

Monitoring Review of Shareholder Voting 2015/16 Oxfordshire Pension Fund

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manifest

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Review of Shareholder Voting 2015

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the second 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 guide 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 2015 to the 31st July 2016. It 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 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 analysis 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.

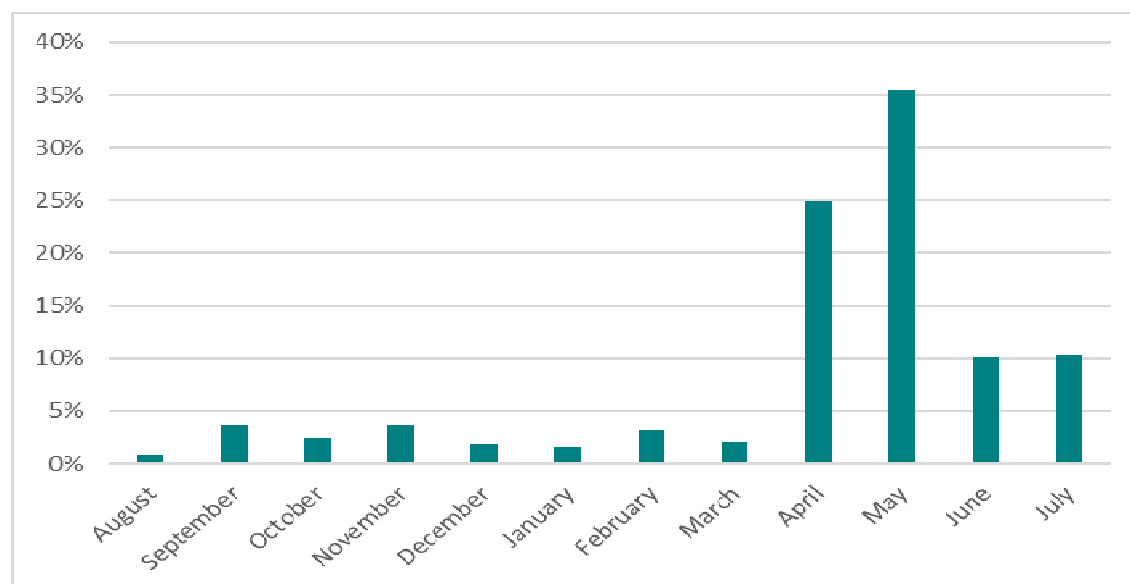
1.4 Peak workloads

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 60.5% of the voting occurring during those two months, and a further 20.3% 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 (August 2015 – July 2016)



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 2015 to the 31st July 2016. The research brought a total of 249 meetings, comprising a total of 4,133 resolutions. Taking into account occurrences of more than one fund manager voting at the same meeting and on the same resolution, a total of 4,800 resolution analyses were undertaken over 288 shareholder meetings. Of these:

- 2,051 were voted by L&G Investment Management, representing the largest proportion of the report data;
- 1,082 were voted by Wellington;
- 989 were voted by Baillie Gifford;
- 678 were voted by UBS;
- 917 were resolutions where the Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 871; and
- In total 174 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

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- No meetings held by the non-executive directors without the executives present.

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 comparatively assertive in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent¹ stood at 3.60% on average, Oxfordshire's fund managers opposed management on 3.63% of resolutions. At individual fund manager voting behaviour level, 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 in global (and especially domestic) corporate governance and voting follows in Hot Governance Topics, featuring amendments to the UK Corporate Governance Code, changes to the UK Pre-Emption Group Guidelines, the UK's Investment Association's executive pay recommendations, a fund manager monitoring initiative, and UK Modern Slavery Bill.

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 288 meetings in the monitoring sample Oxfordshire Fund Managers, the majority of votes were cast at AGMs. The remaining votes were cast at GMs 7.29%, EGMs 2.43%, and Court Meeting 1.74%.

The table below represents the number of meeting in which fund managers have voted during the monitoring period. The total number of meetings voted by managers (288) exceeds the unique total number voted at for the fund (249) 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	TOTAL
Baillie Gifford	53	51	6	1	0	2	0	60
L&G Investment Management (Pooled Instrument)	99	96	12	0	0	2	0	110
UBS (Pooled Instrument)	41	39	0	3	0	0	0	42
Wellington	70	69	3	3	0	1	0	76
Total	263*	255	21	7	0	5	0	288

* 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.

When analysing the dataset, there is a distinct high proportion of Board-related resolutions (54.85%). This stems from 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.

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.

There were 917 resolution analyses where one or more concerns were identified by Manifest from Oxfordshire's Voting Template. Concern is defined as a deviation from governance best-practice which Oxfordshire has previously chosen to be part of its voting monitoring.

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Table 2: Most Common Policy Issues

TABLE POSITION	DESCRIPTION	RESOLUTION CATEGORY	RESOLUTION SUB-CATEGORY 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)	Board	The election of directors
2	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)	Board	The election of directors
3	The authority sought exceeds 5-15% of the issued share capital (depending on the local market provisions)	Capital	Authorise Share Issue without Pre-emption Rights
4	A Nomination Committee does not exist (or its membership is not disclosed).	Board	The election of directors
5	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)	Board	The election of directors
6	An authority for political donations and expenditures is being sought	Sustainability	Authorise Political Donations & Expenditure
7	The roles of Chairman and CEO are combined	Board	The election of directors
8	There is no independent verification of the Company's ESG reporting.	Audit & Reporting	Report & Accounts
9	The Company has not disclosed a gender diversity target	Board	The election of directors
10	There are no meetings held by the non-executives without the executives present	Board	The election of directors
11	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)	Board	The election of directors
12	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	Board	The election of directors
13	The number of Board and committee meetings in the year the nominee attended is less than 75%	Board	The election of directors

Overall, Manifest flagged 1,306 policy issues across the 4,800 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. Due to 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.

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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).

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 54.85% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

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4.4.1 Nomination Committee Independence

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

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

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

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

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

4.4.3 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.

Board diversity, in particular gender diversity, has been an issue of focus in the UK since the publication of the 2011 Davies report. The report recommended FTSE 100 companies to aim for a minimum of 25% female Board representation by 2015 and for all FTSE 350 companies to set their own, challenging targets to increase Board diversity.

The report also stated that companies should fully disclose the number of women sitting on their Boards and working in their organisations to drive up the numbers of women with top jobs in business. UK narrative reporting regulation introduced in 2013 introduced a requirement for companies to disclose the number of women employed at different levels in the workforce.

The five-year summary report of the Davies review published in October 2015 set out next step recommendations including an increased gender diversity target of a minimum of 33% female representation on boards of FTSE 350 companies by 2020 with a focus on the executive layer.

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

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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 4,800 resolutions analysed in this report, Manifest obtained poll data for 4,625 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	989	93.12%	96.99%	82.61%
L&G Investment Management	2,051	98.59%	97.02%	82.30%
UBS	678	92.18%	95.17%	76.11%
Wellington	1,082	97.78%	95.28%	71.63%
Total	4,800	96.38%	96.40%	79.08%

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 L&G portfolios and Wellington with a higher average support than the UBS and Baillie Gifford 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 less, by 0.02%, than shareholders in general. However, there are some variances between the respective fund managers.

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L&G have supported management more than most fund managers and supporting management 98.59% of the time. Conversely, Baillie Gifford supported management significantly 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.

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: Dissent By Resolution Category

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	2,633	2,500	1.67%	2.41%
Capital	750	743	8.40%	3.81%
Audit & Reporting	598	586	0.00%	1.63%
Remuneration	433	422	9.47%	9.04%
Shareholder Rights	212	206	6.13%	8.97%
Sustainability	127	127	4.72%	8.07%
Corporate Actions	45	40	15.56%	3.14%
Other	2	1	0.00%	4.63%
Total	4,800	4,625	3.63%	3.60%

* “General Shareholders 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 2015-16 were, on average, slightly more assertive in expressing concerns through votes at shareholder meetings, voting against management on 174 occasions out of 4,800 resolutions, constituting an overall average opposition level of 3.63% which is consonant with general shareholder’s voting pattern. This represents an approval rating of greater than 96% overall. The inner trends, in terms of shareholder proposals and the different resolution categories, are demonstrated and explored more fully below.

It was the corporate actions and remuneration related resolutions proved to be the most consistently contentious resolution categories (15.56% dissent and 9.47% respectively), of those routinely and predominantly proposed by management. The following section analyses the dissent by categories in more detail, by exploring patterns of opposition at sub-categories level.

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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	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Sustainability	41	32.28%	14.63%	18.49%
Board	19	0.72%	36.84%	36.72%
Shareholder Rights	16	7.55%	31.25%	32.77%
Remuneration	11	2.54%	18.18%	16.31%
Corporate Actions	2	4.44%	-	7.50%
Other	1	50.00%	-	4.63%
Grand Total	90	1.88%	22.22%	24.43%

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

In terms of Sustainability-related resolutions, the majority were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, largely in the extractive industries sector. Much of the rest (10 instances) were requesting disclosure of political donations, all but one in the US (the exception being Suncor Energy in Canada), where corporate political donations are a significant feature of the US system.

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 US. 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 (10 of the instances of shareholder proposed resolutions) and Election Rules (9) both feature prominently. The most common themes among the Board Composition resolutions – as is the case with the proxy access proposals, all in the US - 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 77.78% of all shareholder proposed resolutions, with most support shown for shareholder proposals on sustainability reporting and remuneration issues.

Oxfordshire fund managers supported seven successful shareholder sponsored proposals. UBS, Baillie Gifford and L&G all supported the 'Aiming for A' filed resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.

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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	2,530	80.83%	98.58%	97.85%
Directors Discharge	46	100.00%	100.00%	98.70%
Board Committee	19	100.00%	100.00%	97.80%
Election Rules	14	28.57%	57.14%	70.48%
Board Composition	10	0.00%	90.00%	68.20%
Other Board/Director related	9	55.56%	88.89%	87.71%
Board Size & Structure	5	100.00%	100.00%	97.60%
Grand Total	2,633	80.67%	98.33%	96.19%

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

The largest differences between the proportion of resolutions where the template identified concerns and the proportion of votes against management involve Director Elections, Election Rules and "Other" (where in each case the fund managers supported management to a greater extent than the template found no issues of concern). In fact, 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 9 resolutions were voted in opposition to management by Oxfordshire's fund managers. This was a resolution to release the prohibition on directors from participation in competitive businesses voted on at Taiwanese company Catcher Technology's AGM by UBS – UBS voted against while management recommended a vote in favour.

Table 7: Fund Manager Voting on Director Elections

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	982	98.88%
Wellington	689	99.13%
Baillie Gifford	463	99.57%
UBS	396	95.71%
Grand Total	2,530	98.58%

Due to 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 (95.71% support, compared to 97.85% support across shareholders generally). This was also the case in the prior reporting year where UBS support was recorded at 95.65%, compared to 97.83% support across shareholders generally. Whilst L&G Investment Management boasted the highest support rate in the prior year they were only third highest this year with their level of support on director elections dropping from 99.60% to 98.88. Baillie Gifford (99.57%) and Wellington (99.13%) recorded the uppermost levels of support of management on director elections.

Of those resolutions where the fund managers opposed management on Director Elections (36 resolutions – accounting for all but 8 Board related resolutions where management was opposed) the most frequent governance issues Manifest identified were:

Table 8: Board-related governance top- issues

ISSUE	INSTANCES
1 No disclosure of Nomination Committee	8
2 Attendance at Board and Committee meetings	6

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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 44 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).

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	391	71.61%	84.91%	93.62%
Share Buybacks & Return of Capital	183	81.97%	98.36%	98.58%
Dividends	157	94.90%	99.36%	99.65%
Bonds & Debt	7	0.00%	100.00%	96.08%
Treasury Shares	6	66.67%	100.00%	98.62%
Capital Structure	5	0.00%	100.00%	99.15%
Authorised Share Capital	1	100.00%	100.00%	97.66%
Grand Total	750	77.87%	91.60%	96.19%

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

Table 10: Capital-related governance top- issues

ISSUE	INSTANCES
1 New share issue authority exceeds 5-50% of existing share capital	115
2 Proposal to return capital to shareholders	12
3 Maximum purchase price expressed as a percentage of the market price is more than 0-110% (depending on the local market provisions)	11
4 EPS is utilised as a performance measure in the incentive elements of the executive pay packages and there is no assurance that EPS targets would be adjusted to reflect the impact of the share buybacks	10

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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 11: Audit & Reporting Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Auditor - Election	243	91.36%	100.00%	97.80%
Report & Accounts	189	48.15%	100.00%	98.75%
Auditor - Remuneration	149	100.00%	100.00%	98.87%
Appropriate Profits	14	100.00%	100.00%	97.16%
Other A&R related	3	100.00%	100.00%	99.12%
Grand Total	598	80.10%	100.00%	98.37%

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

119 resolutions had at least one concern highlighted. Some of the most common concerns that Manifest identified are indicated in the table below. Oxfordshire's fund managers have voted with management 100% of the time on resolutions of this type; this is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management with their votes. It also led to insufficient variance between fund managers' voting records to merit further comment.

Table 12: Common Concerns Identified on Audit & Reporting Resolutions

ISSUE	INSTANCES
1 No independent verification of the Company's ESG reporting	64
2 No meetings held by the non-executives without the executives present	33
3 Auditor tenure exceeds seven years and no recent tender	17
4 No ESG management systems in place	15
5 No resolution to approve the dividend	14

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 13: Remuneration Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT*
Remuneration Report	227	99.56%	89.87%	89.74%
Long Term Incentives	75	32.00%	92.00%	91.06%
Remuneration Policy	39	97.44%	79.49%	89.92%
Non-executive Remuneration	36	100.00%	100.00%	99.01%
All Employee Share Plans	22	81.82%	100.00%	96.76%
Total Individual Remuneration	11	100.00%	90.91%	79.09%
Remuneration - Other	10	40.00%	70.00%	91.14%
Total Aggregate Remuneration	5	100.00%	100.00%	92.24%
Item Individual Remuneration	4	100.00%	100.00%	97.29%
Short Term Incentives	4	100.00%	100.00%	96.81%

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Grand Total	433	85.45%	90.53%	90.96%
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*"Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The most contentious remuneration votes in terms of Oxfordshire's managers, not including "Remuneration – Other", were resolutions to approve the remuneration report and the remuneration policy. The same can also be said for the wider shareholder population, along with resolutions dealing with individual remuneration.

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

Table 14: Fund Manager Voting On Remuneration Resolutions

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	145	91.19%
Wellington	109	95.61%
Baillie Gifford	91	83.52%
UBS	69	89.86%
Grand Total	433	90.53%

Two of the fund managers opposed management to a higher degree than shareholders in general (90.96%) on remuneration issues – Baillie Gifford and UBS. Wellington were the fund manager most likely to vote in line with management and did so considerably often than shareholders in general (voted with management 95.61% of the time). Baillie Gifford were the fund manager to vote in line with management to the least extent (voted with management 83.52% of the time).

Table 15: Common Concerns On Remuneration Resolutions

CONCERN	INSTANCES
1 Aggregate variable pay opportunity	19
2 No reference to performance when options vest in the event of a change in control	14
3 Long-term incentive pay opportunity	10
4 The minimum ranking required for vesting is less than median	10
5 Non-executive directors can participate in the long-term incentive scheme	8

Table 15 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 forecast 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.

The UK Enterprise and Regulatory Reform Bill amendment in October 2013 requires companies to put their remuneration policy to a forward-looking binding vote at least every three years, in addition to the backward-looking annual advisory vote on the report on the implementation of the policy during the year. Once approved companies can only provide remuneration that is consistent with the policy unless they obtain shareholder approval at a general meeting to a revised policy or to a specific payment. Due to the three-year cycle of policy approvals the majority of companies will be required to put new policies to shareholder votes in 2017.

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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 16: Shareholder Rights Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
General Meeting Procedures	133	95.49%	93.23%	90.09%
Other Articles of Association	55	94.55%	100.00%	96.71%
Meeting Formalities	11	90.91%	81.82%	99.42%
Shareholder Rights	11	9.09%	81.82%	70.61%
Anti-takeover Provision	2	100.00%	100.00%	82.85%
Total	212	90.57%	93.87%	91.03%

* "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 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.

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 17: Corporate Actions Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Significant Transactions	23	82.61%	78.26%	96.93%
Related Party Transactions	12	91.67%	83.33%	94.84%
Change of Name	6	100.00%	100.00%	99.82%
Company Purpose & Strategy	2	0.00%	100.00%	92.50%
Other Corporate Action	2	100.00%	100.00%	99.69%
Total	45	84.44%	84.44%	96.86%

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

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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 and one sustainability report vote, 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.

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. Although, this year, relatively high levels of shareholder dissent have been recorded.

Table 18: Sustainability Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Political Activity	95	1.05%	98.95%	94.22%
Other ESG	11	0.00%	72.73%	74.79%
Human Rights & Workforce	7	0.00%	85.71%	87.32%
Sustainability Reporting	7	85.71%	100.00%	96.60%
Environmental Practices	5	20.00%	80.00%	88.67%
Ethical Business Practices	2	0.00%	100.00%	85.30%
Total	127	6.30%	95.28%	91.93%

* "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 none of the resolutions seeking authorisation to make political donations. The fund managers 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 Citigroup. The gap between Oxfordshire's template and fund manager voting behaviour is wider on this issue than any other.

7 Aggregate Analysis

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 19: Baillie Gifford Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Denmark	6	100.00%
Hong Kong	1	100.00%
United Kingdom	1,130 (1,111)	92.62%
United States	19	94.74%
Grand Total	1,156 (1,137)	92.70%

Table 19 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](#), 92.70% compared to 93.12%, 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 Baillie Gifford did not vote at Petrofac's, a UK listed Jersey based company, AGM held on 19 May 2016, which consisted of 19 resolutions.

Table 20: Baillie Gifford Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	173 (170)	100.00%
Board	550 (540)	99.63%
Capital	232 (228)	74.12%
Corporate Actions	12	83.33%
Remuneration	102 (101)	80.20%
Shareholder Rights	62 (61)	100.00%
Sustainability	25	100.00%
Grand Total	1,156 (1,137)	92.70%

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 17.48% and Corporate Actions by 1.11% - 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, by a factor of 10.33%, as detailed in [Section 6](#). This is also demonstrated in Table 14 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.

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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 21: UBS Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	18	100.00%
Austria	7 (6)	100.00%
Canada	16	100.00%
China	12	91.67%
France	81	88.89%
Germany	63 (61)	98.36%
Greece	6 (5)	80.00%
Hong Kong	28	82.14%
Indonesia	9	55.56%
Ireland	57	92.98%
Israel	10	55.56%
Italy	19 (18)	92.86%
Japan	162	97.53%
Jersey	7	100.00%
Netherlands	28 (25)	100.00%
Russia	60	100.00%
South Africa	39	82.05%
South Korea	24	91.67%
Spain	42 (41)	80.49%
Switzerland	31	96.77%
Taiwan	6	80.00%
United Kingdom	198	95.43%
United States	437 (436)	93.81%
Grand Total	1,360 (1,350)	93.21%

Readers should note that there were 10 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 40 resolutions where management provided no recommendation, 32 were in the Russian market, 5 in the Italian market and one each in the Israeli, Taiwanese and UK 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 1,310 resolutions were included in the calculation.

UBS's overall support level stands at 93.21%. 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.

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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 95.43%. 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.

Table 22: UBS Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	135 (131)	99.24%
Board	818 (816)	97.19%
Capital	138 (137)	82.35%
Corporate Actions	17	82.35%
Other	5 (3)	100.00%
Remuneration	139 (138)	85.40%
Shareholder Rights	71	81.43%
Sustainability	37	83.78%
Grand Total	1,360 (1,350)	93.21%

Table 22 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](#), of the resolutions routinely proposed by management 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 31% of resolutions within the Shareholder Rights category which UBS voted contrary to management recommendation were shareholder sponsored resolutions.

7.3 Wellington

Table 23: Wellington Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	5	60.00%
Bermuda	18	100.00%
Canada	29	96.55%
China	19	100.00%
France	47	100.00%
Germany	21 (0)	n/a
Ireland	41	100.00%
Italy	12 (11)	100.00%
Japan	110	98.18%
Luxembourg	15 (0)	n/a
Malaysia	12	100.00%
Netherlands	11	100.00%
Norway	23 (0)	n/a

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Spain	31	96.77%
Sweden	15	100.00%
Switzerland	94 (46)	95.65%
United Kingdom	147	96.60%
United States	529	99.62%
Grant Total	1,179 (1,071)	98.60%

The largest counts of resolutions in the Wellington portfolio were in the United States, United Kingdom and Japan markets, all other markets had less than 100 resolutions. Of these three markets both the UK and Japan recorded lower average level of voting with management in comparison to Wellington's average of 98.60% support for management, the other markets to record below average support were Spain, Canada, Switzerland and Australia - the number of resolutions voted in these markets constituted a small number of resolutions, particularly Australia, so should be discounted as a statistical pattern. By comparison with the data in the UBS section of the report, Wellington's dissent levels towards Japan and UK companies are higher while UBS's dissent at France and 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 Germany, Luxembourg and Norway markets, Wellington also did not vote at two AGMs in the Switzerland market. Management provided no recommendation on two resolutions in the Italian market - the proposals related to a slate put forward by shareholders of which Wellington supported one and did not vote on the other. In total Wellington did not vote 108 resolutions.

Table 24: Wellington Aggregate Voting Patterns By Resolution Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	106 (91)	100.00%
Board	761 (710)	99.29%
Capital	95 (77)	100.00%
Corporate Actions	13 (12)	100.00%
Other	2	0.00%
Remuneration	128 (113)	99.12%
Shareholder Rights	56 (48)	85.42%
Sustainability	18	100.00%
Grand Total	1,179 (1,071)	98.60%

Table 24 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](#). Conversely, there is a relatively high level of support (greater than 99%) for management on all other resolution categories bar the 'Other' category - there were two resolutions within the 'Other' category both of which Wellington opposed, the resolutions were in relation to any other business put forward at the meeting. Resolutions to conduct any other business are often opposed by shareholders due to the lack of details being available in advance of the meeting.

Noteworthy in the data set is the change in the level of support for management on Shareholder Rights resolutions to that in [Section 6](#). Conversely, there is a relatively high level of support (greater than 90%) for management on all other resolution categories.

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.

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8 Conclusions

This is the second annual report Manifest has produced for the Oxfordshire Pension Fund. Consistent with the 2015 report on voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. 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 Corporate Actions and Remuneration related resolutions are the resolution types Oxfordshire's fund managers oppose management on most often, followed by Capital and Shareholder Rights 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 less than shareholders in general, however there are some variances between the respective fund managers.

Whereas L&G and Baillie Gifford have supported management more than most shareholders, Wellington 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.

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Oxfordshire fund managers supported seven successful shareholder sponsored proposals during the 12 months under review. UBS, Baillie Gifford and L&G all supported the 'Aiming for A' filed resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.

There were seven defeated management proposed resolutions in the collective Oxfordshire's fund manager portfolio, all of which the fund managers were non supportive of. L&G opposed the defeated remuneration reports at BP and Smith & Nephew. Baillie Gifford filed votes against the unsuccessful resolutions at The Weir Group plc to approve the LTIP and remuneration policy. In addition, UBS were against remuneration at BP plc. Of the defeated management resolutions all were in the UK bar two say-on-pay frequency votes at Kraft Heinz in the US. At each of the UK examples management recommended a vote 'For' the resolution but at Kraft Heinz 'Against' was the recommendation, Wellington in this case abstained from voting.

There are some key regulatory developments which come into play during 2015/16 that may have a bearing on next year's report. Further details on these developments may be found in the appendix, which covers:

- Public tiering of UK Stewardship Code signatories;
- Revisions in the UK to the Corporate Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and International Standards of Auditing;
- Revisions to the OECD Principles of Corporate Governance;
- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT);
- EU Transparency Directive;
- Pre-Emption Group revised guidance;
- UK Modern Slavery Bill and Workforce Reporting;
- Updates to the UK's GC100 and Investor Group remuneration report guidance; and
- The UK's Investment Association's recommendations on executive pay.

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. The new edition "Global Corporate Governance and Regulatory Developments 2016" will be available in February 2017.

9.1 UK Stewardship Code

Since its introduction in 2010 the UK Stewardship Code has been replicated in many countries around the world. In late 2015 the FRC announced plans to introduce public tiering of signatories to the Code in July 2016.

The tiering is intended to improve reporting against the principles of the Code as attention shifts from the quantity to the quality of signatories.

The FRC state this will help asset owners judge how well their fund manager is delivering on their commitments under the Code; help those who value engagement to choose the right manager; and in consequence provide a market incentive in support of engagement.

Signatories will be assessed as being:

- Tier 1 – meeting reporting expectations in relation to stewardship activities. Asset managers will be asked to provide evidence of the implementation of their approach to stewardship. The FRC will look particularly at conflicts of interest disclosures, evidence of engagement and approach to resourcing and integration of stewardship; or
- Tier 2 - not meeting those reporting expectations.

9.2 UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing

In April 2016 the Financial Reporting Council (FRC) published final draft updates to the UK Corporate Governance Code its Guidance on Audit Committees and Auditing and Ethical Standards. The FRC has introduced all of the changes in a single revision to ease the process of implementation as well as to reduce costs. The FRC has committed to avoiding further updates to the Code until at least 2019.

The revised Code, Guidance on Audit Committees and Auditing and Ethical Standards are expected to be effective for the audit of financial statements for periods beginning on or after 17 June 2016.

9.2.1 Audit and Ethical Standards

The FRC's Ethical Standard covers the independence requirements for auditors as well as reporting accountants (previously in the Ethical Standard for Reporting Accountants) and for engagements to report to the FCA on client assets. The revisions incorporate recent EU reforms and requirements set by the International Ethics Standards Board for Accountants (IESBA). The changes aim to strengthen auditor independence by applying prohibitions to a range of engagements that could result in an auditor facing a conflict of interest.

The key revisions to the Ethical Standard incorporate the EU reforms for public interest entities (PIEs) for non-audit services. There are additional changes over and above the EU reforms affecting existing rules on providing tax services to listed entities on a contingent fee basis – a term covering a listing on any exchange worldwide – as well as a general clarification of the principles relating to advocacy in respect of tax.

In addition, EU rules on capping fees for non-audit services to 70% of the average fees paid for audit services over the previous three consecutive financial years have been inserted. In regard to non-audit services, there are also changes for auditors relating to personal independence – a broadening in scope of "covered persons" and persons connected to engagement team members who cannot have certain prohibited financial, business or employment relationships, and a clarified rule on gifts and hospitality offered to or accepted by the auditor.

9.2.2 UK Corporate Governance Code

The proposed changes to the Code are restricted to the Preface and to section C.3, which covers the audit committee and auditors. One notable change is the deletion of the requirement for audit retendering to take place every ten years on account of the provision being superseded by the Audit Regulation and Directive and Competition & Market Authority's Remedies to avoid duplication between the Code and the regulations.

The recommendation for audit committees to have at least one member with 'recent and relevant financial experience' has been amended to bring the Code in line with the EU Audit Regulation and Directive, additionally the Code calls for the audit committee as a whole to have competence relevant to the sector in which the company operates. In addition, the audit committee report should now describe any advance notice of any plans to retender the external audit. Hence, changes to the Guidance on Audit Committees focus on both the activities of the audit committee and the disclosure in the audit committee report.

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Lastly the Code now recommends that the annual report should include advance notice of external auditor retendering plans. We summarise the main changes in the table below.

9.2.3 UK Governance Code – 2014-2016 Changes at a Glance

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Audit Committee Expertise C.3.1	The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has competence in accounting and/or auditing recent and relevant financial experience. <i><u>The audit committee as a whole shall have competence relevant to the sector in which the company operates.</u></i>
Audit Tender Requirements C.3.7	The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors If the board does not accept the audit committee's recommendation on the appointment, reappointment and removal of the external auditors, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.
Advance Retendering Disclosure C.3.8	A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include: - the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and <i><u>advance notice of retendering plans</u></i> , and - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

9.3 OECD Principles of Corporate Governance

On 5 September 2015 the G20/OECD Principles of Corporate Governance were released. The OECD principles are one of the 12 key standards for sound financial systems of the Financial Stability Board and form the basis for the corporate governance of the Report on the Observance of Standards and Codes of the World Bank Group and have long been a reference point for regulators and policymakers as well as companies and investors. The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral agreements for exchange of information. 3.1.1

The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral arrangements for exchange of information. It also states that impediments to cross-border voting by shareholders should be eliminated and shareholders should be allowed to consult each other. This is of importance as one area that has continued to be a significant area of concern for investors is the failure to appropriately address the voting chain in terms of cost, time consumption, cross-border voting inefficiency and for issuers in many markets to know who their real owners are – the issue of shareholder identification links with the EU Transparency and the issue of cross-border electronic voting.

At the same time as the Principles the OECD simultaneously also published its latest Corporate Governance Factbook (OECD, 2015c). The Factbook compiles information gathered from OECD and certain non-OECD country delegates as part of a series of thematic reviews. The thematic reviews cover major corporate governance challenges that came into focus following the 2008 crisis including; board practices (including remuneration); institutional investors; related party transactions; board member nomination and election; supervision and enforcement; and risk management.

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

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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 Avon undertakes with this report.

9.5 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 paper has been issued by the European Securities and Markets Authority (ESMA) to ensure proper implementation across all member states.

In the UK the Transparency 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.

9.6 Pre-Emption Group Guidelines

In May 2016 the FRC's Pre-Emption Group (PEG) released a monitoring report showing the progress of implementation of the Statement of Principles, which were updated in 2015.

Using data from Manifest as one of its primary sources, the PEG found that the revised principles were largely adhered to while the FRC said the report's findings showed the importance of open dialogue and engagement between investors and the companies to which they have allocated their capital.

The principles provide that a company may seek authority by special resolution to issue non-pre-emptively for cash equity securities representing: – no more than five per cent of issued ordinary share capital in any one year; and – no more than an additional five per cent of issued ordinary share capital provided that, in the circular for the Annual General Meeting at which such additional authority is to be sought, the company confirms that it intends to use it only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The key changes to the principles were making it clear that they apply 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 and that they apply 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. The changes also gave flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice and provided greater transparency on the discount at which equity securities are issued non-pre-emptively.

The group has also produced template resolutions for the dis-application of pre-emption rights complying with the PEG's principles to assist companies. This template recommends companies propose two separate resolutions to cover the dis-applications envisaged by the principles. In 2016, the PEG said it will be looking for continued improvement in disclosure of the intended and actual dis-application of pre-emption rights and for all companies to engage with their shareholders and adhere to the letter and spirit of the statement of principles.

9.7 Human Capital

9.7.1 UK Modern Slavery Bill

On 10 June 2014 the UK Modern Slavery Bill was introduced to Parliament and received royal assent on 26 March 2015 and under S.54 of the Act 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 specified total turnover, to produce a slavery and human trafficking statement for each financial year of the organisation.

The Act has been criticised for not requiring 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. 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. However, 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.

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Regulations have set the total turnover threshold at £36m – according to the Home Office’s consultation paper the £36m threshold will apply to 12,259 companies active in the UK. 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.

9.7.2 Workforce Reporting

In July 2016 the Pensions Lifetime Savings Association published a stewardship toolkit, “Understanding the Worth of the Workforce,” as a follow up to its 2015 discussion paper “Where is the workforce in corporate reporting?” The toolkit provides advice on the type of information its members should request from the companies they invest in about their workforces and corporate cultures.

The toolkit recommends pension schemes ask investee companies to report on the follow metrics as standard based on current reporting requirements:

- Gender diversity;
- Employment type (e.g. full time, part time, agency);
- Staff turnover;
- Accidents, injuries, and workplace illnesses;
- Investment in training and development;
- Pay ratios (across highest, median, and lowest quartiles); and
- Employee engagement.

The PLSA, believes that this will give investor information to help its valuation of companies and to understand its long term sustainability.

9.8 Remuneration Guidelines

9.8.1 GC100 and Investor Group

The UK’s GC100 and Investor Group – made up of top general counsel, company secretaries and corporate governance heads at fund manager groups – has published its latest remuneration reporting guidance replacing the original version which was produced following the updating of pay disclosure regulations in 2013 which included the introduction of binding remuneration policies approved at least every three years by shareholders.

The key changes include:

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

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

9.8.2 Investment Association

The Executive Remuneration Working Group, supported by the UK’s Investment Association, has produced 10 recommendations aimed at regaining the public’s trust on executive pay, simplifying the pay structures of top company bosses and improving the alignment of their interests with those of their shareholders in its recently published final report.

The Report includes:

- A call for Boards to explain why they have chosen their company’s maximum pay level, with consideration of relativities such as the pay ratios between CEOs and different employees;
- A call for transparency around the target-setting employed in bonuses, including retrospective disclosure of performance ranges and provision of explanations where discretion has been used; and

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- A proposal that whole boards be required to engage in the remuneration-setting process, and for non-executive directors to have at least a year's experience on a remuneration committee before being appointed as its Chair, plus clear disclosure of the rationale to be provided when discretion is used in awarding pay.

To move away from the current model dominated by long-term incentive plans, the report aims to rebuild trust by strengthening remuneration committees and their accountability, boosting shareholder engagement, making target-setting more transparent and giving companies discretion to explore how differing pay structures may gain market trust.

The Investment Association, which served as the secretariat to the group, said it would review its Principles of Remuneration to consider the recommendations.

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