Lancashire Council

Proxy Voting Review
October 2012 – December 2012

January 2013

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Hays Plc - AGM 7th November

Remuneration was an issue at Hays.

The TSR and EPS targets for the Long term incentives were not considered challenging. Moreover, "the Committee will set EPS targets using market consensus (reflecting the current point in any cycle) being a range of +/- 4% around the consensus forecast EPS as the first year of the three-year cycle with a range of RPI plus 4% to RPI plus 12% over the remaining two years of the cycle for threshold and maximum payment respectively. The Committee considers this range to remain appropriate over several economic cycles." The explanation of how exceptional pay is justified defies attempts to understand it. It is unclear why the company would consider a range that includes a target being slightly below the consensus EPS, i.e. up to -4% below. It is also considered that two or more performance measures should be used in a concurrent fashion.

Variable pay is potentially excessive in PIRC's view as were the awards made during the year under review. Average salaries are high for the comparator group.

We note with concern that a Big 4 audit firm is used for advice on directors' pay.

Directors have one-year rolling contracts allowing for compensation representing one year's salary and contractual benefits. The company considers that directors have a responsibility to mitigate their loss. The remuneration committee also has discretion to pay a predetermined sum in lieu of notice. It is unclear whether the severance payment has been determined or whether the committee has the discretion to determine the severance payment. PIRC does not consider it acceptable for unearned bonuses or other awards to be included in compensation payments and notes that past practices of the company with regards to termination provisions were not in line with best practice.

As the performance criteria for the Performance Share Plan were not considered challenging and remuneration was considered excessive, an oppose vote was recommended.

UK Corporate Governance Review

FRC publishes amended Codes

In late Autumn the Financial Reporting Council (FRC) announced limited changes to the UK Corporate Governance Code and Stewardship Code intended to increase accountability and engagement through the investment chain. Both Codes will continue to apply on a "comply or explain" basis.
Changes to the UK Corporate Governance Code include:

- FTSE 350 companies are to put the external audit contract out to tender at least every ten years with the aim of ensuring a high quality and effective audit, whether from the incumbent auditor or from a different firm. The FRC will be holding discussions with companies, auditors and investors to consider whether guidance on tendering would be useful;
- Audit Committees are to provide to shareholders information on how they have has carried out their responsibilities, including how they have assessed the effectiveness of the external audit process;
- Boards are to confirm that the annual report and accounts taken as a whole are fair, balanced and understandable, to ensure that the narrative sections of the report are consistent with the financial statements and accurately reflect the company's performance;
- Companies are to explain, and report on progress with, their policies on boardroom diversity. This change was first announced in October 2011, but its implementation was deferred to avoid piecemeal changes to the Code
- Companies are to provide fuller explanations to shareholders as to why they choose not to follow a provision of the Code.

Changes to the Stewardship Code include:

- Clarification of the respective responsibilities of asset managers and asset owners for stewardship, and for stewardship activities that they have chosen to outsource;
- Investors are to explain more clearly how they manage conflicts of interest, the circumstances in which they will take part in collective engagement, and the use they make of proxy voting agencies;
- Asset managers are encouraged to have the processes that support their stewardship activities independently verified, to provide greater assurance to their clients.

One issue that does not appear to have been addressed in the revised Stewardship Code is the issue of how asset owners can vote in pooled funds. Many pension schemes invest through pooled funds in order to keep costs low. Some asset managers allow investors to vote a proportion of fund's shares according to their instructions, but others have been obstructive.
Many pension funds invest through pooled funds in order to keep their costs low, but still want to be active on governance issues, and adopt their own voting policies. If asset managers make this difficult to achieve, this means that an important element of stewardship activity is being actively discouraged.

FSA consults on listing rules

The Financial Services Authority (FSA) has proposed a number of changes to the Listing Rules that aim to enhance the effectiveness of the Listing Regime.
The free float requirements are set at an EU level and allow the FSA to consider a free float of below 25% if there is sufficient liquidity. The FSA does not believe an increase in the free float requirement is a proportionate way to address the governance issues that have been raised in this context. The FSA proposes:

- detailing the circumstances where we might consider modifying the 25% free-float requirement for premium listings, indicating that any modification beneath 20% would be unlikely; and
- removing the requirement for a minimum absolute percentage free float within the standard segment, provided that sufficient liquidity is present.

The FSA proposes to further strengthen the Listing Regime by adopting greater corporate governance requirements for companies with a dominant shareholder. The FSA will increase the tools available to independent shareholders to influence the governance of the companies in which they have invested. These proposals include:

- introducing the concept of a 'controlling shareholder';
- requiring an agreement is put in place to regulate the relationship between such a shareholder and the listed company;
- and ensuring that this agreement is complied with on an ongoing basis. This will ensure that the company is managed independently from that shareholder.

The FSA also recognises the important role that the independent directors play in these circumstances. Therefore it will also insist on a majority of independent directors on the board where a controlling shareholder exists and introduce a new dual voting procedure to allow independent shareholders to have more say in their appointment. At the same time the FSA is making clear that certain types of company are incompatible with a premium listing including those with voting arrangements that have the potential to subvert or circumvent the investor protections that the premium listing provides.

The silent assassins keep quiet

Although most of the focus on the UK's 'shareholder spring' has been on remuneration, it's important not to forget that a number of chief executives were also forced out. But who did it?

As we've reported previously in PIRC Alerts, there is now a decent amount of voting available for the second quarter of 2012, which includes the period in which most UK AGMs take place. The interesting thing is that when you look at the votes asset managers cast, there is no indication that they had serious issues with at least two of this season's casualties. Andrew Moss at Aviva and David Brennan at Astrazeneca were both forced out in the days around their companies' respective AGMs. Media coverage o f their departures, combined with anecdotal feedback, suggests that shareholder pressure was a significant factor in both cases.

But if we look at the AGM results of both companies the votes against Moss and Brennan were paltry – 4.6% and 1% respectively. This picture is confirmed by looking at publicly disclosed voting data. Having looked at the voting records of 16 asset managers, we can only find one that voted against either director. All the others voted for both.

Yet we believe, based on anecdotal feedback, that some investors which voted in favour were privately agitating for change. If so the publicly recorded expression of their opinion – the vote – is the opposite of their actual view. If correct, these shareholders actively chose to vote in favour, when they could have voted against, abstained or not voted at all. Instead it seems they used a legal right to send a public signal opposite to their private view.

When we've raised this point in discussions within the industry we've heard two principal justifications. The first is that by publicly supporting the directors this allowed a more dignified exit. Given that in both cases there was widespread media coverage of the departures, including the assertion that shareholders had sent the message that it was time to go, it is hard to see what further embarrassment votes against the directors would have caused.

The second justification is that the objective – to remove the chief executive – was achieved, so it doesn't matter what the votes say. This argument sounds more compelling, but raises further problems. One is accountability. Presumably the asset managers that forced out directors did not disclose this in their quarterly reports to pension funds and other clients. Therefore the message that the client receives – the votes cast for and against that quarter – will be that they (through their asset manager) supported the directors in question. In terms of public accountability, there are no fingerprints.

But arguably more important is the way that voting is being subverted. If institutional shareholders won't vote against a chief executive that they want to leave even at the point when they are actively seeking that outcome, then when will they? If the answer is "never" then the logical conclusion is that the informational content of asset manager votes on directors is highly questionable. It sounds a bit like analysts making 'buy' or 'hold' recommendations on stocks that they actually have no faith in.

We recognise that, currently, most market participants don't see a particular problem here, but this is perhaps because of a sense of "we've always done it like this" on the part of asset managers. But if stewardship is to have a quasi-public role in ensuring that our largest companies are well run, something does not feel right about this approach to the use of legal ownership rights. It's an issue that we believe needs further discussion.

Opening up the audit market

For years the dominance of the Big Four accounting firms as auditors to the UK's biggest public companies, and the rarity of changes in auditor, has been treated by many as an irrelevance. But is opinion starting to shift?

There is a little recent evidence that companies may recognise that current practice does not look good (even if they are apparently as yet unconvinced that a tougher regime is necessary). In short succession we have seen both Schroders announce that it was going out to tender and BG apparently switching from PwC to Ernst & Young. Two potential changes in service provider would not register as significant in most markets, but in the audit world this is big news.

Meanwhile the Competition Commission continues to report on its own work on the audit market, with some interesting findings emerging. The Commission recently published an overview paper that is well worth a read.6 Essentially the Commission has found no evidence of tacit agreements between firms that might hinder competition, nor is there clear evidence that the dominance of the Big Four has a negative effect on audit quality or price. But there are other issues for shareholders to be aware of.

The Commission suggests that what little competition for services that there is comes largely at the behest of companies. Boards see costs but little benefit to retendering audit services when they are happy with their provider. They also have other priorities. As such sticking with the status quo is common.

The Commission believes the market for the provision of audit services works as a virtuous circle for the Big Four, but a vicious one for mid-tier firms trying to break in. This may be exacerbated by the fact many audit committee members and FDs are ex-Big Four themselves.

The Commission also notes that there is an "inherent conflict" in the auditor being chosen, paid and dismissed by the company, yet being expected to scrutinize management reporting objectively. The Commission clearly sees this as a potential problem and notes that shareholders may not get a look in.

It states: "[W]e are in particular investigating if a disconnect between the demand (from shareholders and other stakeholders) and supply (in terms of the product delivered by auditors) means that auditors direct their competitive efforts to satisfying the demands of those making the purchasing decisions (ie company management and audit committees) and whether those demands are sufficiently different from shareholder demand as to amount to a distortion of competition."

Regulator should judge bank M&A

There should be an explicit requirement for the Prudential Regulation Authority to approve bank takeovers and mergers in future, according to the Treasury select committee.

In its report on the Financial Services Authority's (FSA) own analysis of its role in the failure of Royal Bank of Scotland (RBS), the committee argues that the future PRA should have the formal ability to block deals if necessary. It says: "We need a regulator with the self confidence to intervene, even if it might cause some destabilisation in the short-term. We recommend that Government include an explicit requirement for the PRA to approve major bank acquisitions and mergers in forthcoming legislation."

The recommendation comes after stinging criticism of the role of the FSA in respect of RBS, in particular relating to the banks acquisition of ABN Amro. The committee argues that the regulator could and should have intervened over the deal. The FSA's initial commentary suggested that it did not have the necessary regulatory powers to block the deal. However Lord Turner, chair of the FSA, has argued that it could have used indirect methods to achieve the same outcome. Turner suggests that the FSA could have introduced capital buffers for the combined entity that would have made the deal commercially unattractive.

Of course, the interesting question in all this is the role of shareholders. There is an implication here that regulatory power will trump that of the owners when it comes to bank M&A activity. That, it strikes us, is rather a big deal.

Carroll to leave Anglo American

Following shareholder pressure for change at the top, in October Cynthia Carroll announced her resignation as chief executive of Anglo American.

The decision followed months of semi-public criticism of Carroll by shareholders and can hardly be considered a surprise. According to the company's official statement, Carroll will remain in post until a successor has been appointed and a transition to the new leadership takes place. Carroll's decision to step down means that the FTSE100 could lose two female chief executives, following the news that Pearson's Marjorie Scardino is to be replaced by John Fallon in January.

Whilst Carroll has fallen out of favour with shareholders, it is worth noting that she made a significant contribution to improving safety standards in the industry, with Anglo American's fatality rate falling significantly under her management. Although not an industry leader, other UK-listed miners still lag behind.

BSkyB: a history of inaction

November saw James Murdoch easily re-elected as a non-executive director of BSkyB, despite being criticised by both Parliament and broadcasting regulator Ofcom. Digging a bit deeper into voting at BSkyB however reveals some interesting trends.

First, we should make explicit the scale of shareholder support for James Murdoch. He was re-elected with a vote of 4.98% against, with minimal abstentions. Even accounting for News Corp's stake, that's not a bad result, given the circumstances. It's also well down on last year's vote against of just under 19%. What's more, Murdoch didn't even attract the largest vote against last week. Two other News Corp directors – Arthur Siskind and David DeVoe – saw votes against of 6.99% and 5.6% respectively. This could reflect a decision to focus more on reducing the News Corp influence on the board in general, rather than targeting James Murdoch in particular, right?

Actually that isn't right either. At last year's AGM Siskind saw a vote against of 10.06% and DeVoe a vote against of 8.07%. Similarly the vote against Tom Mockridge, now head of News International, dropped from 5.59% last year to 4.08% last week. In voting terms, this was a retreat, plain and simple. The pressure on News Corp-linked directors was down across the board, with the biggest reduction in opposition being for the director most directly linked to the hacking scandal.

To the uninformed observer, this might look unusual, but, in fact, failing to challenge James Murdoch head-on at BSkyB is something of a pattern for the UK's institutional investors. We can trace this right back to when he was parachuted in as chief executive back in November 2003. Some commentators suggested that perhaps his appointment had more to do with the fact that his father was the chair of the company than his ability, as a 30-year-old, to run a FTSE100 company.

As news of his appointment came shortly ahead of BSkyB's annual meeting James faced a vote on his election at the AGM when it was known that he would take over as chief executive. Shareholders had the opportunity to oppose him. Instead they opted to target the man in charge of the nominations process – then senior independent director Lord St John of Fawsley - who saw a vote of 41% against his re-election.

Fast forward to 2008, and James Murdoch again attracted criticism, for moving from chief executive to chair of BSkyB, in breach of the Corporate Governance Code. One might have thought that this would be particularly controversial given the lack of independence on the board and the influence of News Corp as a controlling shareholder. Actually he was easily re-elected with just 6% opposing.

Perhaps, though, when it became obvious that News Corp was going to make a bid for the outstanding shares of BSkyB the need for an independent chair would become sharper, and he would see more opposition? News Corp launched its bid in June 2010, so we'd expect to see any opposition reflected in the October 2010 AGM voting results. And there wasn't really any, with James Murdoch recording a tiny vote against of just 1.79%.

As such, last week's AGM should be seen as the continuation of a trend, rather than an aberration. It was the 2011 AGM, when shareholders, briefly, put up a fight, that was unusual. In 2012, BSkyB shareholders reverted to their normal, passive, selves.

MPs query companies over tax

Executives from Starbucks, Google and Amazon faced a grilling from MPs in November, as the row over corporate tax avoidance continues.

In November Britain and Germany announced plans to make the G20 tackle the tax issue, amidst claims multinationals are exploiting loopholes to lower the amount they pay. The previous month it was revealed Starbucks had paid no corporation, or income, tax in Britain in the past 3 years and had paid only £8.6m since 1998. This week MPs on the Public Accounts Committee called in executives from threes well-known businesses that have attracted attention over tax policy. One of the issues that MPs were interested in was how companies could essentially manipulate where their made their profits in order to incur the least tax.

The outcome, from the companies' perspective, could have been better. For example, Amazon's director of public policy repeatedly refused to answer questions about its UK profits, leading to criticism from MPs. According to reports, Amazon avoids UK taxes by reporting European sales through a Luxembourg-based unit. This meant its main UK unit paid under £1m in income tax last year, despite having made total sales worth several billions.

Though shareholders have rarely taken a view on corporate tax policy the fact that political action seems increasingly likely perhaps demands more attention in future.

More investor pressure over IFRS

Concerns over weaknesses in international financial reporting standards (IFRS) have been raised in a paper issued by a group of major European institutional investors, as pressure for reform continues.

The group of 10 signatories, with combined assets of approximately €340bn (£288.5bn), warn that current accounting standards fail to give sufficient priority to prudence, undermining investors' ability to hold company executives to account and weakening companies' long-term decision-making. Signatories include asset managers such as Royal London and Threadneedle and pension funds such as the Universities Superannuation Scheme (USS), Railpen, NEST and the Local Authority Pension Fund Forum.

The paper states that action needs to be taken at three levels:

Design: The International Accounting Standards Board's convergence strategy with US GAAP has resulted in an increased emphasis on neutrality. Prudence needs to be restored as the over-riding guiding principle, and the link to capital maintenance requirements under company law clarified.

Application: Numerous examples exist where accounting rules are apparently followed, but results are misleading. The principles of 'truth and fairness' and 'substance over form' should be paramount.

Monitoring: Independent and objective monitoring by auditors is vital. Situations where auditors become too close to management; depend on management for continuation of their audit; and non-audit, contracts, and do not themselves face close scrutiny fails to provide the necessary control.

One of the paper's authors, Ben Levenstein, head of UK equities at USS, commented: "Our wish in publishing this paper is to highlight that it is not just regulators who need prudence in company accounts, but also long-term investors who rely on accurate numbers to hold executives to account. This is key in the promotion of long-term decision-making, which in turn will encourage greater macro-economic stability. The gravity of some investors' unease about the international accounting framework is a serious concern which must be addressed."

The publication of the paper follows recent expressions of concern about accounting standards in the banking sector by senior figures at the Bank of England. The signatories of the Paper believe the same issues apply to other sectors too.

Thinking specifically about the banks, one point shareholders perhaps ought to start to consider is what their position would really look like if the picture presented by IFRS is ignored.

The 'shareholder spring' reviewed

Was the so-called 'shareholder spring' a non-event? Two reports out in November have suggested that perhaps it wasn't such a rebellious AGM season after all.

According to research by KPMG, there are reasons for thinking that the relationship between the UK's largest public companies and their shareholders isn't as bad as headlines might suggest. KPMG's 2012 Guide to Directors' Remuneration reveals that there was less shareholder opposition on pay in 2012 than in 2011. The firm points out that during 2012, 10 companies in the FTSE-100 experienced significant levels of shareholder dissent on remuneration report votes (20% plus oppose and abstains). In 2011, this figure was 34. In addition, the overall average level of support remained above 90% in 2012.

KPMG suggests that the real story of the 2012 season was of targeted shareholder opposition, rather than a broad movement against excessive executive pay. The report also points out that in some cases opposition to a company's pay policy overlapped with concerns about individual directors or company performance. KMPG believes that further shareholder activism around remuneration can be expected next year.

But are shareholders really that interested in controlling executive pay? The other report out this week comes from responsible investment campaign group Fair Pensions, and looks at a range of different types of information to form a view of how asset managers are positioned. This includes headline voting level and individual voting records, but Fair Pensions has also taken a look at responses to the Government's recent consultation on new powers for shareholders.

One of the most interesting findings is that most investors opposed the idea of being given a binding shareholder vote on remuneration policy (in case you're wondering, PIRC supported the proposal). Fair Pensions says that overall 72% of institutional investors responding opposed. Their conclusion is that the final reform proposal - a binding shareholder vote on pay every three years - was a compromise between a government keen to give shareholders more power and "institutional investors reluctant to assume these powers."

For what it's worth, we think this is a fair assessment. As we've noted before, in the debate over executive pay, there's rarely an opportunity missed to warn of the dire '"unintended consequences" of a particular reform. The asset management industry has been trying to walk the line between arguing that the Government should not intervene directly, whilst simultaneously trying to resist any formalisation of its own role in overseeing executive pay. The result is the bizarre situation that Fair Pensions describes of the Government trying to give rights to shareholders who do not want them. The contrast with the Arab Spring could not be more stark!

The other point well made by Fair Pensions is that accountability for how asset managers exercise their new powers needs to be backed up by mandatory disclosure of voting records. We can't fault their assessment of current practices:

"[B]eneficiaries seeking to understand how their fund voted and why at a particular company face a lottery at present, with a significant chance that they will not be able to find the information they are looking for in a timely manner. Likewise, attempts to make systematic comparisons of different managers' votes on a particular issue – and, in particular, to understand their stewardship approaches by comparing reasons for controversial votes – are hampered by the incompleteness of the data."

If the reason for shareholders disclosing their voting records is to enable clients (either individual savers or trustees) to compare managers' approaches to issues like executive pay the lack of standardisation is fatal. Similarly, if we believe there is a legitimate public interest in the exercise of ownership rights by shareholders, then the fact that asset managers can (still) disclose what they want and when they want to seems incongruous.

In reality if the 'shareholder spring' is to be more than a mild grumble about the worst excesses at the top, then asset managers must be accountable too. But this is does not simply require action from the managers themselves – it also requires those with an economic interest in the shareholdings managed by asset managers to speak up.

TUC study shows vote dispersion

There was a sharp divide in the positions taken by fund managers last year, with a small number backing 85% of company resolutions and a small minority supporting 25% or less, according to TUC research.

The tenth annual Fund Manager Voting Survey, published to coincide with the TUC Pension Trustee Conference in November, analyses the voting records of 26 fund managers, pension funds and voting agencies across 76 company resolutions between January and December 2011.

Remuneration remains the issue most likely to be opposed by investors, though bank remuneration reports actually received strong support. The RBS remuneration report received the highest level of support of any in the survey, though this is probably because its Chief Executive Stephen Hester handed back his bonus in the face of shareholder pressure before the report was voted on, says the TUC. The survey shows that a number of respondents undertook considerable engagement with RBS.

The survey shows encouraging progress in the public disclosure of fund managers' voting records, with 26 of the 28 survey respondents now making at least some voting data publicly available. The fact that when the first TUC Voting Survey was published in 2003, just one institutional investor – the Co-operative Insurance Society – made its voting record public, shows just how much progress has been made, says the TUC. However, the TUC still has concerns over the quality of data being made available, with some only disclosing votes against and abstentions, and others only providing headline statistics.

And while many investors cited the Stewardship Code as a reason for making their voting more public, it has had little effect on their voting stances, says the TUC. The TUC would like the Code toughened up so that fund managers are required to consult their clients over their approach to voting and engagement.

LAPFF on employee engagement

Investors should pay more attention to how companies engage employees and ensure their commitment, and move away from an exclusive focus on financial rewards to motivate staff, including executives, according to the Local Authority Pension Fund Forum (LAPFF).

In a report launched at its annual conference, the Forum set out a new agenda for shareholder engagement with companies. Having reviewed the evidence about employee engagement and motivation, LAPFF has concluded that financial incentives have only a limited role to play in the creation of successful businesses.

The Forum believes that companies must work hard to ensure employees will choose them over competitors, stay with the business, and commit themselves to achieving its objectives. The mechanism companies use in order to do this is termed the 'employee value proposition'. Whilst shareholders' views about motivation and engagement have generally been restricted to variations on performance-related pay, the Forum believes that a broader approach is required. Instead the guide explores how companies can develop a compelling employee value proposition.

The guide reveals that the science of non-monetary reward shows that employees care deeply about purpose, are drawn to working with people they connect to, value autonomy, seek to achieve mastery and are fulfilled by achievement and progress. They are also heavily influenced by the context in which they work: whether they feel valued, whether they perceive themselves to be fairly treated, and how they are treated by immediate superiors.

Therefore investors need to ask very different questions if they are going to understand which companies are getting it right. The guide introduces a set of questions that are designed to enable interested pension fund trustees and asset managers to appraise the link between people and investment value.

The guide is the result of a long-running project looking at incentives and motivation. LAPFF's initial focus on exploring whether companies tie rewards to non-financial factors has now shifted onto non-financial rewards. It is published amidst a growing discussion of the failure of financial rewards to improve motivation and performance, popularised by Dan Pink's recent book Drive.

The guide is available online at **www.lapfforum.org**

Hirschman finally takes the exit

Economist Albert Hirschman, author of the famous book Exit, Voice and Loyalty, died in December aged 97.

The book has been a significant, if often unacknowledged, influence on thinking about the relationship between companies and shareholders. After all, engagement with companies is rooted in the assumption that it is often worth exercising voice, rather than selling out. In addition, the emerging interest in ideas like 'loyalty dividends' bears out Hirschman's point that organisations can introduce mechanisms to encourage voice rather than exit. It should be required reading for all governance types.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	SMITHS GROUP PLC	AGM	20 Nov 12	17	Meeting notification related proposal	For	11.15
2	WOLSELEY PLC	AGM	29 Nov 12	15	Issue shares with pre-emption rights	For	9.20
3	SMITHS GROUP PLC	AGM	20 Nov 12	2	Approve the Remuneration Report	Abstain	8.45
4	HAYS PLC	AGM	07 Nov 12	18	Amend existing Performance Share Plan	Oppose	5.94
5	WOLSELEY PLC	AGM	29 Nov 12	20	Adoption of the Wolseley Group Executive Share Option Plan 2012	Oppose	4.08
6	WOLSELEY PLC	AGM	29 Nov 12	2	Approve the Remuneration Report	Oppose	3.90
7	WOLSELEY PLC	AGM	29 Nov 12	19	Adoption of the Wolseley Group Long Term Incentive Plan 2012	Oppose	3.81
8	HAYS PLC	AGM	07 Nov 12	17	Meeting notification-related proposal	For	3.32
9	WOLSELEY PLC	AGM	29 Nov 12	12	Appoint the auditors	Oppose	3.10
10	SMITHS GROUP PLC	AGM	20 Nov 12	14	Issue shares with pre-emption rights	For	2.32

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

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	0	0	0	0	0	0	0	0	0
Annual Reports	1	16	2	33	3	50	0	0	6
Articles of Association	0	0	0	0	0	0	0	0	0
Auditors	5	83	0	0	1	16	0	0	6
Corporate Actions	1	100	0	0	0	0	0	0	1
Corporate Donations	1	50	1	50	0	0	0	0	2
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	22	91	0	0	2	8	0	0	24
Dividend	3	100	0	0	0	0	0	0	3
Executive Pay Schemes	0	0	0	0	3	100	0	0	3
Miscellaneous	2	100	0	0	0	0	0	0	2
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	1	100	0	0	0	0	1
Share Issue/Re-purchase	7	77	2	22	0	0	0	0	9
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	0	0	0	0	0

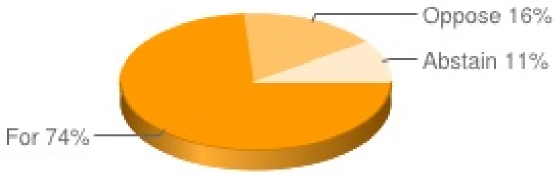
UK Voting Charts

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

Total Resolutions	
For	42
Oppose	9
Abstain	6
Withdrawn	0
Total	57

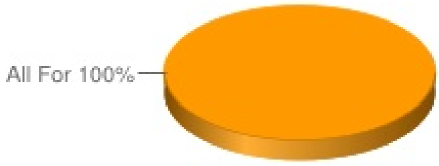
Meetings	AGM	EGM	Total
Total Meetings	3	1	4
1 (or more) oppose or abstain vote	3	0	3

UK Voting Record



UK AGM Record

UK EGM Record



UK Voting Timetable Q4 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	HAYS PLC	07 Nov 12	AGM	2012-10-23
2	SMITHS GROUP PLC	20 Nov 12	AGM	2012-11-08
3	EXPERIAN PLC	20 Nov 12	**EGM**	2012-11-08
4	WOLSELEY PLC	29 Nov 12	AGM	2012-11-19

UK Upcoming Meetings Q1 2013

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

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	WH SMITH PLC	23 Jan 13	AGM
2	IMPERIAL TOBACCO GROUP PLC	30 Jan 13	AGM

AIM UK Market Voting Timetable Q4 2012

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

AIM UK Market Upcoming Meetings Q1 2013

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q4 2012

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

Fledgling UK Market Upcoming Meetings Q1 2013

There are no upcoming meetings for this region.

European Corporate Governance Review

Deal or no deal?

October saw the widely expected collapse of the merger between BAE Systems and EADS, Europe's biggest civil aerospace group. It's also the latest example of deal falling apart amidst shareholder pressure.

Clearly in the BAE-EADS case there are other factors at play, not least the role of politicians in London, Paris and Berlin. In the end it was Germany intransigence that really killed the deal off. But the role of Invesco, a major BAE shareholder, and other investors was also important. In making the case that shareholder value could be at risk this added to the sense that the strategy was muddled.

What's more the collapse of the BAE-EADS merger seems indicative of a wider tendency for shareholders to actively challenge deals that was not in evidence pre-crisis. For years shareholders have been castigated for nodding through deals that appeared to make little sense on the basis that presumably management must know better (RBS and ABN Amro, anyone?). Certainly there is evidence out there that many deals fail to create value, and some active destroy it. So the unengaged approach some big investors have taken in the past was perplexing.

But in the past few years something does seem to have shifted. Just in the FTSE100 in the past few years we have seen the Pru, G4S and now BAE stumble when big deals have been lined up. Meanwhile the 'Glenstrata' saga continues. In all these cases shareholder pushback has been a significant factor.

This year most of the focus has been on the upsurge of shareholder opposition to remuneration, but arguably the growing willingness to resist major deals is as big a story, if not bigger.

Swiss edge towards binding vote

Switzerland will hold a referendum in March on whether to introduce a binding shareholder vote on executive pay.

Thomas Minder, a former businessman who is now a Swiss politician, has put forward the proposal as a way to tackle high pay for executives in the country. Reuters reports that the Government has confirmed the referendum will take place on 3rd March 2013. Under the proposal, shareholders would be granted a binding vote on executive pay, not unlike the new vote to be introduced in the UK, and golden handshakes and golden parachutes would be banned. Reuters reports that the package would also require shareholders to disclose voting records, something the UK Government has, to date, been reluctant to do.

Not surprisingly, already the Swiss business lobby has begun a scaremongering campaign, arguing that the proposals will hamper the competitiveness of domestic companies. Ironically lobbyists have also argued that the measure would drive executive talent overseas. Presumably those executives leaving Switzerland will pass the incoming and long-threatened mass exodus of UK bankers in mid-air. Reuters reports that business lobby group Economiesuisse may put up to 12 million francs into a campaign against Minder's proposal, and in favour of a weaker alternative.

Currently a minority of large Swiss companies offer shareholders an advisory vote on remuneration policy.

IBRC sues Ernst & Young

An interesting little story in the Irish Times caught our eye in December. According to the report, the former Anglo Irish Bank is taking legal action against Ernst & Young.

The paper states that the action relates to E&Y's role as auditor to the bank, now called the Irish Bank Resolution Corporation (IBRC) before it was nationalised. The IBRC has declined to make further information about the action available.

According to the report, Ernst & Young has been criticised for failing to spot the full extent of the

borrowings of Anglo chairman Seán FitzPatrick, and for failing to warn about Anglo's sharp growth in its lending exposure to property.
One to keep an eye on - it may not be the last.

EC governance action plan

The European Commission (EC) has adopted an Action Plan outlining future initiatives in the areas of company law and corporate governance.
The EC has identified several lines of action in the area of company law and corporate governance. Action to increase the level of transparency between companies and their shareholders will include:

- Increasing companies' transparency as regards their board diversity and risk management policies;
- Improving corporate governance reporting;
- Better identification of shareholders by issuers;
- Strengthening transparency rules for institutional investors on their voting and engagement policies.

Initiatives aimed at encouraging and facilitating long-term shareholder engagement will include:

- More transparency on remuneration policies and individual remuneration of directors, as well as a shareholders' right to vote on remuneration;
- Better shareholders' oversight on related party transactions, i.e. dealings between the company and its directors or controlling shareholders;
- Creating appropriate operational rules for proxy advisors (i.e. firms providing services to shareholders, notably voting advice), especially as regards transparency and conflicts of interests;
- Clarification of the 'acting in concert' concept to make shareholder cooperation on governance issues easier;
- Investigating whether employee share ownership can be encouraged.

Initiatives in company law to support European businesses and encourage their growth and competitiveness will cover:

- Further investigation on a possible initiative on the cross-border transfer of seats for companies;
- Facilitating cross-border mergers;
- Clear EU rules for cross-border divisions;
- Follow-up of the European Private Company statute proposal to enhance cross-border opportunities for SMEs
- An information campaign on the European Company/European Cooperative Society Statute;
- Targeted measures on groups of companies, i.e. recognition of the concept of the interest of the group and more transparency regarding the group structure.

In addition, the action plan foresees merging all major company law directives into a single instrument. This would make EU company law more accessible and comprehensible and reduce the risk of future inconsistencies.

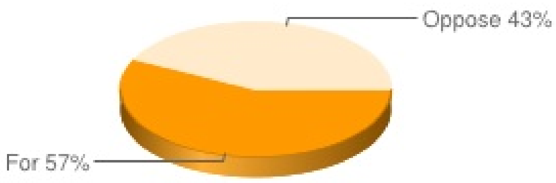
European Voting Charts

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	4
Oppose	3
Abstain	0
Withdrawn	0
Total	7

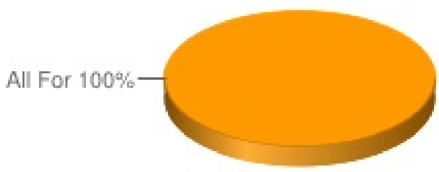
Meetings	AGM / Combined	EGM	Total
Total Meetings	1	1	2
1 (or more) oppose or abstain vote	1	0	1

European Voting Record



European AGM Record / Combined

European EGM Record



European Voting Timetable Q4 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	KONE CORP	24 Oct 12	**EGM**	2012-10-11
2	D.E MASTER BLENDERS 1753	28 Nov 12	AGM	2012-11-12

European Upcoming Meetings Q1 2013

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

Table 6: Upcoming Meetings

	Company	Meeting Date	Type
1	NOVARTIS AG	22 Feb 13	AGM
2	KONE CORP	01 Mar 13	AGM
3	ROCHE HOLDING AG	01 Mar 13	AGM
4	SCHINDLER HOLDING AG	01 Mar 13	AGM

US Corporate Governance Review

News Corp investors back reform

Independent News Corp shareholders overwhelming backed calls to split chair and CEO roles and eliminate the company's dual class share structure at the media giant's AGM this week.

In fact the meeting was a much quieter affair than last year's, both in terms of investor attendance and the nature of the back and forth between board and shareholders. Last year the hacking scandal was only a few months old, and there was a great deal of shareholder anger directed at the company. In response chair and CEO Rupert Murdoch dealt with many shareholder questions in a dismissive and abrasive manner. The results of the 2011 meeting tell their own story, with large shareholder votes against several directors, with James Murdoch attracting the most opposition.

In 2012 it is fair to say the discussion has moved on for both company and shareholders. Investor attendance was definitely thinner this year, with press probably outnumbering shareholders. Whereas last year shareholders fired a broadside against pretty much the whole board, this year there was a much more focused approach, with most pressure being exerted in support of the shareholder resolutions on the chair and dual class structure.

Speaking in support of the resolution seeking an independent chair were Julie Tanner from Christian Brothers Investment Services and Ian Greenwood from the Local Authority Pension Fund Forum. Laura Campos from Nathan Cummings Foundation presented the resolution on the dual class structure. The resolutions were backed by contributions in the room from the likes of CalSTRS, the giant Californian teachers' pension fund, and UK asset manager Hermes.

The board's response was largely handled by Viet Dinh who defended the company's policy on both combined roles and the dual class structure. At the risk of reading too much into too little, his contribution in respect of the question regarding an independent chair did at least suggest that this is not a closed option. And where was last year's Rupert Murdoch? In place of 2011's combative chair, the 2012 version was polite, thanking shareholders for their contributions even when they challenged company policy. This was a marked difference from last year when he interrupted shareholders even as they asked questions.

In another break with last year the company also managed to disclose the voting results on the same day, albeit a few hours after the meeting. As expected, there was a drop-off in the votes against directors, and instead independent shareholders voted heavily in favour of the two resolutions seeking significant structural reform.

Just looking at the headline votes, the resolution seeking an independent chair received 30.5% in favour and the resolution on the dual class structure received 28.8%. But when the Murdoch family trust voted is stripped out the vote amongst other shareholders in favour of the resolution on the independent chair was approximately 66%. The independent vote in favour of the resolution seeking to eliminate the dual class structure was approximately 63%. Australian shareholder activist Stephen Maybe has pointed out that if you exclude the votes of long-term Murdoch ally, Saudi Prince Alwaleed Bin Talal, the votes in favour of reform were even higher.

There's a tendency on the part of some in corporate governance to argue that News Corp isn't worth the effort. The votes from this week's AGM show that many shareholders disagree, and, being eternal optimists, we think that there may be light at the end of the tunnel. Shareholders should keep pushing.

Oracle should've seen it coming

Software giant Oracle suffered an embarrassing defeat on executive compensation policy in November.

According to results released by the company, on the executive compensation vote 40.9% were in favour; with 58.9% against and 0.2% abstentions. However that almost certainly undersells the extent of opposition. Founder and CEO Larry Ellison owns 23% of the company's shares, and we assume he voted in favour of the policy. Taking that 23% in account, it is estimated that 83% of independent shareholders cast their votes against the resolution. Arguably Oracle can't be surprised, given that there was a sizeable oppose vote last year too. PIRC had recommended opposition. All three Compensation Committee members received significant votes against their re-elections with the Chairman receiving only 61% support, and the other two members receiving 66% support.

US Say on Pay defeats pass 60

The UK's record six defeats of remuneration reports for companies listed main market has been dubbed the 'shareholder spring'. So what should we describe the US as, where more than 60 companies have been defeated?

According to executive compensation consultants Steven Hall & Partners, on average, US companies have received an 89% 'for' vote, a 9% 'against' vote and 2% in abstentions. It found 60 companies that had lost the vote, though another has been defeated since its figures were produced. Of these defeats, the company says the average level of opposition was 62%, indicating significant shareholder disapproval. Four companies have lost the vote for the second year running - Hercules Offshore, Inc, Kilroy Realty Corp, Nabors Industries Ltd and Tutor Perini Corp.

HP $8.8bn Autonomy write down

In November Hewlett Packard announced a massive $8.8bn write down relating to its takeover of Autonomy.

According to a formal statement issued in November, the majority of this impairment charge, more than $5b of the write down is linked to serious accounting improprieties, misrepresentation and disclosure failures discovered by an internal investigation by HP and forensic review into Autonomy's accounting practices prior to its acquisition by HP. The company launched its internal investigation into these issues after a senior member of Autonomy's leadership team came forward, following the departure of Autonomy founder Mike Lynch, alleging that there had been a series of questionable accounting and business practices at Autonomy prior to the acquisition by HP. This individual provided numerous details about which HP previously had no knowledge or visibility.

As a result of that investigation, HP now believes that Autonomy was substantially overvalued at the time of its acquisition due to the misstatement of Autonomy's financial performance. It has contacted both the US Securities and Exchange Commission's Enforcement Division and the UK's Serious Fraud Office. In addition, HP says it is preparing to seek redress against various parties to recoup what it can for its shareholders.

Prior to its takeover, Autonomy raised a number of red flags on the governance front. In PIRC's view it lacked proper independent representation, which led us to oppose the election of numerous directors over years. Its auditor also raked in significant non-audit fees, which we found problematic. In fact because of this we recommended that clients didn't support the re-appointment of the auditor from 2008 until the HP takeover.

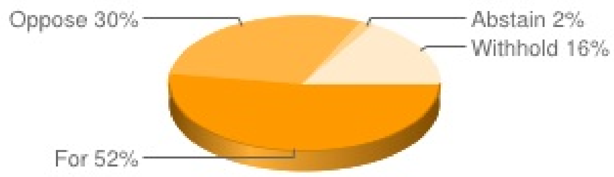
US Voting Charts

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	23
Oppose	13
Abstain	1
Withhold	7
Withdrawn	0
Total	44

Meetings	AGM	EGM	Total
Total Meetings	3	0	3
1 (or more) oppose or abstain vote	3	0	3

US Voting Record



US AGM Record

US EGM Record

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

US Voting Timetable Q4 2012

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

Voted Meetings

Table 7: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	CLOROX CO.	14 Nov 12	AGM	2012-11-01
2	MICROSOFT CORP.	28 Nov 12	AGM	2012-11-21

Not Voted Meetings

Table 8: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	ORACLE CORP.	07 Nov 12	AGM	Shares not held at record date.

US Upcoming Meetings Q1 2013

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

Table 9: Upcoming Meetings

	Company	Meeting Date	Type
1	VISA INC	30 Jan 13	AGM
2	ACCENTURE PLC	06 Feb 13	AGM
3	WALT DISNEY CO.	01 Mar 13	AGM
4	APPLIED MATERIALS INC	01 Mar 13	AGM
5	TE CONNECTIVITY LTD	01 Mar 13	AGM

Japanese Reporting Timetable Q4 2012

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

Reported Meetings

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

Japanese Upcoming Meetings Q1 2013

There are no upcoming meetings for this region.

Global Corporate Governance Review

Unions launch global vote probe

The Global Unions Committee on Workers' Capital (CWC) has launched its Global Proxy Review 2012 - a report and website that encourages investors to take an active role in proxy voting oversight for global equity portfolios.

With a report and a new interactive website the Global Proxy Review gives pension fund trustees and other investors an overview of shareholder votes at companies likely to be held in global equity portfolios. This information can be used to hold fund managers and proxy voting services accountable for the votes cast on behalf of pensioners and investors.

The 2012 report includes 38 votes from eight different countries on environmental, social and governance (ESG) issues of particular importance to the labour movement. This year's votes are from Australia, Canada, the Netherlands, South Africa, Spain, Switzerland, the United Kingdom and the United States of America. They include votes at significant companies in over 20 sectors including: NewsCorporation, Enbridge, TNT Express, AngloAmerican, Banco Santander, Transocean, Barclay's and JP Morgan Chase. More than a third of the votes selected for the Review were 'say-on-pay' resolutions. The votes also include significant social issues, such as risks associated with aboriginal opposition to a major oil pipeline, and issues such as board governance and shareholder rights.

Launched last year with a pilot report, the Global Proxy Review has expanded this year to include two new countries and an interactive website where users can search key votes. The project is a collaboration between the CWC and labour and responsible investment advocates from across the globe. Partners include: Australian Council of Super Investors; Shareholder Association for Research and Education (Canada); Eumedion (Netherlands); Community Growth Fund and Labour Research Service (South Africa); the Confederación Sindical de Comisiones Obreras (Spain); ETHOS Foundation (Switzerland); Trades Union Congress and Pensions Investment Research Consultants (UK); and the American Federation of Labour and Congress of Industrial Organizations (US).

Hedge fund plays at being pirates

Elliott Capital seized a ship belonging to the Argentine Navy in October, as part of its attempt to recoup losses on bonds on which Argentina defaulted in 2001.

The ship, ARA Libertad, was seized in Ghana following a decision by a Ghanaian court. According to the FT, Elliot had been following the ARA Libertad closely and waiting for it to stop in a port where previous legal judgments could be enforced. Elliott is one of a number of investors holding out for full recovery of losses on Argentine bonds.

Interestingly, Elliott is also a major shareholder in one of the UK's transport companies. It holds almost 20% of National Express and, as we've reported previously, appears to have failed to back the company's chair John Devaney at this year's AGM. At the previous year's AGM it had proposed three new candidates for the board, as part of an apparent push to shake up the company's strategy.

Despite this hands-on role in one of the UK's leading transport companies, it states that it does not seek to comply with the Stewardship Code. A brief statement on its website announced that Elliott "does not consider it appropriate to commit to any particular voluntary code of practice". So that's that. Despite owning about a fifth of the company's shares, which enables it (as it has done already) to file shareholder resolutions, or call an EGM, the firm can simply choose to not comply with the Code. Still, no-one ever expected pirates to adhere to a code of best practice!

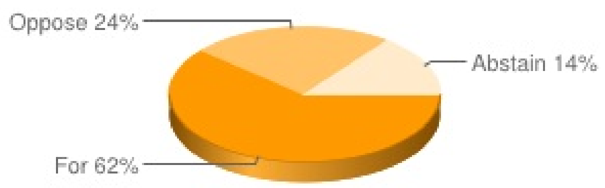
Global Voting Charts

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.

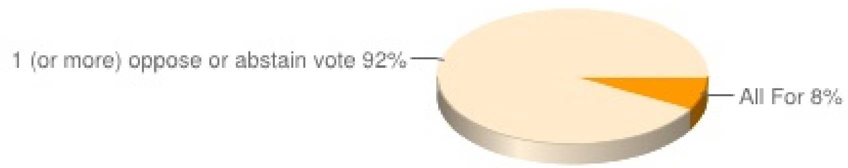
Total Resolutions	
For	44
Oppose	17
Abstain	10
Withdrawn	0
Total	71

Meetings	AGM	EGM	Total
Total Meetings	12	1	13
1 (or more) oppose or abstain vote	11	1	12

Global Voting Record



Global AGM Record



Global EGM Record

Global Voting Timetable Q4 2012

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

Voted Meetings

Table 10: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	COCHLEAR LTD	16 Oct 12	AGM	2012-10-05
2	TELSTRA CORP LTD	16 Oct 12	AGM	2012-10-08
3	CSL LTD	17 Oct 12	AGM	2012-10-05
4	TATTS GROUP LTD	24 Oct 12	AGM	2012-10-15
5	CARSALES.COM LTD	26 Oct 12	AGM	2012-10-17
6	COMMONWEALTH BANK AUSTRALIA	30 Oct 12	AGM	2012-10-19
7	WESFARMERS LTD	14 Nov 12	AGM	2012-11-01
8	WOOLWORTHS LTD	22 Nov 12	**EGM**	2012-11-12
9	WOOLWORTHS LTD	22 Nov 12	AGM	2012-11-12
10	SONIC HEALTHCARE LTD	22 Nov 12	AGM	2012-11-13
11	INCITEC PIVOT LTD	18 Dec 12	AGM	2012-12-10
12	ANZ-AUSTRALIA & NEW ZEALD BK	19 Dec 12	AGM	2012-12-10
13	MINDRAY MEDICAL INTL	28 Dec 12	AGM	2012-12-18

Global Upcoming Meetings Q1 2013

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

Table 11: Upcoming Meetings

	Company	Meeting Date	Type
1	METRO INC -CL A	29 Jan 13	AGM
2	PETROBRAS-PETROLEO BRASILIER	01 Mar 13	AGM
3	ORION CORP	01 Mar 13	AGM

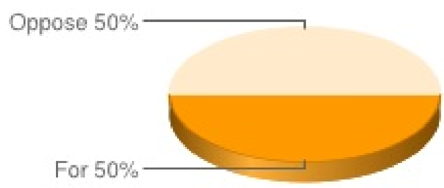
Asian Voting Charts

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	7
Oppose	7
Abstain	0
Withdrawn	0
Total	14

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

Asian Voting Record



Asian AGM Record

Asian EGM Record

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

Asian Voting Timetable Q4 2012

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

Voted Meetings

Table 12: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	SINGAPORE PRESS HOLDINGS LTD	30 Nov 12	AGM	2012-11-15

Asian Upcoming Meetings Q1 2013

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

Table 13: Upcoming Meetings

	Company	Meeting Date	Type
1	SAMSUNG ELECTRONICS CO LTD	01 Mar 13	AGM

PIRC Summary Report Appendices

UK

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

European

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

US

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

Global

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

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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