

**Monitoring Review of Shareholder Voting 2014/15
Oxfordshire Pension Fund**

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the first year for which Manifest has undertaken a thematic review of the shareholder voting of the Oxfordshire Pension Fund, putting Oxfordshire's fund manager voting behaviour into a comparative and wider context. The aim of the report is to provide further understanding of:

- voting activity taken on behalf of the Fund;
- wider voting issues;
- governance standards at companies; and
- how the Fund's investment managers use voting rights.

As an on-going annual report, the report assesses progress in terms of the governance standards at investee companies versus best practice, as well as the use of share voting by Oxfordshire's appointed fund managers as a part of their engagement with companies.

Importantly, this report looks at the full picture of how Oxfordshire's fund managers are making use of the Fund's voting rights and will therefore enable Oxfordshire to better understand and challenge fund managers about the role their voting activity plays in ownership strategy. The report enables Oxfordshire to fulfil the objectives of the Stewardship Code in constructively challenging external fund managers in their stewardship activities.

1.2 Voting in Context

Oxfordshire's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require managers to follow a specific policy. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for best practice company behaviour. It is to be used as a flagging mechanism to identify potential risk.

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management. It should therefore be noted that investment managers may be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity, even though the company currently falls short of the desired standard.

Vote monitoring is therefore about understanding investment risk management and oversight of stewardship activities, not enforcing compliance with a policy. It allows for a comparison of fund managers, general shareholder voting behaviour and fund expectations. But share voting is a useful bellweather for governance risk and how fund managers manage it, because of the provisions of specific research designed to assess corporate governance characteristics and the availability of information about fund manager voting, simultaneously and consistently.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st August 2014 to the 31st July 2015. It therefore represents a full years' voting.

Manifest analyses the issues at hand to provide 'Voting Guidance' for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a Voting Template framed upon corporate governance best practice policy developed by Manifest for Oxfordshire. This frame of reference can be amended or modified on a customised basis at any time.

Members should consider the Voting Template as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of being voting instructions for fund managers to follow. The report should not therefore be used as a benchmark target for Oxfordshire's managers, but as a frame of reference for better understanding how the fund managers use voting rights in the context of their investment priorities.

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Therefore, for the purposes of this report, Members should bear in mind that it is more significant that the Voting Template identifies an issue of concern (i.e. suggests there may be a reason to not support management or requiring further fund manager review) in relation to a resolution, than the voting action suggested by the template (i.e. an 'Abstain', 'Against' or 'Case by Case' consideration). It is in this light that we have analysed and compared fund manager voting against issues of potential concern, with the emphasis on 'potential'. The report also analyses some of the specific governance issues which have been identified by Manifest's implementation of the voting policy during the monitoring period, to ascertain some notable patterns of the fund policy and external fund managers voting practice.

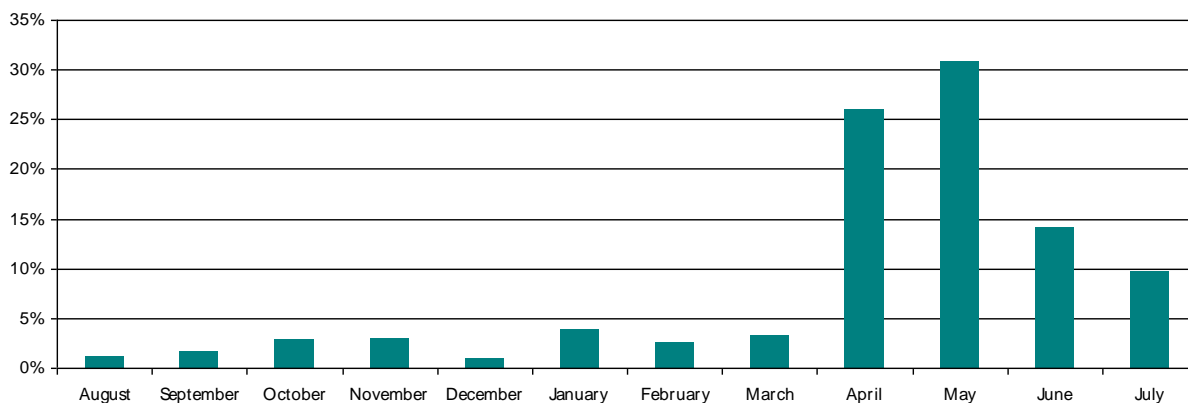
1.4 Peak workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, and many others using the traditional April to March financial year, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years. This means the majority of company meetings are concentrated in the period between April-June (Quarter 2). Because of this concentration Quarter 2 is commonly referred to as 'peak season' and those outside this seasonal concentration "off-peak season".

Figure 1: Percentage of Total Annual Resolutions Voted Per Month below shows the percentage of total annual resolutions voted by Oxfordshire's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year, with 56.9% of the voting occurring during those two months, and a further 23.8% during June and July.

Asset owners like the Oxfordshire Pension Fund should be aware that such a high concentration of work in an area which has become more of a compliance burden in recent years inevitably leads to the commoditisation of voting decisions and especially the likelihood of outsourcing voting decision-making responsibility to outside consultants. This dynamic remains the focus of regulatory scrutiny in the UK, France, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions. A key question for asset owners should therefore be to consider whether their fund managers adequately resource their voting decision-making processes internally.

Figure 1: Percentage of Total Annual Resolutions Voted Per Month



1.5 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2015/16.

2 Executive Summary

Section 3 (“Explanation of Voting Activity & Monitoring Approach”) explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It also sets out the number of meetings voted by Oxfordshire’s fund managers in the review period, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America) for the period of 1st August 2014 to the 31st July 2015. The research brought a total of 290 meetings, comprising a total of 5,638 resolutions. Taking into account occurrences of more than one fund manager voting at the same meeting and on the same resolution, a total of 5,701 resolution analyses were undertaken over 340 shareholder meetings. Of these:

- 2,099 were voted by L&G Investment Management, representing the largest proportion of the report data;
- 1,390 were voted by Wellington;
- 1,135 were voted by UBS;
- 1,077 were voted by Baillie Gifford;
- 1,024 were resolutions where the Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 981; and
- In total 155 resolutions were voted against management recommendation.

Whilst the number of resolutions where funds managers supported management despite potential concerns being identified seems relatively high, this is ultimately evidence to support the significance of the word ‘potential’. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights, or where a concern is not deemed material enough by the fund manager to warrant opposing management’s proposal on the issue. Conversely, the report also identifies instances where investors have opposed management even where no governance concerns were highlighted, which suggests an organic, active use of voting rights to enhance the wider ownership process.

Section 4 (“Common Policy Issues at Investee Companies”) examines the range of governance issues and considerations which lie behind the resolutions on which Oxfordshire’s fund managers were asked to vote, and detailing those which Manifest identified most frequently among the companies at whose meetings the fund managers voted.

Many of these instances will have seen portfolio companies provide explanations for non-compliance, following the “comply-or-explain” regime. These explanations may in some cases be accepted by shareholders, although some shareholders may have ‘red lines’ on certain governance matters. These concerns are the substantive issues and the prevalence of these issues is not synonymous with fund managers voting records due to different tactical approaches, for example issues may be raised during engagements which are not reflected in voting.

Board balance issues are the most frequently identified concerns, partly because they are the substantial issues of the most frequently voted resolutions. The most common specific best practice governance criteria against which Manifest found Oxfordshire’s portfolio companies to fall short were:

- Board and Committee independence;
- No Nomination Committee;
- Roles of Chairman and Chief Executive are combined;
- Authority to make political donations;
- Authority to issue share without pre-emption rights exceeded best practice threshold;
- Lack of gender diversity targets;
- No independent verification of the Company’s ESG reporting; and
- No meetings held by the non-executive directors without the executives present.

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These are the substantial issues on which investor attention should focus, rather than whether specific resolutions were opposed or otherwise. In general terms this research has in the past suggested that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may come and go in line with contemporary concerns and developments.

In the case of board considerations, this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far and away the most numerous resolution type). It should be noted that there may be multiple concerns highlighted in terms of board structure on director elections and that generally there are therefore much fewer actual resolutions to vote on than identified concerns.

The next step of the analysis is to study patterns of voting behaviour, both those of Oxfordshire's fund managers as well as shareholders in general (Section 5 "Aggregate Voting Behaviour"). We also examine which types of resolution have been the most contentious (Section 6 "Voting Behaviour by Resolution Category").

Overall, Oxfordshire's managers during the review period were marginally less active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent¹ stood at 3.49% on average, Oxfordshire's fund managers opposed management on 2.72% of resolutions. In terms of individual fund manager voting behaviour, UBS and Baillie Gifford voted with management slightly less than shareholders in general. L&G Investment Management and Wellington voted with management more than shareholders in general.

A summary of the major developments and debates (primarily in the UK) in corporate governance and voting follows in the Hot Governance Topics, featuring amendments to the UK Corporate Governance Code, impact of the new Directors' Remuneration Report Regulations in the UK one year on, changes to the UK Pre-Emption Group Guidelines, progress on the EU Shareholders Rights Directive Part II, the enactment of the EU Transparency Directive, a fund manager monitoring initiative and the enactment of the UK Modern Slavery Act.

¹ **What is General Shareholder Dissent?** Where Manifest uses the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and 'For' plus 'Abstain' votes where management recommended 'Against'). Where there was no clear recommendation from company management, we have not counted any votes cast on those resolutions as dissent. We calculate the average dissent figure by aggregating all the voting results (expressed in terms of % of votes cast 'For') on all resolutions, then dividing the aggregate figure by the number of resolutions. In most cases, this gives an accurate statistical indication of the dissent that a typical resolution type attracts, relative to others.

3 Explanation of Voting Activity & Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Oxfordshire's fund managers in the monitoring period, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Share voting is a significant ownership right at the disposal of shareholders. Should an investor use its governance preferences as a means of purely selecting companies in which to invest, the choice would be between compromising the investible universe of companies (not a choice which sits comfortably alongside the fiduciary obligation to maximise returns on investment – some risk has to be taken on in order to obtain RoI), or compromising the values of the investor

Like investment decisions, the consideration of shareholder voting decisions often takes into account multiple questions, including company disclosures, company practices, shareholder preferences and wider engagement strategy undertaken by fund managers.

This is especially true on the report and accounts resolution. A vote against a particular resolution such as the report and accounts may be explained by any number of various potential factors.

Use of voting rights is therefore a means of mitigating those elements of risk which are not deemed too great to justify disinvestment but which, if addressed, could represent either a lower rate of risk on the investment (by encouraging better standards of corporate governance) or an increase in the capital value of the company (an indirect result of a company attaining a better reputation for corporate governance, thereby making it a more desirable investment).

It is therefore reasonable to withhold support from management without appearing inconsistent with the investment decision to hold the company's stock. This may mean that, despite the presence of some potentially significant issues, investors may agree to support management in the short term with their votes as part of an engagement process for addressing longer term concerns.

This report will analyse voting resolutions and look at the Fund's investment managers' approach to voting in more detail in a subsequent section of the report.

Meeting Types

Manifest's experience is that companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings (AGMs), at which there is legally defined, mandatory business (Meeting Business) which must be put to the shareholders. These items will vary from market to market and are a function of local company law.

Mandatory business typically includes:

- Receiving of the annual report and accounts;
- Director (re)elections;
- Director remuneration;
- Approval of annual dividend; and
- Reappointment and remuneration of auditors.

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Readers should note that what counts as mandatory business varies between jurisdictions. For example, the discharge of Board members from liabilities for their acts or omissions in the past financial year is a regular item on the agenda of AGMs of German companies but is not a feature of UK AGMs. Likewise, the UK is fairly unusual in having a routine resolution to seek shareholder permission for the right to hold non-AGMs at 14 days' notice, instead of the requisite 21 days which normally otherwise applies for shareholder meetings across the EU.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (for example in the UK this is usually one third of current Issued Share Capital, along with an accompanying request for the dis-application of pre-emption rights. Across different markets the capital authorities required vary somewhat in their application and number. American and Canadian incorporated companies are not normally required to seek shareholder approval for authorisations to issue shares or to dis-apply pre-emption rights on the issue of shares. Provided a company's authorised capital includes sufficient headroom, management may issue shares subject only to certain limitations set out in the stock exchange listing rules.

Although varying by market, resolutions of this authority contribute towards AGMs having a significantly larger number of resolutions on average than other types of meetings.

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, the overwhelming majority of portfolio company meetings were AGMs, with only three other meeting types being an Extraordinary Meeting, a Court Meeting and General Meetings. Recently, UK and European companies in particular have begun to change the legal terminology for non-annual General Meetings. As a consequence, some meetings could be reported as an EGM or Extraordinary General Meeting, whilst other meetings identical in nature could be reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting ('SGM') is what some companies might use to refer to an EGM, where a Special Resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout).

Other types of meetings include Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management, and Class Meetings where only shareholders of a specified class of share may vote.

During the period under review, of the 290 meetings in the monitoring sample Oxfordshire Fund Managers voted at, 85.89% were AGMs, with the majority of the rest constituting GMs 7.24% and EGMs 4.48%. The remaining were Special Meetings 1.03%, Court Meetings 1.03% and Class Meetings 0.34%.

This is broken down per manager as follows. The total number of meetings voted by managers (340) exceeds the unique total number voted at for the fund (290) because of instances where more than one fund manager voted at the same meeting, additionally a number of companies held more than one meeting during the review period:

Table 1: Meeting types by fund manager

FUND MANAGER	COMPANIES	AGM	GM	EGM	SGM	COURT	CLASS	GRAND TOTAL
Baillie Gifford	55	55	4	1	0	0	0	60
L&G Investment Management (Pooled Instrument)	99	97	18	1	0	2	0	118
UBS (Pooled Instrument)	67	65	2	4	1	0	1	73
Wellington	79	77	1	7	2	1	1	89
Total	254*	294	25	13	3	3	2	340

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

Although we would expect there to be a 1:1 ratio between the number of companies voted and the number of AGMs voted (on the basis that all companies should have an AGM during the year), the small differences are likely to be explained by portfolio turnover. For example, if a fund manager sells a position in a company in June whose AGM is normally in September, replacing it with stock in a company whose AGM was in March, the fund manager will have had positions in two companies but in neither case did they hold it at the point in the year when the AGM fell. Non-AGMs are still counted and therefore explain why the number of companies voted exceeds the number of AGMs voted. This is not as unlikely as it may seem – often when a company de-lists, a shareholder meeting is required, making it quite plausible that a company may have an EGM but no AGM during the year.

3.2 Monitoring Approach

Manifest deploys purpose-built Voting Template systems (Voting Template) to analyse and consider best practice governance expectations in the context of company meeting business (i.e. what can be voted at a shareholder meeting). Where there are local variations to best practice questions (for example, the length of time after which an independent director may no longer be deemed independent), Manifest applies the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the Voting Template will naturally suggest supporting the proposal.

Manifest monitors companies using this Voting Template in order to:

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

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

4 Common Policy Issues at Investee Companies

This section develops the themes identified in the previous chapter by examining the range of governance policy issues and considerations which lie behind the resolutions on which shareholders are asked to vote. The analysis then details those concerns from Oxfordshire's policy which Manifest identified most frequently among the companies Oxfordshire's fund managers have voted meetings for. This can be considered as a measure for companies' compliance with Oxfordshire's governance policy.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive management of the company and its owners. Without appropriate levels of independence, accountability, remuneration, experience and oversight, corporate governance would offer shareholders little protection from the risk that their investee company is badly managed.

Analysis of the Voting Template settings allows for an in-depth study of the specific governance issues which have been identified by Manifest's research and analysis process on behalf of Oxfordshire. We have selected the most common issues which have been triggered by the Voting Template, to illustrate the most common 'issues' with resolutions voted by the Oxfordshire fund managers according to Oxfordshire's Voting Template used by Manifest for monitoring fund manager voting.

The scope of Oxfordshire's voting policy is focussed upon a small number of important governance themes, to enable scrutiny of a manageable number of issues. These themes include Audit & Reporting; Board; Remuneration; and Sustainability. Each theme has a number of specific questions associated with it (e.g. on a Director Election resolution (Board), "Where the nominee is non-executive and not independent and the percentage of independent directors is insufficient"). It is these specific questions whose frequency this section of the report examines.

The high proportion of resolutions to do with the Board (52.9%) is singularly explained by the fact that director elections are frequently, indeed preferably, conducted on an individual basis (i.e. one resolution per director), and more often than not form a part of the common or mandatory business for an AGM every year. Outside of the United States, few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

There were 1,024 resolution analyses where one or more concerns were identified by Manifest from Oxfordshire's Voting Template.

In future year's analysis of the relative positions of each of the most common concerns identified within the list between this year and future years will be undertaken.

Table 2: Most Common Policy Issues

TABLE POSITION	DESCRIPTION	RESOLUTIONS APPLIED TO
1	Nominee is a non-independent member of the Remuneration Committee and the percentage of the Remuneration Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Non-executive Director Elections
2	A Nomination Committee does not exist (or its membership is not disclosed)	Non-executive Director Elections
3	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Non-executive Director Elections
4	Nominee is a non-independent member of the Nomination Committee and the percentage of the Nomination Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Non-executive Director Elections
5	The roles of Chairman and CEO are combined	Non-executive Director Elections
6	An authority for political donations and expenditures is being sought	Authorise Political Donations & Expenditure
7	The authority sought exceeds 5-15% of the issued share capital (depending on the local market provisions)	Authorise Share Issue without Pre-Emption Rights
8	There are no meetings held by the non-executives without the executives present	Non-executive Director Elections
9	The Company has not disclosed a gender diversity target	Non-executive Director Elections
10	There is no independent verification of the Company's ESG reporting	Report & Accounts
11	The individual's number of other current directorships at listed companies (Chairman role counts as 2) exceeds one in the case of an executive nominee and five in the case of a non-executive nominee	All Director Elections
12	Nominee is non-executive and not independent and the percentage of independent directors on the Board comprises less than 33-66% (depending on the local market provisions)	Non-executive Director Elections
13	The number of Board and committee meetings in the year the nominee attended is less than 75%	Non-executive Director Elections

Overall, Manifest flagged 1,439 policy issues across the 5,701 resolution analyses undertaken for this report. This includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution. Some resolutions were subject to multiple issues. Because of this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the operation of best practice governance analysis

Readers should note that the Manifest voting guidance system allows for an individual governance issue to be applied to multiple resolutions. This is because, for the most part, there is not a one to one match between a policy issue and a specific resolution. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – board resolutions, and specifically, director elections.

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted). Manifest reflects board accountability in its research by placing the analysis of the relevant board committee in the context of analysis of the governance matters for which they are responsible.

4.2 Conclusions on common policy issues

Taken as a whole, this analysis shows just how many different considerations there are that go into assessing the governance of a typical company.

Although the volume (in absolute terms) of the most common governance concerns Manifest identifies is heavily affected by the high number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board-related considerations (director election).

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The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account. 10 of the top 13 concerns relate to director elections, of which the majority relate to independence issues and the effect that has on the functioning of the board and its committees. Of the top 13, the only exceptions to this are the questions of independent verification of Environmental, Social and Governance (ESG) reporting and authorities sought for political expenditure and share issues without pre-emption rights.

4.3 Audit & Reporting

Annual report resolutions are frequently those on which concerns about general board structures and practices may be concentrated, in addition to issues relating to the verification and reporting of information.

4.3.1 Audit committee independence

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

It is a consideration for the approval of financial and non-financial reporting, because it relates to judging the independence of the audit process which underpins company reporting and therefore has been flagged on Report & Accounts resolutions.

4.3.2 No independent verification of ESG reporting

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

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

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

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

4.3.4 The roles of Chairman and Chief Executive Officer are combined

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

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

4.4 Board

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 52.9% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Nomination Committee Independence

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

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Globally it is acknowledged that the Nomination Committee should consist of at least a majority of independent directors. Independence and objectivity of input are the best conditions for the nomination of suitably independent and diverse candidates for future board positions.

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

Where an individual is partly or solely the reason why a committee is not deemed sufficiently independent, the re-election of that individual to the board may be called into question.

The committee independence criterion may vary across markets and company size.

4.4.3 A nomination committee does not exist (or its membership is not disclosed).

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

4.4.4 Percentage of female directors on the board

Manifest tracks the issue of female representation on the board as a part of the wider debate on board diversity.

Whilst the issue of female directors on the board may not be a critical risk consideration on its own, the fact that director independence in general is so frequently flagged might point to a wider problem with adequate application of diversity considerations when making board appointments, of which female presence on the board is perhaps the most obvious measure. It is recognized that Boards perform best with the best people appointed to them, and for that reason; diversity of all kinds (including gender) should be encouraged.

To put this issue in to context it has been recognised by the Davies Review on women on boards that there are now more women on the boards of the top listed UK companies than ever before, with representation of women more than doubling since 2011 - now at 26.1% on FTSE100 boards and 19.6% on FTSE250 boards. The report also found that there has been a dramatic reduction in the number of all-male boards; there were 152 in 2011 whereas there are now none in the FTSE100 and only 15 in the FTSE250.

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

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

4.5 Capital

4.5.1 The authority sought exceeds 5% of issued share capital

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

4.6 Sustainability

4.6.1 Political donations

Under European jurisdictions, companies are required to seek approval for so-called political donations. These resolutions are not specifically for party political donations as the EU include expenditure towards the realisation of political aims such as political lobbying, trade association memberships etc.

4.6.2 An authority for political donations and expenditures is being sought

Whilst it may seem arbitrary to set an absolute figure on such a resolution, this is actually in line with investor preferences in the sense that it would not seem appropriate for shareholders to approve a figure expressed relative to company size or turnover as that would imply that political donations are an acceptable routine aspect of corporate life. Secondly, given that laws relating to disclosures require absolute amounts to be disclosed, an absolute limit is also a more transparent means of applying a preference.

4.7 Corporate Actions

The Corporate Actions category covers a narrow and specific set of considerations. As a result, none of the governance concerns typically associated with this category featured in our analysis of the most common concerns identified by the policy, simply because the issues to which they relate don't come up on a typical corporate agenda very regularly.

4.8 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to proposals which affect the ability of shareholders to exercise some element of their rights (usually in a negative way by reducing ownership rights). It is therefore still a relatively rare resolution type to occur. They encompass not only rules about shareholder voting, but also things such as the ability of a shareholder (or shareholders) to requisition a meeting or a resolution at a meeting, the way in which a shareholder meeting is conducted and (perhaps most significantly) shareholder rights in the event of a (hostile) takeover situation.

5 Aggregate Voting Behaviour

Having discussed above the general themes of the most frequent contentious issues in each resolution category, the next step is to consider how Oxfordshire’s fund managers voted. This section sets out and compares how Oxfordshire’s fund managers voted, as compared to general shareholder voting patterns (as shown by the meeting results data collected by Manifest as a part of the monitoring service), in the context of different categories of resolution.

5.1 Fund Manager Voting Comparison

Table 3 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice Voting Template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In certain jurisdictions, provision of such information by companies is not guaranteed. However, of the 5,701 resolutions analysed in this report, Manifest obtained poll data for 5,117 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 3: Overall Voting Patterns

FUND	RESOLUTIONS VOTED	OXFORDSHIRE MANAGERS SUPPORTED MANAGEMENT	GENERAL SHAREHOLDERS SUPPORTED MANAGEMENT	TEMPLATE FOR MANAGEMENT
Baillie Gifford	1,077	96.01%	97.56%	84.87%
L&G Investment Management	2,099	99.19%	97.10%	86.52%
UBS	1,135	94.27%	95.94%	72.49%
Wellington	1,390	97.83%	94.85%	72.98%
Total	5,701	97.28%	96.51%	80.12%

Calculations exclude seven resolutions where management provided no recommendation (one in the UBS portfolio and six in the Wellington portfolio) as it cannot be discerned whether a fund voted for or against management.

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

Using the “Template For Management” data as a proxy for compliance with corporate governance best practice expectations, the companies in the L&G and Baillie Gifford portfolios display a comparatively higher level of compliance with governance best practice than those of UBS and Wellington. This is also reflected in the general shareholder support levels – with Baillie Gifford and L&G portfolios with a higher average support than the UBS and Wellington portfolios.

This in part reflects the mandates, and therefore the composition of the portfolios, of the fund managers. L&G’s mandate is for FTSE 100 companies and Baillie Gifford for UK equities whereas the UBS and Wellington mandates are for global equities and are therefore exposed to a much higher potential variance of general governance standards creating lower levels of convergence with the voting policy template.

We can compare each fund manager’s overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the voting results data (where made available by companies)). Table 3 shows that Oxfordshire’s fund managers supported management slightly more, by 0.77%, than shareholders in general. However, there are some variances between the respective fund managers.

L&G have supported management more than most shareholders, supporting management practically all the time. Conversely, Baillie Gifford supported management slightly less than shareholders in general – this is notable given that both L&G and Baillie Gifford’s portfolios are limited to the UK. The difference in voting patterns could be explained by the differences in mandates - L&G’s portfolio is composed of FTSE 100 companies while Baillie Gifford’s portfolio is composed of UK equities meaning the governance standards may be more varied in the Baillie Gifford portfolio.

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UBS have supported management to a lesser degree than Baillie Gifford, L&G and Wellington. When compared against L&G and Wellington the differences are again partly explained by the fund manager mandates. L&G and Baillie Gifford's mandates have the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with when situated in a global context. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends the funds to being in a position to continue to support management even where technical concerns may appear to persist.

The Wellington and UBS portfolios track global equities and therefore are subject to a much higher potential variance of general governance standards especially coming from a UK context and considering it is harder to engage global companies from a practical level, voting rights often become more important.. This is demonstrated by taking the "Template For Management" measure as a proxy, the degree which portfolio companies display potential issues of concern is broadly comparable between the two and greater than the L&G and Baillie Gifford's portfolios.

Therefore, it could be considered surprising that despite the lower level of compliance with the corporate governance standards of the Voting Template and the lowest level of general shareholder support, Wellington, while voting against management to a higher degree than L&G, have supported management to a higher degree than Baillie Gifford and to shareholders in general.

At an aggregate level it is difficult to make thematic observations about why Wellington are more likely to support management, other than to say that their use of negative voting appears to play a smaller part of the investment process with companies than for the other fund managers. There could be a number of reasons for this including, for example, engagement strategy or even resourcing, as it could be taken as a measure of shareholder advocacy per se.

Whilst simultaneously, at an aggregate level it is difficult to make thematic observations about why Baillie Gifford and UBS have supported management less than shareholders in general, other than to say that it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

6 Voting Behaviour by Resolution Category

Table 4 and Table 5 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

Using the vote outcome data collected in respect of the significant majority of meetings at which Oxfordshire fund managers have voted, we have combined the meeting results with our classification of meeting business, so as to identify which were the most contentious resolutions and the reasons for them being contentious.

6.1.1 What is “Dissent”?

Where Manifest uses the term ‘Dissent’, this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast (‘Against’ plus ‘Abstain’ votes where Management recommended a ‘For’ vote and ‘For’ plus ‘Abstain’ votes where Management recommended ‘Against’).

Where there was no clear recommendation from company management, we have not counted any votes cast on those resolutions as dissent.

In respect of shareholder proposed resolutions, dissent is measured by taking into account votes cast differently to the management recommendation (which may most commonly have been “Against”).

Table 4: General Dissent By Resolution Category

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	AVERAGE DISSENT
Board	3,015	2,755	2.35%
Capital	997	811	2.76%
Audit & Reporting	673	630	1.56%
Remuneration	540	478	8.58%
Shareholder Rights	273	246	9.94%
Sustainability	136	133	9.98%
Corporate Actions	58	40	3.40%
Other	9	5	13.86%
Grand Total	5,701	5,117	3.49%

* “Average Dissent” calculated from general shareholder voting results where available.

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

Oxfordshire’s fund managers in 2014-15 were, on average, slightly less active in expressing concerns through votes at shareholder meetings, voting against management on 155 occasions out of 5,701 resolutions, constituting an overall average opposition level of 2.72%. This represents an approval rating of greater than 97% overall. Some more patterns within this are demonstrated and explored more fully below.

It was the remuneration related resolutions proved to be the most consistently contentious resolution categories, of those routinely and predominantly proposed by management. The following section analyses the above categories in more detail, by exploring patterns of opposition to the resolution sub-categories in each.

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6.1.2 Dissent on shareholder proposed resolutions

Table 5: Shareholder Proposed Resolutions

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	PROPORTION OF ALL SUCH RESOLUTIONS	AVERAGE DISSENT
Sustainability	43	33.82%	23.32%
Shareholder Rights	27	9.89%	33.01%
Board	26	0.86%	20.57%
Remuneration	21	3.89%	23.85%
Other	5	55.56%	13.86%
Capital	3	0.31%	-
Grand Total	125	2.19%	24.43%

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

In terms of Sustainability-related resolutions, the largest proportion (13 of the instances of shareholder proposed sustainability resolutions) were requesting disclosure of political donations, all in the US, where corporate political donations are a significant feature of the US system. Of the rest, nearly all were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, the majority of which were in the extractive industries sector.

The tied largest single proportion of the resolutions relating to aspects of Shareholder Rights pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this. These proposals proved relatively popular but management were not defeated in these cases.

Requests to amend company Bylaws so that shareholders may submit board nominations (proxy access) were also prominent – all of which were in the USA. Three of which were passed and in only one of these cases did management recommend a vote in favour - evidence of shareholder action producing a positive outcome and the improvement of shareholder rights at portfolio companies.

Regarding Board-related resolutions, Board Composition (11 of the instances of shareholder proposed resolutions) and Election Rules (10) both feature prominently. The most common themes among the Board Composition resolutions – as is the case with the proxy access proposals, all in the USA - were requests to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance.

The largest proportion of the remuneration related shareholder proposals again came in the US. A range of topics were covered with notable focus on clawback provisions and the vesting of share awards in the event of a change in control.

Oxfordshire's managers voted with Management on 84.17% of all shareholder proposed resolutions, with most support shown for shareholder proposals on sustainability reporting and board issues.

6.2 Board

Board related resolutions constitute nearly half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 6 below.

Table 6: Board Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL S/HOLDER VOTES WITH MGT
(Re-)Elect Directors	2,871	79.83%	98.47%	97.82%
Directors Discharge	70	98.57%	100.00%	98.32%
Board Committee	35	97.14%	100.00%	96.59%
Board Composition	11	0.00%	72.73%	74.26%
Other	11	72.73%	90.91%	95.12%
Election Rules	10	0.00%	80.00%	77.36%
Remove Directors	4	100.00%	100.00%	100.00%
Board Size & Structure	3	66.67%	100.00%	99.56%
Grand Total	3,015	79.90%	98.34%	97.65%

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* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The two largest differences between the proportion of resolutions where the template identified concerns and the proportion of votes against management involve Director Elections and "Other" (where in both cases fund managers supported management to a greater extent than the template found no issues of concern). In no cases did fund managers oppose management to a higher degree than the template itself.

In the case of the "Other" resolutions one of the 11 resolutions were voted in opposition to management by Oxfordshire's fund managers. This was a shareholder resolution voted on at General Electric Company's AGM by Wellington – Wellington voted in favour while management recommended a vote against. The proposal was to adopt a policy that they nominate one Director candidate who is a non-executive retiree. UBS also voted at the same meeting but their vote was in-line with the management recommendation.

Table 7: Fund Manager Voting on Director Elections

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	1,010	99.60%
Wellington	768	98.70%
UBS	575	95.65%
Baillie Gifford	518	99.03%
Grand Total	2,871	98.47%

Because of their number, Director Elections merit some comparative commentary of their own. Of these, only UBS opposed management on director elections more than shareholders in general (95.65% support, compared to 97.83% support across shareholders generally). Whilst L&G Investment Management account for roughly two thirds of all of the resolutions, they also boast the highest support rate - L&G voted inline with management on director elections in 99.60% of cases. Baillie Gifford (99.03%) and Wellington's (98.70%) support of management on director elections is also higher than shareholders in general but not by much.

Of those resolutions where the fund managers opposed management on Director Elections (44 resolutions – accounting for all but 6 Board related resolutions where management was opposed) the most frequent governance issues Manifest identified were:

Table 8: Board-related governance issues

ISSUE	INSTANCES
1 Audit Committee independence levels	11
2 Remuneration Committee independence level	6
3 No disclosure of Nomination Committee	5

Whilst Oxfordshire's policy does not drill down to specific independence criteria, it is clear that independence concerns lie behind the majority of the director elections where concerns were highlighted.

On many occasions, there were multiple concerns with each resolution, and it is likely that the quantum of governance concerns, rather than the substance of each individual concern per se, is what makes the fund managers more likely to register opposition to their re-election. For example, where an individual is not independent and they are the reason why the audit committee is not compliant with the corporate governance code.

The number of resolutions where management was opposed without the identification of governance concerns from Oxfordshire's policy (30 out of 50 instances where management was opposed) would suggest that fund managers can and occasionally do apply their own (investment) judgement on these issues.

6.3 Capital

Resolutions relating to the capital structure of a company frequently pertain to investment specific considerations. For that reason, governance best practice considerations are less frequently relevant, other than the extent to which proposals directly affect shareholders rights, where often the rules are well defined and relatively infrequently breached (such as the UK Pre-Emption Guidelines).

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Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business.

Furthermore, especially in the case of “income” stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed. Other means of returning capital to shareholders is through share buy-backs.

Table 9: Capital Resolutions Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Issue of Shares & Pre-emption Rights	574	87.80%	93.21%	95.30%
Share Buybacks & Return of Capital	196	84.69%	99.49%	99.17%
Dividends	184	97.28%	100.00%	99.53%
Treasury Shares	11	81.82%	90.91%	99.09%
Capital Structure	10	20.00%	100.00%	98.73%
Equity Fundraising	8	0.00%	100.00%	98.13%
Authorised Share Capital	7	33.33%	100.00%	99.51%
Bonds & Debt	7	0.00%	100.00%	97.08%
Grand Total	997	86.55%	95.88%	97.24%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available.

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

The two most frequent issues on capital related resolutions where there was a voting concern highlighted were as follows:

- 1 New share issue authority exceeds 5-50% of existing share capital (60)
- 2 Authority being sought is greater than 12-60 months (15)

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were the least contentious resolution category of all. However, because it includes resolutions which pertain to questions which are routine AGM meeting business in many countries (including the UK), it nevertheless merits some analysis. The resolution relating to Report and Accounts includes the consideration of the sustainability reporting a company makes to its shareholders.

Table 10: Audit & Reporting Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Auditor Election	272	90.44%	100.00%	97.95%
Report & Accounts	221	49.32%	97.74%	99.05%
Auditor Remuneration	154	100.00%	100.00%	98.64%
Appropriate Profits	19	94.74%	100.00%	97.64%
Other A&R related	4	100.00%	100.00%	98.82%
Auditor Independence	2	100.00%	100.00%	85.91%
Auditor Discharge	1	100.00%	100.00%	99.48%
Grand Total	673	79.35%	99.26%	98.44%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available.

139 resolutions had at least one concern highlighted. Some of the most common concerns that Manifest identified are indicated in the table below. The very high degree to which Oxfordshire’s fund managers have voted with management on resolutions of this type is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management with their votes – with the Reports & Accounts the only sub-category where fund managers opposed management. It also led to insufficient variance between fund managers’ voting records to merit further comment.

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Table 11: Common Concerns Identified on Audit & Reporting Resolutions

ISSUE	INSTANCES
1 No meetings held by the non-executives without the executives present	53
2 There is no independent verification of the Company's ESG reporting	44
3 No resolution to approve the dividend	13
4 Number of years since external board performance evaluation exceeds three years	13
5 The audit firm provides advice on executive remuneration	10

6.5 Remuneration

As noted above, Remuneration related resolutions are amongst the most contentious, attracting the highest average level of dissent of all of the resolution types routinely proposed by management.

Table 12: Remuneration Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT*
Remuneration Report	256	96.88%	93.36%	90.38%
Long Term Incentives	104	56.73%	96.15%	92.07%
Non-executive Remuneration	54	98.15%	100.00%	98.63%
Remuneration Policy**	50	100.00%	92.00%	94.72%
Remuneration – Other	24	54.17%	87.50%	89.68%
Total Aggregate Remuneration**	22	100.00%	90.91%	88.69%
All Employee Share Plans**	8	100.00%	100.00%	99.03%
Item Individual Remuneration**	6	100.00%	100.00%	97.36%
Policy – Contracts	6	66.67%	83.33%	87.61%
Total Individual Remuneration**	5	100.00%	100.00%	84.44%
Short Term Incentives**	4	100.00%	100.00%	98.88%
Item Aggregate Remuneration**	1	100.00%	100.00%	98.24%
Grand Total	540	87.59%	94.26%	91.42%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

** Items marked with a double asterisk are those which are not directly targeted by the policy template in place for Oxfordshire, hence why they appear to have received 100% template support.

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

The majority of the potential concerns tracked by Oxfordshire's policy relate to issues arising from reporting of remuneration practice (i.e. remuneration report votes), rather on the remuneration policy in place. This explains the disparity in the level of template support for Remuneration Policy votes compared with Remuneration Reports.

Also, readers will note that "Remuneration – Other" (including termination payments and provisions) have attracted a much higher level of opposition from Oxfordshire's managers, Termination payments and provisions are one of the most controversial aspects of remuneration considerations, along with resolutions dealing with individual remuneration.

Broken down by fund manager, the voting on remuneration resolutions does show some patterns.

Table 13: Fund Manager Voting On Remuneration Resolutions

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	173	94.80%
UBS	134	91.79%
Wellington	134	98.51%
Baillie Gifford	99	90.91%
Grand Total	540	94.26%

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The only fund manager to oppose management on remuneration issues more than shareholders in general was Baillie Gifford. By contrast, all the other fund managers oppose management on remuneration issues less than shareholders in general - especially Wellington. This could be explained by a relative paucity of disclosure with which to justify voting against management, in markets where disclosure is relatively poor by comparison with the UK. Additionally, where other governance concerns may be deemed more urgent, it is possible that remuneration resolutions may not be the main focus of concern when it comes to voting.

Table 14: Common Concerns On Remuneration Resolutions

CONCERN	INSTANCES
1 The minimum ranking required for vesting is less than median	14
2 Aggregate variable pay opportunity	10
3 No reference to performance when options vest in the event of a change in control	8
4 Long-term incentive pay opportunity	8
5 Dilution from discretionary schemes over a ten year period	5

Table 14 shows the most common concerns from Oxfordshire's policy template associated with remuneration-related resolutions over the year. Many of these issues have been prevalent on a consistent basis over time.

Manifest's Executive Remuneration Assessment Grade is a high level rating system which generates a numeric score (between 1 and 250) and an alphabetical grade from A-F. It is a wide-ranging analysis which encompasses all of the other remuneration concerns in Oxfordshire's policy template, examining issues such as linkage of incentives to company strategy, quantum, structure, performance measures and comparator groups, contracts, dilution and pensions and benefits. It is a reliable bell weather for general shareholder dissent, and a helpful indicator of the contentiousness (or otherwise) of the remuneration arrangements overall.

The quantum of bonus and long term incentive payments is possibly the most widely debated contentious issue in the corporate governance of public listed companies. A large proportion of companies were found to have a high proportion of incentive pay relative to salary - a possible indication of over-encouraging risk-taking.

The absence of performance conditions for the exercise of awards or options is also noteworthy, especially where the maximum potential pay is high. This may suggest an element of payment of high remunerative incentive pay without setting down sufficient substantive performance targets in order to obtain it. This means that not only is the remuneration structure suggesting the over-encouragement of risk-taking, investors are left in the dark as to what risks may be being over-encouraged.

A separate, binding forward-looking policy vote was introduced for UK companies for 2014, which had a bearing on how investors voted. This came into force in respect of AGMs applying to financial years starting on or after the 1st October 2013, thereby affecting the 2014 AGM season. The main challenge for all concerned was having the sufficient resources to manage the workload of increased engagement between companies and investors. This is a common concern expressed by institutional investors. This may be a matter of some concern for their clients, who see a potential combination of encouragement of risk-taking without adequate indication of what the risks are on the part of the issuers, combined with a possibility that such issues go unidentified by investment managers without adequate resources to investigate further.

6.6 Shareholder Rights

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

They are important because they essentially relate to the extent to which investors are able to mitigate themselves against the risk of third parties making decisions which affect their investment in the company.

Table 15: Shareholder Rights Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
General Meeting Procedures	143	95.07%	95.07%	89.97 %
Other Articles of Association	81	77.22%	97.47%	96.26%

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Meeting Formalities	24	91.67%	100.00%	98.92%
Shareholder Rights	20	5.26%	73.68%	65.58%
Takeover Governance	3	0.00%	33.33%	65.97%
Anti-takeover Provision	2	100.00%	50.00%	84.86%
Grand Total	273	82.16%	93.68%	90.06%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Frequently, many of the issues in this category are relatively straight forward and many of the resolutions where there is complexity it is down to the proposal being made by shareholders, therefore inevitably likely to introduce some question that is comparatively out of the ordinary.

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 days' notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it. Oxfordshire's fund managers have voted "For" management to a much greater extent than shareholders in general simply because foreign shareholders are more frequently opposing 14 day notice period permissions, simply because their voting mechanisms are not efficient enough to be able to vote a meeting called a less than 21 days' notice.

Although there were only a small number of such resolutions (Takeover Governance and Anti-Takeover Provisions), it is clear that Oxfordshire's fund managers rarely approve anti-takeover provisions. Such provisions usually have the effect of limiting the rights of shareholders to determine whether a potential takeover offer is to be accepted (i.e. they have the effect of enabling company management to implement various measures to frustrate potential takeovers without consulting shareholders).

6.7 Corporate Actions

Whilst far less numerous, some statistical significance can be attributed to some of the Resolution Sub-Categories pertaining to Corporate Actions, which can be put to effect to explore why they number among the most contentious resolution sub-categories for Oxfordshire's fund managers.

Table 16: Corporate Actions Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Significant Transactions	29	89.66%	93.10%	96.28%
Related Party Transactions	13	76.92%	100.00%	98.67%
Transactions - Other	10	60.00%	100.00%	94.93%
Other Corporate Action	4	100.00%	100.00%	97.02%
Change of Name	2	100.00%	100.00%	99.85%
Grand Total	58	82.76%	96.55%	96.60%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The majority of Corporate Actions considerations are often investment or company-specific, such as related party transactions, schemes of arrangement, disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions or perspectives in this context becomes decidedly subjective, as do comparisons of fund manager voting with management recommendations.

What can be observed is that Oxfordshire's fund managers are consistently much more likely to oppose approvals of significant transactions (including acquisitions, disposals, mergers and takeovers). This is because related party and especially significant transactions may well entail significant potential conflicts of interest.

6.8 Sustainability

With the exception of political activity, charitable engagement and sustainability reports, once again virtually all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, meaningful routine categorisation of these issues is very challenging, because the specific content of a proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

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It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself.

Table 17: Sustainability Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Political Activity	104	5.77%	96.15%	92.80%
Other ESG	12	0.00%	83.33%	74.82%
Environmental Practices	9	55.56%	100.00%	88.39%
Ethical Business Practices	5	0.00%	75.00%	78.85%
Sustainability Report	3	33.33%	100.00%	75.42%
Human Rights & Equality	2	0.00%	100.00%	90.13%
Animal Welfare	1	0.00%	0.00%	73.96%
Grand Total	136	8.82%	94.07%	90.02%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Under European jurisdictions, companies are required to seek approval for "political donations", which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying. Oxfordshire's fund managers opposed only two of the resolutions seeking authorisation to make political donations – these were filed at Legal & General and Michael Page International. The fund managers also opposed management when the management recommendation was to vote against a shareholder proposal to request the Board to prepare a report to shareholders on lobbying at Alphabet and Wells Fargo & Co. The gap between Oxfordshire's template and fund manager voting behaviour is wider on this issue than any other.

7 Aggregate Analyses

Manifest has also assessed the aggregate voting patterns undertaken by the fund managers, the additional meetings to those considered in the detailed analysis pertain meetings in emerging or developing markets (including Far Eastern and African markets). Aggregate analysis does not drill down to identifying governance concerns on individual resolutions, but does look at the aggregate patterns of voting decisions taken by the fund managers. This is largely due to the fact the disclosure practices in these markets is traditionally not as high as we are used to in Europe and the US in particular, thereby hindering the statistical reliability of detailed analysis.

7.1 Baillie Gifford

Table 18: Baillie Gifford Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Channel Islands, IoM	15	100%
Luxembourg	34	N/A
United Kingdom	1167	95.97%
United States	3	100%
Grand Total	1,219 (1,185)	96.03%

Table 18 above shows the number of votable resolutions in each market voted by Baillie Gifford, as well as their average support of management on each. It shows a very similar level of support for management detailed in [Section 5](#), 96.03% compared to 96.01%, which might not be a surprise given the large exposure to UK based companies Baillie Gifford were voting at. Due to the low count of resolutions outside of the United Kingdom meaningful analysis is not available for Baillie Gifford's voting outside of the UK.

Readers should note that for Baillie Gifford did not vote at the sole meeting in Luxembourg– all 34 resolutions in question related to amendments to articles and thus belonged to the Shareholder Rights category.

Table 19: Baillie Gifford Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	179	100%
Board	562	99.11%
Capital	251	88.05%
Corporate Actions	6	66.67%
Remuneration	106	90.57%
Shareholder Rights	86 (52)	100%
Sustainability	29	100%
Grand Total	1,219 (1,185)	96.03%

What is interesting is the breakdown of the average support of management by resolution category compared to that in [Section 6](#). Baillie Gifford have supported management to a lesser degree on Capital and Corporate Actions, in the case of Capital resolutions by 7.83% and Corporate Actions by 29.88% - although readers should note that due to the low number of resolutions within the latter Corporate Actions category a smaller number of contrary votes will have a higher contribution to the dissent figure. Within the Capital category Baillie Gifford voted against resolutions pertaining to share issue authorities where the authority sought was deemed to not be in-line with Baillie's view on best practice.

Baillie also voted against more remuneration related resolutions than fund managers did as detailed in [Section 6](#). This is also demonstrated in Table 13 showing that Baillie take an active stance on voting on remuneration issues – this is within the context of the UK generally having better remuneration practices when situated in a global context.

Baillie Gifford supported all resolutions pertaining to the categories of Audit & Reporting, Shareholder Rights and Sustainability – within a UK context such resolutions are often considered routine – and supported Board resolutions to a slightly higher degree than that seen in [Section 6](#).

7.2 UBS

Table 20: UBS Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	19	100%
Canada	59	98.31%
China	91	100%
France	100	79.00%
Germany	26 (24)	100%
Greece	11 (8)	100%
Hong Kong	30	83.33%
Indonesia	6	66.67%
Ireland	41	100%
Italy	12	63.64%
Japan	170	97.06%
Jersey	20	100%
Korea (South)	11	90.91%
Liberia	12	91.67%
Netherlands	51 (40)	95.00%
Russia	35	100%
South Africa	63	95.24%
Spain	42 (41)	95.12%
Switzerland	26	96.15%
Taiwan	4	100%
United Kingdom	195	100%
United States	408	95.34%
Grand Total	1432 (1,415)	95.20%

Readers should note that there were 17 non-voting resolutions in the UBS portfolio, the number of voted resolutions (meaning the total resolutions minus non-voting resolutions) are indicated in brackets.

Additionally, there were 18 resolutions where management provided no recommendation, 16 were in the Russian market and one each in the Chinese and Italian markets. For the purposes of calculating the proportion of resolutions in which UBS supported management both the non-voting resolutions and resolutions with no management recommendation have been excluded from the calculation, meaning in total 1,397 resolutions were included in the calculation.

UBS's overall support level stands at around 95.20%, which is slightly higher than that in [Section 5](#) (94.27%). Not dissimilar to Baillie Gifford, caution should be used regarding the statistical significance of this data when making inferences at the market level due to the varied count of resolutions between markets.

As discussed earlier in the report the global nature of UBS's holding may impact on voting patterns between markets due to a variety of governance standards— this is demonstrated by considering UBS's level of support in the UK market standing at 100%. UBS have opposed resolutions within the French market on a frequent basis – the French market is the fourth most populated market in terms of the number of resolutions voted by UBS. Therefore, although one should be wary from making inferences the data does indicate that UBS has taken a progressively more active approach in markets where there is relatively lower levels of disclosure and governance standards.

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Table 21: UBS Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	123	99.19%
Board	760	97.98%
Capital	244	89.34%
Corporate Actions	17	100%
Other	2	50.00%
Remuneration	166	92.17%
Shareholder Rights	72	86.11%
Sustainability	31	96.77%
Grand Total	1,415	95.20%

Table 21 above shows the number of votable resolutions in each category type voted by UBS, as well as their average support of management on each. Consistent with the analysis in [Section 6](#), UBS opposes management more frequently on Remuneration, Capital and Shareholder Rights issues.

When considering the Capital and Shareholder Rights resolution categories UBS's level of support is explained largely because many of the resolutions in those two issues touch on the question of control (either dilution of ownership in the case of Capital and in the case of Shareholder Rights the voting rights associated with capital types or resolutions of a certain type and amendments to Articles). It is also worth mentioning that 60% of resolutions within the Shareholder Rights category which UBS voted contrary to management recommendation where shareholder sponsored resolutions.

7.3 Wellington

Table 22: Wellington Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	5	100%
Belgium	13	100%
Bermuda	17	82.35%
Brazil	2	100%
Canada	15	93.33%
China	90	96.67%
France	44	100%
Germany	53 (0)	n/a
Ireland	23	100%
Italy	6	100%
Japan	117	94.87%
Korea (South)	15	100%
Malaysia	12	100%
Netherlands	39	100%
Norway	37 (0)	n/a
Spain	22	100%
Sweden	19	100%
Switzerland	48 (0)	n/a
Taiwan	10	90.00%
United Kingdom	252	96.43%
United States	633	99.84%
Grand Total	1,472 (1,334)	98.19%

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The largest counts of resolutions in the Wellington portfolio were in the United States and United Kingdom markets followed by Japan and China. What is particularly notable is the lower average level of voting with management in these markets, excluding the United States, (Bermuda, Canada and Taiwan constituted a very small number of resolutions, so should be discounted as a statistical pattern) in comparison to Wellington's average of 97.83% support for management in the detailed analysis. By comparison with the data in the UBS section of the report, Wellington's dissent levels towards China, Japan and United Kingdom companies are higher while UBS's dissent at US companies was higher.

It could be considered unusual to see United Kingdom's comparatively high dissent, particularly compared to the United States market, however this may be an indication of voting playing an important part of shareholder engagement within this market for Wellington – it is also worth noting that all of Wellington's oppositional votes in the UK market were situated within the Shareholder Rights category and concerned a Board's request for an authority to set general meeting notice periods at 14 days.

Wellington did not vote at meetings within the German, Norway and Switzerland markets; in all such cases a rationale that voting at the meeting was not in the interests of shareholders was provided. Management provided no recommendation on five resolutions in the Swedish market – all five were shareholder sponsored resolutions.

Table 23: Wellington Aggregate Voting Patterns By Resolution Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	129 (116)	100%
Board	883 (808)	98.89%
Capital	160 (145)	98.61%
Corporate Actions	23 (15)	100%
Other	3	66.67%
Remuneration	157 (140)	98.57%
Shareholder Rights	84 (74)	85.92%
Sustainability	33	100%
Grand Total	1472 (1,334)	98.19%

Table 23 shows the overall patterns of support for management shown by Wellington broken down by resolution category across all of the resolutions in the aggregate analysis.

Noteworthy in the data set is the change in the level of support for management on Shareholder Rights resolutions to that in [Section 6](#). Wellington's oppositional votes in this category almost entirely pertain to resolutions seeking approval of takeover defence plans (poison pills). Takeover defence mechanisms serve to artificially prevent hostile takeovers which may ultimately be in the interests of higher shareholder returns. Conversely, there is a high level of support for management on all other resolution categories (excluding Other).

7.4 Legal & General Investment Management

As Legal & General's mandate is limited to the FTSE 100 there was not any additional corporate meetings to analyse to those already considered in the detailed analysis.

8 Conclusions

This is the first annual report Manifest has produced for the Oxfordshire Pension Fund. By and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. This means that the issues raised in this report are likely to remain similar in dynamic in the short term; though over the longer term positive development should be observable. As is evidenced with the example of shareholder proposed resolutions in the US, specific themes can be and are raised with companies on a campaign/ strategic basis which, over time, contribute to positive progress (for example, proxy access and double voting rights).

We expect to see overall trends of gradual improvement in corporate governance standards continuing, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.

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

For this reason, readers should not expect to see a marked change in companies' governance standards from year to year. What is more important is to understand how the fund's managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this question. However, recent trends both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.

In terms of issues specific to this report, our analysis:

- Highlights the most common Board related policy issue was a shortfall in independent directors on boards and board committees;
- Shows a number of companies whose governance of sustainability as a corporate discipline could be potential cause for concern due to lack of independent verification. Companies that manage sustainability well tend to be better run;
- Illustrates that political donations is seldom a matter of concern for Oxfordshire's fund managers, and that opposition to management on sustainability issues is rare;
- Identifies that Shareholder Rights and Sustainability related resolutions are the resolution types Oxfordshire's fund managers oppose management on most often, followed by Remuneration and Capital related resolution; and
- Despite the identification of potential issues concerning auditors in terms of independence, provision of non-audit services and fees, Oxfordshire's fund managers rarely oppose management on these issues.

Taken as a whole, there is evidence to suggest that voting is not the only medium through which Oxfordshire's fund managers may express concern about important governance issues. The results of the analysis show that fund managers are voting with management marginally more than shareholders in general, however there are some variances between the respective fund managers.

Whereas L&G and Wellington have supported management more than most shareholders, Baillie Gifford and UBS on the other hand supported management to a lesser extent than most shareholders. To the extent that voting is not the only medium Oxfordshire's fund managers use to raise concerns with portfolio companies, this report enables Oxfordshire to further enquire of fund managers as to how these other issues are being identified, raised and resolved with portfolio companies, and whether resources are sufficient to adequately carry out this important work.

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

We anticipate that incentive performance measures, proxy access (particularly in the US) and the theme of "one-share, one-vote" (particularly in France and Italy) may prove to be prominent themes in commentary about 2015/16, which will be characterised by regulatory developments in the role and rights of shareholders. While in the UK market following the 2014 revisions to the UK Corporate Governance Code next season will see companies providing viability statements for the first time. It is hoped that these new risk disclosures will provide a greater insight to investors on the long-term sustainability of companies.

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In the context of the new Remuneration Policy votes in the UK, we also anticipate companies may start to set out how they intend to engage with investors in the event of significant dissent on remuneration issues, given the direction of thinking at the FRC regarding issuer-investor engagement. In terms of remuneration issues we expect that the retrospective disclosure of bonus performance targets and companies' approach to recruitment policy will be prominent issues in the UK market.

There are some key regulatory developments which come into play during 2014/15 that may have a bearing on next year's report. These include votes on remuneration policy, gender diversity, and shareholder voting rights where there is a majority owner. Further details on these developments may be found in the appendix, which covers:

- Impact of the new directors remuneration report regulations in the UK;
- Revisions to the UK Corporate Governance Code
- The amended EU Transparency Directive
- Progress on the EU Shareholder Rights Directive (part II)
- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)
- Pre-Emption Group revised guidance
- The UK Modern Slavery Act
- UK's Investor Association Updates to Executive Pay Guidelines

Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, on-going monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

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9 Hot Governance Topics

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2015" which is available upon request.

9.1 Impact of the new Directors' Remuneration Report Regulations in the UK.

In July 2013, the UK government introduced revisions to the Companies Act 2006 relating to director's remuneration policy votes and reporting. In short, the previous arrangements for a single vote on a remuneration report which included review of pay in the financial year under review as well as proposals for future pay policy are being replaced by two votes, one advisory vote in respect of a pay report on the financial year under review, and a second binding vote on proposed pay policy.

Quoted companies with year ends on or after the 30th September 2013 are required to put their proposed remuneration policy to a simple majority binding vote at the AGM. Thereafter, companies can only provide remuneration or loss of office payments that are consistent with the approved policy unless they obtain shareholder approval at a general meeting to a revised policy or to the specific payments. Once approved by shareholders, a company can retain the policy for up to three years before being required to hold another binding policy vote, unless the separate vote on the remuneration report (implementation) is lost in the intervening period in which case a fresh policy vote is required the following year.

In addition to the future looking policy vote, the main changes to the reporting of pay include:

- Requirement to show an illustration of the level of awards that could pay out for various levels of performance;
- Requirement for reporting pay in a single, cumulative figure, including methodology for calculation to ensure consistency in approach; and
- Improved disclosure on the performance conditions used to assess variable pay of directors.

The aim of the regulations is to encourage better shareholder engagement with companies regarding remuneration, It is intended to do this by giving shareholders more powers to hold companies to account at AGM's for their pay practices and policies, in particular with the introduction of the binding policy vote and the reporting of a "single figure" for the purposes of evaluating total remuneration paid.

Ex-Post analysis carried out for the Department for Business, Innovation and Skills by Manifest identified that, by and large, companies had responded well both to the letter and, in most cases, the spirit, of the Regulations. Some areas for further attention were identified, including the possibility of losing an element of meaningfulness in disclosures through the use of boiler plate text. Attention was also drawn to the quality of disclosure of issuer engagement with investors, in particular in cases where a small subsection of shareholders was referred to, or even simply "shareholder representatives" as the basis for canvassing opinion. A number of companies silently posted "clarifications" of policy after publication of their meeting documentation but before the meeting itself, as a way of heading off a potential "Against" vote. These clarifications were not formally circulated to all shareholders and thus ran the risk of creating information imbalances between those who were party to the need for the clarification, and those to whom it was not announced. We also identified that it may be helpful for companies to consider positive confirmation of not having made termination payments or payments to past directors, rather than assuming a silence on the issue confirms no such payments have been made.

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9.2 UK Revises Governance Code

The Financial Reporting Council (FRC) published its revised UK Corporate Governance Code which takes effect to UK listed companies for reporting years beginning on or after 1 October 2014. We summarise the main changes in the table below. As with most regulatory changes which seek to serve a broad constituency, the changes are a mix of positive and not so positive amendments.

A minimum threshold for **EGM notice periods** is welcome; many companies have sought to take advantage of a 14 calendar day minimum notice period despite the absence of any authority related to capital raising (the original premise for allowing an abbreviated period).

The changes on **going concern** follow the conclusions of the Sharman Review. The 2012 Code required boards to state if a company “is” a going concern. Investors’ second line of defence then came from a company auditor opinion. Under the relevant accounting standards Auditors needed to make a decision about whether a board’s going concern assumption was “appropriate”. This was in fact the position leading up to the 2008 financial crisis - neither proved to be a defence in the context of the failure of financial institutions in 2008 and it is not surprising that changes have been made. The use of the term “appropriate” to define the boards responsibility in coming to a decision on applying accounting standards may lead to confusion given the pre-existing auditor responsibilities.

A connected issue to look out for next year is the Code’s new requirement for a “viability statement”. This statement is in addition to the going concern statement and will provide the structure for an improved and broader assessment of long-term solvency and liquidity which is expected to look forward significantly longer than 12 months. The Code does not specify the format or content of the statement, leaving this up to the Board, Directors will need to explain how they have assessed the prospects, over what period they have done so and why they consider that period to be appropriate. A variety of approaches have been taken by companies that have already made viability statements, both in terms of structure and content.

UK Governance Code – Changes at a Glance

ISSUE	2012 CODE	2014 REVISED CODE
Going Concern Principle C.1.3	Directors had to state if the company was a going concern.	Directors no longer need state if the company <u>is</u> a going concern. Companies should state whether they consider it appropriate to adopt going concern and identify any material uncertainties. The decision on whether the assumption of going concern accounts is <i>appropriate</i> was solely the auditors’ responsibility.
Risk and Internal Control reporting Principles C.2 and C.2.1	Board was previously required to report on its review of effectiveness of risk management systems.	Reporting now specific to annual report (discretion allowed as to which section) No longer solely focused on process. Companies should robustly assess their principal risks and explain how they are being managed or mitigated. Companies should monitor risk management and internal control systems and, at least annually, carry out a review of and report on their effectiveness.
Remuneration policy Principle D1	Sufficient to attract retain and motivate directors and a significant proportion was required to be performance linked.	Attract, retain and motivate has gone. There is no steer now towards a preferred performance pay ratio. Greater emphasis is placed on ensuring that remuneration policies are designed with the long-term success of the company in mind, and that the lead responsibility for doing so rests with the remuneration committee.
Clawback and Malus Principle D1.1	Companies only required to “give consideration” to the use of clawback provisions.	Companies “should” include clawback and malus provisions in performance pay arrangements. Companies should put in place arrangements that will enable them to recover or withhold variable pay when appropriate to do so, and should consider appropriate vesting and holding periods for deferred remuneration.
Post dissent engagement Principle E.2.2	Company had to publish results but the Code did not explicitly require further action.	No definition of “significant” however boards can no longer fail to take action if there is a significant level of voting dissent. Companies should explain how they intend to engage with shareholders when a significant percentage of them have voted against any resolution.
Notice of Meeting Principle E.2.4	Code previously failed to state a threshold for producing EGM NoM.	Now companies required to provide an EGM notice 14 working days ahead of the meeting.

The loss of “**attract, retain and motivate**” as a pay policy will not be mourned. The routine practice of buying unvested awards from a prior employer on recruitment undermined any retentive effect promised by such statements.

Finally, the FRC’s consultation feedback statements reveal some near misses which would have been potentially negative for shareholders. It appears that companies and audit firms lobbied for moving corporate governance disclosures online. The consequential loss of assurance that corporate governance disclosures are relevant to the latest published full year accounts has for the time being at least been avoided.

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9.3 The EU Transparency Directive

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

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

9.4 The EU Shareholders Rights Directive Part II

During 2014 the European Commission commenced the process of revising and updating the Shareholders Rights Directive, which came into force in 2007. The proposed Directive is approaching the final stage of negotiation – between the Parliament and the Council of Ministers.

Most significant in the context of this report is the fact that the Commission proposed measures designed to encourage better engagement with companies by institutional investors, because of a perception that the problem of short-term investment decisions is facilitating excessive risk-taking by companies. This implies disclosure of aspects of investment mandates which encourage:

- strategic alignment with the liabilities and duration of the investor;
- how the asset manager takes decisions based on the long term performance of a company;
- how the asset manager's performance is evaluated; and
- Information on portfolio turnover.

During the negotiations, the question of enhanced voting or dividend rights for long term shareholders has been proposed as a solution to the problem of short-termism. However, this brings more pressure to bear on the need for better ability to identify shareholders, in order to facilitate more efficient transmission of information, the exercise of shareholders rights, and now the allocation of loyalty votes or dividends. It is also likely that the Directive may require all listed companies incorporated in the EU to have a "Say on Pay Policy" vote.

Another area for proposed action is enhancing issuer disclosures and shareholder rights on related party transactions. It initially proposed requiring shareholder votes on certain types of related party transactions, in order to help protect shareholders from potentially abusive deals. However, companies across Europe have been successful in watering down many of the requirements. The Directive is also likely seeking to address perceived concerns with what they call "proxy advisors" (i.e. companies like Manifest who provide research or voting guidance to institutional investors), relating to the transparency of methodologies used for producing voting guidance for clients and potential conflicts of interest.

On 8 July the European Parliament voted on a number of revisions to the draft policy, including:

- "Large companies and large groups" have been carved out from the title and from the scope of the proposal;
- Emphasis on long-term shareholding has been repealed;
- Employees' "say on pay" is no longer in the draft;
- Member States are left free to decide whether shareholders' vote on the remuneration policy is advisory or binding;
- Companies will be required to report tax broken down by country;
- Major related party transactions should be approved by shareholders;
- Listed companies should be able to identify their shareholders and the identity of shareholders should be available to shareholders;
- Proxy advisors should adopt a code of conduct which they should follow on a comply-or-explain basis.

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

A separate but relevant development related to the provisions about fund manager performance evaluation in the Shareholder's Rights Directive has been the launch of the "Red Lines Voting Initiative" by the Association of Member Nominated Trustees. The aim of this initiative is to better equip AMNT members in holding their fund managers to account for their voting on issues where companies fall short of the governance "Red Lines" of their policy. The initiative is virtually identical in concept to the vote monitoring Oxfordshire undertakes with this report.

9.6 Pre-Emption Group Revised Guidance

The Pre-Emption Group has now released updated guidance on the factors to take into account when considering whether to disapply pre-emption rights.

Manifest welcomes the March 2015 improved guidance particularly with regard to the explicit inclusion of "cash box placings". Manifest has tracked use of this dilutive capital raising mechanism since 2005. Our records reveal that a total of £2.7bn has been raised by 39 different companies using cash box placement over this period.

Quite how effective the revised guidance will be at stopping a company from using this method of share issuance is yet to be seen. The ABI (one of the Pre-Emption Groups members at the time) wrote to companies in February 2009 warning that the pre-emption principle was being eroded through the abuse of cash-box placings. Since that date this mechanism has been used more than 20 times by companies to which the ABI issued its warning. Key amendments to the 2008 Statement of Principles include:

- Clarification of the scope of the Statement, making it clear that it applies to both UK and non-UK incorporated companies whose shares are admitted to the premium segment of the Official List of the UK Listing Authority. Companies whose shares are admitted to the standard segment of the Official List, to trading on AIM, or to the High Growth Segment of the London Stock Exchange's Main Market are encouraged to adopt the Statement.
- Clarification that the Statement applies to all issues of equity securities that are undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction, including, for example, "cashbox" transactions.
- Flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice – in such instances an additional 5% authority to the routine 5% disapplication request may be sought.
- Greater transparency on the discount at which equity securities are issued non-pre-emptively.

9.7 UK Modern Slavery Act

On 10 June 2014 the Modern Slavery Bill was introduced to Parliament and received royal assent on 26 March 2015 and under S.54 of the Act certain businesses will now be required to produce a statement setting out the steps they have taken to ensure there is no modern slavery in their own business and their supply chains. It is however possible for a business to comply with the provision by simply stating that no steps have been taken during the financial year, although this would have a potential impact on business reputation. Overall the new rules present a step forward in promoting transparency in relation to company actions related to modern slavery and ensure directors consider the issue of modern slavery risk by requiring the statement to be considered by the company's board and signed by a director.

Current guidance issued by the Home Office suggests a statement may include information about:

- The organisation's structure, its business and its supply chains;
- Its policies in relation to slavery and human trafficking;
- Its due diligence processes in relation to slavery and human trafficking in its business and supply chains;
- The parts of its business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage that risk;
- Its effectiveness in ensuring that slavery and human trafficking is not taking place in its business or supply chains, measured against such performance indicators as it considers appropriate; and
- The training and capacity building about slavery and human trafficking available to its staff.

APPENDIX: Review of Shareholder Voting 2014

The requirement will apply to all commercial organisations with a year end of 31 March 2016 or later in any sector, which supplies goods or services, and carries on a business or part of a business in the UK – therefore having a global impact - and is above a turnover threshold of £36m, to produce a slavery and human trafficking statement for each financial year of the organisation. However, a potential loophole has been identified in that the Act does not require companies to report on the supply chains of overseas subsidiaries - meaning that the Act will not prevent parent companies in the UK from profiting from any slave labour used in their supply chains abroad by non-UK subsidiaries.

Companies are expected to publish their statements as soon as reasonably practicable after the end of the financial year in which they are producing the statement, in practice this will be within six months of the year end. The Act requires each organisation to publish the statement on their website and include a link in a prominent place on its homepage, if an organisation does not have a website a copy of the statement is to be provided to anyone who requests one in writing.

9.8 UK's Investment Association's updates to Principles of Remuneration

In June 2014 the Association of British Insurers (ABI) Investment Department merged with the Investment Management Association (IMA) to create the Investment Association (IA). The ABI's Remuneration Guidelines have been a long standing feature of the UK's corporate governance landscape and so, not unsurprisingly, the IA has now published its own guidance on the role of shareholders and directors in relation to remuneration. The IA's principles are essentially a repetition of the ABI principles on remuneration however the relationship between IVIS (The Association of British Insurers (ABIs) commercial service provider) and the IA is not referenced in the principles.

In November 2015 the IA published its annual update on its Principles of Remuneration. In light of the undergoing review by the recently established Executive Remuneration Working Group the principles remain largely unchanged. The sole change to the principles sets out an expectation that executive directors should not be able to sell LTIP share awards for cash until at least five years after the award was granted rather than an expectation of at least three years and a suggestion of five. The IA has however stated that a major revamp of the principles will be announced next year following the publication of the Working Group's recommendations for the "radical simplification of executive pay" in spring 2016.

Guidance for Remuneration Committees

In its covering letter to remuneration committee chairs, the IA outlined five focus areas which are of concern to members:

- **Salary increases** – all increases should be justified with clear and explicit rationale, particularly for any increases in excess of inflation or the increases provided to the general workforce.
- **Bonus disclosure** - Where companies do not disclose any targets or do not commit to full future disclosure, members have asked IVIS to Red Top those companies as they believe that there is insufficient information to make an informed voting decision. Where relative achievement is disclosed with no commitment to disclose the actual target ranges, an Amber Top will be given. This policy will take effect for companies with year-ends on or after 1 December 2015.
- **Service contracts** - new contracts should have equal notice periods for both the company and the director and for new contracts; companies should introduce clauses to allow the withholding of pay in lieu of notice where there is any ongoing regulatory or internal disciplinary or misconduct investigation.
- **Pensions** – executive pension arrangements should be in line with those for the rest of the company
- **Recruitment and leaving arrangements** – recruitment awards should not be re-awarded or re-issued in circumstances of a fall in company value and full justification of the treatment of leavers, particularly where a leaver is deemed to be a good leaver, should be provided to investors.