities Exchange (ASX), compiled by the Australian Institute of Company Directors, showed 65 women (or 13.5%) now comprise ASX200 directorships. Though this is a substantial increase for the ASX200, the numbers are still quite low compared to male appointments.

Some believe the increase of female appointments in Australian-listed companies has much to do with new ASX200 diversity guidelines that require companies to reveal the number of female staff in both board and senior management positions, reported The Age. It also comes on the heels of the Australian government warning of possible gender quotas if large listed companies don't increase the number of women their boards. This response says a lot about the impact indexes can have in changing company behaviour by simply amending listing rules to require listed companies to disclose their diversity policies.

Deloitte backs sustainable boards

Stop viewing sustainability as "just good corporate citizenship." So said consulting firm Deloitte in its recently published white paper entitled *The Sustainable Board.* Instead, boards should start making it an integral component of the overall business strategy.

In the paper Deloitte claimed that the number of boards that include sustainability in their business decision making strategies is, however, on the rise. This change is chiefly due to a growing awareness and demand among the general public and that companies have begun to view sustainability as a means to enhance performance and reputation, mitigate risks, and foster innovation and growth. This substantial shift reflects a changing landscape, added Deloitte. Leading businesses have begun to look to sustainability as a competitive advantage and a driver of innovation.

Safety tops Chinese ESG risks

A study by Chinese consultancy group SynTao revealed that occupational health and safety comprises almost half of environmental, social and governance (ESG) risks.

It found the majority of company incidents are most linked to social issues (65%) and less so to governance (22%) and environment (13%). The report compiled company data between 2010 and 2011, which showed over 40% of all ESG incidents were occupational health and safety related. Corruption and fraud came in second (21%) and environment and industrial hazard third (13%). Of the companies examined for the report, PetroChina, Sinopec and Foxconn had the most exposure to ESG risks.

Novo Nordisk topped clean list

Danish healthcare provider Novo Nordisk topped the 2012 Global 100 list of leaders in clean capitalism.

The pharmaceutical firm scored top marks in energy production, carbon productivity, and pay equity (CEO remuneration is just 15 times that of the average worker). As well, it is the only pharmaceutical company within the Global 100 that links CEO remuneration to corporate performance on clean capitalism KPIs. Further results showed the United Kingdom hosts the majority of the world's most sustainable companies (22), followed by Japan (11) with France and the US tied for third place (8). For the first time this year's indicator included employee turnover – a key indicator of a company's management of human capital.

SHARE 2011 Key Votes Survey

Canadian private sector pension managers have taken a harder line with boards that do not align executive remuneration to shareholder interest, according to SHARE in its twelfth annual survey.

The Key Proxy Vote Survey, which reviewed the voting records of 32 investment managers and proxy voting agencies, found that over one third of 2011 votes were on executive remuneration, with most participants taking a much firmer stance compared to previous years. It also found that, as a group, firms involved in the survey tended to vote against management more frequently than in favour on remuneration related proposals. In addition, results from the survey showed that an investor led challenge against pay disparity earned support from just one in every three surveyed firms that voted on this type of proposal. This suggests that few firms are calling "market norms" like pay inequality between executive pay and average salaries into question, said SHARE.

Mercer said managers fail on ESG

Since 2008, investment consultant Mercer has been rating the environmental, social and corporate governance (ESG) activities of investment managers. In its latest edition, Mercer found that with just 9% of fund managers integrating ESG factors, there is considerable room for improvement within the investment industry.

UNPRI signatories outperformed most other fund managers with 72% earning Mercer's top ranking. In contrast, just 11% of US-based managers received high-ranks from Mercer. 60% of US-based managers scored the lowest ranking compared to Asia-Pacific and emerging markets that had the highest rate of ESG integration. In fact, the analysis showed that, once again, US managers are "lagging across all of these [ESG] issues with little indication of intention to improve."

Mercer rates managers by categorising managers into four groups with ESG1 being the highest rating and ESG4 being the lowest. To earn the top rating, the investment team must show demonstrable evidence of marketing-leading capabilities in incorporating ESG factors and active ownership in some or all of the following: generation of investment ideas; construction of portfolios; implementation of active ownership practices; and demonstration of the degree of firm-wide commitment to ESG issues.

Australia pushes pay clawback

New reforms by the Australian Government will require listed companies to disclose detailed information on clawbacks in their remuneration reports.

The reforms will require listed companies to disclose to shareholders through the remuneration report the steps they have taken to clawback bonuses and other remuneration where a material misstatement has occurred in relation to the company's financial statements. If the company has not clawed back any remuneration, the board will be required to provide a detailed explanation to their shareholders. If shareholders are not happy with the explanation they can vote against the remuneration report and potentially spill the board.

The “two strikes” rule enables shareholders to vote whether to convene a general meeting to spill the board if a company remuneration report receives “no” votes of 25% or more at two consecutive AGMs. A study by law firm Blake Dawson on remuneration during the 2011 proxy season of S&P/ASX 200 listed companies revealed that approximately 5% of companies listed on the exchange received a first “strike” on their remuneration reports.

ASIC wants better pay disclosure

The Australian Securities and Investment Commission (ASIC) called on the country’s largest companies to improve disclosure of their remuneration arrangements.

A review of 50 remuneration reports of ASX300 listed companies found disclosure could be improved in respect of the board's policy on the nature and amount of remuneration of the key management personnel; the non-financial performance conditions in short-term incentive plans; why performance conditions have been chosen, and the terms and conditions of incentive plans.

Sustainability needs advocates

A panel of over 600 sustainability experts agreed that socially responsible investors and activists continue to play a major role in pushing forward corporate change.

The Sustainability Survey 2012 found that respondents from corporate, government, non-governmental, academic/research, service/media and other organisations, overwhelmingly agreed that society needs activists to achieve meaningful progress on the sustainability front. It also noted that tactics that directly impact business value drivers like boycotts are the most effective tools to move market forces. Almost half of respondents expect criticism through online social media to increase over the next 3 to 5 years.

More pressure on board diversity

Despite some progress, the technology sector remains the final frontier in terms of enabling women to push through the glass ceiling according to a new study.

In fact, of the 254 American and European technology companies analysed by Thomson Reuters researchers for the study *Women in the Workplace*, the technology sector was the least transparent - only nine companies published information on the number of female employees, including at management levels. However, the research found that other traditionally male dominated sectors like finance and energy were making significant strides towards placing women in the upper echelons of management. During the period under review, 2005-2010, the finance sector demonstrated the most progress, increasing the number of women managers by 5%, with the percentage of female managers now at 33%. Healthcare also remained one of the sectors to offer the best opportunities for women. When comparing American companies to European companies, Thomson Reuters found that it is easier for women to break glass ceilings at American corporations but European corporations are the most transparent in terms of gender equality.

ACSI pushes News Corp reform…

A group of Australian institutional investors and super funds called on Rupert Murdoch to separate his dual role of chairman and chief executive at News Corp.

The Australian Council of Superannuation Investors (ACSI), with A$300 billion funds under management, met with News Corp's independent executive Rod Eddington to discuss a possible reorganisation of the media conglomerate's board structure, reported the Australian Financial Review. "Most investors understand that in the Australian and the UK market, it's normal to have those roles separated," said ACSI CEO Ann Byrne.

The Council has been urging the global media company to improve its governance since last year when the coalition called on members to vote against a number of News Corp's executive directors at the 2011 AGM.

Private equity faces ESG scrutiny

A review of private equity (PE) firms' actions on responsible investment revealed that their environmental, social and governance activities are set to increase over the next five years despite only a handful having ESG policies in place, with UK institutional investors in prime position to influence change.

PWC's report, *Responsible investment: creating value from environmental, social and governance issues*, found the two key drivers for ESG matters in the PE industry are: investor concern and risk management. The 17 PE house respondents said progress has been made in areas of measurement, reporting and evaluation but much more work is needed to embed rigorous, systematic measurement, monitoring and reporting on ESG strategy, action and value created. Participants added that lack of internal capacity and expertise prevented meaningful progress on ESG issue management, resulting in a focus on "a sub-set of portfolio companies" as opposed to a "portfolio-wide approach."

PWC also noted a contrast between US and European PE house approaches. US-headquartered PE houses tend to focus primarily on releasing value through eco-efficiency initiatives, while European-headquartered houses more commonly integrate a more robust range of environmental and social issues into their decision-making processes.

Slow progress on board diversity

The global pace of board diversity remains incremental, said US-based GMI in its latest women on board survey.

GMI's survey reported some historic firsts – women now hold more than one in ten board seats, the percentage of all male boards decreased and the percentage of companies with at least three women on the board has risen. As a group, the global statistics showed that women in industrialised economies hold 11.1% directorates, 63.3% of companies have placed at least one of them on their board and 10.5% of companies have no less than three female directors. A snapshot of emerging economies showed a somewhat bleaker view for women at the top: as a group, just 7.2% of women hold directorates, 44.3% of companies have at least one female representative on their board and 6.3% of companies have at least three female directors. However, when the market blocks are removed and countries are viewed on an individual basis, a different picture of board diversity emerges.

Aside from France and Australia, which have made significant strides due to legislation and an amendment to the corporate governance code, respectively, few industrialised countries and even less emerging economies have put steps in place to help women break glass ceilings. The UK has been vocal in its discontent for European Commissioner Viviane Reding's proposed gender quotas. Yet, with surmounting evidence as reemphasised in GMI's survey showing most countries and companies continue to be reluctant about make meaningful change, perhaps quotas are the only way forward, even if only temporarily.

More reporting on sustainability

An increasing number of companies are reporting on their sustainability performance, according to the Global Reporting Initiative's latest report.

An increasing number of companies integrating sustainability into their business plan coupled with a growing interest among executives has led to the uptick in reporting, GRI said. This new trend has extended to developing markets with Brazil showing the largest growth by location (68% increase in registered reports since 2009). The biggest increase in Europe came from Switzerland (59%), Canada in North America (53%), China in Asia (9%) and South Africa in Africa (52%). Other notable trends included much more increased reporting by small to medium sized enterprises.

Canadian RI guide published

Canadian 'clean capitalism' magazine Corporate Knights issued its 2012 Responsible Investing Guide.

The 10th annual guide aimed to assist investors by ranking funds based on their fusion of social, environmental and financial values. Based on the results, best SRI mutual funds were Meritas International Equity in the Equity Funds category, NEI Canadian Bond in the Bond Funds category and IA Clarington Inhance in the Balanced Funds category.

Corporate lobbying a global issue

The "cash for access" story that broke in the UK pointed to a global issue for investors to grapple with – the acceptable extent of corporate influence on politics.

Already some have noted that recent decisions, such as scrapping the 50p top rate of tax and opposing a financial transactions tax are beneficial to some donors. Prime Minister David Cameron has denied outright that his party's position on policy issues was affected by the views of significant donors. However, in order to fend off criticism of secrecy, the Government, after initially refusing, has published a list of dinners with donors held by Cameron at Number 10 and Chequers since the 2010 election.

But whilst events in the UK are an embarrassment, and all the main parties have problems managing the influence of donors, as always, the US puts us in the shade. For example, look at the way that critics o f President Obama's health-care law have upped the ante on funding for anti 'ObamaCare' ads. Bloomberg reported that groups led chiefly by the US Chamber of Commerce and pro-Republican campaign organisations, eager to influence the American public's view of the Affordable Care Act, (as the Obama legislation is termed) have flooded America's airwaves with over $204 million of negative ads.

Since its enactment two years ago, the biggest spenders on the ads have been the US Chamber of Commerce ($6.3 million), Crossroads ($2.8 million) and the over 60's conservative group-American Association of Retired Persons ($2.4 million). The influx of negative ads came just ahead of the law being sent to the US Supreme Court to determine its constitutionality.

Given the huge role of corporate spending in politics across the Atlantic, it is not surprising that US investors are in turn starting to look at what they can learn from the UK. Following the requirement that PLCs put requests for authority to donate to political parties to a shareholder vote, such donations have almost all disappeared. Such a reform in the US could have an impact. But the vote is no panacea, as events demonstrated. If investors believe that corporate influence on politics is a problem then other strategies need to be developed.

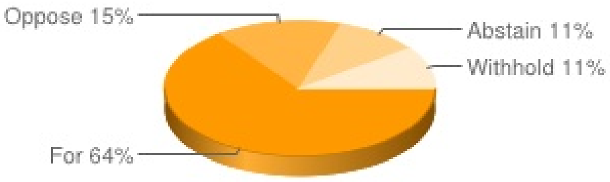
Global Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	30
Oppose	7
Abstain	5
Withhold	5
Withdrawn	0
Total	47

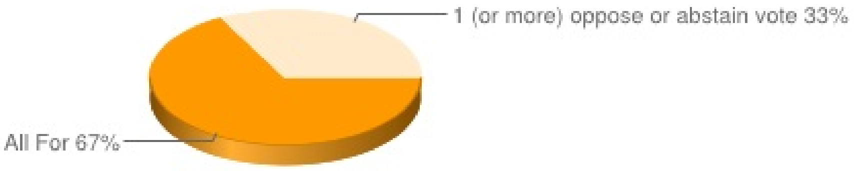
Meetings	AGM	EGM	Total
Total Meetings	5	3	8
1 (or more) oppose or abstain vote	5	1	6

Global Voting Record



Global AGM Record

Global EGM Record



Global Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 10: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	CCR SA	16 Jan 12	**EGM**	2012-01-06
2	ARIBA INC	20 Jan 12	AGM	2012-01-06
3	SHAW GROUP INC	25 Jan 12	AGM	2012-01-16
4	ESCO TECHNOLOGIES INC	02 Feb 12	AGM	2012-01-23
5	PETROBRAS-PETROLEO BRASILIER	19 Mar 12	AGM	2012-03-07
6	BANK SARASIN & CIE AG	26 Mar 12	AGM	2012-03-08

Not Voted Meetings

Table 11: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	PETROBRAS-PETROLEO BRASILIER	27 Jan 12	**EGM**	Non voting shares
2	PETROBRAS-PETROLEO BRASILIER	28 Feb 12	**EGM**	Non voting shares

Global Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by Global companies currently in the fund's portfolio.

Table 12: Upcoming Meetings

	Company	Meeting Date	Type
1	DOLLAR GENERAL	01 May 12	AGM

Asian Voting Timetable Q1 2012

There were no meetings held by the client during the period.

Asian Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

PIRC Summary Report Appendices

UK

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

European

Analysis for "Oppose" and "Abstain" votes for resolutions at European meetings for companies held by the fund during the period.

US

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

Global

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Global meetings for companies held by the fund during the period.

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