Appendix 'A'

# Lancashire Council

## Proxy Voting Review
## April 2012 – June 2012

July 2012

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# UK Corporate Governance Review

## Smith & Nephew plc - AGM 12th April

Remuneration and board independence were issues at Smith & Nephew.

Disclosure on the whole was considered adequate. All the LTIP targets were considered challenging except the EPSA lower limit. The EPSA and TSR were used in a concurrent fashion which was welcomed. Total maximum potential rewards under all incentive schemes were considered excessive. The amounts involved in FY 2011 were considered so as well. It was noted that Mr Bohuon received grants (RSA + PSP) worth 320% of his salary during FY 2011.

Additionally, it was unclear how a Golden Hello of about EUR 1.4 million benefits shareholders. It was also stated in the Annual Report on page 68, that the financial performance of the company collectively fell short of targets, with regards to bonus payments. Taking into account that personal objectives account for only 25% of bonus awards and being the only area where executives reportedly outperformed, it was unclear how the cash bonus levels reached nearly 100% of salary (pro-rata salary for Mr Bohuon) when financial targets were not met.

Further, the stock option scheme utilises the same performance criteria (TSR) as the PSP and it was not clear why the Remuneration Committee put in place a strategy which rewards executives twice over the same performance. All executive directors had contracts with 12 months notice. On termination of the contract, the remuneration committee had the discretion to pay executive directors a sum equivalent to the salary and benefits including a proportion of the bonus that would have been received had they worked their 12 months notice. On change of control, executive directors would have been entitled to 12 months salary and benefits plus 12 months bonus at target. PIRC considered the inclusion of unearned bonuses as a breach of best practice.

We recommended shareholders oppose the remuneration report.

We also recommended that shareholders oppose the election of three directors. Non-executives Dr Pamela Kirby, Brian Larcombe and senior independent director Richard De Schutter were not considered independent as they have all been on the board for more than nine years. There was insufficient independent representation on the board in our view.

Therefore we recommended that shareholders oppose the election of all three.

## BP plc - AGM 12th April

Remuneration and dividend policy were issues at BP.

The company's Business Review met ASB RS guidelines in our view. Adequate environmental and employment policies were in place as well as quantified reporting. Since the Deepwater Horizon accident several changes had been implemented including the creation of an enhanced Safety and Operational Risk function, reporting directly to the group chief executive. The annual report went to great lengths to disclose continued progress and changes to procedures especially in relation to health and safety. The annual report provided an adequate discussion of issues pertaining to the ongoing litigation following the oil spill.

The company ceased paying interim dividends in FY 2010 following on from the accident in the Gulf of Mexico. Dividends resumed since end of FY 2010. It was noted that this change in dividend policy was not put forward for shareholder approval last year. Also, the company paid dividends during the year under review and had again not been put forward for shareholder approval. In our view, votes on the proposed dividends were a fundamental right of shareowner oversight, and we therefore recommended shareholders to oppose the report and accounts.

Turning to remuneration, all elements of directors' cash and share based remuneration were clearly disclosed. The company had provided a table summarising their achievement in each of the safety areas leading to bonus payments. However, no quantitative measures were provided. This made it difficult to assess whether the previously set targets were challenging, especially considering that the executives outperformed in a lot of areas.

The EDIP was the main incentive vehicle for executive directors. It contained portions which were linked to non-financial metrics, mainly of safety measures. It was not clear whether the EDIP employed the same safety measures as the Annual Bonus. Further, since safety performance targets were not disclosed, it was not possible to assess whether they were challenging. It was noted, though, that the TSR portion was considered challenging. The Remuneration structure had the potential to pay excessive variable remuneration and we noted that during the year under review, this was the case. As an example, the CEO received 550% of salary as performance shares. Moreover, he received an annual bonus worth 150% of his base salary. This was difficult to justify when the targets used to test performance were not disclosed, and considering that FY 2011 was not a particularly easy year for the company.

All executives were retained on one year rolling contracts with compensation with liquidated damages provisions of up to one year's salary. Mitigation statement was provided. There were no provisions for compensation payable on early termination.

As a result of the lack of verifiable performance metrics we recommended shareholders oppose the remuneration report.

## British American Tobacco plc - AGM 26th April

Remuneration policy was an issue at British American Tobacco.

Disclosure overall was good. Cash and share awards had been clearly tabled. However, future or past performance criteria attached to the annual bonus scheme were not disclosed. While it was understood that future targets can be viewed as potential forecasts and thus commercially sensitive, the company could have provided forecasts retrospectively supporting the discussion of achieved bonus targets.

Policy disclosure was clear with some clear links of remuneration strategy to the company objectives. Performance criteria, maximum awards and vesting scales were adequately disclosed for the company's long-term performance plan.

All executives were retained on one year rolling contracts with predetermined compensation in the event of termination. Compensation generally consists of 12 months' salary and cash payment in lieu of benefits.

Maximum and minimum TSR and EPS targets under the LTIP were not considered challenging given the levels of award available as well as brokers' forecasts. The company's LTIP utilised three performance criteria (two of those were related to TSR but with different comparator groups), but not concurrently. Combined remuneration was potentially excessive, evidenced by the high payouts and awards made during the year under review.

We recommended shareholders oppose the remuneration report.

## Petrofac plc - AGM 11th May

Disclosure relating to the provision of company aircraft was an issue at Petrofac.

The Company's business review met guidelines. However, the arrangements concerning the company aircraft, which, according to a note in the accounts, was owned by an offshore trust of which the chief executive was a beneficiary, were not at all clear from what is written in the accounts.

We recommended shareholders oppose the report and accounts.

## Tesco Plc - AGM 29th June

Remuneration was an issue at Tesco.

Disclosure was good and had been improved significantly within this year's report. Specific annual bonus targets had not been quantified on either a prospective or retrospective basis. Despite this, the Company did disclose information that gave shareholders some idea of outcomes that led to the level of bonuses that were paid during the year. Expected value calculations for share-based incentive awards were not disclosed.

The performance share plan (PSP), the Company's primary incentive vehicle, applied earnings per share (EPS) and return on capital employed (ROCE) in concurrent fashion, which was commendable. However, there was no relative performance condition applied. As in previous years, the inclusion of mature property sales when calculating the Company's financial performance, particularly for the purpose of incentive awards, was questionable. The extent to which underlying EPS grew over recent years could have been considered to go some way towards explaining why EPS continued to feature as the primary performance criterion for incentive awards.

Salaries were at the top end of the sector. The face value of variable awards granted during the year, having been significantly reduced from the previous year, did not raise concerns. However, combined remuneration, including historic awards that vested and were exercised during the year, exceeded 300% of executives' salaries. There was also potential for combined remuneration to be wholly excessive going forward, due to both the size of maximum awards available and the number of incentive schemes in which awards remained outstanding.

Contracts did not meet best practice given that the directors' termination provisions included annual bonus payments. However, this practice has since been discontinued, which was reflected in the new service contract for Philip Clarke upon his recent appointment as CEO. For these reasons, PIRC had recommended shareholders oppose the remuneration report.

# UK Corporate Governance Review

## Closed shop of pay committees

FTSE100 remuneration committee members are drawn from a narrow pool comprised largely of current and former directors, with a bias towards business and finance backgrounds and few women present, according to research by the High Pay Centre.

The Centre found 33% of FTSE100 companies have a current lead executive on the remuneration committee (9% have a FTSE100 lead executive). Looking at background, 46% of people sitting on remuneration committees are current or former lead executives. Of the 366 NEDs who sit on remuneration committees, only 37 are not from business or financial intermediation. 45% of the FTSE 100 has all male remuneration committees and there are only 59 women sitting on FTSE100 remuneration committees.

## Vote disclosure and stewardship

Only 15% of asset managers that have produced a Stewardship Code statement disclose a full voting record, analysis undertaken by PIRC reveals.

In March we reviewed all 175 asset managers listed on the Financial Reporting Council's list of Stewardship Code statements. In total, 50 asset managers (29%) disclosed some level of voting data. This suggests that that the remaining two-thirds of managers do not 'comply' with the Code, which states "Institutional investors should disclose publicly voting records and if they do not, explain why." In addition, only 27 (15%) of all those producing a Code statement make a full voting record available. A further 18 make headline statistics available, though these are largely useless for comparative analysis. A further five report only votes against or abstentions, which distorts reporting.

Looking at non-disclosure, of all 175 asset managers, 58 (33%) had a statement of policy where it was made clear public reporting was not undertaken. A further 39 (22%) made a statement where the policy could be inferred, because reference is only made to reporting to clients and no voting data is available. We would question whether such disclosures meet the spirit of the Code. 11 (9%) managers produce Code statements that make no reference to policy on voting disclosure. Three (3%) state that the policy is less, or not, relevant to them due to their investment style. In 14 (11%) cases we were either unable to find or access a Code statement or we believe the statement cannot be verified.

We also looked at managers' explanations for not disclosing. Almost all statements are very brief. A number of statements produced by different managers explaining their non-disclosure policy are identical, and others are very similarly-worded. The most commonly-cited 'explanation' for non-disclosure is that the information is confidential and/or the property of the client. A small number of signatories explain that they do not disclose voting data as they believe that this would be counterproductive. We do not believe that the general quality of explanations is good.

We believe that the Stewardship Code has had an impact. Looking at when managers started to disclose, at least 25 managers began disclosing data publicly, in one form or another, in 2010 or 2011. The Code came into force at the end of 2010. The other big spike in the number of asset managers disclosing voting data came in 2008, with ten managers starting to disclose. This may have been in response to a policy statement on voting disclosure by the then Institutional Shareholders Committee. Also, the Government was considering making public disclosure mandatory at the time.

However, looking at the growth in disclosure over the last five years, assuming the same rate was maintained, it would take almost ten years before half of signatories disclose a full record. In total this would mark twenty years from when the first asset manager began to publicly disclose a full record (Co-operative Insurance in 2003). It may also be the case that the progress in disclosure slows, since asset managers may believe that their 'explanation' for non-compliance is sufficient. Based on our research, we believe that the Stewardship Code is very unlikely to result in standardised disclosure of full voting records across the industry as a whole any time soon. Exercising the reserve power in the Companies Act to make disclosure mandatory would be Business Secretary Vince Cable's obvious solution.

## IFRS and banks: time for change

As we have written regularly in PIRC Alerts, we believe that international financial reporting standards (IFRS) have a dangerously distorting effect on reporting, particularly by financial institutions.

A growing number of investors are beginning to raise this as a problematic issue and, as we have written previously, a number of senior political figures are also asking questions. However, we also believe that a practical response is required. Therefore, this season PIRC will be recommending a vote against bank auditors on the basis that banks' IFRS accounts have failed (and still fail) to give a true and fair view in accordance with the Companies Act.

We are taking this step as we believe that the impact of complying with IFRS, rather than giving a true and fair view is producing material overstatement of profits and net assets. When we have raised the point that the accounting is inadequate with companies themselves we have found no resistance from them. We therefore believe that auditors are effectively forcing boards to comply with IFRS, rather than the full scope of the law.

In law, the True and Fair View (Section 393 of the Companies Act 2006), requires that the accounts are presented properlyto ensure that the directors have discharged their obligations to the company, including solvency (that a bank is capable of being a going concern, i.e. not insolvent) and that distributions (dividends, etc) may be lawfully made, based on the numbers as stated in the accounts. Both tests require prudent accounting for net assets (shareholder funds), and IFRS fail to do that.

The impact is an overvaluing of loans above their recoverable amounts estimated to be £14.5bn in the case of RBS, US$11.4bn for HSBC and £2.0bnat Barclays. As we have noted previously, reporting under IFRS also means that the true value of bonuses is not clearly disclosed. We believe the value of bonuses left out is £2bn in the case of Barclays, $1.1bn for HSBC and £550m at RBS.

These are the problems left in the system. During the years that the crisis was developing, 2005-2007, banks were carrying overvalued assets - latent losses - that the accounting treatment, in law, should have been making provision against. The losses in the case of RBS and HBOS were greater than £30bn, and sufficient to bankrupt these banks. However, the IFRS accounts made insolvent banks appear healthy.

We note that HSBC had purchased Household Finance Corporation, which was using a similar faulty provisioning model. We also note the presence of several prominent bank directors involved in the standard setting process, underlining the conflicts of interest between bank board members and 'standard setters'..

We believe that the distorting effect of IFRS is a significant governance issue. We urge shareholders to take up the challenge.

## Pensions 'governance gap' blast

Millions of people who rely on retail pensions, and the millions more who are yet to be auto-enrolled, are being left open to a 'governance gap,' according to a report by responsible investment campaigners FairPensions.

The report exposes the gap between trust-based pension schemes that have trustees to hold fund managers to account for their voting and engagement activity and insurance companies providing contract-based pensions that often fail to perform this role. The research, which surveyed the ten largest contract-based pension providers, suggests that most insurance companies fail to regularly monitor fund managers on their stewardship of investee companies. The report calls on the Department for Work and Pensions to investigate the implications for pension savers of the differing governance regimes. It says the DWP should 'explore ways of ensuring that consumers are equally well protected and well served regardless of the form of their pension provision.'

## G30 sceptical of engagement

The influential Group of 30 has sounded a sceptical note about the contribution shareholders can make to the governance of financial institutions.

In a report entitled Toward Effective Governance of Financial Institutions, the G30 flag up the importance of relationships with shareholders. The report says that institutions should listen to their shareholders, and recognise that they are not a heterogeneous group. This means that institutions must be willing to "act contrary to the wishes of short-term shareholders" when seeking to ensure that value is created over the long term. The report also speaks positively of initiatives such as the Stewardship Code.

However, it is striking that the report also suggests that, whilst shareholders have a right to be heard, they also face limitations. It says: "When one considers that even board members, who may spend 30 to 100 days per year in the role, immersed in information and engaged with management, sometimes have difficulty understanding the real issues, one can better understand the limitations on shareholders. Shareholders tend to act after there is a problem, but they rarely are able to contribute in advance. They are therefore not likely to make a real difference to the safety and soundness of the institution directly."

The report goes on to say that the role of shareholders in securing financial stability through engagement over governance issues will be "limited," and that this is principally a job for boards.

In contrast, the report suggests financial institutions should be "attentive to a broad set of stakeholders beyond shareholders, including employees, customers, and supervisors." It suggests that regulators and supervisors are one of the key stakeholder groups. It reads: "In the case of financial institutions, chief among the… stakeholders [other than shareholders] are supervisors and regulators charged with ensuring safety, soundness, and ethical operation of the financial system for the public good. They have a major stake in, and can make an important contribution to, effective governance."

## SABMiller tests Code boundaries

Brewing giant SABMiller gave minority shareholders something to ponder after a board reshuffle that breached the UK Corporate Governance Code.

At the company's AGM the existing chair Meyer Kahn stepped down. Chief executive Graham Mackay was set to become executive chairman, with the intention that he would continue in that role for one year, before becoming non-executive Chairman at the annual general meeting in 2013. Alan Clark succeed Mackay as Chief Executive at 2013 AGM. The changes in Mackay's role saw him combine chair and chief executive roles, and then move on to chair the company he previously led. Both moves were breaches of the Code. The company said its nomination committee came to the unanimous conclusion that Mackay was the "outstanding candidate" for the chair's role.

SABMiller had its two largest shareholders onside, so it did not face a serious challenge. But the decision had an echo of that taken by M&S to allow Stuart Rose to make the same move. That decision soured relationships with shareholders for some time.

## Churches target executive pay

A coalition of charity investors has called on business leaders at some of the biggest companies to curb top executive bonuses.

In a letter to The Daily Telegraph, the signatories, who include Andreas Whittam Smith, the First Church Estates Commissioner, the Joseph Rowntree Charitable Trust, the Bible Society and the Baptist Union of Great Britain, voiced their concerns over rising executive pay that is "out of proportion to rewards to shareholders who own these companies and whose investments are at risk." In the letter they urge other charity investors to challenge executive pay at the companies in which they invest. Though the group agrees executives should be rewarded for success, they believe that these rewards should be linked to performance. "There is a bit of an entitlement culture built up and we want to challenge that," said a spokesperson for the Church Commissioners. The group has announced that they will vote against any remuneration packages they deem excessive. The Church Commissioners have both written to and met with boards where they hold investments, asking that they consider their concerns when determining senior executives' salaries. Boards should take note in light of recent events at Citigroup.

## Hacking report attacks Murdoch

Well, we thought the Department of Culture, Media and Sport (DCMS) select committee's report would be bad news for Rupert Murdoch, but not this bad.

The long-awaited report was expected to be critical of key News International executives, and of James Murdoch, but what was not expected was the charge against Rupert Murdoch. It is stronger than the pre-publication speculation suggested, and seems deliberately worded to make it difficult for his leadership of News Corp to remain unchallenged, and a future bid for BSkyB impossible. The killer paragraph is 229, where the report says that Rupert Murdoch exhibited 'wilful blindness' and is not a fit person to run a major international company.

The language throughout the report is damning for the company, with frequent references to the "cover up" and the implication that pay-offs to various individuals were attempts to buy silence. There is no question that the committee believes that Parliament was misled. Former legal manager Tom Crone, News of the World editor Colin Myler and News International chief executive Les Hinton are most seriously criticised, and may face further action.

But, as expected, the committee has not exonerated James Murdoch. The report states that the committee "cannot adjudicate either way" on whether his claims not to have seen the crucial 'For Neville' email and related counsel's opinion are true. But it does state that if, in agreeing to the record Gordon Taylor pay-off, he did not ask to see documents such as the counsel's opinion, then "this clearly raises questions of competence on the part of News International's then Chairman and Chief Executive."

On the broader issue of corporate accountability it states: "In failing to investigate properly, and by ignoring evidence of widespread wrongdoing, News International and its parent News Corporation exhibited wilful blindness, for which the companies' directors—including Rupert Murdoch and James Murdoch—should ultimately be prepared to take responsibility."

Much has been made of the political split on the committee, but it is worth noting that two of the three parties agreed to the whole report, by a two-thirds majority, and that the Conservatives are unanimous in support of their Liberal Democrat and Labour colleagues on the large part of the report. It is the line about Rupert Murdoch's fitness to run a major company that has caused the division on the committee. Shareholders can only themselves judge whether the report is correct to make that assertion.

Were this not enough, the threats to News Corp are growing in any case. The FT revealed that Ofcom has stepped up its probe into whether BSkyB was a "fit and proper" owner of a broadcasting licence from a "monitoring phase" to an "evidence-gathering phase." The danger of regulatory intervention has been a real one for the company since the scandal blew up last summer.

## Barclays' pay damages reputation

In the end, the shareholder rebellion over executive pay at Barclays was actually bigger than we had expected.

Despite almost three weeks of bad headlines for the bank; we're long enough in the tooth to know that sometimes sabre-rattling in public by some institutions isn't matched by their voting in practice. PIRC had therefore been working on the assumption that the level of opposition would be around 20%. In the end the oppose vote was almost 27%, with abstentions, meaning that around one in three shareholders did not vote in favour. By comparison, only around 5% of companies record this level of opposition in a typical season. The vote against the re-election of the remuneration chair was even more surprising. At almost 21% against, this would be amongst the worst 1% of director election results in a typical season.

Some of the most interesting comments at the meeting came from the chair Marcus Agius. For example, he pleaded for an understanding of the "dynamic" nature of pay. Rewards were necessary because of the groundwork being laid for the future. Or cash upfront, if you prefer. In addition, the general impression Agius left at the meeting was that the bank believed it had failed to communicate its pay policy effectively, rather than had got the policy itself wrong.

Barclays has said that in the future it will seek to engage with shareholders more effectively. The remuneration committee chair also suggested that the bank would seek to ensure that a greater share of rewards went to shareholders in the years ahead. Actions will speak louder than words however. The events of the past few weeks will tie Barclays and excessive executive pay together in the minds of the public, shareholders and policymakers. The bank needs to demonstrate that it understands that this is a problem, and will do something concrete to address it.

## Mercer opposes binding vote

A binding vote on executive pay will not necessarily have the outcome that the Government intends, according to consultants Mercer.

Mercer is in the unusual position of working both as consultant to companies on remuneration, and as an adviser on issues of shareholder responsibility in respect of their pension funds. The firm believes this gives it a balanced perspective, and argues that a binding vote on pay, as favoured by Prime Minster David Cameron, would add little value. A representative of Mercer's remuneration consulting business said it was hard to see what a binding vote would solve. On shareholder oversight, a representative of the firm's responsible investment practice said that asset managers were limited by the extent to which they were adequately resourced and incentivised to give proper consideration to issues like remuneration.

## Scot houses opposed Cairn award

Three Scottish asset managers were among the investors that sunk Cairn Energy's proposed share award to Sir Bill Gammell at the company's January EGM.

With some managers already making their voting record available during the first quarter of the year, it is possible to see which houses challenged the award. Cairn, which has its head office in Edinburgh, failed to convince three major Scottish asset managers, Aberdeen Asset Management, Scottish Widows and Standard Life, to support the award, and all of them voted against. Other asset managers voting against included AXA, Goldman Sachs and Legal & General.

The resolution was withdrawn before the EGM in response to the level of shareholder opposition.

## Execs don't value complex pay

Many top management reward packages have become so complex that they no longer motivate the executives for whom they are designed.

That's the key finding from research conducted by PwC in conjunction with the London School of Economics and Political Science. The research found that many of the features of current pay packages are so complex that the value executives themselves place on them is actually less than they cost the company to deliver. In many cases top managers would be happier being paid a smaller salary in a less complex and less volatile form.

The Psychology of Incentives study surveyed over 1,100 executives and concluded that senior managers are risk-averse, don't like complexity and don't value pay schemes that incentivise future performance. Most executives, the study concluded, would prefer lower, less volatile pay over a complicated scheme that promises a potentially higher, but deferred, reward.

PwC state: "We need to consign to the scrap heap the agency model approach to executive pay, based on 'rational economic man,' which has been so unhelpfully influential in current Western pay systems."

## Banks had an easier ride in 2011

Asset managers were more supportive of UK-listed banks' remuneration reports in 2011 than in the previous two seasons, voting analysis by PIRC has revealed.

We looked at twelve asset managers' public voting disclosures for the past four years. We were restricted to this sample as only these managers disclosed a full record going back four years. We found a lower number of oppose votes and abstentions on bank remuneration reports in 2011 compared to 2010 or 2009. Only in 2008 is the level of support higher. Five of the sample voted for all the banks' remuneration reports in 2011, compared to two in 2010, one in 2009 and six in 2010. These figures might be surprising but confirm anecdotal feedback that some asset managers were wary of "bank bashing" last season.

We reached the same conclusion when looking at voting decisions on director elections at the banks. Again, the number of oppose votes and abstentions (less than 0.5% of all votes incidentally) was lower in 2011 than 2010 and 2009. Finally, looking at auditor appointments, only one manager opposed or abstained on any throughout the four years.

## NED recruitment favours men

Analysis of recruitment practices for FTSE 350-listed non-executive roles has revealed that women are held back by selection processes that favour male candidates.

Analysis published by the UK Equality and Human Rights Commission found that nomination committees and chairmen tend to seek candidates based on "fit" and previous board experience rather than competencies. This creates a self-perpetuating system that works against woman who have had fewer opportunities to gain the same work experiences as their male counterparts. Current recruitment practices place an emphasis on candidates who best meet the values, norms and behaviour of existing members, who are chiefly men. In light of these findings, the report says it is evident that a more "transparent, professional and rigorous approach" is needed to allow for more female candidates to be appointed to non-executive roles.

## No IAG directors face election

International Consolidated Airlines Group, the company formed by the merger between BA and Iberian, did not put any directors up for election at its AGM.

The company stated that it has decided not to apply the principle of the UK Corporate Governance Code, which recommends the annual election of FTSE350 directors. It stated that this decision was taken by the two predecessor companies. In addition, as directors were appointed for a four-year term from the effective date of the merger, none face re-election at the forthcoming meeting. Instead, shareholders are given a vote to discharge the board. Given that the board did not put any directors up for re-election, for reasons which were not explained, PIRC recommended a vote against.

In the future there will be staggered elections, with directors serving a three-year term. The first group of directors to face election will do so at the 2013 AGM. By failing to make directors face annual re-election, the company will be one of the few FTSE100 constituents not to comply with the Code on this point.

## BIS warns EC off gender quotas

The UK Government has reconfirmed its opposition to mandatory gender quotas in boardrooms.

In its response to the European Commission's consultation on Gender imbalance in corporate boardrooms, the Department for Business Innovation and Skills (BIS) said that placing the onus on businesses has brought about an "unprecedented increase" in female board representation without having to resort to government interference. According to the BIS response, 100 new female appointments have been made in corporate Britain and that all male boards are now the minority among the FTSE250 for the first time in history. Since Lord Davies' report on women in the boardroom was issued in February 2011, FTSE100 and FTSE150 female board positions have increased from 12.5% to 15.8% and 7.8% to 8.7%, respectively, said BIS. On this basis, the UK argues that self-regulation should be considered over introducing quotas at European boardrooms.

Separately, the National Employment Savings Trust (NEST) has also responded to the EC, a sign of the scheme's commitment to corporate governance and responsible investment. In its response, NEST states that it prefers a "flexible system of corporate governance that puts the onus on company boards to explain how they are increasing gender diversity at the most senior levels." It adds that European institutions should aim to improve their reporting and transparency of corporate boards rather than impose mandatory quotas as some European countries have already done. NEST suggests an initial target of 30%, citing organisational and psychological research that suggests this is required for 'minority' groups to be valued.

## WPP breaks wrong kind of record

Possibly the most highly anticipated shareholder vote on a remuneration report since GlaxoSmithKline in 2003 ended in defeat for WPP, as widely expected.

With a vote of just under 60% against the remuneration report, it was not the worst defeat this year but it will sting WPP nonetheless. It's only the fifth FTSE100 company to lose the vote on its remuneration report in the 10 years shareholders have had the vote. In addition, as it marks the sixth company defeat this year, WPP has helped create corporate governance history of the wrong sort by making this a record year of defeats.

One fact worth noting is the very low level of abstentions, less than 1%. This was a vote where institutional investors took a clear position for or against the policy. It is perhaps also indicative of a move away from abstentions on pay generally. Digging into individual asset manager voting disclosures (where available) for 2011 suggests that some have decided to reduce the use of abstentions, at least for now.

As a number of commentators have noted, the WPP vote is significant because it did not fit the mould of previous large levels of opposition to executive pay. WPP is a successful business (though some might quibble about just how successful), so this was not a vote about underperformance. Nor are there concerns about the chief executive, as evidenced by the high vote for Sir Martin Sorrell's re-election. Nor was the opposition focused on the structure of pay. This vote was largely about the company trying to award too much to executives.

There is a danger of reading too much into one result. It may be tempting to regard the WPP defeat as evidence that institutional investors are going to start taking a tougher line on the scale of rewards. We would hope so, but in reality large increases in base salary may have been problematic for investors in any year, and were certain to be challenged in the current economic environment. In addition, it's clear that there is a degree of frustration on the part of some investors about the way the company undertook consultation with shareholders. Some do not believe the final policy took account of their concerns. Therefore, we should be wary of concluding that this defeat necessarily marks a change in investor attitudes to high pay in general.

This is important as there is quite a bit of expectation building of the role shareholders can play in tackling top pay. It has been clear for some time (except perhaps to some in the business community) that continuing to increase executive rewards at a time when the public is experiencing a squeeze on living standards would be politically problematic. However, it is also the case that, at least for now, direct political intervention will be limited. Therefore, giving shareholders more powers to address executive pay, and exhorting them to do so, remains the favoured option to manage the problem. It is unlikely to make it go away, however.

## Morrisons' auditor challenged

There was a rare case of a significant vote against an auditor appointment, at supermarket chain Morrisons.

According to the company's AGM statement, the vote against the re-appointment of KPMG was 12.57%.It might not sound like a lot, but the typical auditor appointment is ratified with less than 2% in votes against and abstentions. The high vote against in this case seems to have been driven by concerns that KPMG earned more from non-audit work than the audit itself in 2011. PIRC had recommended opposition on these grounds.

## Cable pushes pay reform

Business Secretary Vince Cable proposed a number of reforms to reframe the debate on directors' remuneration.

The measures in the package address the shortcomings in corporate governance by empowering more effective dialogue between companies and their owners, announced the Department of Business, Innovation and Skills in a press release. Cable's suggested reforms include: an annual binding vote on remuneration policy and exit payments (a triennial vote should the remuneration policy remain unchanged) as well as how directors' pay compares to the wider workforce. He has modified the previously proposed voting threshold of 75% of votes needed to pass executive remuneration proposals to a standard majority. Should a company fail the advisory vote, it will be required to put its overall remuneration policy back to shareholders in a binding vote. The proposals also aim to increase transparency to better determine the link between pay and performance by requiring companies to report a single figure for total director pay along with details of whether performance measures were met and a comparison between company performance and chief executive remuneration.

Cable said that the decision behind bringing forward the legislation was "encouraged by the 'shareholder spring,'" and a desire to see the momentum sustained. The Financial Reporting Council will also consult on updating the Code to include a measure that would require companies to publish a statement when a significant minority of shareholders vote against a pay resolution. The pay reform legislation is currently before Parliament and is expected to be enacted by October 2013.

## LSE becomes green

In a landmark move, the UK government has announced that companies listed on the London Stock Exchange will have to report their levels of greenhouse gas emissions from April next year.

The UK will be the first country to mandate companies to publish details of their emissions in their annual reports. Though the new regulations will only apply to about 1,600 companies, this could be expanded to include other large companies when the policy is reviewed in 2015, reported the Guardian. Plans for new legislature were unveiled by the Deputy Prime Minister Nick Clegg at the start of the Rio+20 sustainability conference in Brazil.

Around 4m tonnes of carbon dioxide will be saved under the plan by 2021, said officials. "Using resources responsibly is in business' own interest too. But while nine out of 10 [chief executives] say sustainability is fundamental to their success, only two out of 10 record the resources they consume," wrote Clegg in the Guardian.

The move has been opposed by some companies and business lobby groups that claim the measure will increase the workload of managers who already must report emissions under other environmental regulation. Despite such criticisms, the plan has been backed by other organisations like the Confederation of British Industry, which has been advocating for the adoption of a standard measure so that businesses can be compared more fairly, said the Guardian.

# UK Voting Analysis

Table 1: Top Oppose Votes

| | Company | Type | Date | Resolution | Proposal | Funds Vote | Oppose % |
|---|---|---|---|---|---|---|---|
| 1 | CAIRN ENERGY PLC | AGM | 17 May 12 | 2 | Approve the Remuneration Report | Oppose | 60.90 |
| 2 | WPP PLC | AGM | 13 Jun 12 | 2 | Approve the Remuneration Report | Oppose | 59.07 |
| 3 | AVIVA PLC | AGM | 03 May 12 | 2 | Approve the Remuneration Report | Oppose | 49.44 |
| 4 | WILLIAM HILL PLC | AGM | 08 May 12 | 2 | Approve the Remuneration Report | Abstain | 48.26 |
| 5 | SHIRE PLC | AGM | 24 Apr 12 | 14 | Issue shares with pre-emption rights | For | 45.26 |
| 6 | XSTRATA PLC | AGM | 01 May 12 | 3 | Approve the Remuneration Report | Oppose | 35.22 |
| 7 | WPP PLC | AGM | 13 Jun 12 | 10 | Re-elect Koichiro Naganuma | Abstain | 29.29 |
| 8 | WPP PLC | AGM | 13 Jun 12 | 8 | Re-elect Ruigang Li | Abstain | 28.15 |
| 9 | BARCLAYS PLC | AGM | 27 Apr 12 | 2 | Approve the Remuneration Report | Oppose | 25.22 |
| 10 | ANGLO AMERICAN PLC | AGM | 19 Apr 12 | 17 | Issue shares with pre-emption rights | For | 23.10 |

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 | 9 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 9 |
| Annual Reports | 45 | 39 | 14 | 12 | 55 | 48 | 0 | 0 | 114 |
| Articles of Association | 7 | 87 | 0 | 0 | 1 | 12 | 0 | 0 | 8 |
| Auditors | 73 | 68 | 21 | 19 | 13 | 12 | 0 | 0 | 107 |
| Corporate Actions | 2 | 66 | 1 | 33 | 0 | 0 | 0 | 0 | 3 |
| Corporate Donations | 21 | 84 | 3 | 12 | 1 | 4 | 0 | 0 | 25 |
| Debt & Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Directors | 492 | 85 | 51 | 8 | 34 | 5 | 0 | 0 | 577 |
| Dividend | 45 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 45 |
| Executive Pay Schemes | 5 | 50 | 1 | 10 | 4 | 40 | 0 | 0 | 10 |
| Miscellaneous | 49 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 49 |
| NED Fees | 1 | 50 | 0 | 0 | 1 | 50 | 0 | 0 | 2 |
| Non Voting | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Say On Pay | 0 | 0 | 0 | 0 | 1 | 100 | 0 | 0 | 1 |
| Share Capital Restructuring | 0 | 0 | 1 | 100 | 0 | 0 | 0 | 0 | 1 |
| Share Issue/Re-purchase | 159 | 89 | 13 | 7 | 5 | 2 | 0 | 0 | 177 |
| Shareholder Resolution | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Undefined | 7 | 100 | 0 | 0 | 0 | 0 | 0 | 0 | 7 |

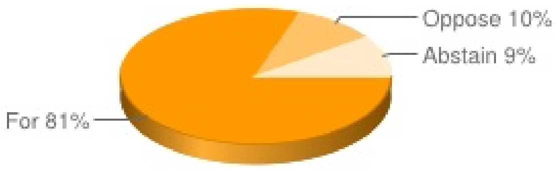
# UK Voting Charts

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 | 915 |
| Oppose | 115 |
| Abstain | 105 |
| Withdrawn | 0 |
| Total | 1135 |

| Meetings | AGM | EGM | Total |
|---|---|---|---|
| Total Meetings | 57 | 1 | 58 |
| 1 (or more) oppose or abstain vote | 57 | 1 | 58 |

### UK Voting Record




### UK AGM Record


### UK EGM Record

# UK Voting Timetable Q2 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 | EURASIAN NATURAL RESOURCES | 02 Apr 12 | EGM | 2012-03-26 |
| 2 | SMITH & NEPHEW PLC | 12 Apr 12 | AGM | 2012-04-02 |
| 3 | BP PLC | 12 Apr 12 | AGM | 2012-04-02 |
| 4 | DRAX GROUP | 18 Apr 12 | AGM | 2012-03-30 |
| 5 | DEVRO PLC | 19 Apr 12 | AGM | 2012-03-30 |
| 6 | PERSIMMON PLC | 19 Apr 12 | AGM | 2012-04-09 |
| 7 | ANGLO AMERICAN PLC | 19 Apr 12 | AGM | 2012-04-10 |
| 8 | RIO TINTO GROUP (GBP) | 19 Apr 12 | AGM | 2012-04-03 |
| 9 | HAMMERSON PLC | 19 Apr 12 | AGM | 2012-04-03 |
| 10 | SPECTRIS PLC | 20 Apr 12 | AGM | 2012-04-11 |
| 11 | CAPITAL & COUNTIES PROPERT | 20 Apr 12 | AGM | 2012-04-11 |
| 12 | FILTRONA PLC | 24 Apr 12 | AGM | 2012-04-13 |
| 13 | SHIRE PLC | 24 Apr 12 | AGM | 2012-04-13 |
| 14 | BODYCOTE PLC | 25 Apr 12 | AGM | 2012-04-13 |
| 15 | BRITISH AMERICAN TOBACCO PLC | 26 Apr 12 | AGM | 2012-04-17 |
| 16 | ASTRAZENECA PLC | 26 Apr 12 | AGM | 2012-04-05 |
| 17 | ELEMENTIS PLC | 26 Apr 12 | AGM | 2012-04-17 |
| 18 | TAYLOR WIMPEY PLC | 26 Apr 12 | AGM | 2012-04-16 |
| 19 | BARCLAYS PLC | 27 Apr 12 | AGM | 2012-04-12 |
| 20 | XSTRATA PLC | 01 May 12 | AGM | 2012-04-23 |
| 21 | PROVIDENT FINL GROUP | 02 May 12 | AGM | 2012-04-24 |
| 22 | LANCASHIRE HOLDINGS LTD | 03 May 12 | AGM | 2012-04-25 |
| 23 | GKN PLC | 03 May 12 | AGM | 2012-04-24 |
| 24 | AVIVA PLC | 03 May 12 | AGM | 2012-04-24 |
| 25 | GLAXOSMITHKLINE PLC | 03 May 12 | AGM | 2012-04-24 |
| 26 | MORGAN SINDALL GROUP PLC | 03 May 12 | AGM | 2012-04-24 |
| 27 | ROLLS-ROYCE HOLDINGS PLC | 04 May 12 | AGM | 2012-04-24 |
| 28 | MORGAN CRUCIBLE CO PLC | 08 May 12 | AGM | 2012-04-27 |
| 29 | WILLIAM HILL PLC | 08 May 12 | AGM | 2012-04-27 |
| 30 | SAVILLS PLC | 09 May 12 | AGM | 2012-04-26 |
| 31 | UNILEVER PLC | 09 May 12 | AGM | 2012-05-01 |
| 32 | WEIR GROUP PLC | 09 May 12 | AGM | 2012-05-01 |
| 33 | RIGHTMOVE PLC | 09 May 12 | AGM | 2012-05-01 |
| 34 | STANDARD CHARTERED PLC | 09 May 12 | AGM | 2012-05-01 |
| 35 | CATLIN GROUP LTD | 10 May 12 | AGM | 2012-05-01 |
| 36 | PETROFAC LTD | 11 May 12 | AGM | 2012-05-01 |
| 37 | CENTRICA PLC | 11 May 12 | AGM | 2012-05-01 |
| 38 | BOVIS HOMES GROUP PLC | 16 May 12 | AGM | 2012-05-09 |

| | | | | |
|---|---|---|---|---|
| 39 | INTERSERVE PLC | 16 May 12 | AGM | 2012-05-09 |
| 40 | BG GROUP PLC | 16 May 12 | AGM | 2012-05-04 |
| 41 | LEGAL & GENERAL GROUP PLC | 16 May 12 | AGM | 2012-05-04 |
| 42 | HOWDEN JOINERY GROUP PLC | 16 May 12 | AGM | 2012-05-09 |
| 43 | DERWENT LONDON PLC | 16 May 12 | AGM | 2012-05-03 |
| 44 | TULLOW OIL PLC | 16 May 12 | AGM | 2012-05-04 |
| 45 | NEXT PLC | 17 May 12 | AGM | 2012-05-08 |
| 46 | PRUDENTIAL PLC | 17 May 12 | AGM | 2012-05-08 |
| 47 | YULE CATTO & CO PLC | 17 May 12 | AGM | 2012-05-09 |
| 48 | LLOYDS BANKING GROUP PLC | 17 May 12 | AGM | 2012-05-08 |
| 49 | COMPUTACENTER PLC | 18 May 12 | AGM | 2012-05-09 |
| 50 | ROYAL DUTCH SHELL PLC | 22 May 12 | AGM | 2012-05-08 |
| 51 | FERREXPO PLC | 24 May 12 | AGM | 2012-05-14 |
| 52 | HSBC HLDGS PLC | 25 May 12 | AGM | 2012-05-14 |
| 53 | WPP PLC | 13 Jun 12 | AGM | 2012-06-01 |
| 54 | MORRISON (WM) SUPERMARKETS | 14 Jun 12 | AGM | 2012-06-06 |
| 55 | KINGFISHER PLC | 14 Jun 12 | AGM | 2012-06-06 |
| 56 | OPHIR ENERGY PLC | 19 Jun 12 | AGM | 2012-06-11 |
| 57 | TESCO PLC | 29 Jun 12 | AGM | 2012-06-19 |

### Not Voted Meetings

Table 4: Meetings not voted in quarter

| | Company | Meeting Date | Type | Reason Not Voted |
|---|---|---|---|---|
| 1 | CAIRN ENERGY PLC | 17 May 12 | AGM | No ballot |

## UK Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

## AIM UK Market Voting Timetable Q2 2012

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

## AIM UK Market Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

# Fledgling UK Market Voting Timetable Q2 2012

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

# Fledgling UK Market Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

# European Corporate Governance Review

## NBIM highlights ESG failures

Over a third of companies are not taking action on social and environmental risks says Norges Bank Investment Management's (NBIM) review of corporate reporting.

In 2011, over a third of the 1,078 companies evaluated by NBIM received a score of zero. Three areas of particular concern to the Norwegian Government Pension Fund are children's rights, climate change and water scarcity. NBIM says few have actually made improvements compared to 2010. Walt Disney, Intel and Anglo American were among 14 companies that received top scores for reporting on the risks of child labour use and children's rights violations. Gap, Adidas and Next were some of the newest additions to the list of high scoring companies. Within this category, 41% received zero points. Air France-KLM, BASF and E.On were among the top 11 for reporting on climate change related risks. A total of 17% of companies within this category scored zero. Some of the 32 companies that earned the highest scores for reporting on water-related risks were Nestlé, Kellogg and PepsiCo. 32% of companies in this area earned zero points.

## Dutch pursue auditor rotation

If plans for mandatory rotation of auditors are given the thumbs up by the upper house of the Dutch parliament this could have a significant impact on the European Commission's plans on the issue, the FT reports.

The Commission has consulted on a number of possible changes intended to improve audit quality, including restrictions on the provision of non-audit services by the auditing firm and, more controversially, mandatory rotation of the auditor. But separately two proposals have been put forward in the Dutch parliament addressing the same points. The FT suggests that if the proposals, which have been backed by MPs, are enacted this will strengthen the EC's position on these issues. The paper also says the reforms would have an immediate impact on Anglo-Dutch businesses like Unilever and Reed Elsevier.

The EC's proposals have drawn fire from the Big Four audit firms. Some investor groups in the UK have also challenged them. Opponents of the change argue that it could damage audit quality with the incoming firm less familiar with the workings of the company. However, proponents say that long-duration appointments run the risk that the auditor loses independence. Work in the field of behavioural ethics has suggested that even well-intentioned auditors may find that their independence is compromised as a result of long-term appointments.

It is notable that many UK investors appear relatively relaxed about possible threats to auditor independence. In addition to opposing any significant policy changes in this area, voting results and individual institutions' voting records reveal that auditor appointments are rarely challenged. We estimate that the average vote against an auditor appointment is around 1%. In addition, in an analysis of voting by asset managers at FTSE100 companies in the 2010 season, PIRC identified more that a dozen institutions that did not oppose a single auditor appointment.

## NBIM seeks proxy access support

Norges Bank Investment Management (NBIM) has issued a 31-page PowerPoint presentation in an attempt to rally investor support for its shareholder proposals on proxy access at six US companies.

The manager of the $550 billion Norwegian Government Pension Fund Global filed the proposals last year at Wells Fargo, Charles Schwab, Western Union, Staples, Pioneer Natural Resources and CME Group to give shareholders the right to nominate candidates to company boards or "proxy access." In the presentation, NBIM argues that proxy access not only strengthens shareholder rights but is a fundamental principle of corporate governance. "When [board members] fail to meet our expectations, we as shareholders should be able to propose alternatives without incurring prohibitively high costs," said Anne Kvam, global head of ownership policy at NBIM.

## Italian firms move on diversity

During the current proxy season shareholders at Italian companies have been asked to approve amendments to company by-laws pursuant to Italian Law no. 120 of 12 July 2011, which concerns equal access to the management and control bodies of companies listed in regulated markets.

The law provides for positive discrimination in favour of the least represented gender in the board of directors and board of statutory auditors at Italian companies: the least represented gender must represent at least one third of elected directors and statutory auditors for three consecutive terms. The most common proposed changes include mandatory gender representation in the lists of candidates to either body. However, there are other balancing mechanisms in case this is not sufficient, such as replacing the last elected director with the first non-electedcandidate of the least represented gender. Though mandatory gender diversity was conceived by the government as a temporary measure, most companies that have renewed their board of directors or board of statutory auditors during this proxy season have directors representing both genders on board. Gender diversity seems to have broken through in corporate governance in Italy.

## EU looks at binding pay votes

The European Union could follow the lead set by the UK and require companies to put their executive remuneration policies to a binding shareholder vote, according to reports.

The binding vote could be part of a package of reforms being considered by European Commissioner Michel Barnier. In addition to a binding pay vote, Barmier is also reportedly considering requiring banks to disclose remuneration for their top 20 or 30 earners. The FT also said that Barnier said he would also like to give shareholders of listed companies a vote on the maximum ratio of bonus to salary, as well as a ratio of the pay between the lowest and the highest earner. Both ideas would go considerably further than current practice.

It's worth noting as an aside that in the UK the idea of binding votes on company remuneration policies has been largely driven by policymakers. Looking at responses to last year's discussion paper on executive pay issued by the Department of Business, Innovation and Skills, it is clear that many investors were unconvinced that a binding vote would be helpful. Several responses suggested that there might be negative unintended consequences if a binding vote were introduced.

Of course if you have long enough memories you may recall that when the idea of an advisory vote on remuneration was first floated in the 1990s, some in our investment industry said… there would be negative unintended consequences.

## SocGen pushed over governance

Shareholders pushed back at the recent Société Générale AGM despite the French banking giant's efforts to block a shareholder resolution calling for governance reform.

The proposal, which requested that the bank adopt a two-tier structure and split Frédéric Oudéa's dual role, was filed by PhiTrust Active Investors and backed by a number of French shareholder groups. 25% of shareholders backed the proposal at the AGM.

In light of the Kerviel scandal of 2008, the company had split the roles of then chief executive and chairman Daniel Bouton. However, Oudéa began serving as both chief executive and chairman after Daniel Bouton stepped down in May 2009. Ahead of the AGM, SocGen had rejected the request to add a proposal on separating the roles to the meeting's agenda. The bank argued that under provisions of article

L. 225-57 of the French Commercial Code decisions such as separating senior roles falls under its authority, adding that the general meeting "gives all powers to the Board of Directors."

PhiTrust expressed concern over the growing trend among French companies to recombine roles at the top. Almost 40% of CAC-40 companies have an executive chairman but SocGen is the only one of three largest French banks to have one, reported the FT.

## Italian firms to join the 30% Club

Italian-listed and state-owned companies have until August to comply with new gender targets aimed at the C-suite or face fines up to €1 million.

Under the new 'pink quotas' Italian companies must ensure that one-third of their board members are women by 2015, reported the Wall Street Journal. Currently, women comprise just 6% of board positions at Italian companies. Those in support of the law hope it will lead to a cultural shift – Italy also has the second-lowest level of women in the workforce in Europe.

Putting quotas in place to increase the gender balance of boardrooms is not an entirely new concept as other European countries such as Spain, France, the Netherlands and Belgium have already instilled laws forcing companies to comply. Other countries such as the UK and Sweden have instead set voluntary quotas on the grounds that affirmative-action policies impede the genuine selection of the best candidates.

Though opposition to mandatory gender quotas has also gained support from organisations like the lobby group BusinessEurope and the Organisation for Economic Cooperation and Development, the law has already started to encourage change. For the first time in its 113 year history, Fiat, along with several other formerly male-only Italian blue chip boardrooms, has become co-ed.

## Europe mulls bank bonuses cap

Bankers' bonuses could be capped at a maximum of 100% of salary under strict new rules being considered by some European Union parliamentarians.

According to a report in the FT, members of the European Parliament have tabled numerous amendments relating to remuneration to planned legislation on bank capital rules. According to the report, the idea of a 'one-to-one' maximum ratio for bonuses could be popular. Such a proposal would face significant resistance from the City, and other key financial centres, where maximum bonuses are several multiples of salary.

Already pay consultants are spinning that such a cap would be disastrous, and could lead to increases in fixed pay, although, presumably, banks could simply *not* increase fixed pay greatly. It has also been claimed that restrictions on bonuses would make remuneration costs less flexible. Presumably though banks could do what other businesses do and freeze or cut pay (or jobs) if costs are too high.

## Carrefour's French rebellion

In an uncommon move, French shareholders rebelled against mega French retailer Carrefour's AGM by blocking the company's allocation of new shares, reported the Financial Times.

The resolution to pay former chief executive Lars Olofsson a €1.5 million non-competition pay-off and an annual pension package of approximately €300,000-€500,000 was rejected by just over 48% of shareholders. The two resolutions on allocation of free shares and stock options for management and employees failed to gain the two-thirds investor backing needed to pass, said the Financial Times.

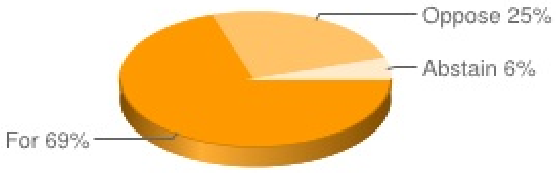
# European Voting Charts

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.

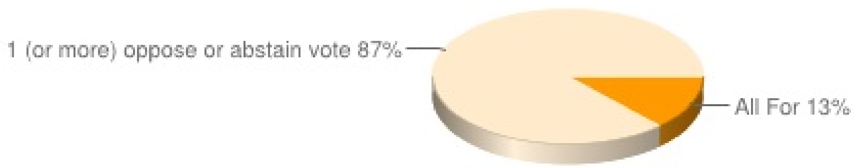
| Total Resolutions | |
|---|---|
| For | 134 |
| Oppose | 49 |
| Abstain | 11 |
| Withdrawn | 0 |
| Total | 194 |

| Meetings | AGM / Combined | EGM | Total |
|---|---|---|---|
| Total Meetings | 15 | 0 | 15 |
| 1 (or more) oppose or abstain vote | 13 | 0 | 13 |

### 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 Q2 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 | TELIASONERA AB | 03 Apr 12 | AGM | 2012-03-15 |
| 2 | LONZA GROUP AG | 03 Apr 12 | AGM | 2012-03-16 |
| 3 | LOREAL SA | 17 Apr 12 | AGM | 2012-04-02 |
| 4 | PRYSMIAN SPA | 18 Apr 12 | AGM | 2012-04-02 |
| 5 | NESTLE SA | 19 Apr 12 | AGM | 2012-04-02 |
| 6 | SYNGENTA AG | 24 Apr 12 | AGM | 2012-04-05 |
| 7 | DNB NOR ASA | 25 Apr 12 | AGM | 2012-04-12 |
| 8 | AB INBEV (ANHEUSER-BUSCH INBEV) NV | 25 Apr 12 | AGM | 2012-04-11 |
| 9 | ABB LTD | 26 Apr 12 | AGM | 2012-04-05 |
| 10 | BAYER AG | 27 Apr 12 | AGM | 2012-04-16 |
| 11 | ACTELION LTD | 04 May 12 | AGM | 2012-04-19 |
| 12 | AIR LIQUIDE SA | 09 May 12 | AGM | 2012-04-26 |
| 13 | FRESENIUS MEDICAL CARE AG & CO KGAA | 10 May 12 | AGM | 2012-04-26 |
| 14 | TOTAL SA | 11 May 12 | AGM | 2012-05-01 |
| 15 | THALES | 15 May 12 | AGM | 2012-05-03 |

# European Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

# US Corporate Governance Review

## SEC whistleblower cases

230 cases were eligible for awards under the US Securities and Exchange Commission's (SEC) whistleblower program.

The latest results were revealed at its annual "SEC Speaks" conference on trends and priorities at the Commission. Since the hotline opened the department has returned more than 2,000 calls to potential leads. Sean McKessy, chief of the new Office of the Whistleblower, announced the statistics. The office, which serves as "liaison" between the whistleblower community and the enforcement staff, has received some criticism about its decision to allow whistleblowers to report wrongdoing to the SEC without having to report it internally beforehand. The "significant majority" of whistleblowers do in fact report internally before contacting the SEC, said McKenny in response, adding that he was "hard pressed" to think of an example where this did not occur.

## Goldmans board pick irks AFSCME

The Federation of State, County & Municipal Employees (AFSCME) announced its disappointment over the decision of Goldman Sachs' independent directors to appoint James Schiro as independent lead director.

AFSCME had filed a proposal requesting that the firm separate the roles of chair and CEO but withdrew it after the bank agreed to appoint an independent lead director. Appointing a lead director should result in more accountability to shareholders. However, as former CEO of Goldman's auditor PwC and a member of the bank's board since 2009, Schiro is not considered independent by AFSCME. Indeed, he was on a list of unacceptable candidates the union had submitted to Goldman, reported CNNMoney. "It would be hard for him to be an independent advocate for shareholders," said AFSCME's Lisa Lindsley.

## US resolutions go green, says E&Y

A publication by Ernst & Young warned companies that "a confluence of factors are working to sharpen the attention on the "triple bottom line" of environmental, social and economic performance."

In the white paper, *Leading corporate sustainability issues in the 2012 proxy season: Is your board prepared?*, the consulting firm said that investor concerns in the form of shareholder proposals on environmental and social issues will dominate other major proposal categories for the third consecutive year, with voting support for these proposals receiving even greater support. Increased shareholder activity will place more pressure on companies to engage with stakeholders on these matters, said Ernst & Young. As the investor demand for accountability and disclosure grows, Ernst & Young has advised companies to take advantage of these opportunities to discuss such topics with stakeholders as it enables the board to better understand their perspectives on key issues and the possibility of strengthening relations. The group noted the emergence of the following five key themes for the 2012 proxy season: corporate political and lobbying activity; energy extraction practices; sustainability reporting and GHG emissions reduction efforts; corporate diversity policies; and operational safety and accident risk reduction.

## CF Industries' board challenged

Shareholders at US fertilizer manufacturer and distributor CF Industries had once again put forward a proposal urging the board to declassify.

Proponents for the measure, including The Los Angeles County Employees Retirement Associate and The Office of the Comptroller of the City of New York, asked that the board recognise the significance of shareholder interest in the proposal – last year 83.4% of investors backed the proposal. Classified boards are considered contrary to best practice as they can serve to entrench underperforming management. Bizarrely, the CF Industries board claimed staggered elections provide "accountability to stockholders" and "protection against undue influence of minority holders." This despite the fact a majority of its own shareholders supported the call for reform last year!

## US firms disclose lobbying efforts

A dozen US corporate heavyweights agreed to reveal their political spending and lobbying efforts in exchange for the withdrawal of shareholder proposals.

Coca-cola, General Electric Co. and Johnson & Johnson were among the companies that published more detailed information about areas like trade association memberships and top policy issues, Reuters said. The information will better enable the average investor to track down company lobbying activities, said Tim Smith, senior vice president at Walden Asset Management. Others calling for increased corporate disclosure include the AFSCME union and the New York State Common Retirement Fund.

## Google fuels investor unease

Google compounded fears that shareholders are being disenfranchised after announcing a stock change that would create a new class of nonvoting shares.

The new class of shares, Class C, will have no voting power. The company has had a dual-class share structure in place since its inception and has made it public that it has no intention of increasing shareholder voting power. The company argued the dual-class structure shields it from outside pressure during potentially risky investments like YouTube and the mobile operating system Android. The new proposal was to be put forth at the company AGM but with the founders controlling the majority of voting power, the chance of it not passing was slim.

## WellPoint lobbying challenged

A U.S. investor coalition called on shareholders to oppose the election of two WellPoint directors for their failure to oversee "high risk" political contributions.

According to the shareholder group, the second largest U.S. healthcare company by membership was targeted for its reluctance to explain why $86 million was transferred from the health insurer's trade association to business lobby group the U.S. Chamber of Commerce. The payment by WellPoint (a member of the Chamber) was issued at the height of the campaign against President Obama's health care plan. Change to Win, U.S. labor organization and part of the shareholder campaign to force companies to disclose their political and lobbying expenditures, said "this is the most egregious clandestine campaign funding we have ever seen." This is the first time shareholders have held board members rather than a company accountable for political and lobbying expenditure decisions, said The Washington Post.

## U.S. pay ratio too wide say unions

CEOs of S&P500 listed companies now make 380 times the salary of average workers in the U.S., according to the latest review of executive pay by the AFL-CIO.

AFL-CIO, which has been reporting U.S. CEO pay trends for the past 15 years, shows the overall pay for S&P500 CEOs has reached nearly $13 million. Average U.S. worker pay for the same period totalled $34,053 – a mere 2.8% increase. This new level of executive pay, which has increased by 13.9% compared to last year, places the U.S. as the country with the widest pay gap in the world.

## Wal-Mart under more scrutiny

Pressure continued to build for U.S. retail giant Wal-Mart as new evidence linking the company to corporate interest group U.S. Chamber of Commerce's lobbying campaign to amend the U.S.' anti-bribery law surfaces.

Over the past two years the Chamber has increased its efforts to amend parts of the U.S.' 1977 Foreign Corrupt Practices Act, which prohibits U.S. companies and their subsidiaries from bribing foreign officials. The notion of amending the law has sparked serious debate in both the Justice Department and Capital Hill. So much so that it provoked a response form Secretary of State Hillary Rodham Clinton who stated that the Obama administration is "unequivocally opposed" to weakening the FCPA. However, it has gained considerable backing from a number of corporations, trade groups such as the Retail Industry Leaders Association and former attorney general (and influential lobbyist) Michael B. Mukasey whose law firm has received over $200,000 from the Chamber, reported the Washington Post.

Wal-Mart's own involvement in bribery first became public knowledge when the New York Times exposed a series of wrongdoings at the company's largest foreign subsidiary, Wal-Mart de Mexico, which included an aggressive "campaign of bribery" to win building permits throughout the country. The New York Time's investigation into the matter was the first time the story was publicly revealed despite the activities having been known by company headquarters in Arkansas since 2005. According to reports, the campaign was orchestrated under former Wal-Mart CEO and current board member Lee Scott's watch. The retailer's activities were first brought to the attention of the company's lawyer when a whistleblower from the Mexican subsidiary contacted officials in 2005, leading to a widespread investigation that uncovered evidence of bribery totalling more than $24 million. Thomas D. Hyde, the company's former corporate secretary and ethic's officer, was at this time a member of the Institute of Legal Reform – a department within the Chamber that has led the campaign to amend the law, said the Washington Post. The misconduct was never reported by the company to Mexican or American officials. Of particular concern to critics is the Chamber's determination to gut the law and that multinationals like Wal-Mart have executives sitting on the Chamber's board. A top executive from Wal-Mart has been on the Chamber's board for almost a decade.

Should Wal-Mart be found it guilty, it would be in violation of the U.S. law.

## CalPERS reports on ESG issues

The California Public Employees' Retirement Systems (CalPERS) created a roadmap for sustainable investing by issuing its first-ever report on the pension fund's journey to environmental, social and governance investments.

The report, *Towards Sustainable Investment: Taking Responsibility,* chronicles the steps the fund has taken to create a fiduciary framework that integrates sustainability across the its $235 billion investment portfolio as well as how this "total fund" approach will enable it to achieve long-term risk adjusted returns. In addition to examples and achievements, the report includes: the "3Ps" of the CalPERS Program: Priorities, Performance, and Procurement; the core themes of alignment of interest, climate change and human capital; sustainable principles at work in the pension fund's global proxy voting and Focus List programs; and the relationships CalPERS has with leading sustainable and corporate governance associations and academic bodies.

## Chesapeake splits top roles

Chesapeake Energy has agreed to two crucial governance reforms: removal of the Founder Well Participation Program and separation of the chair and CEO.

The second-largest natural gas producer in the US announced that it has ended CEO Aubrey McClendon's controversial remuneration plan after the plan enabled him to borrow over a billion dollars from the company's treasury sparked widespread investor criticism, said the New York Times. The company has sought further shareholder approval by agreeing to appoint an independent chairman. The company's dual role had been a major concern for shareholders.

## Knight Capital loses Say on Pay

Knight Capital became the latest company to have its remuneration package fall under the blades of the shareholder guillotine after failing to gain shareholder support for its executive pay package at the company's AGM.

Shareholders of the New Jersey based company rejected the remuneration plan by a margin of almost two-to-one, according to Financial News. Investors questioned the pay package of chief executive Tom Joyce whose remuneration was nearly $6.4 million last year. After the vote, Joyce pledged to work with the company's investors to "clarify and enhance" the company's pay structure. Adding that both the board and the management "take seriously the design of compensation policies and procedures."

## Row over corporate lobbying

U.S. shareholder activists responded angrily to a Wall Street Journal editorial that attacked a campaign on disclosure of corporate funding of lobbyists.

The WSJ comment on the campaign for disclosure at WellPoint claimed that it was intended to "intimidate companies from exercising their free-speech rights" and was "part of the larger campaign by unions and liberal lobbies to demonize corporate donors." In response, U.S. governance veteran Nell Minnow penned a piece for the Huffington Post citing research showing that for every additional $10,000 a firm spent of political donations, its stock market price dropped 7.4 basis points below expectation. She wrote: "The people whose money is being spent are entitled to the information about what candidates and associations are being supported."

## Analysts split over quarterlies

There is a clear split between U.S. analysts and those in the rest of the world over the value of quarterly reporting by companies, Citigroup research has shown.

Over half of the participants (57%) in the survey agreed that if companies were not required to issue quarterly reports they would be given more time to consider the longer-term investment case. The results to the questionnaire showed a sharp regional divide with over two-thirds of EMEA (66%) and AsiaPac (70%) analysts agreeing. Of these, Australia and Japan held the strongest views with 100% and 93%, respectively, supporting the reduction of quarterly reports. In contrast, 71% of analysts in the Americas disagreed. Further results indicated that more senior, male analysts were likely to agree with the statement compared to less experience junior analysts and females.

## JP Morgan board challenged

In the aftermath of a serious shareholder challenge to banking giant J.P. Morgan, an increasing number of US investors backed proposals for the separation of chair and CEO this proxy season.

Results from the company's AGM showed that 40% of shareholders called for Jamie Dimon to relinquish his chairmanship title – up 6% compared to last year. Having combined roles at the top remains majority practice among US companies compared to the UK where very few companies fail to have an independent chair. Though it is difficult to say at this point in the US AGM season if the trend will continue. However, there were suggestions that momentum for splitting top roles is increasing. According to a Reuters report, many investors argued that having an independent chair in place should provide better oversight of pay and other governance issues.

## Shareholders target fracking

A major investor campaign spearheaded by Boston Common Asset Management, the Investor Environmental Health Network and the Interfaith Center on Corporate Responsibility urged energy companies to adopt a set of best practice guidelines for shale gas fracking.

The 55 investors with $1 trillion in assets said in a joint press release that they will no longer willingly sit idly by as energy companies engaged in the practice known as 'Fracking' face concerns about industry drilling problems, growing regulatory uncertainty, and increasing opposition from concerned shareholders. Therefore they urged energy companies to adopt *Extracting the Facts: An Investor Guide to Disclosing Risks from Hydraulic Fracturing Operations*, which provides guidance based on 12 core goals and supporting practices and indicators inspired by energy companies' requests, in dialogues with investors. The investors backing the guide believe adoption of the best practice principles can help energy companies pre-empt common impacts associated with fracking, including: bans, inconsistent practices that make it impossible for investors to make informed choices and growing shareholder unrest.

## Investors unfriend Facebook IPO

Three separate shareholders of Facebook, Inc. filed class action lawsuits against the social media giant, its underwriters and Nasdaq OMX Group, Inc.

The first lawsuit, worth £1.8 billion, was filed by US-based law firm Robbins Geller.* In a press release the law firm alleged that the "Registration Statement and Prospectus issued in connection with the IPO were false and misleading" - a violation of the Securities Act. The plaintiffs of the second lawsuit, US-based Glancy Binkow & Goldberg LLP, claimed that weakened growth forecasts were "passed on only to a handful of large investor clients, not the public," enabling certain investors to sell their shares before the price fell. The information omitted pertained to a reduction in revenue due to users accessing the site via mobile devices rather than traditional PCs. The third class-action suit was filed by Maryland resident and Facebook shareholder, Philip Goldberg, who claimed to have lost money from the failure of the company and its underwriters to disclose material information. Shares dropped by 20% since the company's IPO.

*NB Alan MacDougall, PIRC's managing director, is the European corporate governance adviser to the Robbins Geller firm.

## CalPERS targets three companies

The California Public Employees' Retirement System (CalPERS) called on fellow shareholders to support its governance proposals at three major U.S. companies.

The companies in question included Nabors Industries, Chesapeake Energy and New York Community Bancorp. "Egregious" executive pay was the chief concern at Nabors Industries. Though the company's stock has decreased for the past five years, it proposed a $100 million non-performance severance package for the former CEO and approximately $50 million to the current CEO. At Chesapeake Energy CalPERS was advocating the removal of the 67% supermajority voting requirements. The U.S.' largest pension fund asked shareholders of New York Bancorp to back its proposal to replace the company's plurality voting standard with majority voting. Lastly, CalPERS announced that it would back proposals requesting access to the director nomination process at both Nabors Industries and Chesapeake Energy.

## Wal-Mart directors challenged

In the wake of allegations of bribery, a record number of shareholders voted against Wal-Mart executives for the first time in the world's largest company's history.

Results from the company's AGM showed that 13% of investors voted against the re-election of CEO Mike Duke, including just under 13% voting against founder Sam Walton's son and chairman Robson Walton, and an additional 15.6% voting against former CEO Lee Scott. Wal-Mart's chairman of the audit committee, Christopher Williams, also had just over 13% of votes cast against his re-appointment. With the Walton family controlling 47% of shares, investors had little chance of voting out executives. However, analysis from the New York City Comptroller's Office showed that, the Wal-Mart family aside, over 32% of shares were cast against both Duke and Williams, just over 31% went against Walton and more than 38% were against Scott, according to Bloomberg. Last year, Rob Walton, Scott and Duke had almost 100% shareholder backing. Wal-Mart reaffirmed its commitment to compliance and integrity in all of its operations after the AGM.

## Best Buy board bust-up

Further shake ups in Best Buy's boardroom as founder Richard Schulze announced that he would resign his chairmanship effective immediately.

Schulze added that he would "explore all available options" for his 20% stake in the company. Hatim Tyabji, Best Buy director and executive chairman of Bytemobile, will replace Schulze, announced the company in a press release. In the wake of a company scandal involving Schulze's failure to report an inappropriate relationship between former CEO Brian J. Dunn and a female employee, he agreed to relinquish his chairmanship role at the June 2013 AGM. However, sources close to the situation believe the abrupt change implies some sort of disagreement between Schulze and the board around strategies for the company, said the New York Times. Best Buy is under investor scrutiny for $1.23billion in losses during the last fiscal year.

## Poor voting on climate proposals

Recent analysis shows that three leading U.S. mutual funds failed to support a single climate change resolution during the 2011 AGM season.

American Funds, Fidelity and Vanguard voted on numerous shareholder resolutions but none of their votes cast favoured resolutions to improve corporate environmental and financial performance related to climate change, according to analysis undertaken for CERES. The analysis, undertaken by Jackie Cook, founder of Fund Votes, found that Fidelity abstained on 89% and voted against 11% of proposals on climate change and climate risk management strategies, despite its proxy voting guidelines stating that abstentions are used mainly when information on economic impact is lacking. Given the wealth of financial and analytical data on climate change, Cook argued that this clearly is not the case. Vanguard abstained on 88% and voted against 12% of these issues. American Funds voted against every climate change resolution filed in 2011.

## Pressure for political disclosure

Strong support for corporate political disclosure and accountability resolutions reflects sustained investor interest this US proxy season.

According to US-based non-profit Center for Political Accountability (CPA), corporate political spending resolutions received over 40% of shareholder backing at five US companies: Coventry Health Care Inc (48.62%); Anadarko Petroleum Corp (46.62%); Windstream Corp (43.30%); CenturyLink Inc (41.08%); and CVS Caremark Corp (40.91%). Investor support for resubmitted resolutions on political disclosure grew at 12 out of 18 companies, with WellCare being one of the most notable after capturing almost 60% of total shareholder votes in favour or in abstention. An analysis of proxy votes obtained from 25 companies as of June showed that more than half of resolutions using CPA's model proposals on corporate political expenditures won over 30% of votes in favour, said CPA in a press release. CPA added that 13 of the 51 resolutions filed resulted in companies agreeing to work with shareholders. "Both institutional and retail shareholders are casting high votes for political transparency. They recognize and are responding to the heightened threat posed by secret political spending since Citizens United," said CPA president Bruce Freed.

Meanwhile, CNN reported that the US Supreme Court met in private to deliberate over its temporary block on Montana's Supreme Court's decision to reinstate a century old law that prohibits corporate political spending. Proceeding will require the court to revisit the highly controversial ruling that gave "free speech" to corporations in federal election expenditures.

## FSOC weak on progress

Just two years after the implementation of the Dodd-Frank Act, the Systemic Risk Council (SRC), a private sector, non-partisan body, fears not enough progress has been made toward the implementation of financial reforms.

The Financial Stability Oversight Council and the Office of Financial Research were commissioned to oversee the U.S.'s financial system in the wake of the financial crisis. However, an investigation into their progress by the SRC found that a sense of complacency has made reforms seem less urgent. On this basis, the SRC has issued a set of priorities it believes deserve immediate attention by the regulators.

## Water-risk disclosure still lagging

More robust water-related information is needed to help investors better evaluate the extent to which their investments are exposed to associated risks.

Recent analysis of over 80 corporate disclosures of water risks between 2009 and 2011 shows that company reporting of this issue has increased but that most of the information provided by companies fails to disclose financially material water-risks posed by climate change, according to *Clearing the Waters: A Review of Corporate Water Risk and Disclosure in SEC filings*. The report, undertaken by CERES, the U.S. coalition of investors, found that data from companies relating to financial impacts, quantitative water metrics and potential supply chain risks is lacking. The shareholder group argues that investors need the specificity and the hard numbers to ensure they are investing responsibly. Investors like Michael P. McCauley, senior officer at Investment Programs & Governance at the Florida State Board of Administration, argue that corporate water use has become a significant corporate governance issue due to the economic advantage companies can gain through sensible water use management.

Eight water intensive sectors have been covered in the report, including: beverages, chemicals, electric power, food, homebuilding, mining, oil & gas and semiconductors. The report concludes with a number of recommendations for companies, such as more quantitative data in SEC filings and providing investors with details of how water risks are being mitigated.

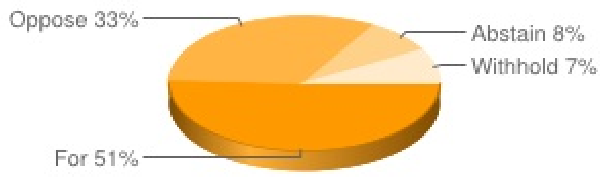
# US Voting Charts

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 | 138 |
| Oppose | 90 |
| Abstain | 22 |
| Withhold | 20 |
| Withdrawn | 0 |
| Total | 270 |

| Meetings | AGM | EGM | Total |
|---|---|---|---|
| Total Meetings | 21 | 0 | 21 |
| 1 (or more) oppose or abstain vote | 21 | 0 | 21 |

### US Voting Record




### US AGM Record


### US EGM Record

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

# US Voting Timetable Q2 2012

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

## Voted Meetings

Table 6: Meetings voted in the quarter

| | Company | Meeting Date | Type | Date Voted |
|---|---|---|---|---|
| 1 | UNITED TECHNOLOGIES CORP | 11 Apr 12 | AGM | 2012-03-26 |
| 2 | ADOBE SYSTEMS INC | 12 Apr 12 | AGM | 2012-03-27 |
| 3 | PNC FINANCIAL SERVICES GROUP INC | 24 Apr 12 | AGM | 2012-04-15 |
| 4 | L-3 COMMUNICATIONS HOLDINGS INC | 24 Apr 12 | AGM | 2012-03-29 |
| 5 | BAKER HUGHES INC | 26 Apr 12 | AGM | 2012-03-29 |
| 6 | eBAY INC. | 26 Apr 12 | AGM | 2012-04-17 |
| 7 | PFIZER INC. | 26 Apr 12 | AGM | 2012-04-16 |
| 8 | AT&T INC. | 27 Apr 12 | AGM | 2012-04-17 |
| 9 | FLIR SYSTEMS INC. | 27 Apr 12 | AGM | 2012-04-17 |
| 10 | CONSOL ENERGY INC. | 01 May 12 | AGM | 2012-04-25 |
| 11 | EMC CORP. | 01 May 12 | AGM | 2012-04-25 |
| 12 | LABORATORY CORP. OF AMERICA | 01 May 12 | AGM | 2012-04-25 |
| 13 | WISCONSIN ENERGY CORP. | 03 May 12 | AGM | 2012-04-24 |
| 14 | EQUIFAX INC. | 03 May 12 | AGM | 2012-04-24 |
| 15 | SPRINT NEXTEL CORP. | 15 May 12 | AGM | 2012-05-02 |
| 16 | REGIONS FINANCIAL CORP. | 17 May 12 | AGM | 2012-05-10 |
| 17 | ALTRIA GROUP INC. | 17 May 12 | AGM | 2012-05-16 |
| 18 | PRINCIPAL FINANCIAL GROUP | 22 May 12 | AGM | 2012-05-11 |
| 19 | THERMO FISHER SCIENTIFIC INC. | 23 May 12 | AGM | 2012-05-11 |
| 20 | KRAFT FOODS INC-A. | 23 May 12 | AGM | 2012-05-15 |
| 21 | INTERPUBLIC GROUP OF COMPANIES INC | 24 May 12 | AGM | 2012-05-14 |

# US Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

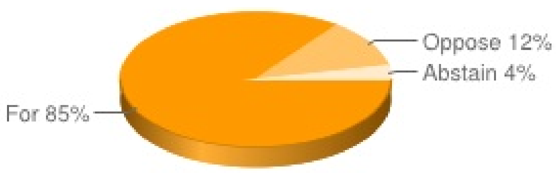
# Japanese Voting Charts

These graphs include meetings where PIRC made a voting recommendation to the client during the period.

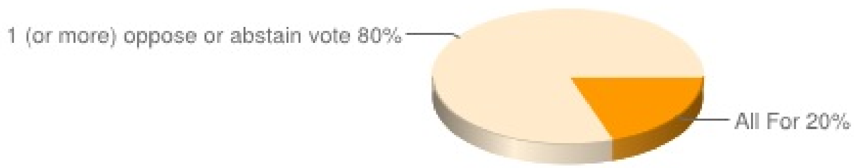
| Total Resolutions | |
|---|---|
| For | 66 |
| Oppose | 9 |
| Abstain | 3 |
| Withdrawn | 0 |
| Total | 78 |

| Meetings | AGM | EGM | Total |
|---|---|---|---|
| Total Meetings | 5 | 0 | 5 |
| 1 (or more) oppose or abstain vote | 4 | 0 | 4 |

**Japanese Voting Record**




**Japanese AGM Record**




**Japanese EGM Record**

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

# Japanese Reporting Timetable Q2 2012

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

## Reported Meetings

Table 7: Reported meetings in quarter

| | Company | Meeting Date | Type |
|---|---|---|---|
| 1 | LAWSON INC | 29 May 12 | AGM |
| 2 | TOYOTA MOTOR CORP | 15 Jun 12 | AGM |
| 3 | TOSHIBA CORP | 22 Jun 12 | AGM |
| 4 | JAPAN TOBACCO INC | 22 Jun 12 | AGM |
| 5 | INPEX CORP | 26 Jun 12 | AGM |

# Japanese Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

# Global Corporate Governance Review

## OECD report on related parties

The Organisation for Economic Co-operation and Development (OECD) has issued a follow up report to its May questionnaire on related party transactions (RPTs).

The report, entitled *Related Party Transactions and Minority Shareholder Rights* , spans across 31 jurisdictions with an in-depth emphasis on the legal and regulatory systems developed in Belgium, France, Italy, Israel and India. The five countries selected (particularly India and Italy) are all characterised by high levels of RPTs with either controlling shareholders or affiliated companies. The potential to abuse RPTs covering both equity and non-equity issues is an important policy issue though they are seldom banned, said the OECD. Instead, most countries introduce management and approval processes that seek to minimise the negative potential.

## Glencore under scutiny

The activities of commodity trader Glencore in the Democratic Republic of the Congo came under scrutiny by campaign group Global Witness.

More specifically, the report called into question the role the company played in secret sales of stakes in the Kansuki and Mutanda mines in 2010 and 2011. MPs have also taken an interest in the involvement of other FTSE-listed mining companies, led by international development select committee member and Conservative MP Pauline Latham, reported the Guardian. Executives of the Britain’s largest mining companies could find themselves before Parliament should the inquiry progress.

## ACSI considers name and shame

The Australian Council of Superannuation Investors (ACSI) is considering publicly naming ASX200 companies that fail to make sufficient sustainability disclosures.

The decision comes on the heels of the investor body’s publication of its fifth annual research, entitled *The Sustainability Reporting Journey: Sustainability Reporting Practices of the S&P/ASX200,* which found that there have been no clear trends toward better reporting since ACSI issued its first edition in 2008. The overwhelming majority of ASX200 companies continue to neglect investor requests and to address material sustainability risks by providing average to poor quality reports on their sustainability initiatives, according to ACSI. The number of Australian-listed companies structuring their reports on the Global Reporting Initiative’s (GRI) reporting framework has declined while those companies making reference to the GRI has increased by just one since last year. Separate research provided by KPMG earlier this year found that Australian companies are falling behind other countries in terms of sustainability reporting, underscoring the need for Australian investors to take action.

## Nomura investor targets toilets

At PIRC we’re generally very supportive of shareholder resolutions, as we consider they can be a valuable tool for addressing specific issues. But some of them can be a bit, well, barmy.

On the Nomura AGM there were well over a dozen shareholder proposals. Not all of them address what we considered to be pressing shareholder concerns.

For example, Proposal 3 stated: “It should be stipulated in the Articles of Incorporation that a sales person must always state that “please remember as vegetables, healthy, diet” as an introductory remark when he/she introduces himself/herself to another person for the first time.”

Proposal 5, meanwhile, sought the elimination of the practice of giving ‘banzai cheers’ at the AGM, stating: “the venue is small and there are many shareholders with strong armpit odor.”

Proposal 13 sought to require the company to replace the term ‘director’ with ‘crystal role.’

Seemingly the most pressing concern, however, were “daily movements,” as addressed under Proposal 12.

This ‘motion’ stated: “It should be stipulated in the Articles of Incorporation that all toilets within the Company’s offices shall be Japanese-style toilets, thereby toughening the legs and loins and hunkering down on a daily basis, aiming at achieving 4-digit stock prices… The Company is on the verge of bankruptcy. In other words, it is the time to hunker down. The Company cannot avoid bankruptcy if it merely adopts a spiritual approach such as encouraging sales persons to speak in a loud voice, but the Company can surely avoid failure if they straddle over a Japanese-style toilet every day and strengthen their lower body. If it cannot, it can only be accepted as a bad luck.”

To which we could only add, what a load of….

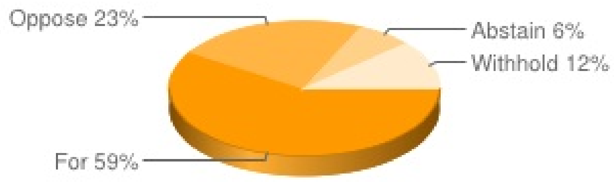
# Global Voting Charts

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 | 136 |
| Oppose | 54 |
| Abstain | 14 |
| Withhold | 27 |
| Withdrawn | 0 |
| Total | 231 |

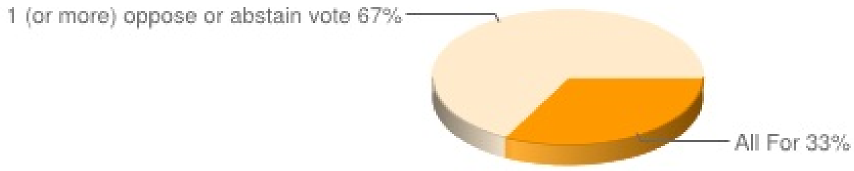
| Meetings | AGM | EGM | Total |
|---|---|---|---|
| Total Meetings | 18 | 3 | 21 |
| 1 (or more) oppose or abstain vote | 18 | 2 | 20 |

### Global Voting Record




### Global AGM Record


### Global EGM Record



# Global Voting Timetable Q2 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 | CCR SA | 13 Apr 12 | AGM | 2012-03-30 |
| 2 | NATURA COSMETICOS SA | 13 Apr 12 | AGM | 2012-04-03 |
| 3 | NATURA COSMETICOS SA | 13 Apr 12 | **EGM** | 2012-04-03 |
| 4 | NEXEN INC | 25 Apr 12 | AGM | 2012-04-12 |
| 5 | WILLIS GROUP HOLDINGS PLC | 25 Apr 12 | AGM | 2012-04-13 |
| 6 | INTL MEAL CO HLDGS | 30 Apr 12 | AGM | 2012-04-19 |
| 7 | INTL MEAL CO HLDGS | 30 Apr 12 | **EGM** | 2012-04-19 |
| 8 | BARRICK GOLD CORP | 02 May 12 | AGM | 2012-04-19 |
| 9 | YAMANA GOLD INC | 02 May 12 | AGM | 2012-04-19 |
| 10 | SANTOS LTD | 03 May 12 | AGM | 2012-04-25 |
| 11 | NIELSEN HOLDINGS NV | 08 May 12 | AGM | 2012-04-26 |
| 12 | AIA GROUP LTD | 08 May 12 | AGM | 2012-04-27 |
| 13 | JARDINE MATHESON HLDGS LTD | 10 May 12 | AGM | 2012-05-01 |
| 14 | GAFISA SA | 11 May 12 | **EGM** | 2012-05-01 |
| 15 | GAFISA SA | 11 May 12 | AGM | 2012-05-01 |
| 16 | NEXANS | 15 May 12 | AGM | 2012-05-03 |
| 17 | LEAR CORP | 16 May 12 | AGM | 2012-05-11 |
| 18 | ALIGN TECHNOLOGY INC | 23 May 12 | AGM | 2012-05-18 |
| 19 | MTN GROUP LTD | 29 May 12 | AGM | 2012-05-18 |
| 20 | DOLLAR GENERAL | 01 Jun 12 | AGM | 2012-05-25 |
| 21 | YINGDE GASES GROUP CO LTD | 15 Jun 12 | AGM | 2012-06-08 |

# Global Upcoming Meetings Q3 2012

There are no upcoming meetings for this region.

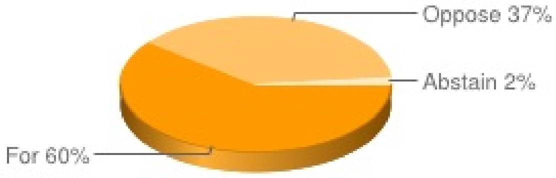
# Asian Voting Charts

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 | 50 |
| Oppose | 31 |
| Abstain | 2 |
| Withdrawn | 0 |
| Total | 83 |

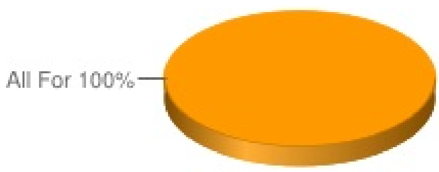
| Meetings | AGM | EGM | Total |
|---|---|---|---|
| Total Meetings | 6 | 1 | 7 |
| 1 (or more) oppose or abstain vote | 6 | 0 | 6 |

### Asian Voting Record




### Asian AGM Record


### Asian EGM Record



# Asian Voting Timetable Q2 2012

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

## Voted Meetings

Table 9: Meetings voted in the quarter

| | Company | Meeting Date | Type | Date Voted |
|---|---|---|---|---|
| 1 | BANGKOK BANK PCL | 12 Apr 12 | AGM | 2012-03-27 |
| 2 | SAKARI RESOURCES LTD | 26 Apr 12 | AGM | 2012-04-13 |
| 3 | UNITED OVERSEAS BANK LTD | 26 Apr 12 | AGM | 2012-04-17 |
| 4 | UNITED OVERSEAS BANK LTD | 26 Apr 12 | **EGM** | 2012-04-16 |
| 5 | ENERGY DEVELOPMENT CORP | 09 May 12 | AGM | 2012-04-25 |
| 6 | CHINA MOBILE LTD | 16 May 12 | AGM | 2012-05-04 |
| 7 | BELLE INTERNATIONAL HLDG LTD | 29 May 12 | AGM | 2012-05-23 |

# Asian Upcoming Meetings Q3 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.

## Japanese

Analysis for "Oppose" and "Abstain" votes for resolutions at Japanese 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.

## Asian

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

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