

Review of Shareholder Voting 2017/18

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1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the fourth year for which Minerva 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 good practice, as well as the use of share voting by Oxfordshire's appointed fund managers as a part of their engagement with companies.

This report looks at the full picture of how Oxfordshire's fund managers are making use of the Fund's voting rights and helps Oxfordshire 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 does not require managers to follow a specific policy. It is important to note therefore, that the Minerva good practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for good practice company behaviour.

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.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st August 2017 to the 31st July 2018. It represents a full years' voting.

Minerva 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 good practice policy developed by Minerva 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 good practice framework to assess corporate governance standards for investee companies, rather than in terms of being voting instructions for fund managers to follow.

The precise tactical use of voting rights is in itself a strategic investment consideration taken by managers. Therefore, for the purposes of this report, Members should bear in mind that it is more significant that the Voting Template identifies an

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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 Minerva'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

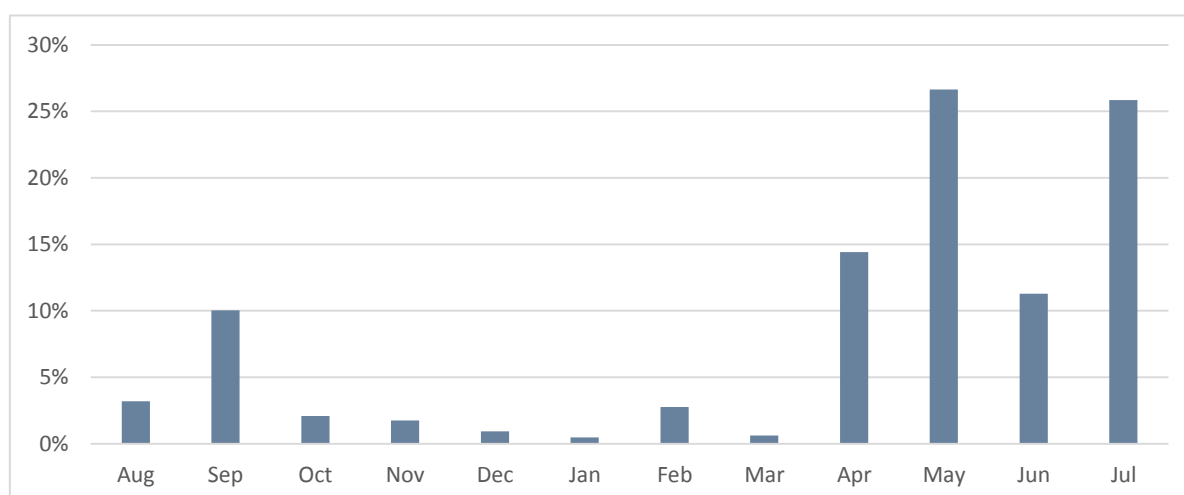
Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, and many others using the traditional April to March financial year, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years. 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 shows the percentage of total annual resolutions voted by Oxfordshire's fund managers per month. It shows graphically the severe concentration of voting decisions that occurs in Quarter 2, 52.3% of the voting occurring during the Quarter.

Asset owners like the Oxfordshire Pension Fund should be aware that such a high concentration of work inevitably leads to the commoditisation of voting decisions. This in turn increases the likelihood of outsourcing voting decision-making responsibility to outside consultants. In recent years, this dynamic has become the focus of regulatory scrutiny in the UK, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions.

This high concentration of business at the same time of year may result in a reduced opportunity for investors to be able to properly consider AGM meeting business at what is by definition the only time on the year at which shareholders have a formal right to vote on such matters. This time pressure is not just an issue for investors, it is also a problem for all the services providers associated with the governance process including auditors, registrars, proxy advisers, proxy solicitors etc. Investors have a role to play in highlighting this concern with issuers and regulators, since they very obviously bear the economic risk of the collective lack of oversight due to the tight timescales imposed by such bunching.

Figure 1: Percentage of Total Annual Resolutions Voted Per Month (August 2017 – July 2018)



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 2017/18.

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 Minerva approaches monitoring the fund manager voting at those events.

Minerva undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe, and North America) for the period of 1st August 2017 to the 31st July 2018. The research brought a total of 413 meetings, comprising a total of 6,249 resolutions (an increase on the 338 meetings and 5,856 resolutions in the prior period). Taking into account occurrences of more than one fund manager voting at the same meeting and on the same resolution, a total of 7,186 resolution analyses were undertaken over 468 meetings. Of these:

- 4,149 were voted by L&G Investment Management, representing the largest proportion of the votes cast;
- 1,245 were voted by UBS;
- 1,143 voted by Wellington;
- 649 were voted by Baillie Gifford;
- 1,188 were resolutions where the Voting Template highlighted a potential governance concern and on these resolutions fund managers supported management on 1,035; and
- In total 462 resolutions were voted against management recommendation, comprising:
 - 409 management sponsored resolutions
 - 53 shareholder sponsored resolutions

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.

Conversely, the report also identifies instances where investors have opposed management even where no governance concerns were highlighted suggesting fund managers are also not afraid to apply their own investment judgement, even where this implies a vote against management. It is understood that investment managers voting will differ from the template, due to variances in views on governance and voting issues.

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 Minerva identified most frequently among the companies at whose meetings the fund managers voted.

Board balance issues remain the most frequently identified concerns, this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far the most numerous resolution type) The most common governance concerns which Minerva identified in Oxfordshire’s portfolio companies were:

- | | |
|---|--|
| • Board and Committee independence. | • Over-boarding concerns. |
| • No Nomination Committee. | • No independent verification of the Company’s ESG reporting. |
| • Authority to make political donations. | • No meetings held by the non-executive directors without the executives’ present. |
| • Authority to issue shares exceeding good practice thresholds. | • Roles of Chairman and Chief Executive are combined. |
| • Lack of gender diversity targets. | • A lack of a shareholder say on dividend. |

Many of these issues were consistently identified in this analysis in the prior year. 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

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governance matters. These are the substantial issues on which investor attention should focus, rather than whether specific resolutions were opposed or otherwise.

The number of potential corporate governance issues identified in Oxfordshire's holdings slightly increased from the prior year, 1,633 compared to 1,582, although the level of compliance with the good practice template increased by 2.14% (i.e. this year's template with management is 81.63% and 79.49% last year).

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 more active in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent¹ stood at 4.02% on average (compared to 3.75% in the prior year), Oxfordshire's fund managers opposed management on 6.44% of resolutions (up from 5.55%).

At individual fund manager voting behaviour level, Ballie Gifford, L&G and UBS voted with management less than shareholders in general whilst Wellington supported management more than shareholders in general. Baillie Gifford and UBS voted against management noticeably more than shareholders in general (i.e. by a factor of more than 3%). L&G, UBS and Wellington's level of dissent has increased from last year while Baillie Gifford's support for management has increased, however Ballie Gifford continue to oppose management more than often than general shareholders.

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 and wider governance reforms, changes to the UK Pension and Lifetime Savings Association's guidelines, changes to the UK's Investment Association's executive pay recommendations, and human capital and diversity initiatives.

¹ **What is General Shareholder Dissent?** Where Minerva 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' 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 Minerva 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 (AGM), 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.

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.

Voting strategy should be seen as an important part of the wider investment process, by using voting rights both positively and negatively to mitigate risk in the equity portfolio. 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.

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.

3.2 Meeting Types

Minerva's experience is that companies have approximately 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are AGMs, at which the main 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.

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 plus another third for use in a rights issue), 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

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authority contribute towards AGMs having a significantly larger number of resolutions on average than other types of meetings.

Since UK and European companies may sometimes challenge the legal terminology for non-Annual General Meetings; some meetings during the period under review were reported as an EGM (Extra-ordinary General Meeting) and other meetings identical in nature were 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 (higher) 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.

3.2.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, of the 468 meetings Oxfordshire Fund Managers voted at, 85.47% were AGMs, with the majority of the rest constituting GMs 8.55%. The remaining were EGMs 3.21%, Court Meetings 2.14% and SGMs 0.64%.

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 (468) exceeds the unique total number voted at for the fund (413) 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	TOTAL
Baillie Gifford	33	32	5	0	0	3	40
L&G Investment Management (Pooled Instrument)	236	215	32	8	0	5	260
UBS (Pooled Instrument)	85	82	2	4	2	1	91
Wellington	72	71	1	3	1	1	77
Total	378*	400	40	15	3	10	468

* Represents the total number of unique companies, not the sum total of companies 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 owned two companies but had no AGMs to vote in either. However, were Non-AGMs have taken place, these 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.

3.3 Monitoring Approach

The Minerva Voting Template analyses and considers good 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 good practice questions (for example, the length of time after which an independent director may no longer be deemed independent), Minerva 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.

Minerva 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 good 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.

Therefore, for the purposes of this report, members should bear in mind that the fact the Voting Template identifies an issue of concern (i.e. suggests there ****may**** be a reason to not support management) in relation to a resolution, is more significant than whether the template suggests 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’.

Each time a company flags a potential governance in some way, not only is policy guidance produced as described above, but an audit trail is produced outlining the specific governance concern in question. The audit trail is used to analyse the governance criteria identified by Minerva according to the Voting Template to identify the most frequent governance issues companies within the monitoring subset have. Therefore, Oxfordshire should consider the guidance itself as an objective application of a good practice policy in terms of corporate governance standards for investee companies, rather than in terms of a voting decision.

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 Minerva identified most frequently among the companies Oxfordshire's fund managers have voted meetings for. This can be considered as a measure for companies' compliance with Oxfordshire's governance policy.

4.1 Introduction

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

Analysis of the Voting Template settings allows for an in-depth study of the specific governance issues which have been identified by Minerva's research and analysis process. 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 the preferences set out in Oxfordshire's Voting Template used by Minerva 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 policy 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 policy questions whose frequency this section of the report examines.

There were 1,188 resolution analyses where one or more concerns were identified by Minerva from Oxfordshire's Voting Template.

When considering the most common policy issues Minerva identified at the meetings researched in the Oxfordshire portfolios, comparison with last year's analysis shows that, in general, a larger number of issues of concern were identified at companies, 1,633 compared to 1,582. This is explained in part by there being a higher number of resolutions in the data set. However, changes in the patterns of frequency also suggest some inferences.

When analysing the dataset, there is a distinct high proportion of Board-related resolutions (49.96%). 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.

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Table 2: Most Common Policy Issues

TABLE POSITION	DESCRIPTION	POLICY PILLAR	POLICY ISSUE
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)	Remuneration	Remuneration Committee
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)	Audit & Reporting	Audit Committee
=	A Nomination Committee does not exist (or its membership is not disclosed)	Board	Nomination Committee
4	An authority for political donations and expenditures is being sought	Sustainability	Donations
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	Nomination Committee
6	A share issue authority exceeded 5%-50% (depending on the local market provisions and whether pre-emption rights applied)	Capital	Share Issues
7	The Company, being a large/mid cap constituent, has not disclosed a gender diversity target	Board	Board Diversity
8	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	Director - Time Commitment
9	There is no independent verification of the Company's ESG reporting	Sustainability	Corporate Social Responsibility
10	There are no meetings held by the non-executives without the executives present	Board	Board Operation
11	The roles of Chairman and CEO are combined	Board	Chairman/CEO
12	The Company has paid a dividend, yet no resolution to approve the distribution has been proposed	Shareholder Rights	Meeting Resolutions

Overall, Minerva flagged 1,633 policy issues across the 7,186 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 good practice governance analysis

Readers should note that the Minerva 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). Minerva reflects board accountability in its research by placing the analysis of the relevant board committee in the context of analysis of the governance matters for which they are responsible.

4.2 Conclusions on common policy issues

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

Although the volume (in absolute terms) of the most common governance concerns Minerva 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.

Eight of the top 12 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 12, the only exceptions to this are the questions of independent verification of Environmental, Social and Governance (ESG) reporting, a lack of a shareholder say on dividends, and authorities sought for political expenditure and share issues.

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 good 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) 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 Remuneration

4.4.1 Remuneration Committee Independence

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

4.5 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 49.58% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.5.1 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.

4.5.2 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.

4.5.3 Percentage of female directors on the board

Minerva 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 recognised that Boards perform best with the best people appointed to them, and for that reason; diversity of all kinds (including gender) should be encouraged.

The 2015 Davies Review Five Year Summary Report recommended for the target of 25% female board representation by 2015 at FTSE100 companies to be expanded to the FTSE350 and to 33%. The expanded target was subsequently adopted by the Hampton-Alexander Review, this review has a particular focus on getting more women into executive positions. There have also been business-backed initiatives on gender diversity launched such as the Women in Finance Charter and the 30% Club.

4.5.4 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.

4.5.5 Nominee has a significant number of other directorships

This consideration takes into account that if a director holds a significant number of other directorships at listed companies then the individual's ability to meet the time commitments expected of the role may be impaired. This consideration can be taken alongside the individual's attendance records, if it is below 75% there may be concerns whether the director is fulfilling the role expected by shareholders.

4.6 Capital

4.6.1 The authority sought exceeds 5% of issued share capital

The most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay) without the application of pre-emption rights.

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.

4.7 Sustainability

4.7.1 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.

4.7.2 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.

4.8 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.

4.9 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 Minerva 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 good practice Voting Template identified a potential governance concern. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Minerva 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 7,186 resolutions analysed in this report, Minerva obtained poll data for 6,972 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	649	93.53%	97.05%	84.59%
L&G Investment Management	4,149	94.65%	97.01%	85.01%
UBS	1,245	87.95%	92.78%	76.64%
Wellington	1,143	95.71%	94.88%	73.09%
Total	7,186	93.56%	95.98%	81.63%

General Shareholders Supported Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where management provided no recommendation have not been included in the calculations for fund manager support and general shareholder support.

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

The “Template For Management” data can be used as a proxy for compliance with corporate governance good practice expectations. This is true when considering the level of general shareholder dissent on resolutions on which the Voting Template suggested a contrary vote to management being higher than the average dissent on resolutions on which the Voting Template suggested a vote in favour, 7.75% dissent compared to 3.20%.

The companies in the L&G and Baillie Gifford portfolios display a comparatively higher level of compliance with governance good practice than those of UBS and Wellington. This is also reflected in the general shareholder support levels – with Baillie Gifford and L&G portfolios receiving higher average support.

This in part reflects the mandates, and therefore the composition of the portfolios, of the fund managers. L&G’s and Baillie Gifford’s mandates are 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 oppose management more often than shareholders in general, by 2.42%, and the fund managers aggregate level of dissent has increased by 0.89% from the prior year. However, there are some variances between the respective fund managers.

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Wellington have supported management more than most fund managers, supporting management 95.71% of the time. Conversely, UBS supported management significantly less than shareholders in general – this is notable given that both UBS and Wellington’s portfolios are global. The difference in voting patterns could be explained by the different companies within the respective fund’s portfolios as well as by engagement strategy.

The Wellington and UBS portfolios track global equities and are therefore 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 greater than the L&G and Baillie Gifford’s portfolios. Therefore, Wellington’s support for management could be considered surprising in light of the lower level of compliance with the corporate governance good practice standards of the Voting Template and the lowest level of general shareholder support.

UBS have supported management to a lesser degree than Baillie Gifford, L&G, and Wellington. When compared against L&G and Baillie Gifford, 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.

Baillie Gifford and UBS voted against management noticeably more than shareholders in general (i.e. by a factor of more than 3%). L&G also voted against management notably more than shareholders in general. While Wellington’s supported management more often than shareholders in general it should be noted their level of support has decreased (by 0.28%) while general shareholders has increased (by 0.25%) from the prior year.

At an aggregate level it is difficult to make thematic observations about why the funds have supported management less than shareholders in general, other than to say that it could be an indicator that the use of voting rights appears to play a more significant part of the investment and engagement process with companies than for the other shareholders. 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.

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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 Minerva 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’ 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	3,590	3,467	6.56%	3.89%
Capital	1,344	1,313	5.43%	2.95%
Audit & Reporting	965	935	1.87%	1.32%
Remuneration	713	693	13.18%	7.90%
Shareholder Rights	352	343	7.69%	7.43%
Sustainability	148	145	6.76%	7.72%
Corporate Actions	71	66	5.63%	3.82%
Other	3	0	33.33%	-
Total	7,186	6,972	6.44%	4.02%

“General Shareholders Average Dissent” calculated from general shareholder voting results where available. No voting results were disclosed in the ‘Other’ category. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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 2017-18 were, on average, more assertive in expressing concerns through votes at shareholder meetings, voting against management on 462 occasions out of 7,176 resolutions, constituting an overall average opposition level of 6.44% (this excludes 10 resolutions where management provided no recommendation). This represents an approval rating of around 93%, this is slightly down from the prior period where the general approval rating was around 94%.

As was the case in previous years, remuneration related resolutions proved to be the consistently contentious resolution category 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	40	27.03%	25.00%	16.86%
Board	37	1.03%	72.22%	26.12%
Shareholder Rights	29	8.24%	35.71%	33.10%
Remuneration	19	2.66%	26.32%	21.15%
Capital	2	0.15%	100.00%	-
Total	127	1.77%	42.40%	23.76%

"Average Dissent" calculated from resolutions in respect of which shareholder voting results were available. No voting results were disclosed in the 'Capital' category. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The overwhelming numbers of resolutions were proposed by management, with only 1.77% of resolutions proposed by shareholders. The majority of shareholder resolutions were proposed in North America (115), where in the absence of an independent national corporate governance code (as in, for example, the UK Corporate Governance Code), shareholders use resolutions as a tool to try and improve corporate governance practices at companies. The remaining shareholder resolutions took place in the UK & Ireland (7), Japan (4) and Europe (1). Overall fund managers voted on a smaller number of shareholder proposals this year, 127 compared to 142 in the prior period.

Oxfordshire's managers voted with Management on 57.60% of all shareholder proposed resolutions, with the most support shown for shareholder proposals on board issues. Oxfordshire fund managers supported five successful shareholder sponsored proposals, all of these were in the US market.

In terms of Sustainability-related resolutions, the majority related to human capital reporting, political activity (e.g. reporting on lobbying), and miscellaneous specific environmental proposals, largely in the Oil & Gas sector. The remaining proposals (11 instances) related to ethical business practises or sector specific matters. Two sustainability-related proposals at Kinder Morgan Inc were successful, one requested an annual report on sustainability and the other an assessment of the long-term portfolio impacts of scenarios consistent with global climate change policies.

The largest single proportion of the resolutions relating to Shareholder Rights pertained to requests to amend company Bylaws so that a lower threshold is required for shareholders to call a special shareholder meeting. These proposals proved relatively popular with one successful proposal at Cognizant Technologies Corp. Requests to amend voting procedures (this included requests to exclude abstentions from vote counts) were also prominent – all of which were in the US. A proposal at Newell Brands Inc requesting the shareholder right to take action by written consent was successful.

Regarding Board-related resolutions, Board Composition (12 of the instances of shareholder proposed resolutions), Director Elections (11) and Election Rules (9) feature prominently. Board Composition resolutions were requests in the US market to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance. Election Rules proposals either concerned proxy access provisions (i.e. the right for shareholders to nominate directors) or the voting standard used on director elections. A proxy access proposal at NetApp Inc was successful.

A range of topics were covered in the Remuneration category with a notable focus on clawback provisions, the introduction of ESG performance metrics, and amendments to termination provisions. No proposals in the category were successful.

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6.2 Board

Board related resolutions constituted just under a 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.

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 and other stakeholders vital to the success of the company. It therefore follows that they are held accountable and that a wide number of considerations are taken into account.

Table 6: Board Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE FOR MANAGEMENT	OXFORDSHIRE VOTED WITH MGT	OVERALL S/HOLDER VOTES WITH MGT
Directors - Elect	3,464	80.67%	93.69%	96.24%
Directors - Discharge	67	100.00%	100.00%	97.88%
Board Committee	22	90.91%	86.36%	96.78%
Election Rules	12	0.00%	81.82%	81.34%
Board Composition	12	9.09%	16.67%	67.51%
Board Size & Structure	6	100.00%	100.00%	97.40%
Other Board/Director related	4	50.00%	50.00%	70.82%
Directors - Remove	2	50.00%	100.00%	89.42%
Insurance & Indemnification	1	100.00%	100.00%	99.96%
Total	3,590	80.59%	93.44%	96.11%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The largest differences between the proportion of resolutions where the template identified concerns and the proportion of votes against management involved Director Elections, Election Rules and Board Composition. The Board Committee was the only subcategory where managers opposed management more often than the template.

In the case of the "Election Rules" resolutions six of the 12 resolutions related to allowing proxy access for shareholders, one of which was proposed by the Board of Kroger Inc. Four of the other resolutions related to director voting standards, all proposed by shareholders, and two Board-proposed resolutions relating to director election frequency. All resolutions in the Board Composition category were proposed by shareholders and related to proposals requesting the adoption of a policy requiring the Chairman be an independent director.

Table 7: Fund Manager Voting on Director Elections

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	1,741	92.88%
UBS	741	90.45%
Wellington	680	96.62%
Baillie Gifford	302	99.67%
Total	3,464	93.69%

Due to their number, Director Elections merit some comparative commentary of their own. L&G and UBS opposed management on director elections more than shareholders in general. This was also the case for both managers in the prior reporting year. The level of support by L&G Investment Management has again dropped, this year from 97.39% to 92.88%. Baillie Gifford and Wellington again recorded higher levels of support on director elections, although Wellington's level of support has fallen by 3.18% compared to last year.

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Of those resolutions where the fund managers opposed management on Director Elections (218 resolutions out of the 235 Board resolutions where management was opposed) the most frequent governance issues Minerva identified were:

Table 8: Common Concerns Identified on Director Elections opposed by Fund Managers

ISSUE	INSTANCES
1 Remuneration Committee composition concerns	34
2 Audit Committee composition concerns	33
3 Nomination Committee composition concerns	24
4 The Company has not disclosed a gender diversity target (large/mid cap only)	13
5 Over-boarding concerns	12

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 with the template suggesting a vote in favour of management (104 out of the 235 instances where management was opposed on Board-related resolutions) would suggest that fund managers can and 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 good 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	769	87.39%	91.03%	95.65%
Share Buybacks & Return of Capital	296	86.15%	99.32%	98.55%
Dividends	247	95.95%	100.00%	99.59%
Treasury Shares	12	58.33%	83.33%	96.38%
Capital Structure	7	0.00%	100.00%	99.64%
Bonds & Debt	6	0.00%	100.00%	97.72%
Authorised Share Capital	5	80.00%	100.00%	92.91%
Equity Fundraising	2	50.00%	100.00%	94.78%
Total	1,344	87.50%	94.57%	97.05%

* “Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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Similar to previous years, 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. Resolutions in this category also accounted for 94.52% of Oxfordshire's fund managers dissenting votes in the Capital category. The most frequent issues identified on capital related resolutions were as follows:

Table 10: Common Concerns Identified on Capital Resolutions

ISSUE	INSTANCES
1 A proposed share issue authority exceeds 5-50% of existing share capital.	88
2 Proposal to return capital to shareholders.	21
3 Maximum purchase price expressed as a percentage of the market price is more than 0-110%.	15
4 The authority sought (excluding any additional rights element exceeded 33%	11
4 The duration of a proposed capital authority exceeded 15 months	11

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 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	386	95.08%	98.96%	98.03%
Report & Accounts	308	50.32%	98.70%	99.12%
Auditor - Remuneration	245	100.00%	95.92%	99.14%
Appropriate Profits	22	100.00%	100.00%	98.44%
Other A&R related	2	100.00%	100.00%	99.33%
Special Audit	1	100.00%	100.00%	99.87%
Auditor - Discharge	1	100.00%	100.00%	99.73%
Total	965	82.18%	98.13%	98.68%

"Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

172 resolutions had contrary policy guidance generated by the Oxfordshire template. Some of the most common concerns that Minerva identified are indicated in the table below. Oxfordshire's fund managers have voted with management 98.13% 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.

Table 12: Common Concerns Identified on Audit & Reporting Resolutions

ISSUE	INSTANCES
1 There is no independent verification of the Company's ESG reporting	64
2 No meetings held by the non-executives without the executives present	46
3 The Company has paid a dividend, yet no resolution to approve the distribution has been proposed	38
4 The auditor has been in place for more than seven years and there is no evidence that a recent tender (last 3 years) has been undertaken or is planned	18
5 There is no performance evaluation process in place for the Board, Board Committees, and individual directors	12

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6.5 Remuneration

As noted earlier in the report, 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	356	100.00%	86.80%	91.54%
Remuneration Policy	114	98.25%	83.33%	93.09%
Long-term Incentives	92	53.26%	73.91%	90.22%
Non-executive Remuneration	47	100.00%	100.00%	98.17%
Remuneration - Other	37	40.54%	91.89%	89.48%
All-employee Share Plans	32	100.00%	100.00%	97.98%
Contracts	9	88.89%	100.00%	84.56%
Remuneration Amount (Total, Individual)	9	100.00%	100.00%	84.55%
Remuneration Amount (Total, Collective)	8	100.00%	87.50%	92.94%
Short-term Incentives	6	100.00%	100.00%	98.33%
Remuneration Amount (Component, Individual)	3	100.00%	100.00%	94.66%
Total	713	90.46%	86.82%	92.10%

"Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The most contentious remuneration votes in terms of Oxfordshire's managers were resolutions to approve the remuneration report, the remuneration policy and long-term incentives. The Remuneration – Other and Remuneration Amount (Total, Collective) were the only other subcategories to receive fund manager dissenting votes.

Resolutions within the "Remuneration - Other" were for the most part resolutions regarding the frequency at which a company will put forward its remuneration report, this occurred in the US, although occasionally resolutions of this type are put forward in Canada. In aggregate there were less remuneration-related resolutions this year on account of the lower the number of frequency votes, these resolutions operate in a cyclical nature with a vote held at least every three years.

Broken down by fund manager, the voting on remuneration resolutions does show some patterns with L&G and UBS opposing management to a higher degree than shareholders in general on remuneration issues and to Wellington and Baillie Gifford.

Table 14: Fund Manager Voting on Remuneration Resolutions

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management (Pooled Instrument)	385	85.19%
UBS (Pooled Instrument)	140	79.29%
Wellington	131	96.95%
Baillie Gifford	57	92.98%
Grand Total	713	86.82%

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Table 15: Common Concerns Identified on Remuneration Resolutions

CONCERN	INSTANCES
1 No reference to performance when shares/options vest in the event of a change in control.	15
2 The minimum ranking required for vesting is less than median.	9
3 Large aggregate variable pay opportunity.	8
4 Large LTIP pay opportunity.	4
5 No upper limit disclosed for an LTIP	4

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.

Remuneration is, on average, the most contentious issue at a company’s AGM. This is perhaps partly because the disclosure regime which applies to remuneration is so demanding that there is an abundance of information about how much the top Board members get paid. These figures therefore often grab the headlines and consequently attract a high level of shareholder scrutiny. Although, on the other hand, the disclosure regime in certain markets it is not as advanced, for example in Japan remuneration will usually be disclosed on an aggregated basis only rather than on an individual basis.

Typically, executive remuneration is composed of:

Salary; Annual Bonus; Long term incentives; Other benefits; Pension; and Contract termination provisions.

Remuneration packages are increasingly complex, with both fixed and variable elements. Variable pay performance is measured over annual and (typically) three-year periods with multiple performance metrics often utilised. Voting decisions are based on the absolute levels of pay for the past year, the size of any increases proposed for the coming year and the alignment between performance targets and company strategy.

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.

Recent developments indicate that shareholders are ‘picking’ their battles, resulting in a small number of high-profile significant dissent resolutions, but low dissent overall. This suggests that shareholders are taking a more targeted approach in voting.

For example, the introduction of the vote on remuneration policy in the UK has influenced shareholder voting with many investors adopting a “wait and see” approach regarding policy proposals (preferring to see how the Regulations bed in). All but the most controversial policy proposals have received respectable levels of support. By contrast, where opposition was expressed, it was often at a very high level, demonstrating this focussed approach.

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	226	93.36%	93.81%	92.31%
Other Articles of Association	85	85.88%	96.47%	97.59%
Meeting Formalities	19	100.00%	89.47%	95.84%
Takeover Governance	12	8.33%	50.00%	71.09%
Shareholder Rights	10	11.11%	77.78%	72.32%
Total	352	86.89%	92.31%	92.57%

“Overall Votes with Management” calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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. For UK shareholders, calling EGMs on 14-days’ notice is non-contentious, provided they are not used frivolously or for matters where a longer notice period would be warranted due to the nature of the business. However, such resolutions often receive above average shareholder dissent in the UK market.

The dissent can be explained as following; this being largely a UK practice; foreign shareholders and proxy advisors are not sympathetic towards approving such permissions. Overseas investors do not generally trust the cross-border voting system to get their vote across in time and focus this concern on the acceptance of such resolutions. With the increasing proportion of UK companies being held by foreign shareholders who often follow the voting advice their proxy advisors give them in markets foreign to them, an increasing proportion of companies are now finding significant levels of dissent on this issue. Notably, Wellington also opposed such resolutions.

The majority of the issues that Minerva research identified were therefore to do with the nature of the resolution, rather than the substance - for example that the resolution is proposed by shareholders, or that the board does not make a recommendation on the resolution.

Of the 27 resolutions where fund managers opposed management on Shareholder Rights related considerations, 10 were shareholder proposed resolutions. This suggests that, when it comes to shareholder rights protections, Oxfordshire’s managers are very well motivated to protect their interests and those of their clients.

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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
Transactions - Significant	33	84.85%	100.00%	97.36%
Transactions – Related Party	23	60.87%	82.61%	92.61%
Investment Trusts & Funds	9	33.33%	100.00%	97.87%
Other Corporate Action	6	83.33%	100.00%	98.70%
Total	71	70.42%	94.37%	96.18%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

The majority of Corporate Actions considerations are often investment or company-specific, such as disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions in this context becomes decidedly subjective, as do comparisons of fund manager voting. What can be observed is that Oxfordshire's fund managers are often supportive of corporate actions, with the exception of related-party transactions (commercial transactions between the company and related parties such as other companies for whom officers or directors of the company work). This is because related party transactions may entail potential conflicts of interest.

6.8 Sustainability

All Sustainability sub-categories apart from Political Activity were comprised solely of shareholder proposals. The proposals generally asked 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 has a particular affinity for or was involved with the tabling of the resolution itself. Although, this year, relatively high levels of shareholder dissent have been recorded. All of Oxfordshire's managers dissenting votes in the Sustainability category came from the support of shareholder proposals.

Table 18: Sustainability Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Political Activity	117	0.00%	98.29%	94.30%
Human Rights & Workforce	11	0.00%	72.73%	88.57%
Environmental Practices	9	0.00%	55.56%	73.34%
Other ESG	5	0.00%	100.00%	96.02%
Ethical Business Practices	3	0.00%	66.67%	91.92%
Animal Welfare	2	0.00%	100.00%	96.82%
Sustainability Reporting	1	0.00%	100.00%	40.14%
Total	148	0.00%	93.24%	92.28%

"Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available. Resolutions where Management provided no recommendation have not been included in the calculations of fund manager and general shareholder support.

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7 Aggregate Analysis

Minerva 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
Australia	7	100.00%
Canada	10	100.00%
France	26	84.62%
Germany	9	88.89%
Hong Kong	19	89.47%
Italy	8	100.00%
Japan	7	100.00%
Netherlands	15	93.33%
Singapore	7	100.00%
Sweden	54	100.00%
Switzerland	11	100.00%
United Kingdom	1,113	93.17%
United States	199	97.99%
Total	1,485	94.07%

Table 19 above shows the number of resolutions voted in each market by Baillie Gifford, as well as their average support of management on each. It shows a slightly higher level of support for management detailed in [Section 5](#), 94.07% compared to 93.53%, which might not be a surprise given the large proportion of 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.

Table 20: Baillie Gifford Voting by Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	210	100.00%
Board	741	99.73%
Capital	293	76.45%
Corporate Actions	9	100.00%
Remuneration	144	90.28%
Shareholder Rights	56	98.21%
Sustainability	32	93.75%
Total	1,485	94.07%

What is interesting is the breakdown of the average support of management by resolution category compared to that in [Section 6](#). Baillie Gifford have notably supported management to a lesser degree on Capital resolutions, by 18.12%. 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 Gifford's view on good practice.

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Baillie also voted against 9.72% of remuneration related resolutions. This shows that Baillie Gifford 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.

7.2 UBS

Table 21: UBS Aggregate Resolutions Voting by Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	5	100.00%
Austria	10 (9)	100.00%
Bermuda	12	91.67%
Canada	57	92.98%
Cayman Islands	4	75.00%
China	30	86.67%
France	45	66.67%
Germany	35	96.97%
Hong Kong	23	82.61%
Ireland	11	100.00%
Italy	25 (24)	93.33%
Japan	113	92.92%
Jersey	44	100.00%
Netherlands	70 (45)	97.78%
Russia	54	100.00%
South Africa	34	64.71%
South Korea	14	100.00%
Thailand	23 (22)	81.82%
United Kingdom	200	95.50%
United States	593 (591)	88.14%
Total	1,402 (1,370)	89.88%

Readers should note that there were 31 non-voting resolutions in the UBS portfolio and UBS issued one Do Not Vote instruction, the number of voted resolutions (meaning the total resolutions minus non-voting resolutions) are indicated in brackets.

Additionally, there were a further 36 resolutions where management provided no recommendation, 26 were in the Russian market, nine in the Italian market and one in the United States market. 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 1,334 resolutions were included in the calculation.

UBS's overall support level stands at 89.88%. Not dissimilar to Baillie Gifford, caution should be used regarding the statistical significance of this data when making inferences at the market level due to the varied count of resolutions between markets.

As discussed earlier in the report the global nature of UBS's holding may impact on voting patterns between markets due to a variety of governance standards– this is demonstrated by considering UBS's level of support in the UK market standing at 95.50% with UBS's overall support of 89.88%. 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. Notably UBS have opposed resolutions within the French market on a frequent basis

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(33.33% of the time) – the French market is the seventh most populated market in terms of the number of resolutions voted by UBS.

Table 22: UBS Voting by Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	137 (126)	100.00%
Board	887 (880)	91.83%
Capital	122	88.52%
Corporate Actions	19	94.74%
Other	4 (3)	66.67%
Remuneration	149 (147)	79.59%
Shareholder Rights	64 (54)	75.47%
Sustainability	20 (19)	63.16%
Total	1,402 (1,370)	89.88%

Table 22 above shows the number of resolutions in each category type, as well as UBS's average support of management on each. UBS opposed resolutions in the Sustainability, Shareholder Rights, Remuneration and Capital categories on a consistent basis, i.e. above average. When considering the Sustainability and Shareholder Rights categories, UBS's level of dissent is explained by the large number of resolutions proposed by shareholders in the categories. For example, all of UBS's votes contrary to management recommendation on sustainability matters were on shareholder sponsored resolutions.

7.3 Wellington

Table 23: Wellington Aggregate Resolutions Voting by Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Bermuda	5	100.00%
Cayman Islands	5	0.00%
China	25	88.00%
Finland	10	100.00%
France	65	100.00%
Germany	27 (0)	-
India	9	100.00%
Ireland	50	98.00%
Italy	18	100.00%
Japan	71	97.18%
Luxembourg	27 (0)	-
Malaysia	12	83.33%
Netherlands	61	100.00%
Portugal	17 (0)	-
Sweden	21	95.24%
Switzerland	82 (33)	96.97%
Taiwan	4	100.00%
United Kingdom	127	94.49%
United States	554	97.83%

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Total	1190 (1070)	96.82%
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The majority of resolutions in the Wellington portfolio were in the United States market, the United Kingdom was the only other market to have more 100 resolutions. Wellington did not vote any resolutions in the Germany, Luxembourg and Portugal markets and the majority of resolutions in the Switzerland market.

Sweden, United Kingdom, China, Malaysia and Cayman Islands recorded lower average level of voting with management in comparison to Wellington's average support of 96.82% - the number of resolutions voted in these markets, excluding the United Kingdom, constituted a small number of the total, so readers should be careful in inferring a statistical pattern. By comparison with the data in the UBS section of the report, Wellington's dissent levels towards UK companies was higher while UBS's dissent at US companies was higher.

It could be considered unusual to see United Kingdom's comparatively high level of 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.

Management provided no recommendation on one shareholder proposal each at Netapp Inc and Newell Brands Inc. The proposal at Netapp concerned proxy access and Wellington supported the proposal while the proposal at Newell Brands concerned the right to act by written consent and Wellington voted against the proposal.

Table 24: Wellington Aggregate Voting Patterns by Resolution Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	113 (101)	100.00%
Board	731 (670)	97.76%
Capital	111 (99)	96.97%
Corporate Actions	14 (11)	63.64%
Other	1	0.00%
Remuneration	134 (122)	96.72%
Shareholder Rights	67 (47)	86.96%
Sustainability	19	94.74%
Total	1190 (1,070)	96.82%

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 higher level of support for n resolutions in the Remuneration category.

When considering the Corporate Actions resolution categories Wellington's level of support is explained largely because many of the resolutions relate to related party transactions. Such resolutions may not always be considered to be in shareholder's best interests.

7.4 Legal & General Investment Management

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

8 Conclusions

This is the fourth annual report Minerva has produced for the Oxfordshire Pension Fund. 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 such as campaigns to introduce proxy access for shareholders.

Whilst 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 and improvements can be 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. Further the change in the size of the dataset and the composition of portfolios can have an impact on analysing year-on-year governance trends.

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.

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 donation authority requests in the UK are seldom a matter of concern for Oxfordshire's fund managers, however fund managers are supportive of shareholder proposals requesting enhanced disclosure on political expenditure and lobbying;
- Identifies that Remuneration and Shareholder Rights related resolutions are the resolution types Oxfordshire's fund managers oppose management on most often, followed by Sustainability and Board related resolutions;
- Identifies 266 instances where Oxfordshire's fund managers voted contrary to management recommendation on a resolution the template suggested a vote in support of management. The occurrence of resolutions where management was opposed without the identification of governance concerns suggests fund managers are also not afraid to apply their own investment judgement, even where this implies a vote against management.
- Identifies that Oxfordshire's fund managers in aggregate were more likely to oppose management by supporting a shareholder proposed resolution than by opposing a management proposed resolution. Fund managers voted contrary to management recommendation on 5.80% of resolutions proposed by management and 42.40% of resolutions proposed by shareholders.

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Oxfordshire's fund managers were more active than the average shareholder in expressing concerns through their votes, as measured by the average level of shareholder dissent. Whereas general dissent stood at 4.02% (up from 3.75%), Oxfordshire's fund managers opposed management on 6.44% of resolutions (up from 5.55%). There are however some variances between the respective managers. Whereas Wellington has supported management more than most shareholders, L&G, Baillie Gifford and UBS on the other hand supported management to a lesser extent than most shareholders.

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. 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.

Oxfordshire fund managers supported five successful shareholder sponsored proposals, all of these were in the US. Two sustainability-related shareholder proposals at Kinder Morgan were successful, one requested an annual report on sustainability and the other an assessment of the long-term portfolio impacts of scenarios consistent with global climate change policies. A proposal at NetApp Inc requesting the Board allow shareholders to nominate directors (proxy access) received over 90% support. The two other successful proposals related to shareholder rights, namely the right to act by written consent and to call special shareholder meetings.

Oxfordshire's fund managers opposed 24 defeated management proposed resolutions. 16 of the resolutions were say-on-pay frequency votes in the US market. L&G opposed the defeated remuneration report at Royal Mail and both UBS and Wellington voted against the defeated remuneration report at Mondelēz International Inc. L&G opposed three share issue authorities in the UK which failed to receive sufficient majority, while UBS voted against three defeated director election resolutions

There are some key regulatory developments which come into play during 2017/18 that may have a bearing on next year's report. Further details on these developments may be found in the appendix, which covers:

- UK corporate governance reform including a new UK Corporate Governance Code;
- UK Diversity initiatives;
- Human Capital initiatives; and
- Updates to UK institutional investor guidelines.

The debate on corporate governance and the quality of governance scrutiny is on the increase. Additionally, with ever increasing pressure upon institutional investors and asset managers for transparency about ownership processes, ongoing monitoring of governance risk and voting activity remains a vital activity of any responsible investment-minded investor. It is up to asset owners like the Oxfordshire Pension Fund to ensure that the quality and focus of this scrutiny is maintained by professional investors.

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9 Hot Governance Topics

The following is largely a UK-focussed summary of governance developments.

9.1 UK Corporate Governance Reform

During 2018 there have been a number of UK governance reforms which will impact both companies and investors:

Who	Issue	Implementation Time-line
Companies	A revised QCA Corporate Governance Code.	Published 25 April 2018 to coincide with new AIM rules on governance code reporting.
	Amended Listing Rules creating a new premium listing category for Sovereign Issuers.	Effective on 1 July 2018.
	New requirements for AIM companies to adopt and report against a recognised governance code.	Reporting required by 28 September 2018.
	A new corporate governance code, the Wates Principles, for private companies.	Due to be published December 2018 to coincide with new secondary legislation disclosure requirements.
	A revised FRC Corporate Governance Code.	First applies to accounting periods beginning on or after 1 January 2019 (2020 annual reports).
	New secondary legislation introducing new disclosure requirements on stakeholder and employee engagement, pay ratios, the impact of share price on remuneration, and discretion applied to remuneration outcomes.	First applies to accounting periods beginning on or after 1 January 2019 (2020 annual reports).
	Amended EU Shareholder Rights Directive introducing new requirements for companies including holding an annual remuneration report and a remuneration policy vote every four years.	Member states will need to implement the regulations by 10 June 2019.
Investors	A revised European Fund and Asset Management Stewardship Code.	Published 31 May 2018.
	FRC Stewardship Code to go under consultation.	The FRC intends to undertake a more detailed review and revision of the Code in late 2018.
	New DWP regulations on Statement of Investment Principles requiring a policy on ESG including climate change and a policy on stewardship including voting and engagement.	Enters on a staggered basis with the first reporting requirements effective 1 October 2019.
	Amended EU shareholder Rights Directive introducing new requirements for investors including engagement policy disclosure.	Member states will need to implement the regulations by 10 June 2019.

Investors will need to familiarise themselves with the changes introduced and consider whether they need to review and update their policies and procedures in light of the new governance and stewardship recommendations.

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9.1.1 UK Governance Code

In July 2018 the FRC published a new UK Corporate Governance Code. The Code will apply to all premium-listed UK companies with accounting periods beginning on or after 1 January 2019. Therefore, unless companies decide to adopt all or part of the new Code early, the first reporting will not be seen until 2020.

Key Code Changes	
Streamlining	The Code has been shortened and now consists of 17 principles and is around half the size of the previous Code. Supporting Principles have been removed with some being integrated elsewhere in the Code or added to the Guidance on Board Effectiveness. The Code has been reorganised into five sections; Leadership and purpose; Division of Responsibilities; Composition, succession and evaluation; Audit, risk and internal control; and Remuneration.
Stakeholder Engagement	The Code places greater emphasis on stakeholder engagement. The Code contains a provision on the need for boards to demonstrate in the annual report how they are applying section 172 of the Companies Act and a provision recommending employee engagement through one of the following mechanisms: a director appointed from the workforce; a formal workforce advisory panel; a designated non-executive director; or an alternative mechanism if appropriate.
Shareholder Engagement	Enhanced disclosure requirements when there is a 20% vote against any resolution including an update to be provided within six months from the AGM and a summary of the impact of shareholder feedback in the next annual report.
Culture and Diversity	There are new provisions on the board's role in monitoring and assessing culture and promoting diversity and inclusion, not only of gender but also of social and ethnic backgrounds.
Chairman	A chair should generally not remain in post beyond nine years from the date of their first appointment to the board.
Small Company Exemptions	Small company exemptions on board independence and annual re-elections have been removed. Other exemptions, including triennial external board evaluations, are retained.
Remuneration	A remuneration committee chair must have served on a remuneration committee for at least 12 months (not necessarily the same committee of which they will become chair) and committees should review and take into account workforce pay, policies and incentives when setting executive pay. In addition, there are new recommendations on executive pay design including; share awards to be subject to a total vesting and holding period of five years or more; there should be a formal policy for post-employment shareholding requirements; remuneration schemes and policies should enable the use of discretion to override formulaic outcomes; a committee may wish to consider setting a limit in monetary terms for which is considered a reasonable reward for individual executives; and pension provisions for executives should be aligned with those available to the workforce.

9.2 UK Diversity Initiatives

In October 2017, the Parker Review Committee published its Final Report on Board ethnic diversity. The report set out objectives and timescales to encourage greater diversity:

- Increase the board ethnic diversity by proposing each FTSE 100 board to have at least one director from an ethnic minority background by 2021 and for each FTSE 250 board by 2024;
- Develop a pipeline of candidates and plan for succession through mentoring and sponsoring; and
- Enhance transparency and disclosure to record and track progress against the objectives.

Lloyds became the first FTSE 100 company to set a formal target to improve ethnic diversity among its top executives. The bank has committed to ensuring that 8% of senior management jobs are filled by people from a BAME background by 2020, an increase from the current proportion of 5.6%. Across the whole workforce, the target is 10%, up from 8.3% at present.

The Hampton-Alexander Review published its third annual report on 13 November 2018. The report found that a quarter of FTSE 350 companies have only one woman on their board, "one & done" boards, and there remain five all-male boards. The five companies are Millennium & Copthorne, Daejan Holdings, Amigo Holdings, Herald Investment, and JP Morgan Japanese Investment - although Amigo Holdings has appointed a woman to its board since the analysis was undertaken. This means half the appointments to board positions will have to be filled by women over the next two years to hit the target of 33% representation of women on boards by 2020. The report did however find that the FTSE 100 is on track to hit the target.

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The UK Government's gender pay gap reporting regulations entered into force in April 2017. The regulations require employers in Great Britain with more than 250 staff to publish four types of figures annually on their website and on a government website:

- Gender pay gap (mean and median averages);
- Gender bonus gap (mean and median averages);
- Proportion of men and women receiving bonuses; and
- Proportion of men and women in each quartile of the organisation's pay structure.

To help employers, the Government Equalities Office and Acas have produced guidance on managing gender pay reporting in the private and voluntary sector. Non-compliance with the regulations would constitute an 'unlawful act' and fall within the existing enforcement powers of the Equality and Human Rights Commission under the Equality Act 2006. While in October 2018 the Department for Business, Energy & Industrial Strategy launched a consultation on ethnicity pay reporting by employers.

9.3 Human Capital Initiatives

There is increasing evidence that the way companies address non-financial factors can significantly impact long-term value and an increasing number of shareholders are keen to understand how companies are addressing ESG issues in order to support investment and stewardship decisions. Human capital is one area of non-financial reporting that companies and investors have recognised to be of value, but currently there is inconsistent reporting and insufficient disclosure.

As part of the PLSA's ongoing human capital project the PLSA published a report in collaboration with the Lancaster University Management School in November 2017 examining FTSE 100 reporting on employment models and working practices. The report found that while 64% of FTSE 100 companies provide meaningful narrative commentary on the composition of their workforce, just 4% of companies provide a breakdown of their workforce by full time and part time workers.

In late 2016, ShareAction launched the Workforce Disclosure Initiative (WDI) which brings together institutional investors to request comparable workforce reporting from publicly listed companies on their global operations and supply chains. The survey asked participants to provide information about their governance of workforce issues, global workforce composition and stability, training and development of people, and worker engagement. ShareAction intends to conduct the survey annually.

The corporate sector also launched its own guidance during the year. The IA and ICSA: The Governance Institute published joint guidance on board engagement with stakeholders. The guidance outlines 10 core principles that companies should take into account when making decisions and engaging stakeholders, covering: identifying key stakeholders; the composition of the board and development of directors; the way in which boards receive and process information; designing appropriate engagement mechanisms; and reporting and feedback to shareholders and stakeholders.

The US-based Coalition for Workers Capital (CWC), an international labour union network focusing on the responsible investment of workers' retirement savings, published guidelines for the evaluation of workers' human rights and labour standards providing a comprehensive set of KPIs for investors to evaluate company social performance. The guidelines set out a number of indicators that the CWC believes should be incorporated into the investment chain grouped by 10 themes: workforce composition; social dialogue; workforce participation; supply chain; occupational health and safety; pay levels; grievance mechanisms; training and development; workplace diversity; and pension fund contributions for employees.

However, despite the growing number of industry guidelines a report published by the International Transport Workers' Federation examining the responsible investment policies of 100 of the largest funds in Europe found that while most are adopting policies that protect and promote workers' rights, almost a third make no reference to international standards. The analysis found the UK to be the clear outsider, accounting for two thirds of the funds in this group by number, and four fifths by assets. The report did however find that a number of pension funds take active steps to avoid companies that have been accused of not respecting workers' rights, the result of which can be a major 'capital strike'. Almost a quarter of the funds in the sample, representing just over €2 trillion, refuse to invest in Wal-Mart. Six funds, representing €287bn, have Ryanair on their exclusions list.

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9.4 The Pension and Lifetime Savings Association Updates Guidelines

The Pension and Lifetime Savings Association's (PLSA) published its 2018 Corporate Governance policy and Voting Guidelines in January 2018. A new section on sustainability has been added to the guidelines. This follows guidance published by the PLSA in 2017 on the economic implications of climate change for pension funds.

- Shareholders should consider voting against the annual report and accounts or the re-election of the Chair where they believe that key stakeholder relationships are being neglected and the board is not adhering with the spirit of requirements to have for the concerns of stakeholder constituencies; and
- Where, after attempts by shareholders to engage on this issue, companies fail to provide a detailed risk assessment and response to the effect of climate change on their business, and incorporate appropriate expertise on the board, shareholders should not support the re-election of the Chair.

9.5 Investment Association Updates Guidelines

The Investment Association (IA) updated its Principles of Executive Remuneration and set an open letter to remuneration committee chairs of FTSE350 companies in November 2018.

The key changes made were:

- The pension contributions for current executive directors should be reduced over time to equal the rate received by the workforce and new executive directors and directors changing roles should be appointed on this pension contribution level;
- Companies should broaden the triggers under which malus and clawback provisions can be used to forfeit or recover remuneration beyond the current triggers of 'gross misconduct' and 'misstatement of results';
- Directors should be required to hold a proportion of their shares for a minimum of two years after their departure;
- Companies should have mitigation clauses in place for individuals retiring as a good leaver in case the individual goes on to take further executive roles; and
- The section on restricted shares has been updated and reformatted with an expectation for remuneration committees to have the ability to exercise discretion on vesting outcomes and confirm they have reviewed whether vesting outcomes are considered appropriate.

The IA also called on companies to adopt new pay ratio reporting requirements early, to maximise transparency over pay and ensure that there is accountability for high levels of pay internally. The IA also reemphasised the importance for companies to justify to investors the level of remuneration paid and why remuneration pay-outs are supported.

In 2017 the IA published new guidance on long-term reporting. The guidance is aimed at companies whose shares have a premium listing on the London Stock Exchange, but other listed companies are also encouraged to adopt it as best practice. Companies are encouraged to adopt the guidance for annual reports covering year-ends on or after 30 September 2017.

The guidance sets out a range of recommendations across five areas:

- Business models and long-term reporting: companies should stop issuing quarterly reports and focus on long-term performance and strategic issues taking into account the FRC Lab's business model reporting recommendations;
- Productivity: companies should identify and report on the main drivers of productivity within their business including developing key performance indicators;
- Capital management: company disclosure should explain the approach taken to managing capital, provide assurance that it is allocating capital efficiently and demonstrate that it is acting in a manner consistent with shareholder's interest in sustainable long-term value creation;
- Material environmental and social risks: This set of recommendations is a modification on the IA's 2007 Guidelines on Responsible Investment Disclosure and calls for disclosure relating to board responsibilities and policies, procedures, and verification systems in place to manage material ESG risks; and
- Human capital and culture: companies should provide narrative discussion regarding investments, opportunities, and risks in relation to human capital management and metrics such as total headcount, annual turnover, investment, and employee engagement. In relation to culture, companies should take a holistic approach to disclosure using a range of sources and indicators.

In December 2017 the IA published a position statement on virtual-only AGMs stating its members will not support article amendments in relation to electronic meetings if they allow for virtual-only meetings. Members expect any amendments to confirm that a physical meeting will be held alongside an electronic meeting element – known as a "hybrid meeting".

Review of Shareholder Voting 2017/18

Topical updates are available throughout the year via the Minerva Quarterly Governance Insights and the weekly blog.