Investment Management Association

Adherence to the FRC's Stewardship Code

At 30 September 2011

June 2012

Contents

Key findings

This second report on adherence to the FRC's Stewardship Code (the Code) looks at the activities that support institutional investors' commitment in practice. It summarises the responses of 83 institutions to a questionnaire that covered the period to 30 September 2011: 58 Asset Managers (2010: 41); 20 Asset Owners (2010: seven); and five Service Providers (2010: two). 45 of these also responded in 2010 (the 2010 respondents) and 38 were new respondents in 2011.

The Managers that responded managed £774 billion (2010: £590 billion) of UK equities representing 40 per cent (2010: 31 per cent) of the UK market, and the Owners owned £62 billion (2010: £15 billion). Service Providers do not hold equities.

Policies (section 3)

All the Asset Managers and Owners now have a policy statement on how they will discharge their responsibilities under the Code which is public, whereas in 2010 six respondents only had a statement of their intended commitment and one had nothing.

As found in 2010, the majority include their policy on conflicts of interest within their statement on the Code. Five maintain it separately and two provide their full conflicts of interest policy only on request.

The FRC encourages signatories to review their policy statements annually. Six of the 2010 respondents updated their policy statements during the year. Encouragingly more of the 2010 respondents' mandates now specifically refer to stewardship, as well as 13 of the new respondents. However, there are 20 Asset Managers/Owners that do not refer to stewardship in any mandates.

Structure and resources (section 4)

Stewardship can be conducted in-house or outsourced. 14 of the 78 Asset Managers/Owners outsource either to an external investment manager or to an overlay service provider. Each Manager/Owner regularly monitors its manager/provider.

For the remaining 64 where it is in-house, resource levels can be an important indicator of the respondents' commitment to the Code. Given the economically challenging environment over the past year it is encouraging that the 2010 respondents increased their total headcount involved in stewardship by four per cent in 2011.

More of the respondents had specialists dedicated to stewardship in the UK in 2010 - 79.4 per cent as compared to 69.6 per cent in 2011. This is to be expected as the 2010 respondents committed to the Code prior to the FSA's Conduct of Business rule for disclosure on a comply or explain basis taking effect. Thus they are more likely to have more established stewardship processes and dedicated specialists that work alongside the portfolio managers.

The dedicated specialists are drawn from a range of disciplines, such as accounting, law, and investment with a number educated to degree level and beyond. The team members for 27 respondents have on average between 7-15 years experience each and some up to 80 years in aggregate.

Some have questioned whether the involvement of such specialists means that stewardship is conducted separately from the investment process. However, it is clear that every respondent that employs dedicated specialists integrates stewardship into the investment process in one or more ways. For example, for over 76.9 per cent (an increase from 70.4 per cent in 2010) those involved in the investment process set and/or approve the stewardship policy. The specialists also work more with the portfolio managers/analysts in that compared to 2010, a greater proportion attend meetings with companies together or meet each other regularly in-house.

These resources are often supplemented by service providers. In the main, this is to process voting instructions. 34.4 per cent (2010: 40.5 per cent) also obtain research from providers but will always decide themselves how to vote. Although a higher proportion relies on the provider's recommendation than in 2010, for over 50 per cent of these the provider follows a policy tailored to the respondent's own.

Monitoring and escalating (section 5)

50 per cent of respondents have an equity interest in over 250 UK companies. Consistent with 2010, over two thirds monitor all companies as part of their investment process. Respondents tend to prioritise

engagement when there are issues. They had more engagement on issues relating to a company's strategy and objectives, and remuneration over others (Table 16).

All 2010 respondents and 81.8 per cent of new respondents have an in-house team that analyses company news and results. The majority cover all companies or major and actively managed holdings. Over 50 per cent have proactive contact with "Executive Directors and/or Management", over 70 per cent with investor relations and over 50 per cent with the Chairman and/or Non-Executive Directors. There tends to be less contact with the company secretariat or committee chairs.

Respondents were invited to rank obstacles to stewardship. Consistent with 2010, those with the most impact are where resources are limited and small holdings where there is insufficient influence. In answer to a specific question, where companies have block holders it can limit respondents' influence.

Practical examples (section 6)

Respondents focus engagement according to the priority they attach to the issue concerned and were asked to give details in relation to six examples. The results are summarised in Section 6 and set out in full in Appendix 3 and relate to:

- Tesco plc;
- Prudential plc;
- BP plc;
- Cable and Wireless Worldwide plc;
- Vodafone plc; and
- Xstrata plc.

Overall, 61 per cent of respondents with a holding in the company concerned engaged during 2011. For two of the six examples, engagement focussed on specific issues – BP, the oil spill and Prudential, the AIG deal – and a higher proportion of holders' engaged on the issue and did so more as compared to other examples. Engagement with Vodafone covered more general issues, with Xstrata it was board succession and remuneration, and with Tesco and Cable and Wireless Worldwide it was remuneration. In this context, where remuneration is the main issue, it did not give rise to high levels of engagement although a higher proportion of respondents voted against Cable and Wireless Worldwide's remuneration report than on any of the other resolutions. With the exception of Vodafone, a higher proportion of respondents voted against the related resolutions than shareholders overall.

There was no general trend as to who engagement was with in that this depended on the issue but in each instance, portfolio managers/analysts played a key role. Overall, 73 per cent of respondents engaged with at least one of the six examples. The results were encouraging, in that a number of companies changed their behaviour as a result, benefiting all shareholders, both in the UK and overseas.

15 per cent of respondents did not provide any details in relation to these examples. One noted that it has since established an Engagement Sub-Committee and another that its preference is to sell if it is unhappy about a particular issue.

Respondents also gave over 100 additional examples of engagement with other companies to demonstrate adherence to the Principles. Where there were conflicts of interest, they provided details of measures taken to address them. 32 examples demonstrated how active monitoring and subsequent escalation resulted in positive changes at the company concerned. Many of these other engagements are ongoing and are yet to reach a conclusion. When respondents collaborated a number noted positive results, for example, one instance was a "catalyst for change". However, this was not always the case and some noted the need to improve communication between investors in the UK and overseas.

Voting (section 7)

Voting levels overall increased in all markets in 2011. A greater proportion of respondents now vote all UK shares - 86 per cent as compared to 81 per cent in 2010. There is less voting in overseas markets but those that vote all holdings increased in each market, particularly in the "rest of western Europe", the USA and Canada, and Japan. The main obstacle is still share blocking, with others being the need to have a power of attorney and the inefficiency of the voting chain. Just fewer than 40 per cent of respondents inform management in advance when voting against or abstaining, with a further 11 per cent doing so in arrears. However, nearly 30 per cent never or rarely inform the company in advance with 30 per cent occasionally doing so.

More now publicly disclose their voting records, 73.4 per cent as compared to 69.0 per cent in 2010. Over two thirds include details of all votes, though the majority do not give the rationale behind their vote. A smaller number provide abbreviated reports which can include votes against or exceptional votes, together with the rationale. The information is normally updated quarterly in arrears.

A further 14.1 per cent disclose the reason why they do not disclose publicly.

Reporting (section 8)

Just less than 80 per cent of respondents report to clients on stewardship and/or voting, though there has been a decline in the proportion that report both stewardship and voting. However for 19 per cent, reports vary according to their client's requirements and as such may include stewardship.

As found in 2010, few have obtained an independent opinion on their engagement and voting processes, with only 20.3 per cent covering their voting process and fewer than 10 per cent covering stewardship as well. However, the Stewardship Supplement to the AAF01/06 was only published in March 2011, thus respondents would not have necessarily had the time to obtain such an opinion in this period. It is encouraging that a further 17.2 per cent intend to obtain an independent opinion on their processes by the end of 2012. A further 34 per cent carry out an internal audit of their processes.

Other stewardship activities (section 9)

A number of respondents are actively involved in wider issues of public policy both nationally and internationally. Many also are members of committees and associations dedicated to improving governance standards. Such activities require commitment in terms of time and resources, but are seen as an integral element of their stewardship responsibilities.

1. Introduction

The FRC issued the Code in July 2010[1]. The Code is voluntary and aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. It sets out good practice on engagement with investee companies, including monitoring companies, entering into a dialogue with company boards and voting at general meetings.

The Code is addressed in the first instance to firms who manage assets on behalf of institutional shareholders, such as pension funds, insurance companies, investment trusts and other collective investment vehicles.

IMA worked with the FRC in developing this survey in order to monitor adherence to the Code. This is the second such survey undertaken by the IMA. The first covered the period to 30 September 2010 and this covers the period to 30 September 2011. As for 2010, a Steering Group, chaired by the FRC's Chief Executive, provided direction and independent oversight. The members of the Steering Group are set out in Appendix 1.

The survey seeks to capture the various activities under the Code and institutional investors that had signed up to it were invited to complete a questionnaire. The questionnaire, based on the 2010 questionnaire, was updated and agreed with the Steering Group and sent to all 173 institutions that had signed up to the Code as at 30 September 2011[2]. In summary, it requested details of:

- the public policy statement;
- the level of resources employed and the use, if any, made of proxy voting agencies;
- the integration of stewardship into the investment process;
- how monitoring is undertaken, the activities involved and any barriers;
- practical examples of activities in relation to particular case studies;
- general information about voting; and
- the frequency of reports to clients, the information reported and whether voting records are publicly disclosed.

This report is a summary of the results. The collation of the individual submissions that support the report has been reviewed by Ernst & Young. IMA would like to thank all respondents for their contributions and for the members of the Steering Group who gave their time.

[1] http://www.frc.org.uk/corporate/investorgovernance.cfm. The FRC intends to revise this and that the revised version will take effect from 1 October 2012. This survey is based on the code as at 30 September 2011.

[2] Two institutions signed up to the Code between 30 September and the despatch of the questionnaire on 6 October 2011 and are included in the 173. One confirmed that it did not want to participate and is excluded. For another the contact details were incorrect and a further three are no longer signatories. These four were sent a questionnaire but are excluded from the 173.

2. Profile of respondents

Types of respondent

173 institutions that had signed up to the Code as at 30 September 2011 were invited to participate in the survey, which aimed to determine the activities that support their commitment in practice. This comprised of 128 Asset Managers, 34 Asset Owners and 11 Service Providers - more than double the number as at 30 September 2010 when 80 institutions were invited to participate.

58 of these Asset Managers, or 45.3 per cent, responded as compared to 41 or 70.7 per cent in 2010 – Table 1. 2010 was prior to the FSA rule requiring UK Asset Managers to have a statement of their commitment or explain their alternative strategy came into effect[3]. Thus a higher response rate would be expected as the 2010 Asset Managers would tend to be more dedicated to stewardship and have the resource and commitment to complete the questionnaire.

The majority of Asset Owners, on the other hand, tend to appoint an Asset Manager to manage their investments and may require the Manager to undertake stewardship on their behalf. Thus fewer committed to the Code in their own right and responded than Asset Managers in both 2011 and 2010. However, the response rate remained the same with 20, or 58.8 per cent, responding in 2011 and seven, or 58.3 per cent, in 2010. As the FRC's Report on Developments in Corporate Governance of December 2011 noted: *"the involvement of asset owners is critical because of their role in awarding investment mandates. If asset owners, as clients, make it clear to their fund managers what they expect by way of stewardship, their managers will have a real incentive to deliver. Over time the Stewardship Code will then become a significant driver of change[4]"*.

The number of Service Providers that responded also increased to five from two in 2010.

As at 30 September 2011, the Managers that responded managed £774 billion[5] (2010: £590 billion) of UK equities representing 40 per cent (2010: 31 per cent) of the UK market[6] (excluding four Managers that did not provide this information) and the Owners owned £62 billion (2010: £15 billion) (excluding two that did not provide this information).

As the Managers may be managing the Asset Owners' holdings, the details reported by the Owners and Managers may relate to the same holdings and thus be double counted. Service Providers do not hold equities.

Table 1: Types of respondent and assets managed/owned

	No. of respondents		Assets managed/owned £billion	
	2011	2010	2011	2010
Asset Manager	58	41[7]	774	590
Asset Owner	20	7	62	15
Service Provider	5	2	N/A	N/A
Total	**83**	**50**	**-**	**-**

How stewardship is conducted and the answers to the questionnaire can be impacted by the type of respondent and, for example: whether an asset manager manages its owner's assets or is independent and only manages those of a third party; whether an asset owner is a pension fund, charity or other type of owner; and a service provider's service. Thus Asset Managers were asked for details of their owner (Table 2); Asset Owners, the nature of their assets (Table 3); and Service Providers, the service provided (Table 4).

These distinctions should be borne in mind when reading this report but are not necessarily clear cut. For example, one respondent classified as an Asset Owner manages its own and third party assets, and provides corporate governance services to others (an overlay service).

[3] Financial Services Authority Conduct of Business Rule 2.2.3 which was effective from 6 December 2010.

[4] Page 20 http://www.frc.org.uk/images/uploaded/documents/Developments%20in%20Corporate%20Governance%2020116.pdf.

[5] Seven Asset managers provided the figure by email or verbally. For another three, the value of UK equities was taken from the IMA Asset Management Survey for 2010/11 and for two from the 2010 report on Adherence to Stewardship Code, both of which were adjusted for the movement in the FTSE All Share.

[6] Based on total UK market value of £1,914,253 (source London Stock Exchange website).

[7] Two respondents did not respond in 2010 and a further two merged and thus only one response was received in 2011. For the purpose of meaningful comparisons, their responses have been removed from the 2010 results for the remainder of this report.

Asset managers

Nearly half of the Asset Managers are independent, though a number are the UK subsidiaries of large independent groups. A quarter are owned by insurers and invest on behalf of the owner, although one has a significant portion of third party assets under management. Those that responded “other” are:

- two that are owned by a custodian;
- three that are part of international financial groups; and
- one that is part of a UK financial group.

Table 2: Asset managers – ownership

	No. of respondents	Per cent
Retail bank	3	5
Investment bank	3	5
Insurer[8]	14	24
Independent[9]	27	47
Asset Owner[10]	5	9
Other	6	10
Total	**58**	**100**

Asset owners

85 per cent of the Asset Owners are pension schemes of which the majority, or 40 per cent, are occupational pension schemes and 35 per cent are public pension schemes. Of the two that responded “other”, one manages the Government's shareholdings in banks and the other is an investment trust.

Table 3: Asset owners – assets

	No. of respondents	Per cent
Occupational pension scheme	8	40
Public pension scheme	7	35
Private pension scheme	2	10
Charity/foundation	1	5
Other	2	10
Total	**20**	**100**

Service providers

Three Service Providers provide research and advice to both asset owners and asset managers on corporate governance and socially responsible investment issues, and often provide electronic voting capabilities. The “other” two are investment consultants advising asset owners on the management and stewardship of their assets. They advise owners on individual asset managers.

As the Service Providers do not manage or own equities, a number of questions were not applicable to them, or where questions are, they were approached from a different viewpoint. Thus the Service Providers’ responses are presented separately in this report.

Table 4: Service providers - service

	No. of respondents	Per cent
Proxy voting agency	3[11]	60
Other	2	40
Total	**5**	**100**

Investments relevant to stewardship

Asset Managers and Owners were asked in which UK index/market the companies relevant to their stewardship are listed and whether they only vote the shares of these companies or engage as well – Table 5.

Overall over 85 per cent of the Asset Managers/Owners vote and engage with companies in the FTSE 100 index with 80 percent doing so with the wider FTSE 250. A smaller percentage, 69 per cent, vote and engage with companies in the FTSE Small cap/fledging index and 56 per cent with those listed on AIM. A small number of new respondents this year do not engage in that they only vote their holdings. Three did not answer this question. (Two 2010 respondents did not answer in 2011 and two 2010 respondents merged and submitted one response in 2011. In order to better reflect the impact of the Code over time, these have been removed from the 2010 comparatives unless otherwise stated.)

[8] One’s parent company provides long term savings and investments.

[9] One is owned by an investment trust, another is publicly listed on AIM.

[10] Four are owned by the pension funds on whose behalf they invest, with a further one owned by its church, charity and local authority clients.

[11] One selected “other“ but as it conducts proxy voting and engagement services it is categorised as a proxy voting agency.

Table 5: Index/market shares voted/companies engaged with listed

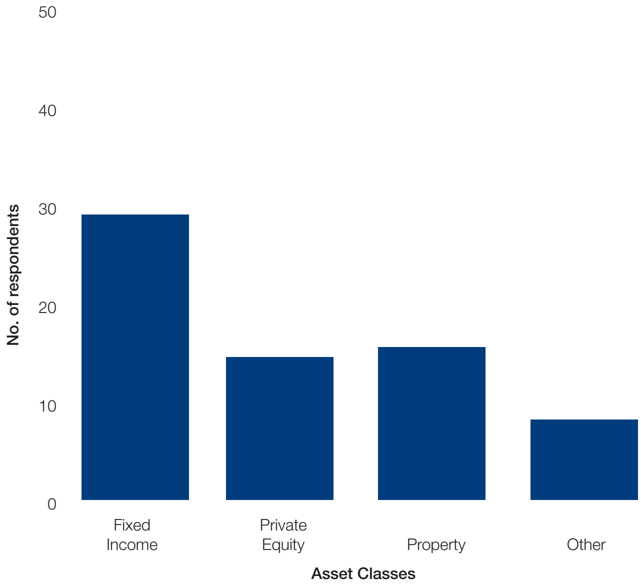
	2011 Vote only		2011 Vote and engage		2010 Engage[12]
	Total	2010 respondents	Total	2010 respondents	
FTSE 100	8	1	67	44	45
FTSE 250	9	2	63	42	44
FTSE Small Cap/fledgling[13]	7	1	53	38	43
AIM	7	2	44	31	29

The FRC's Report on Developments in Corporate Governance stated: *"the FRC also welcomes the growing debate on whether the concept of stewardship should apply to global equities and other asset classes. While the Stewardship Code was drafted with UK equities in mind, the concept that underlies it should have broader national and international relevance[14]".*

40 respondents not only engage when they have an equity holding but also in respect of other asset classes - Chart 1. 30 engage when they have an interest in fixed income instruments and a smaller number with property and private equity holdings. Seven engage across all three asset classes, and nine, two. Of those that selected "other", three engage in relation to their "infrastructure holdings" and one with the banks largely owned by the UK Government. Others stated:

- *"We engage with assets in other asset classes e.g. Hedge funds. However, we would not always consider these to be 'company' engagements."*
- *"We are beginning to review our Fixed Income holdings against watch lists, and are working on how we can further enhance Environmental, Social and Governance (ESG) research and issues into the investment process of our fixed income strategies."*
- *"Where there is an overlap with our equity holdings. We believe that the engagements we conduct with companies from an equity perspective have direct relevance to fixed income (and other) investors ....There is, in our view, a commonality of interests on these matters between equity and debt investors."*
- *"Although different structurally we still engage with companies in respect of other asset classes."*

Chart 1: Other asset classes where there is engagement



[12] In 2010 respondents were asked for markets in which they engage which was taken to include both voting and engagement whereas in 2011 vote and vote and engage are two separate categories.

[13] In 2010 "rest of all share", which is essentially small cap, and "fledgling" in two categories. In 2011, small cap and fledgling are merged.

[14] Page 21.

3. Policies

Public policy statement

One of the requirements of committing to the Code is to have a public statement on how stewardship responsibilities are to be discharged. **Principle 1** states that: *"institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities".* The Guidance sets out the matters that should be included.

As stated in the preface to the Code: *"disclosures made by institutions under the Code should assist companies to understand the approach and expectations of their major shareholders. They should also assist those issuing mandates to institutional fund managers to make a better informed choice, thereby improving the functioning of the market and facilitating the exercise of responsibility to end-investors".*

"As with the UK Corporate Governance Code, the Code should be applied on a "comply or explain" basis. In reporting terms this entails providing a statement on the institution's website that contains:

- *a description of how the principles of the Code have been applied; and*
- *disclosure of the specific information listed under Principles 1, 5, 6 and 7; or*
- *an explanation if these elements of the Code have not been complied with".*

In accordance with Principle 1, all the Asset Managers and all but one of the Asset Owners now have a policy statement on their website – Table 6. The six that only had a statement of commitment and the one that did not have anything in 2010 have now finalised their statements and made them public. However, one Asset Owner's statement is on the FRC's website as opposed to its own, it clarified: *"we have posted a response to the Stewardship Code on the FRC website which explains our position on 3.1-3.4. Our Statement of Investment principles and our standalone Sustainable Investment Policy also cover our position. These are made available to our members and our investment managers".*

Table 6: Public policy on stewardship

	2011		2010
	Total	**2010 respondents**	
Final policy statement	78	45	38
Statement of commitment	-	-	6
No statement	-	-	1
Total	**78**	**45**	**45**

Four of the five Service Providers have a public policy statement (2010: two) though in one instance this is only on the FRC website whilst its own website is upgraded. The fifth Service Provider, a consultant, provided a link to its policy on sustainable investment and clarified: *"We don't have a policy statement as such, but we do support the Stewardship Code as it is consistent with our own investment beliefs and in the advice we give to our clients".*

Conflicts of interest

An institutional investor's duty is to act in the interests of all clients and/or beneficiaries when considering matters such as engagement and voting. But conflicts of interest arise from time to time, which may include when voting on matters affecting a parent company or client. **Principle 2** requires that: *"institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which is publicly disclosed".*

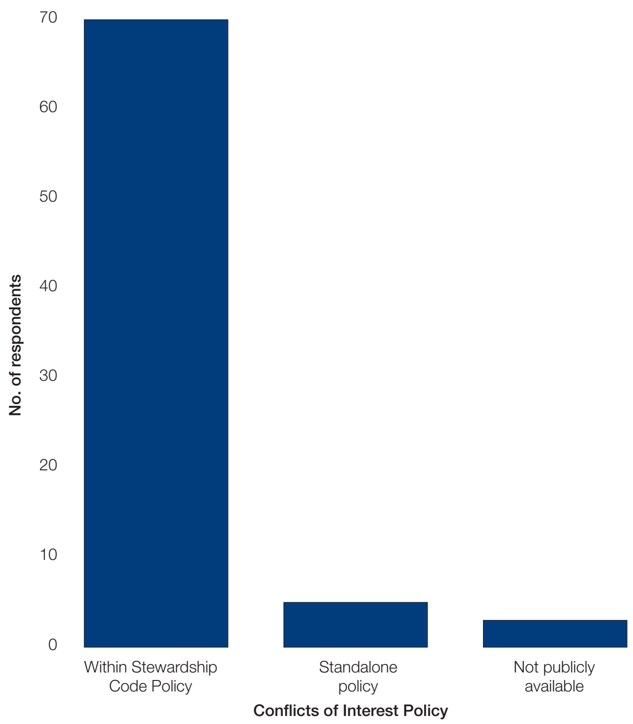
The FRC's Report on Developments in Corporate Governance noted: *"the reporting of how conflicts of interest are managed is frequently weak. This is a point also made by Fair Pensions in its report on fiduciary duties. Relatively few signatories state categorically they always seek to place the interest of their clients first[15]".*

As found in 2010, the majority of Asset Managers/Owners cover their policy on managing conflicts of interest within their policy statement on the Code. Only eight do not of which five maintain it separately on their websites and of the other three, one's conflicts of interest policy is only provided to clients, another did not provide details but outsources

[15] Page 21.

stewardship to a service provider, and the last stated: *"a brief summary of our conflicts of interest policy as it relates to stewardship is provided within our statement on the UK Stewardship Code. A copy of our full conflicts of interest policy is available on request".*

Chart 2: Conflicts of interest policy



Of the Service Providers, three incorporate their conflicts of interest policy in their statement on the Code. As the other two are consultants, this is not applicable to them.

Updating policy statements

The FRC's Report on Developments in Corporate Governance noted: *"the FRC would encourage signatories to review their statements each year to see whether they need refreshing, and to consider these points [policy on conflicts of interest, collective engagement and the use of proxy voting agencies, and the statements' accessibility] when doing so[16]".*

Only six of the 2010 respondents updated their policy statements during the year:

- one to reflect the combination of business areas;
- three to reflect changes to their processes with one stating: *"the voting policy (appendix) has been updated following a review of our policy and provides more information on instances were voting intentions may override support for management proposals. In addition we have clarified our stance on independence";*
- another, a recent allocation to passive investment; and
- the last updated: *"its approach to the UK Stewardship Code in January 2011. [Manager] also published a revision of its Corporate Governance and Voting Policy at the same time to reflect the UK Stewardship Code, the UK Corporate Governance Code and changes to regulatory and best practice guidelines".*

A further Asset Owner intends to review its policy in the next quarter.

Other frameworks

As well as the FRC's Stewardship Code, many respondents endorse or adhere to other frameworks. 49 Asset Managers/Owners elaborated. 39 are signatories to the United Nations Principles for Responsible Investment (UN PRI) with three being founding members, another is considering becoming a signatory and one Owner does so via its overlay service provider. Four of the five Service Providers are signatories.

The International Corporate Governance Network is supported by 11 Asset Managers (one of which one is a founding member), two Asset Owners and one Service Provider. Other international initiatives supported are the Code for Responsible Investing in South Africa, the OECD[17] Principles for Governance, European Social Investment Forum and the Asian Corporate Governance Association.

A number of other frameworks are supported such as UK Social Investment Forum, initiatives by the

[16] Page 22.

[17] Organisation for Economic Co-operation and Development.

Association of British Insurers (though one respondent opposed its guidance on share issues), the Carbon Disclosure Project and "Forest Footprint Disclosure". Some Asset Owners have affiliations with the National Association of Pension Funds (NAPF) and the Local Authority Pension Fund Forum (LAPFF[18]). To quote:

- *"Our Responsible Investment policy ......makes reference to the ABI and OECD guidelines on corporate governance. Additionally, [Manager] is a signatory to the UN Principles for Responsible Investment."*
- *"Broadly, [Manager] supports the position papers published by the following organisations: - Association of British Insurers (ABI) - Global Reporting Initiative (GRI) - Institute of Chartered Secretaries and Administrators (ICSA) - International Corporate Governance Network (ICGN) - Organisation of Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises - The UK Stewardship Code - United Nations (UN) Global Compact - UN Guiding Principles for Business and Human Rights - United Nations Principles for Responsible Investment (UN PRI)."*
- One consultant stated: *"We are a signatory to the UN Principles for Responsible Investment, an active member of the UK Sustainable and Responsible Investment Forum, as well as active participator in a range of association-related activities such as the NAPF".*

Ten respondents do not adhere to other frameworks.

Client mandates

The preface to the Code states: *"institutional shareholders are free to choose whether or not to engage but their choice should be a considered one based on their investment approach. Their managers or agents are then responsible for ensuring that they comply with the terms of the mandate as agreed".*

A key driver for stewardship is the expectations of an Asset Manager's clients and for an Asset Owner, those of its beneficiaries. In general, it is the client or beneficiaries that determine the terms of the mandate. Since 2010, there has been an increase in the number of mandates that refer to stewardship. For seven respondents that had "some" and one that did not respond in 2010 now "all" mandates refer to stewardship, albeit for one only a few mandates specifically refer to stewardship – Table 7[19]. In addition, 13 new respondents refer to stewardship in "all" mandates.

25 Asset Managers/Owners refer to stewardship in "some" mandates[20]. For 15 this is consistent with their response in 2010 with two clarifying that clients ask about stewardship but have not necessarily changed their mandates and another that whilst most mandates refer to voting and only one to stewardship, there is no facility to opt out of its funds' stewardship policy. Two improved[21] on 2010 and one went from "all" to "some".

20 Asset Managers/Owners do not refer to stewardship in any mandates. Eight of these were 2010 respondents that had not entered into any new mandates and ten were new respondents. One of the new respondents that did not answer this question clarified it had not entered into any new mandates but that the Code is referred to in "Requests for Proposals."

Table 7: Mandates that refer to stewardship policy

	2011		2010
	Total	**2010 respondents**	
All	26[22]	13	6
Some	25	18	24
Three quarters	4	3	
Half	6	4	
A quarter	15	11	
None	20	10[23]	11
No response	7	4[24]	4
Total	**78**	**45**	**45**

Service Providers, due to the nature of their business, were not asked this question.

[18] The Local Authority Pension Fund Forum (LAPFF), set up in 1991, is a voluntary association of 48 public sector pension funds based in the UK. It exists 'to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance'.

[19] One that answered "all" in 2010 misunderstood the question and is now included in "some".

[20] One stated "none" but as it had less than 5 per cent of mandates that refer to stewardship, it has been reclassified as "some".

[21] One did not answer in 2010 and another that stated "none".

[22] One has only one mandate and this mandate refers to stewardship.

[23] Two changed their response from 2010 from "some" to "none"; one clarifying that their mandates preceded the Code and tend to refer to voting rights and another that they misunderstood the question in 2010.

[24] In 2010 two Asset Managers reported "some" mandates where one no longer tracks this information, the other did not comment.

4. Structure and resources

Structure

To fulfill obligations under the Code stewardship can be conducted in-house or outsourced to a third party – Table 8. (This is not relevant for the five Service Providers which are excluded from this section.)

Table 8: How stewardship conducted

	Number of respondents	
Outsourced	14	
External investment manager		9
Overlay service provider		5
In-house	64	
Total	**78**	

Outsourced

Where stewardship is outsourced, respondents monitor their providers. Where the provider is an external investment manager:

- four receive monthly or quarterly reports on voting and engagement and one on voting, with two reviewing providers annually;
- one operates a fund of fund approach and reviews managers as part of its due diligence; and
- another ensures all its managers are committed to the Code. It receives quarterly reports and meets each manager once or twice a year. Also a member of staff is responsible for implementing its governance policy, including reviewing votes and socially responsible investing (SRI) issues[25].

Where the provider offers an overlay service:

- two receive regular reports and meet their provider;
- one applies the Code through its membership of the LAPFF and arrangements with similar investors and asset managers, and the Superannuation Committee reviews quarterly reports on voting; and
- another: *"monitors its voting and engagement agents throughout the year, including their level of compliance with the UK Stewardship Code, and works with them to improve the quality and quantity of their stewardship activities globally. The Fund requires its agents to provide quarterly reports, disclosing all votes and engagement activities. These reports form part of its regular monitoring of their stewardship activities, and are discussed in quarterly calls"*[26].

The 14 respondents that outsource are excluded from this report until Section 9[27].

In-house

Where stewardship is conducted in-house, the level of resources employed can be an indication of an institution's commitment but can be affected by the approach - Table 9.

The headcount of the 2010 respondents involved in stewardship increased by four per cent in 2011[28], from 725.5 to 754[29] and the headcount for all respondents in 2011 is 1,071, an average of 19 per respondent.

In 2011, for a greater proportion, 17 or 30.4 per cent, the portfolio managers/analysts handle engagement compared to 7 or just over 20 per cent in 2010. As the 2010 respondents committed to the Code prior to the FSA's Conduct of Business rule for disclosure on a comply or explain basis taking effect, they are more likely to have more established stewardship processes and more dedicated specialists. To quote:

- *"Stewardship is embedded within our investment process. Our portfolio managers and analysts are continuously conducting intensive, in-depth research to arrive at an in-depth assessment of factors which feed into our forecast and valuation models for investing. ......Key to this process are face to face meetings between portfolio managers/analysts and company management teams. These meetings enable us to assess the business' performance, to make a critical analysis of*

[25] Two did not state.

[26] One did not state.

[27] Three that outsource their stewardship and responded in 2010 have been removed from the 2010 results in order to show direct comparisons with 2011 results.

[28] This includes 32 "others" which was not specifically asked in 2010.

[29] Five respondents reported figures for their global operations in 2010 and their UK operations in 2011, in order to provide accurate comparisons; they have been removed from the table.

consensus estimates and to detect warning signals early. More importantly the meetings allow us to assess the quality of execution (track record) and make a judgement regarding the direction and sustainability of returns."

- *"The fund managers are individually responsible for engagement with investee companies and making decisions on proxy voting. The fund managers are then supported by the CIO, Legal, Compliance and Operational Managers as required when matters of engagement require escalation and for the ongoing maintenance of our Policy on Corporate Governance and Stewardship."*
- *"Stewardship is integral to the work of [Owner] and therefore, whilst we are a small team, everyone involved in managing [the] shareholding is engaged in stewardship."*

Two respondents in 2011 and 2010 employ specialists to look at overall policy or execute instructions with portfolio managers undertaking engagement. To quote: *"Our engagement and voting programs are investment-driven. Voting responsibility is assigned to each fund manager, and votes are determined at the portfolio level, not across our entire firm. Similarly, engagement priorities are identified by fund managers or analysts who follow the companies. We employ a proxy voting team of three and a global corporate governance specialist in order to enable fund managers to execute these responsibilities".*

The preferred approach for 33, or just under 59 per cent, (2010: 22 or 64.7 per cent) of respondents is that matters relating to strategy and performance are handled by the portfolio managers/analysts but, due to the specialist knowledge required, specialists handle aspects such as corporate governance and socially responsible investment (SRI). Examples of how the portfolio managers are supported by specialist teams are:

- *"As portfolio managers and analysts have the best understanding of investee companies, it is they who are best placed to apply these [Stewardship Code] principles. They are supported by operational specialists responsible for operational oversight of our outsourced provider of proxy voting services and for administering any votes against policy instructed by portfolio managers/analysts."*
- *"Corporate governance and SRI bring insight to Fund managers who with their knowledge and assessment of company management, strategy and special circumstances enable the decision making process. Our team of corporate governance specialists provides governance information and analysis to our fund managers and analysts, and the teams work together on engagement cases and voting decisions."*
- *"[Manager's] rationale for investing in a company is supported through research into ESG matters, voting decisions and engagement. The work of [Manager's] responsible investment desk aims to achieve a better understanding of the relevant ESG risks, or seeks an improvement in the behaviour of the investee company. Research: ESG considerations are an important input into the fundamental research undertaken by [Manager's] team of analysts. In particular, the responsible investment desk, which is part of [Manager's] research team, undertakes research into specific companies or ESG issues and provides specialist input to the global sector analysts."*

There were, however, a range of responses:

- *"This is somewhat difficult to answer. Yes from time to time there is PM involvement but overall the activity rests with the ESG team. We are rolling out an ESG integration strategy across all our capabilities over the next 6-12 months though."*
- *"In house portfolio covered by internal analysts and PMs, and all actively engage with companies. In house and discretionary outsourced portfolio voting implementation done by service provider, with decisions to depart from default policy taken by in house by specialist."*

The three[30] (2010: three) respondents where stewardship is the responsibility of specialists only commented:

- *"[Manager] has a team of 5 Corporate Governance specialists in charge of voting and engaging and two environmental & social analysts. In its home market, [Manager] engages directly but in other markets we participate in collaborative engagement".*

[30] Two Asset Owners' responses were changed to reflect their internal resources as opposed to their external portfolio managers and/or other exernal resource.

- *"[Asset Owner] employ external fund managers to manage their investment portfolio, with one dedicated in-house ESG specialist looking at "higher level" policy/overall ESG strategic issues facing the fund."*
- *"We work closely with our external fund managers with regards to their stewardship responsibilities. However, we have 2 in house dedicated corporate governance specialists who conduct our voting and stewardship activities."*

One that responded "other" clarified: *"mix between PM/analysts and support function for proxy voting. Worked with company secretary and legal team + investment team to define internal policy".*

Table 9: Primary resource responsible

		2011		2010
		Headcount (Number of respondents)		
		Total	2010 respondents	
Portfolio managers/analysts only	Portfolio managers	203	128	103
	Others	16	11	–
		(17)	(10)	(7)
Portfolio managers/analysts with dedicated specialists looking at policy	Portfolio managers	41	11[31]	57
	Specialists	13	9	3
	Others	–	–	–
		(2)	(1)	(2)
Both portfolio managers/analysts and dedicated specialists	Portfolio managers	594	447	435
	Specialists	143	98	90.5
	Others	24	15	–
		(33)	(21)	(22)
Dedicated specialists only	Specialists	29	29	37
	Others	6	6	–
		(3)	(3)	(3)
Other		2	–	–
		(1)	–	–
Total	Portfolio managers	838	586	595
	Specialists	185	136	130.5
	Others	48	32	–
		(56)	(35)	(34)
Total[32]		**1,071**	**754**	**725.5[33]**

[31] The reduction since 2010 is in part due to one changing from portfolio managers with dedicated specialist looking at policy to portfolio managers and dedicated specialists.

[32] Five respondents reported figures for their global operations in 2010 and their UK operations in 2011. In order to provide accurate comparisons; they have been removed from the table. In addition, three respondents were unable to provide the number of resources and are not represented in the text or Table.

[33] The following were not included in the 2010 Table: three Asset Managers that were unable to provide figures for the UK operations or for overseas respondents, the resource employed in the stewardship of UK companies; one Asset Owner that outsources stewardship to an overlay service provider; and one Asset Manager and one Asset Owner that did not respond to this question.

Integration into the investment process

As noted above, engagement on strategy and performance is often handled by the portfolio managers/analysts with specialists handling particular aspects such as corporate governance and socially responsible investment. At times this dual approach can give rise to questions as to whether those responsible for stewardship represent the views of the portfolio managers responsible for the investment and on the integration of stewardship into the investment process.

The FRC's Report on Developments in Corporate Governance noted: *"this [whether investors have the right people] includes the ability to bridge the gap that sometimes exists between understanding of governance and remuneration on the one hand and business context, strategy and financial development on the other. This is one aspect of the integration of investment and governance"*[34].

The Guidance to **Principle 1** addresses this and states that the stewardship policy should disclose: *"internal arrangements, including how stewardship is integrated with the wider investment process".*

To determine what happens in practice, the 39 (2010: 27) respondents where specialists have a key role were asked how this is integrated into the investment process from a range of options - Table 10.

With the exception of one Asset Manager, each respondent integrates stewardship into the investment process in some way. For 30 or 76.9 per cent (2010:19 or 70.4 per cent) those involved in the investment process set and/or approve the stewardship policy and for 23 or 59 per cent (2010: 18 or 66.7 per cent), they make the final voting decision in a controversial situation. One respondent clarified: *"We answered yes as in most cases, the fund managers will ultimately make the final vote decision (as this is typically the same as the governance team view) but if the governance and SRI team do have a different view, we have a committee who will be the final arbiters in controversial situations/extreme cases".*

For 33 or around 84.6 per cent (2010: 22 or 81.5 per cent) dedicated specialists attend meetings with investee companies with portfolio managers/analysts, with a greater proportion doing so "often" in 2011 as opposed to "sometimes" in 2010. For 35 or 89.7 per cent (2010: 21 or 77.8 per cent) dedicated specialists meet regularly in-house with portfolio managers/analysts.

For a number of respondents, corporate governance committees or internal focus groups have an important role. For example: *"[Manager] has a Corporate Governance Committee composed of fund managers and dedicated specialists which sets the Stewardship agenda in relation to investee companies. This committee meets monthly to discuss general stewardship issues and particular companies where there are issues of concern. The Committee also has a rolling programme of meetings with the Chairs of investee companies".*

For others stewardship issues are taken into account when reviewing portfolios. For example: "*In 2009, we formally combined the ESG and Financial Analysts into a single Research team to enhance integration. This team of 13, including five dedicated ESG analysts, is organised along industry lines with analysts encouraged to specialise. A summary report (or 'stocksheet') is then produced which uses insights from the financial and ESG analysis to plot best, central and worst-case scenarios.... [A company review meeting] is attended by the relevant financial and ESG analysts and the equity fund managers. ......The relevance and impact of the ESG analysis is debated in this meeting, with the resulting outcome (if any) reflected in the investment decisions taken thereof and/or through any amendments to the stocksheet. This also occurs through quarterly meetings between each ESG analyst and his/her financial counterpart...... In this way, ESG issues are formally integrated into the investment process."*

Three expanded on the voting process, one clarifying: *"Portfolio managers make all voting decisions, not just in controversial situations"* and another: *"In the event of contentious voting issues and to avoid potential conflicts of interest, the final voting decision is held by our Chief Investment Officer/CEO".*

Others cited the close working relationship between dedicated specialists and portfolio managers, one stating: *"Firstly, we sit very close to the fund managers so we talk to them a lot, sharing notes and experiences. There is also a significant amount of email communication between the dedicated specialists and the fund managers/analysts on company and industry issues".*

[34] Page 24

Table 10: Integration into the investment process[35]

	2011		2010
	Total	2010 respondents	
Portfolio managers/analysts set and/or approve stewardship policy	30	19	19
Portfolio managers/analysts make final decision on a controversial vote	23	14	18
Stewardship specialists attend meetings with portfolio managers/analysts			
Always	4	2	2
Often	16	12	5
Sometimes	13	7	15
Never/N/A	3	1	–
Stewardship specialists meet portfolio managers/analysts	–	–	21
Often	25	18	n/a
Sometimes	10	3	n/a
Never/N/A	1	1	n/a

The one Asset Manager not included above clarified: *"The attendance of portfolio managers/analysts is agreed on a case by case basis. Our approach to stewardship is a key part of and integrated into the investment process. The final voting decision in a controversial situation will reflect the combined consideration of portfolio managers/analysts and the dedicated specialists".*

Two Asset Owners[36] outsource investment management but retain some stewardship responsibilities in-house, one clarifying: *"with regard to our external fund managers. As clients, we spend time a lot of time with all our fund managers to discuss stewardship activities, both as part of the review of their performance and due diligence discussions and in day to day decision making on voting issues. We have seen some positive movements in this area where some (but not all) have embraced the Stewardship Code".*

Eight changed their approach to integration since 2010 with two highlighting:

- *"In the last 12 months, the Corporate Governance Team is doing a lot more research for the investment teams. Both Heads of Corporate Governance have had secondments to the Japan and Emerging Markets teams respectively. Research includes increased focus on executive compensation (focus on alignment), environmental risk management, and increased engagement with Japanese and emerging market companies."*
- *"Increased efforts have been put on the development of this and we are expecting a more formalised process to be established over the next 6-12 months. A hire has been made to start of a team for this space".*

In addition, another recently appointed a voting and engagement service as it felt: *"This service will deliver a more consistent and comprehensive approach to exercising our ownership rights and responsibilities".*

[35] As one respondent did not give a headcount and is excluded from Table 9, it is also excluded from Table 10.

[36] These were not included in the table as they answered for their external asset managers in that they do not have internal managers.

Experience

The FRC's Report on Developments in Corporate Governance noted: *"comments from larger companies suggested that they felt able to have meaningful discussions with the majority of their main shareholders, although some questioned whether investors had enough people with the right skills to cope with the quantity of engagement that was being sought[37]".*

The dedicated specialists at 41 respondents have varied experience with a number educated to degree level and beyond (MBA for example). Many also have industry qualifications; team members for 12 respondents hold the Investment Management Certificate, for 10 are members of the Chartered Financial Analysts Institute, as well as having qualifications in accounting (four respondents) and law (nine respondents). Teams also include or work with investment professionals.

The team members for 27 have many years experience - between 7 and 15 years on average – and others up to 80 years in aggregate. To quote:

- *"The Corporate Governance team is comprised of 7 professionals with legal, regulatory, accounting and operational backgrounds to cover the broad range of issues that need to be addressed in governance. They have over 80 years combined experience in the investment industry with the majority of these being at [Manager] and in the corporate governance team. The SRI team includes 11 dedicated investment professionals with an average of over 10 years of investment experience. Many of the team come from environmental science or finance backgrounds and are able to draw on extensive experience within their area of specialisation."*
- *"These specialists form a part of the Stewardship Services team and have on average 7 years corporate governance experience, in addition to experience from the academic and legal and marketing sphere."*
- *"The majority of dedicated specialists have an investment qualification (IMC) and are educated to a degree level. Collectively the dedicated specialists have over 30 years experience in governance, including engaging with UK and overseas companies. Both our Heads of Corporate Governance and ESG are members of various bodies and committees including the ICGN and Corporate Governance Forum. Training is provided via internal and external courses and less experienced specialists are mentored by more senior and experienced specialists."*

Training is generally through work experience, and attending seminars and conferences, as well as through membership of various bodies and committees such as the International Corporate Governance Network and the Corporate Governance Forum. To quote:

- *"All specialists attend regular industry events/seminars on corporate governance, environmental and social issues to enhance and refresh their knowledge."*
- *"All team members receive regular training through conferences, webinars and other events."*
- *"regularly network with other governance professionals around the globe - engage in ongoing professional development."*

Service providers

The resources above are often supplemented by service providers that process voting instructions, provide research and recommendations, and provide other customised services. The Guidance to **Principle 1** states that the stewardship policy should disclose: *"the use made of, if any, proxy voting or other voting advisory service, including information on how they are used".*

The FRC's Report on Developments in Corporate Governance noted: *"few statements provide much detail about how the signatory uses proxy voting agencies. This is being actively debated in the EU with several Member States pressing the European Commission for regulation. Critical to the debate on this will be the way in which investors use the recommendations provided by proxy advisers. A clear sense that they are being used responsibly will help alleviate pressure for excessively prescriptive regulation of these agencies[38]".*

When asked for details of the number of service providers used and how, the majority, 49 or 76.6 per cent, (2010: 35 or 83.3 per cent) of respondents use a provider (in eight cases two) to process voting instructions.

[37] Page 24.

[38] Page 21.

Table 11: Service providers that process voting instructions or otherwise manage votes

	2011		2010
	Total	**2010 respondents**	
Three	–	–	2
Two	8	7	5
One	41	26	28
None	11	6	6
No response	4	3	1
Total	**64**	**42**	**42**

22 or 34.4 per cent (2010: 17 or 40.5 per cent) also subscribe to one or more service providers to provide research but the final voting decision is made without necessarily regarding any recommendation provided. However, one of these always follows its service provider's recommendation in the event of a conflict of interest. In two instances (2010: one) the provider's recommendation is always followed, with 31 sometimes doing so - Table 12. Where the recommendation is sometimes followed, for 17 respondents, the provider tailors this to the respondent's own policy, whilst for the other 14, it is based on the provider's standard policy[39].

Table 12: Number of service providers that provide research[40]

	Decision made *without necessarily regarding* recommendation[41]			Recommendation *sometimes* followed			Recommendation *always* followed		
	2011		2010	2011		2010	2011		2010
	Total	**2010**		**Total**	**2010**		**Total**	**2010**	
>Four	–	–	3	5	4	–	–	–	–
Four	4	4	–	4	2	1	–	–	–
Three	3	3	2	–	–	–	–	–	–
Two	6	5	5	13	10	6	–	–	–
One	9	5	7	9	5	10	2	–	1
Total[42]	**22**	**17**	**17**	**31**	**21**	**17**	**2**	**–**	**1**

[39] Three did not comment.

[40] Where a respondent responded both "always" and "sometimes" it is only represented once as "sometimes".

[41] In 2010 respondents were asked for the number of service providers that provide research but the respondent always makes the final decision. The question was changed for 2011 as set out in the table in order to be clearer.

[42] Nine did not answer this question.

5. Monitoring and escalating

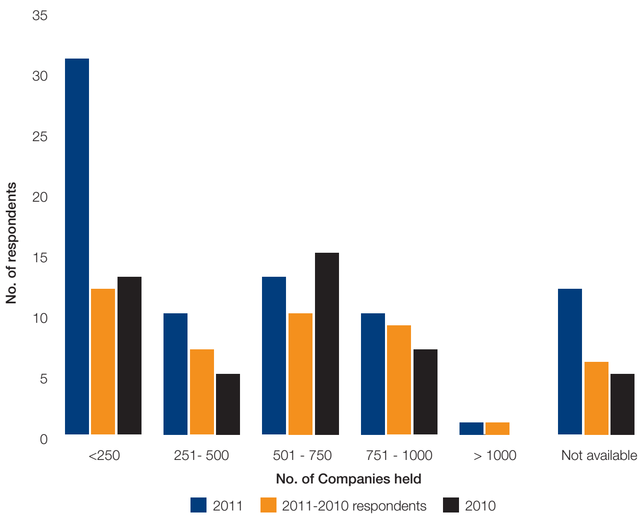
Principle 3 states that: *"institutional investors should monitor investee companies"* and the guidance that: *"investee companies should be monitored to determine when it is necessary to enter into an active dialogue with their boards. This monitoring should be regular and the process clearly communicable and checked periodically for its effectiveness. Institutional investors should endeavour to identify problems at an early stage to minimise any loss of shareholder value"*.

Principle 4 is that: *"institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value"*.

Prioritisation

The survey mainly focused on engagement with UK companies. As at 30 September 2011, the number of UK companies respondents had an interest in, ranged from under 250 to around 1,000, with one reporting over 1,000 – Chart 3. 50 per cent of respondents have an equity interest in over 250 companies. As Service Providers do not hold equities for investment purposes, they are excluded from this Chart.

Chart 3: Number of UK companies held



Due to the number of holdings, respondents prioritise the companies they monitor and engage with and were asked for the criteria used – Tables 13 and 14[43].

Monitoring

Consistent with 2010, over 70 per cent monitor all investee companies mainly as part of the investment process. For example:

- *"For actively managed portfolios, we screen potential investee companies' corporate governance practices, we meet with management and directors before investing and meet the company at least once a year after investing."*
- *"As a research driven organisation, [Manager's] analysts continually monitor companies within their investment coverage held for our clients or potentially of interest to them."*

The other main criterion for prioritising is the size of the holding.

Table 13: Prioritisation of monitoring

	2011		2010
	Total	2010 respondents	
All companies/part of the investment process	45	29	30
By size of holding	11	9	8
When vote against/ voting issues	1	1	–
Delegated to manager/overlay service[44]	1	1	1
Other	4	2	2
No response	2	–	1
Total	**64**	**42**	**42**

Three of the Service Providers are proxy voting agencies and monitor all companies as requested by clients. One noted: *"will monitor all companies which our clients hold, but will pay special attention to those companies where we feel the issues are most important"*.

[43] Responses varied and a number lengthy. Tables 13 and 14 are an interpretation of the results to highlight the main points raised.

[44] One Asset Owner outsources management but has its own stewardship specialists and is included in both 2010 and 2011.

The two Service Providers that are consultants do not monitor companies but review the Asset Managers' stewardship capabilities on behalf of Asset Owner clients. To quote:

- *"We have proactively contacted our clients about the Stewardship Code, offering further information and services to enable clients to better understand the aims of the Code, and what it means for their funds. This may include:*
  - *training and capacity building in the area of active ownership;*
  - *policy development or adaptation of their Statement of Investment Principles to make reference to the Stewardship Code, and/or showing direct support for the Stewardship Code via a public statement on the FRC website;*
  - *monitoring and reporting the policies, processes, performance and disclosure activities of their investment managers in relation to stewardship; and*
  - *engagement with the managers to promote best practice in active ownership, where appropriate".*
- *"This questionnaire is principally aimed at investors. We are investment consultants so this questionnaire is not really applicable to us. We believe that our role with respect to the Stewardship Code is: 1. Educate our clients about ownership. 2. Evaluate equity managers on their ownership activities (voting and engagement). 3. Report our views to clients. 4. Assist our clients in monitoring and evaluating managers' ownership activity. 5. Encourage better behaviours from other participants".*

Engaging

Engagement tends to be prioritised according to issues; with board composition and remuneration being the most common for the majority of respondents - Table 14. To quote:

- *"In determining the appropriateness of engagement we would take account of several factors. These will include: - Issue of concern - Impact/benefit of the engagement to [Managers] clients - risk to long-term shareholder value - ability to influence company either solely or through collaboration with other investors."*
- *"Where believe the issues we monitor have become acute we engage with company managements directly. In addition, since we vote all proxies as a matter of course, the process we use to do this may throw up specific issues (e.g. compensation)."*
- *"We believe that it is important for company officials to communicate regularly with shareholders regarding areas of interest or concern. In addition, shareholders should be provided with channels through which they may communicate with the board. While boards get shareholder feedback through the proxy voting process, a "yes/no" vote provides only limited insight into shareholder views. We have found, through hundreds of meetings and discussions annually, that we can often accomplish more through dialogue than through the ballot."*

"Other" issues include merger and acquisition activity, board independence, management's accountability to the board and the board's accountability to shareholders.

Table 14: Issues for engagement

	2011
	Total respondents
Remuneration	33
Board compostion	32
Environmental, social, governance issues	24
Company performance	17
Other	25
No response	3

Only one of the Service Providers, a proxy voting agency, engages directly with companies: *"We engage with all UK companies as a matter of course, since we consider that we should offer them the opportunity to comment on our analysis and recommendations before these are sent to clients……. Some companies are part of a 'focus list' due to concerns about weak governance or other poor practices. Other companies are engaged with as a result of an ongoing thematic project (for example distribution policy in the UK banking sector). Finally some companies are engaged with as a result of immediate events, i.e the hacking scandal".*

It focuses on the issues in the table, but expects financial reporting to become a significant area of future work. The other two proxy voting agencies do not engage, one clarifying that it: *"provides integrated engagement tools which allow voting clients to write letters to companies which inform them of the rationale behind their vote intention".*

It also facilitates informed dialogue by providing research based on local national standards. This was not relevant to the two consultants.

How monitoring is undertaken

The Code does not set out how monitoring should be undertaken and respondents were asked how they do this.

Consistent with 2010, each of the 42 respondents has an in-house team that analyses company news and results. 24 cover all investee companies and 17[45] major companies, actively managed holdings and when there are issues. One does this on a *"case by case basis".*

18 of the 22 new respondents also analyse company news and results with 12 covering all companies and 6 major companies, actively managed holdings and when there are issues. Only one does not do this, while three selected "other", one of which clarified: *"when there are issues and in collaboration with other investors".*

Most commonly contact with companies is with "Executive Directors and/or Management". This tends to be proactive with 33 or 51.5 per cent of respondents doing so for most or all of their companies, with a further 14 or 21.8 per cent on a selective basis. 47 or 73.4 per cent respondents proactively contact investor relations and 34 or 53.1 per cent the Chairman and/or NEDs, either for most holdings or on a selective basis. To a lesser extent respondents contact the company secretariat or committee chairs - Table 15.

Examples where respondents selected "other" include:

- *"[Manager] has a programme of Chairman's meetings. Contact with the Chairman and NEDs whilst less frequent than with the executive management of companies, has increased significantly over the last three years. Outside of these chairman's meetings, engagement with Chairman and NEDs will be initiated by [Manager] when there are ESG issues of concern or where [Manager's] shareholding is meaningful. In addition, fund managers and ESG analysts receive invitations to meet with Chairman and NEDs."*
- As regards contacts with Executive Directors and/or Management: *"these happen routinely as a matter of due diligence for our funds and can be both reactive and proactive".*
- *"Contact with Nomination, Audit or Risk committee members is determined on a case by case basis, with more widespread contact with RemCo Chairmen whether that be at their or our request."*

In one instance contact is: *"Indirectly by joining other lead investors' groups".*

Only two respondents indicated their monitoring had changed since 2010:

- *"Widened the engagement on environmental and social issues and specifically included in meetings with company chairman."*
- *"As previously stated - use of [service provider] as voting and engagement service to harmonize our approach in this regard."*

[45] Two respondents selected "other" but commented this was for major companies and have been categorised here.

Table 15: Contact with companies

	Investor relations 2011 Total	Investor relations 2011 2010	Investor relations 2010	Company secretariat[46] 2011 Total	Company secretariat[46] 2011 2010	Financial advisers, brokers and/or PR advisers 2011 Total	Financial advisers, brokers and/or PR advisers 2011 2010	Financial advisers, brokers and/or PR advisers 2010	The Chairman and/or NEDs 2011 Total	The Chairman and/or NEDs 2011 2010	The Chairman and/or NEDs 2010	Committee chairs[47] 2011 Total	Committee chairs[47] 2011 2010	Executive Directors and/or Management 2011 Total	Executive Directors and/or Management 2011 2010	Executive Directors and/or Management 2010
Proactive – most or all holdings	20	11	17	5	4	17	10	14	7	4	6	2	1	33	26	27
Proactive – selectively	27	19	5	22	16	23	16	3	27	21	12	25	18	14	7	2
Reactive – for concerns	9	5	16	23	14	11	8	18	18	10	18	24	16	7	2	8
Other	6	5	3	7	5	5	4	5	9	6	6	9	6	8	6	5
Never	2	2	1	7	3	7	4	2	3	1	-	4	1	2	1	-
No response	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-
Total	**64**	**42**	**42**	**64**	**42**	**64**	**42**	**42**	**64**	**42**	**42**	**64**	**42**	**64**	**42**	**42**

A number of respondents monitor in other ways.

- 11 contact those in a company's supply chain and customers. As one stated: *"As part of our formal research process, the verification stage includes discussion with customers, suppliers, competitors and, potentially, other independent researchers (e.g. medical experts)"*.
- 11 look at external media and/or other third party research services as part of their process: *"Regulatory news service, Financial Press and trade magazines, brokers and advisers"*.
- Four conduct site visits and a further four contact non-governmental organisations as part of their research: *"in order to understand the nature of controversies and materiality of risk"*.

Some incorporate wider activities into their analysis of a company as follows:

- *"[Manager] employs many sources of information in its research process. These include analysts' specific network of industry contacts, regulators, company suppliers, customers, distributors, competitors, and independent sources of research, and sell-side sources for verification purposes. We believe that it is vital to obtain information from a variety of sources, with potentially different biases, in order to serve as a crosscheck on the accuracy of information."*
- *"We endeavour to monitor external media, and identify any developments which may lead to engagement with companies. Our Research Team also consult companies' customers and suppliers as part of developing a better understanding of their competitive advantage and potential investment returns."*
- *"We maintain an active participation in formal (e.g. ABI) and informal (e.g. investor networks) dialogue between institutional investors and other stakeholder groups. We monitor [sic] corporate developments through news flow, such as press articles and company announcements. The fund managers and analysts also visit company operations (i.e factories etc). We maintain a dedicated database of the companies we invest in, tracking governance and other ESG issues, and our related engagement and voting activities."*

Three of the Service Providers have an in-house team that analyses news and results for all companies. Two also proactively contact investor relations and the

[46] In 2010 investor relations and company secretariat were merged, hence there are no comparatives for company secretariat.

[47] The chair of the remuneration, nomination or audit committee. Respondents were not asked for these details in 2010.

company secretariat, with one contacting the Chairman, committee chairs and management. These two also:

- *"Monitor external media, regulatory information services, NGO commentary etc."*
- *"As part of our engagement work we frequently engage with other relevant stakeholders, including employees and their representatives, community and campaign groups and so on. We also regular[ly] monitor media coverage. Increasingly we see policy engagement as an important part of what we do. So where there is a significant regulatory issue we talk to regulators, standard setters and civil servants. Where there is a relevant parliamentary inquiry we have attended select committee hearings and spoken to committee members."*

The third Service Provider only contacts some of these parties: *"Outside of the proxy season, will respond to queries from investors".*

The other two Service Providers are consultants and this is not applicable.

Only two respondents indicated that they had changed the way they monitor and engage since 2010:

- *"Widened the engagement on environmental and social issues and specifically included in meetings with company chairman."*
- *"As previously stated - use of [service provider] as voting and engagement service to harmonize our approach in this regard."*

Attending Annual General Meetings

There has been a slight drop in the number of respondents that attend Annual General Meetings (AGMs) on a regular basis. One reported that they will attend whenever possible, another that they have attended all UK meetings during the past year, a further 23 do so where they have a major holding or where appropriate. This total of 25 or 39 per cent, compares to 45 per cent in 2010. Eight attend occasionally, with one attending: *"very occasionally, in the case of very high profile AGMs only".*

Other comments were:

- *"(a) when [Manager] wishes to attend, speak and vote on contentious issues or (b) where engagement with a company is continuing after the voting deadline and prior to the meeting, although [Manager] believes engagement is more effective earlier in the process. Due to the concentration of AGMs during the voting season and sometimes many meetings are held on the same day, it is difficult to attend AGMs due to time and location constraints as well as analysing and engaging on meetings."*
- *"Our normal practice is to attend AGMs only when we feel we are likely to gain useful information to give us further insight into the company and its circumstances or if it would help send a stronger message to the board and to those attending the meeting and where we feel that our one to one meetings with the company are no longer helping us achieve our objectives."*

21 or 32.8 per cent "never" attend which is a higher proportion than in 2010 when 10 or 23.8 per cent "never" attended.

Of the Service Providers, one attends as requested by clients and the other: *"regularly attend AGMs. Sometimes just to monitor, other times because the company is the subject of significant engagement".*

Another Provider never does so and this is not applicable to the two consultants.

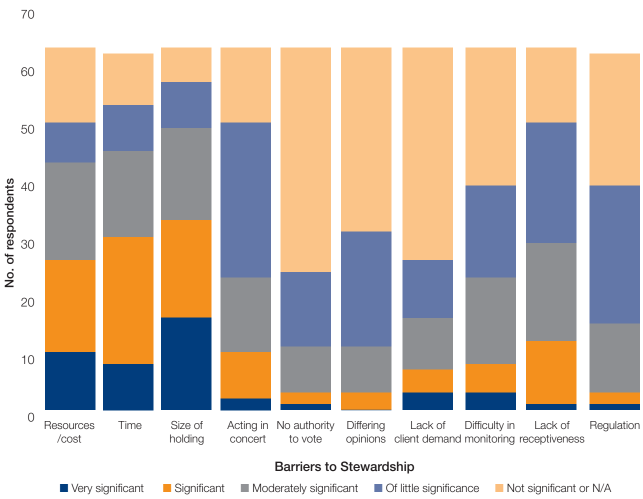
Barriers to stewardship

In 2010, respondents raised a variety of issues that were barriers to stewardship. To determine the extent to which these impact, respondents were invited to rank them in 2011 - Chart 4.

Consistent with 2010, the barriers that have the most impact are the resources required to monitor and engage effectively both in terms of costs and the time, and where the size of holding limits the respondent's ability to influence. One clarified that it holds a large number of UK companies and therefore has to prioritise engagement due to resource constraints. Two highlighted the difficulties of balancing engagement with other work, one of which considered that the workload when responding to consultations, surveys and external requests was diverting resources from engagement.

Another, with small holdings, collaborates with other investors to explore ESG issues and risks with companies. However, two have difficulty getting others to engage collectively with another: *"we allow for this to be employed where we think it is appropriate, however, in practice we don't often consider it to be the best way to proceed. In our view, collective engagement is best done by asset owners rather than asset managers for reasons relating to proprietary research, competition, etc."*

Chart 4: Barriers to stewardship[48]



When specifically asked, 19 respondents considered there were issues when companies have block holders, in that this limits the impact they can have and means that companies are not receptive. To quote:

- *"It is certainly true that we do find our ability to engage and/or influence can be limited where there are significant blocking shareholdings. Our view is this has become a more significant issue over the last 2-3 years."*
- *"We do not invest in companies with block holders as we have found that engagement with these companies often becomes impossible in a crisis."*
- *"Companies tend to consult the top 20 shareholders on issues, a little more communication for the smaller shareholders would be beneficial."*
- *"Key concern is UK listed companies from overseas jurisdictions."*
- *"Less relevant in UK, but in Europe we generally find companies with controlling shareholder groups or* CEMs are less likely to engage."

Two consider the problems vary from company to company, one stating: *"Engaging influentially with companies where there are significant blockholders can be difficult. In such situations, much depends on the quality and robustness of the independent non-executives".*

[48] One did not answer this question and another did not answer in respect of "Time" and another in respect of "Regulation"

6. Practical examples

To assess what actually happens in practice, respondents were asked in relation to certain issues at six companies, and how they escalated matters and engaged with the company in question. Each respondent was asked, for example:

- Whether it had a holding, what its concerns were, if any, and whether it engaged on the issue. Those that chose not to engage mainly did not do so as either their holdings were too small or they did not feel the issue warranted it.
- What it did. For example, the number of engagements[49] it had, either at its own or at the company's instigation, who the engagement was between - whether it was the portfolio manager, the specialist dedicated to stewardship or a mixture of the two - and who they engaged with at the company. In this respect, not all respondents were able to provide details of the number of engagements. One respondent that did not noted that it engaged extensively on each of these issues with the companies concerned. Another commented: "*we do not comment on the number of engagements undertaken as we do not feel that reflects the quality and impact of engagements which we consider to be more important. That said, we will ensure we will meet with the appropriate individuals (both at board and senior management levels) within companies on as many occasions as necessary to reinforce our message. Many engagements are undertaken in conjunction with the portfolio managers".*
- Whether there was collaboration and whether this was helpful.
- Whether it achieved what it wanted.

The analysis is set out in Appendix 3 and summarised below. Also set out below are the number of companies respondents engaged with on particular issues, together with additional examples of engagement that demonstrate adherence to particular Principles.

Company examples

Tesco plc

At the 2010 AGM, following concerns over the remuneration of executives in the US on the basis the US business had traded at a loss for some time, Tesco's Remuneration Report received 48 per cent votes against or abstentions.

60 per cent of the respondents that had a holding engaged over concerns about remuneration and one wanted a new Chairman. One did not give details of their engagement but stated: "*If we invest in a company we are generally supportive of the management team and remuneration is not usually deemed to be significant enough an issue to warrant direct engagement. Engagement tends to focus more on the management team's fundamental strategy for the business and any other issue that may negatively impact shareholder value".*

There were 104 engagements with Tesco or five for each respondent. 45 per cent of those that engaged, also collaborated with other investors as this: *"gave comfort to investors that their concerns were shared by others"* and *"avoided the company "dividing and conquering" its shareholders".*

However, one noted that Tesco: "*was unwilling to meet a group of investors, preferring to have one-on-one meetings. [Manager] led an initiative to consolidate investors' views and identify common areas of concern that investors may wish to raise with the company".*

Overall the engagement was considered a success in that Tesco overhauled its executive pay ahead of the 2011 AGM - only one respondent attended the AGM. However, the one that wanted a change of Chair had reservations in that it had taken over two years to achieve. Also quite a high number continue to engage: *"we note that there will be a new Chairman at the end of November who is asking investors for a one-to-one meeting as it is important to him to have a good understanding at the outset of the views of major shareholders and any concerns they may have".*

[49] In this context, the term "engagements" is taken to mean contacts with the company at either the respondents' or the company's instigation.

Prudential plc

There was widespread concern about the proposed acquisition of AIG's Asian operation, which was later withdrawn, in that 69 per cent of those with a holding engaged as well as one respondent that did not actually have a holding. Whilst many focused on the acquisition, once it had been aborted the focus turned to the board's role and its leadership. To quote: *"to ensure the governance and oversight model of the company was appropriately reformed to ensure the avoidable mistakes associated with [the Asian operation] would not be repeated".*

Some specifically wanted changes in the board room: *"We initially wanted the Board to replace the CEO but after discussion with other shareholders decided to press for the appointment of a new Chairman".*

Only BP generated more engagement in that a total of 136 engagements with Prudential were reported or nearly six for each respondent. However, unlike Tesco, where engagement was mainly by the portfolio managers or dedicated specialists in equal measure, in this instance it was predominantly by the portfolio managers. Also just under half, or 44 per cent, of those that engaged, collaborated with other investors. The majority considered this helpful, although some did not on the basis that other shareholders were not willing to press the issue or that it was hard to reach a consensus.

Prudential responded to these concerns and the entire board stood for re-election at the 2011 AGM which was attended by three respondents. All directors were re-elected but the re-election of the Chairman received nearly 22 per cent of votes against - as mirrored by the respondents where 25 per cent were against or abstained. Thus the majority voted in support - to quote: *"The time to push for change was in 2010. By 2011, the pressure for change of chairman had withered away. It was irrelevant to vote against in 2011. If shareholders would not act in 2010, then after a year of good performance, it was ridiculous to think they would act against the board in 2011".*

The majority, 72 per cent of respondents that engaged, achieved their objectives. For those that did not, it was mainly due to the lack of changes in the board, some wanting a change of Chairman and others that considered insufficient shareholders agreed the leadership was flawed. In this context, the Chairman has since announced he is stepping down.

BP plc

In April 2010, following an explosion at the Deepwater Horizon oil rig in the Gulf, 11 workers died and there was a large oil spill. BP suspended its dividend payments in June 2010 and by July 2010, its share price had halved. In August/September 2011, BP shut production at its eight oil and natural gas platforms in U.S. regulated areas of the Gulf of Mexico and evacuated workers ahead of a weather disturbance.

The situation with BP generated the most engagement by far. Of the respondents that had a holding, 51, 86 per cent engaged. Of those that provided an objective, 46 per cent wanted to understand the ramifications of the oil spill, 10 per cent were concerned about safety issues and another 44 per cent wanted the leadership and management of health and safety issues or remuneration to improve. This generated 320 engagements with BP or nearly ten each. Due to the significance of the issue, this was at senior levels and mainly involved the portfolio managers meeting with Executive Directors and the Chairman and there was less contact with the Senior Independent Director and Non-Executive Directors.

Half also collaborated with others. To quote: *"we co-ordinated an international coalition of like-minded investors in the engagement with BP. This included brokering a deal that removed a potential 2011 shareholder resolution in favour of an in-depth 'case committee' engagement approach with the potential for a shareholder resolution in 2012 should BP not have made sufficient progress".*

Eight respondents attended the 2011 AGM. Respondents took a much stronger stand than the majority of shareholders in that whereas overall 11 per cent voted against the Remuneration Report, 27 per cent of respondents voted against following the award of large bonuses to the Chief Financial Officer and the Chief Executive for Refining.

Similarly whilst the re-election of the Chair of the Safety, Ethics and Environment Assurance Committee and Senior Independent Director received 25 per cent votes against overall, 26 per cent of respondents voted against. To quote: *"wanted to send a signal to the board that since there was no resolution regarding the oil spill on the agenda, we reflected all our concerns on the management of health and safety as well as our concerns over the disclosure of risk and internal controls on the annual report and accounts".*

Again Resolution 15, the re- appointment of the Chairman, Carl-Henric Svanberg, received 7 per cent votes against, 12 per cent of respondents voted against due to a lack of leadership and visibility. To quote: *"a very sensitive situation was not managed well and the Chairman was conspicuous by his absence".*

The majority achieved their objectives in that there were significant improvements in health and safety procedures, problems were prioritised or they had a better understanding of the issue and how the board was dealing with it. For the majority the engagement was worthwhile – reservations included frustration: *"by the speed of implementation in initiating a strategic review".*

Cable and Wireless Worldwide plc

In June 2011, the Chief Executive resigned following three profit warnings within 15 months, and after the dividend for the year was cut in half. There were also concerns that the ex Chief Executive and the former Chairman that succeeded the Chief Executive had secured payments running into millions of pounds.

There was less engagement with Cable & Wireless than with the other examples. Only 44 per cent or 28 had a holding, of which only 39 per cent or 11 engaged - eight respondents reporting a total of 18 engagements or just over two each mainly with the Chairman or Non-Executive Directors.

One respondent attended the 2011 AGM. However, respondents took a stronger stance in relation to the Cable & Wireless Worldwide Incentive Plan 2011, in that whilst it received 33 per cent votes against overall 45 per cent of respondents voted against on the basis there was no alignment of between executive remuneration and the company's performance.

Nevertheless 73 per cent did not meet their objectives. To quote: "*The company was unable to provide assurances around succession planning and the remuneration arrangements were not considered to aligned with the interests of the company's shareholders", and "given the executive departures we are exploring with the company further what a longer-term governance structure will look like".*

Vodafone plc

In 2010, a shareholder demanded a major boardroom shake-up to address "strategic weakness", "poor capital allocation" and "disastrous" acquisition track record.

53 respondents had a holding but just under half or 25 engaged on a range of issues including operations, acquisition strategy and board issues particularly succession planning. This generated 104 engagements with Vodafone or nearly six each, mainly between the Executive Directors and respondents' portfolio managers.

Ten also collaborated with other investors mainly through joint meetings with the company: *"We raised our concerns with other significant shareholders in a meeting in June 2010 and found that most shared our concerns. We followed up with a joint meeting with the Senior Independent Director and a number of shareholders".*

Vodafone responded and subsequently undertook succession planning. At the 2011 AGM a new Chairman was elected receiving 99.1 per cent votes for. Only two respondents attended the AGM, with all respondents voting in support of the new Chairman. To quote: *"We had concerns about the selection process for the Chairman - the SID declined to meet us to discuss the criteria - so we voted against his re-election. While we have some reservations about the new Chairman they were not sufficient for us to vote against his appointment".*

All but two achieved their objectives such that overall the engagement was worthwhile: "Yes it was & further engagement is planned: *1. This was an example of engaging early with a company in order to minimise the loss of shareholder value. 2. We have been pleased with the result of our engagement - no further value destroying acquisitions and the sale of minority interests for over GBP 11bn. 3. The engagement was* *extremely time consuming but justified by our large holding on behalf of clients. 4. The 2010 engagement was more effective because of our extensive engagement with the board in previous years".*

Xstrata plc

At the 2011 AGM a service provider recommended that the re-election of some board members should be opposed due to insufficient independent representation.

46 of the 64 respondents had a holding of which over half engaged where the main concerns related to board issues – remuneration, succession and independence. This generated 57 contacts with Xstrata an average of three for each respondent.

None of the respondents attended the 2011 AGM but took a stronger stand with the company than the majority of shareholders in that only 79 per cent of respondents supported the re-appointment of Glencore Chief Executive, Ivan Glasenberg (this was passed with 96.2 per cent voting for), 88 per cent supported the re-appointment of Steve Robson (this was passed with 98.7 per cent voting for) and 83 per cent supported the re-appointment of David Rough (this was supported by 95.7 per cent voting for).

71 per cent achieved their objective mainly as an independent Chairman was appointed. To quote: *"Xstrata's chairman stepped down at the AGM in 2011, addressing investor concerns about the company's relationship with Glencore. The company is committed to addressing its climate change strategy in 2012".*

The Service Provider considered this was *"Partial success. Significant opposition to remuneration report (likely a majority of the free float). Lack of independent representation attracted public attention, and led to further focus on such companies with controlling shareholders".*

Engagement issues

In order to gain a better understanding of the issues that give rise to engagement, respondents were invited to indicate the number of companies they engaged with on particular issues in the year to 30 September 2011. The results are set out in Table 16. This demonstrates that the main issues are strategy and objectives and remuneration, followed by board diversity/committee membership.

Table 16: Issues that give rise to engagement and the frequency

	Number of companies engaged with on this issue	
	In aggregate	**No of respondents**
Board issues		
Leadership – Chairman/CEO	248	30
Remuneration	1,754	31
Diversity & board/committee membership	1,039	32
Succession planning	182	19
Corporate actions and restructuring	171	22
Environmental/social issues	851	29
Mergers and acquisitions	375	22
Pre-emption rights	298	17
Risk appetite	435	13
Strategy and objectives	1,611	24
Numbers not given	–	25

However, this is an understatement of the number of contacts on these issues in that:

- *"The above numbers reflect engagements recorded by the governance team. As ESG is integrated into the investment process, the above numbers do not capture engagement that may occur at any of the thousands of company meetings the research analysts and portfolio managers conduct every year."*
- *"We are highlighting here only non-routine engagement."*
- *"This response represents the ESG engagement - fund managers will have met many companies on an ongoing basis."*
- *"These meetings are in addition to the 1,000-plus company meetings that [Manager] holds as a routine exercise following company results, and which often provide the trigger for requesting the ad-hoc meetings that are represented above.*

.......[Manager] is not able to provide numbers of meetings in each of the above categories. All board-related issues are shown as one total (33) and issues such as leadership/Chairman/CEO and succession planning, although discussed, have not been separated."

- *"We also discussed "governance" issues at 71 companies, but we are unable to further categorize these issues at this time."*
- *"Please note that the above statistics relate to UK companies only. We also engage on these issues with companies in our overseas portfolios."*

Respondents detailed other issues that give rise to engagement, including:

- *"stewardship of capital (for the most part, return of cash to shareholders) gave rise to another 5 instances of engagement";*
- *"tax legislation, political donations, share buybacks";*
- *"shareholder returns";*
- *"we provided input in connection with litigation issues in three other companies";* and
- *"audit/auditors".*

13 do not record such details, though some gave a general indication.

- *"Broadly speaking we conducted approximately 115 engagements with UK companies where on average 2-3 of the above mentioned categories were discussed."*
- *"Where engagement has been led by a member of the responsible investment desk, during the period, there were 50 instances of governance engagement and 61 instances of engagement on environmental and social issues."*
- *"We do not record engagement under the headings chosen in the above table. For the FY 2010 we recorded engagement with approximately 190 companies, divided approximately into corporate governance (29%), environmental (27%) and social & other issues (44%)."*
- *"[Manager] has a holistic approach to investment management so that engagement with company directors covers a wide range of both specific and more general investment matters. This is the nature of active stewardship. We had 514 meetings with investee companies. At these meetings a broad range of issues relevant to share ownership are always discussed. In addition we had 109 confidential meetings generally related to succession planning and remuneration. Such activity discharges responsibilities under principles 3 and 4."*

Furthermore one respondent does not engage with UK companies whilst another outsources its engagement[50].

Adherence to the principles

Respondents were asked for specific examples that demonstrated adherence to particular principles.

Principle 2 - Conflicts of interest

Respondents provided 14 examples of situations where a conflict had arisen and details as to how it was addressed. Examples are set out below.

Three held shares in their parent company, where two voted according to the instructions of the beneficial owners or did not engage and vote. The third's policy is to engage as normal but not collectively.

Two respondents where an investee company's Chairman was either their current CEO or a previous CEO. Both followed the recommendations of their service providers.

Another respondent's investee company was subject to a hostile takeover: *"one of our advisors joined the board. We blocked the hostile approach by negotiating directly with the approaching party and their advisors. We liaised with the other largest shareholders in order to present a united opinion".*

To resolve any conflicts of interest, it: *"ring fenced the advisor, making clear to him that in his capacity as a board member of the investee company he no longer represented our interests, and had to act in the interest of all shareholders".*

Where the conflict arose due to clients' interests, one respondent followed its service provider's recommendations when voting, while in another two

[50] Eight did not comment.

cases, engagement was as normal as one clarified: *"we did not avoid key social issues for the company even though they are a sponsor of one of our clients....it strengthened our relationship with both the ...pension fund and our other clients".*

Principles 3 and 4 - Monitoring and escalation[51]

Respondents gave 32 examples where regular monitoring identified issues that were escalated and where they reported positive results. For example:

- One company which was subject to a tender offer allowed: *"a discount to persist without taking decisive action, when we [Manager] needed to reduce our holding at full value. We engaged with the Board, got nowhere, collaborated with other shareholders, got nowhere, then tabled a shareholder resolution and got the Board's full attention and appropriate action"*. This was worthwhile as the respondent was able to sell shares at a more appropriate level;
- Another contacted a company with block holders several times, discussed matters with other investors and held a joint meeting. The block holder made an offer which was rejected by the independent directors due to concerns highlighted by shareholders;
- One presented a detailed analysis of a company's underperformance which led to the Finance Director resigning; and
- As one company's Chairman approached retirement, one investor suggested a replacement that was supported by the respondent but not by the company's board. The two investors met the company and when it refused to appoint their candidate, threatened an Extraordinary General Meeting, after which the board notified other investors of the candidate. After collaboration with other investors, the board agreed to appoint the respondent's candidate.

In a further 19 examples, engagement is on-going and has not been concluded. These covered a range of issues, such as significant advisory/transaction fees during an acquisition, high environmental footprint, performance, remuneration, audit fees and the high environmental risk in a mining firm. In all cases the issues were escalated by contacting the company, in some cases shareholder meetings were convened and in one instance a detailed presentation sent to the Chairman on the company's poor performance (to date no response has been received).

A further 12 were unable to achieve change, though many still felt the engagement was worthwhile. Examples include:

- One respondent that raised concerns that a capital raising was not appropriate at that time (expensive and more than required): *"Monitoring the company enabled us to identify a situation where we felt shareholder value may not be maximised due to management action, in line with Principle 3. We subsequently met with management to discuss our concerns, in line with Principle 4."* However, nothing changed though it will continue to be discussed at future meetings; and
- Concerns about remuneration led to attendance at the 2011 AGM to state their concerns. The respondent also facilitated a joint letter to the board. It was "dismayed" that the company will adopt shorter time frames but the engagement was worthwhile as the company is "getting the message".

One noted concerns over gender diversification and put in place plans to address this in all investee companies: *"we amended our voting policy and wrote to the Chair of the Nominations Committee at our top 80 holdings to inform them of our stance. Firstly, we highlighted our preference for companies to disclose their aspirational targets via a Primary Information Provider or press release. Secondly, we outlined the change in our voting policy, with effect from October 2011. Should an investee company fail to disclose its aspirational targets or fail to elect any women to an all male board, we will, in the first instance, abstain on the re-election of the Chairman of the Nomination Committee. Should a company not put forward all its directors for annual re-election, we will abstain on the re-election of the Chairman or members of the Nomination Committee, depending on who is put forward for re-election".*

Two Service Providers provided four examples. In one instance, a company disagreed with the Provider's research report and threatened action if it was not retracted. The Provider explained its methodologies and retained its view. There was a lack of support for

[51] This does not include any case studies already covered

the company's remuneration policies and it then consulted more with shareholders.

Principle 5 – Collaborative engagement

38 examples of collaborative engagement were given. Examples are as set out below[52].

- Issues of executive remuneration across the banking sector led to engagement with the Remuneration Committee Chairmen with another investor. Remuneration proposals were scrutinised by the collective engagement resulting in an improvement in the structure of remuneration for each banks.
- One respondent did not want its investee company sold at a low price and engaged with others. Following discussions with the Board and its advisors, to shareholders, media and a third party investment bank, the market's perception of the company's value improved and the approach came to nothing.
- One respondent had concerns about board structure, succession planning, ethical reporting standards at one company, and convened a group of investors which sent a joint letter. The company set up a committee to look at standards – the collaboration providing a catalyst for change.

However, collaboration is not always successful and in the following examples, an agreement could not be reached either between investors or with the company involved. For example, one respondent felt that value had been destroyed at one company and the best course of action would be to appoint a new CEO and not for the Chairman to become CEO. It was: *"very keen to act collectively on what we saw as a company with particularly poor governance".* The issue was addressed at meetings with the company and through letters to the Chairman and shareholders though no changes were made.

One overseas respondent stated: *"We would simply like to note here that as a non-UK based global investment organization, we are excluded from a number of the collaborative engagement initiatives that we understand take place among UK market participants, even when we are significant shareholders of the company. We would be interested in exploring ways for UK-based and global investors to improve communication and share engagement opportunities more frequently".*

[52] This does not include any case studies already covered.

7. Voting

The Guidance to **Principle 6** states that: *"institutional investors should seek to vote all shares held. They should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why".*

In addition, the Guidance to **Principle 3** states: *"institutional investors should consider carefully explanations given for departure from the UK Corporate Governance Code and make reasoned judgements in each case. They should give a timely explanation to the company, in writing where appropriate, and be prepared to enter a dialogue if they do not accept the company's position".*

Service Providers were not required to complete this section.

Voting policy and processes

Respondents were invited to highlight changes to their voting policy or processes during the year. These included:

- two that reflected changes to governance codes in the UK and Europe;
- four that changed policies on remuneration, board independence, conflicts of interest, share buy backs, board diversity, and stock lending;
- two that added new markets; and
- a further one that updates its voting guidelines annually.

One Asset Manager highlighted a range: "*We touched upon the changes made in respect of gender balance to our UK Corporate Governance Voting Policy earlier in this response. As far as we are aware, we are the first investor globally to factor gender balance into our governance voting consideration. Building on these changes we also consolidated our climate change voting policy, along with our latest thinking on remuneration structure and assurance, into the updated voting policy".*

In general changes to processes were to develop capabilities, including:

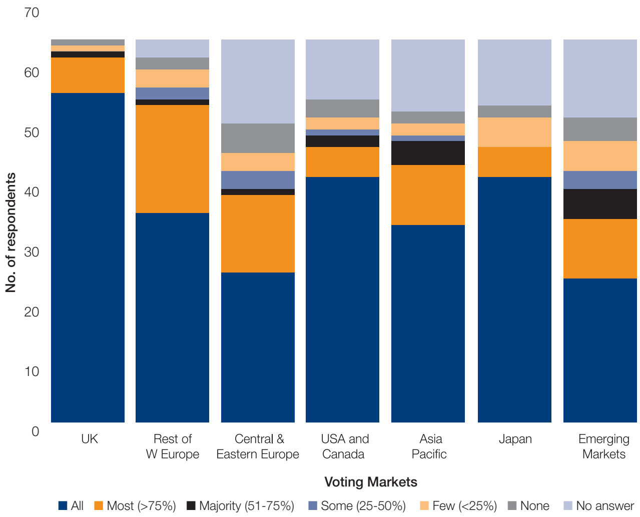
- one that added a new engagement subcommittee;
- another that added a new ESG team based in London;
- two that added third party resources, one stating: *"this service will deliver a more consistent and comprehensive approach to exercising our ownership rights and responsibilities";*
- two that increased the size of their teams; and
- one that established: *"an in-house database where fund managers, investment and ESG analysts record engagement activity with companies".*

Holdings voted in particular markets

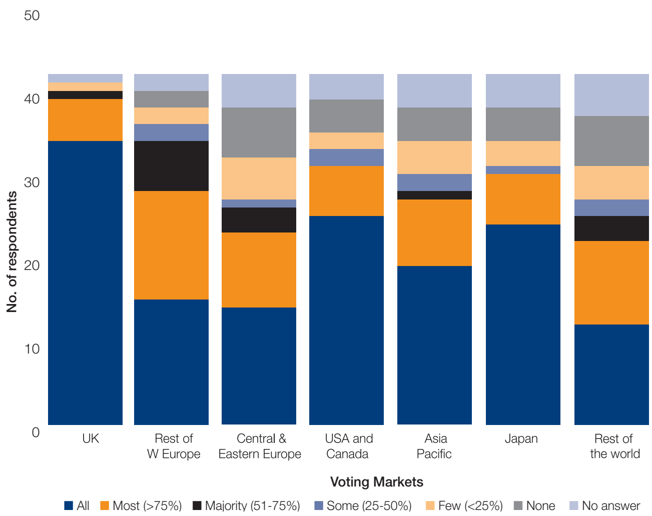
Voting levels increased from 2010. More shares are voted in the UK in that 86 per cent now vote all UK shares from 81 per cent in 2010 with a further 9 per cent (2010: 11.9 per cent) voting between 75 and 100 per cent. There is less voting in overseas markets but those who vote all holdings increased in each market, particularly in the "rest of western Europe", the USA and Canada, and Japan - Chart 5.

Chart 5: Percentage of holdings voted

a) 2011



b) 2010



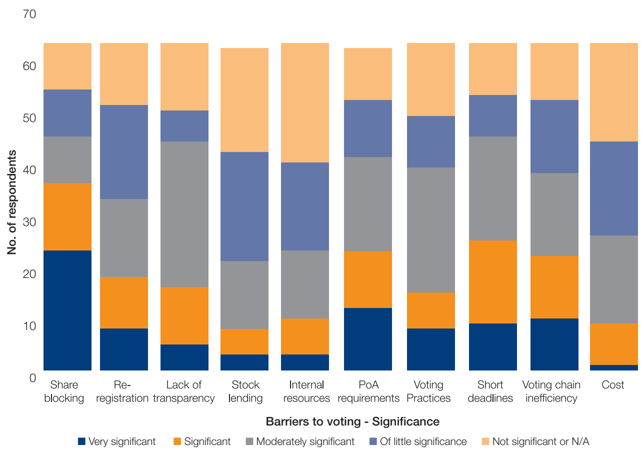
In 2010 respondents detailed a number of barriers to voting. To determine the extent to which these impact voting, they were invited to rank them in 2011 - Chart 6.

Consistent with 2010, share blocking has the most impact with this being a very significant or significant barrier for over 50 per cent. One respondent noted: *"important to note that while the EU needs to step up and be more proactive in ensuring the 2007 Shareholder Rights Directive's abolishment of share blocking is enforced, based on discussions with various SRI colleagues, it appears that the issue may be predominantly at custodian level".*

The other main barriers are the need to have a power of attorney and the inefficiency of the voting chain:

- *"We aim to attend all shareholder meetings of investee companies. Therefore, for the [managers] Fund, the most significant obstacle to voting is the inefficiency of custodian banks in processing shareholder meeting attendance requests."*
- *"For some African market the local custodians fail to send ballots and cannot receive votes via the modern fax systems."*
- *"Lack of poll voting e.g. India."*

Chart 6: Barriers to voting



Advising management

Table 17 sets out whether management is advised in advance or arrears of the reasons when abstaining or voting against a management resolution. 25 respondents always, or in the majority of instances, advise in advance. As one stated: *"We write in advance to all companies where we intend to vote against or abstain. We received responses to some 70 per cent of our letters, some of which enabled us to change our vote where a company provided new information / a better explanation / addressed the issue".*

29 occasionally or rarely advise in advance but six of these do so in arrears in the majority of instances. One commented: *"our general practice is to seek to have pre-vote discussions with companies where we hold more than 1% of their stock (or where we have a sufficiently significant active position in at least one of our portfolios) and where we have concerns that may indicate that we will not support one or more resolutions. In other cases where we have voting concerns and are not supporting management, we aim to inform companies of our voting stance and concerns as soon as possible after the relevant general meeting".*

However, 22 occasionally or rarely advise in arrears, for example:

- *"due to few resources it is difficult to do this as much as we would like to"; and*
- *"we would tend to inform management only when we are significant shareholders of the company".*

Only six respondents never advise management either in advance or arrears. One commenting: *"An evaluation of a company's management and its strategy forms part of the due diligence performed on companies prior to investment. For the most part therefore, [Manager] would be supportive of management teams and would be expected to vote with them".*

Table 17: Advising management

	Voting against or abstaining on management resolution				
	2011 Notify in advance		2011 Notify in arrears		2010 Notify[53]
	Total	2010 respondents	Total	2010 respondents	
Always	10	8	1	1	8
Majority instances	15	13	6	4	13
Occasionally	19	12	13	7	7
Very Rarely	10	4	9	4	4
Never	8	4	8	4	1
When not in advance	–	–	13	10	–
N/A as in advance	–	–	12	11	–
Other	–	–	–	–	8
No response	2	1	2	1	1
Total	**64**	**42**	**64**	**42**	**42**

[53] The categories in 2010 differed from those in 2011 and where possible, the nearest approximation has been made for comparative purposes.

Disclosure of voting records

The Guidance to **Principle 6** states that: "*institutional investors should disclose publicly voting records and if they do not, explain why*".

Since 2010, the percentage of respondents that publish voting records has risen from 29 or 69 per cent to 47 or 73.4 per cent - Table 18. Of the 17 or 26.5 per cent (2010: 12 or 28.6 per cent) that do not, nine disclose publicly why and a further five explained that they consider their voting records are between themselves and their clients[54]. To quote:

- *"[Manager] considers that the exercise of proxy votes on behalf of our clients to be a confidential issue between ourselves and our clients, and therefore we do not publicly disclose how we have acted on our clients' behalf."*
- *"We publish information for our European, Middle East and African clients on our voting record on the Fund Information page of our client website. Voting records for clients in other jurisdictions are also available and disclosure practices are based on best practices in those jurisdictions."*

One Asset Owner recently received its first voting report from its overlay service provider but had not yet put it on its website, though will do so in the second half of 2011.

Table 18: Disclosure of voting records

	2011		2010
	Total	**2010 respondents**	
Disclose voting information	47	33	29
Do not disclose	17	9	13
Reason disclosed	9[55]	5	–
Reason not disclosed	7	3	–
Commit to publish	1	1	–
No response	–	–	–
Total	**64**	**42**	**42**

32 of the 47 that publicly disclose detail all votes. However, only four give the voting rationale in each instance, and five the rationale for votes against management of which three also give the rationale for exceptional votes – Table 19.

Table 19: All votes publicly disclosed

	2011		2010
	Total	**2010 respondents**	
All votes	32	22	20
Rationale for all	4	–	–
Rationale for against or abstained, and exceptional	3	–	–
Rationale for against or abstained	2	–	–
No rationale	23	–	–

The 15 that provide a summary in the main give an overall commentary as opposed to details of individual votes - Table 20. One did not vote during the year and thus no records are available.

[54] Two respondents did not explain.

[55] Four did not answer that their reason for not publishing was disclosed; however, checking their public policy statement for the Stewardship Code it was established that they do in fact disclose the reason.

Table 20: Summary of votes publicly disclosed

	2011 Without rationale		2011 With rationale		2010
	Total	**2010 respondents**	**Total**	**2010 respondents**	
Against or abstained, exceptional and commentary	1	1	–	–	–
Against or abstained, and exceptional	1	1	1	–	–
Against or abstained	–	–	5	5	–
Overall commentary	6	3	–	–	–
Total	**8**	**5**	**6**	**5**	**9**

27 respondents publish their voting records quarterly in arrears, six six monthly in arrears, and 13 annually, though one noted that as they publish in June, much of the information relates to the April to June peak period for AGMs. Only one publishes more than one year in arrears - Table 21.

Table 21: How far in arrears published

	2011
Quarterly or less	27
Six months	6
One year	13
More than one year	1
Total	**47**

8. Reporting

Clients/beneficiaries

Principle 7 states that: *"institutional investors should report periodically on their stewardship and voting activities".*

In accordance with the Guidance: *"those that act as agents should regularly report to their clients details on how they have discharged their responsibilities. Such reports will be likely to comprise both qualitative as well as quantitative information. The particular information reported, including the format in which details of how votes have been cast are to be presented, should be a matter for agreement between agents and their principals".*

The majority of respondents report to their clients/beneficiaries on how they have discharged their stewardship responsibilities. As for 2010, the majority or 39 (60.9 per cent) against 23 (54.7 per cent) in 2010 do this quarterly, though for 13 or 20.3 per cent (2010: 14 or 33.3 per cent) the frequency varies for individual clients and there is "no general trend". Only two respondents do not report to clients/beneficiaries - Table 22.

Table 22: Frequency of reports to clients/beneficiaries

	2011		2010
	Total	2010 respondents	
Annually	7	4	4
Quarterly	39	29	23
Monthly or more frequently	3	2	1
No general trend[56]	13	6	14
Do not report	2	1	N/A
No response	–	–	–
Total	**64**	**42**	**42**

34 or 53.1 per cent (2010: 31 or 73.8 per cent) of respondents provide details of both voting and stewardship, with a further 15 or 23.4 per cent (2010: 6 or 14.3 per cent) only giving voting details – Table 23. Of the 12 that selected "other" reports vary, eight depend on the client's requirements, two the issue and two provide a broader ESG report. To quote:

- *"Voting, engagement, together with ESG themes and focuses for the desk during the quarter."*
- *"[Manager] provides bespoke quarterly voting reports (and engagement reports where mandated) for institutional clients. In addition, institutional clients receive bespoke biannual voting and engagement reports which detail dialogue with companies covering ESG issues over the period under review. [Manager] also publishes biannual Voting and Engagement Reports which provides high level voting statistics and highlights issues [Manager] has engaged on during the six months."*

Table 23: Content of reports

	2011		2010
	Total	2010 respondents	
Voting details only	15	10	6
Stewardship details only	1	–	–
Both voting and stewardship details	34	23	31
Other	12	8	5
No response	2	1	–
Total	**64**	**42**	**42**

Independent opinion

The Guidance to the Principle states that: "*those that sign up to this Code should consider obtaining an independent audit opinion on their engagement and voting processes having regard to the standards in AAF 01/06[57] and SAS 70[58]".*

There is limited progress in this area in that only 13 or 20.3 per cent (2010: 18 or 42.8 per cent) have obtained an independent opinion on their voting processes, with fewer, 6 or 9.4 per cent (2010: 4 or 9.5 per cent), covering stewardship as well – Table 24. In this context, a further 11 or 17.2 per cent intend to obtain an opinion on their stewardship and voting processes by the end of 2012 - the Stewardship

[56] In 2010 certain respondents indicated more than one frequency and were categorised as "no general trend", but in 2011 only one answer was permitted and thus nine respondents were more specific about the frequency of reports.

[57] The Audit and Assurance Faculty of the Institute of Chartered Accountants in England and Wales periodically issues guidance to its members. One such guidance note is AAF 01/06: Assurance reports on internal controls of service organisations made available to third parties, which provides guidance to reporting accountants.

[58] SAS 70: Service Organizations, is an auditing standard developed by the American Institute of Certified Public Accountants. It gives guidance to auditors in issuing an opinion on a service organisation's description of its controls.

Supplement to the AAF01/06 was only published in March 2011, thus respondents would not have necessarily had the time to obtain such an opinion in the period covered by this report.

Of the remaining 31, the reasons given for not obtaining an opinion included:

- Seven that consider there is no value in an independent opinion. For example: *"We believe our processes to be robust and do not consider that paying for an independent audit opinion would represent value for money for our shareholders".*
- One that considered that: *"While voting is something that can be measured and compliance can be confirmed, engagement may not always follow a formal process and does not always have tangible outcomes and results that can be quantified. For example, engagement will often take place in conversations between the investment analyst or portfolio manager and investee company which are by their nature highly confidential and are not formally recorded. This type of interaction would not provide an "audit trail" or other evidence to satisfy an auditor. We believe that the requirement to audit engagement would lead to a "box-ticking" approach to engagement, encouraging institutional investors to favour quantity over quality of dialogue with companies. We are exploring our options on the audit of engagement and will monitor the industry response".*
- Four remain undecided at this point in time over what should be covered; and
- Two considered that their holdings or this part of the business did not warrant such a review.

Table 24: Independent opinion on processes

	Both voting and stewardship			Voting only		
	2011		2010	2011		2010
	Total	2010 respondents		Total	2010 respondent	
> 12 months	–	–	–	–	–	1
In last 12 months	3	1	–	4	3	6
Current year	3	3	3	5	5	6
Annually	–	–	–	4	4	4
Period not given	–	–	1	–	–	1
By end 2012[59]	11	10	5	–	–	–
None	31	16	11	–	–	–
No response	3	–	4	–	–	–
Total	**51**	**30**	**24**	**13**	**12**	**18**

For 22 of the 31 that had not obtained an independent opinion, internal audit had reviewed their processes, with 14 covering voting and 8 both voting and stewardship – Table 25. Four stated this should be adequate: *"The Trustees are content with an internal independent audit of our stewardship and voting processes".*

Table 25: Internal audit review of stewardship and voting processes

	2011	
Period covered	**Both voting and stewardship**	**Voting only**
Pre 2010	–	2
2010	1	2
2011	4	4
Annually	1	2
No period given	2	4
Total	**8**	**14**

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[59] In 2010 this was reported as "in progress/under review" and no specific date was given.

9. Other stewardship activities

The Code primarily concentrates on Asset Managers' or Owners' relationship with their investee companies and the internal processes and procedures by which they engage with vote the shares of such companies. Respondents were given the opportunity to provide details of any "other" stewardship activities.

One noted *"We actively assist the PLCs that we invest in with: Recruitment of executive and non executive directors Strategy formation financial investor relations Report writing M & A including disposals and acquisitions And we assist in any other way that we can identify."*

Another noted that the Code has changed its approach to stewardship: *"For our firm the big change, partly on the back of the code, has been the resources put to the space and the genuine mandate for coordinated efforts to manage it. This is overseen and managed by the CEO and CIO's. The ESG team and these individuals now have quarterly ESG committees where they discuss issues related to the stewardship code. However, like many of our peers our investments are increasingly global and on a governance basis UK holdings are fine and have great governance. We are more concerned and should spend more time with our new holdings in frontier and emerging markets where we don't even* know who our fellow investors are".

21 respondents gave examples of how they cover wider issues of public policy. This requires commitment in terms of time and resources, but is seen as an integral element of stewardship. To quote, for example:

- *"We have been heavily involved in public policy issues having met with the EU, government ministers and represented investors on the House of Lords Economic Select Committee. e.g. the EU Green Paper, the FRC consultation on Gender Diversity and a call for evidence on the Long-term Focus for Corporate Britain."*
- *"[Owner] has engaged with the SEC in the US on a number of corporate governance issues including class actions, say on pay and proxy access. We have also had a number of engagements with US Companies during the year. In Private Equity, [Asset Owner] provided guidance to the British Venture Capital Association (BVCA)....."*
- *"We have recently participated in.......: the Employee Free Choice Act project, the Ethical Supply Chain Reporting Standards project and the Oil Sands project, published responses to UK government consultations on long-term corporate performance and the Takeover Code and to the European Commission's Green Paper on EU Corporate Governance Framework, among others."*

A further nine provided additional details of the wider committees and associations they are involved with and through which they contribute to public consultations collaboratively. To quote:

- *"[Manager] is an active member of the ABI Investment Committee and Bondholders Committee and as such contributes to ABI policy and the ABI's public policy responses on behalf of members. ..... Policy activity we have undertaken relating to material (from an investment perspective) environmental and social issues includes: - Support for a global investor statement on climate change - Support for a letter to the EU re. mandatory disclosure for the extractives sector."*
- *"The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The Fund seeks to achieve this through membership of both the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues, and the Institutional Investor Group on Climate Change, a forum for pension funds and investment managers."*
- *"Alongside ad hoc cooperation, among the numerous global organisations through which we collaborate internationally are: the UNPRI and its Clearinghouse for engagements (as well as a number of more localised UNPRI initiatives); the Forest Footprint Disclosure Project; and the International Corporate Governance Network."*

For a number of Asset Owners stewardship is outsourced to their Asset Managers, which they monitor. Two respondents provided details:

- *"All our fund managers are asked to give account of their stewardship activities in their quarterly* *presentations to us. ....Stewardship at our level means in practice communicating our responsible ownership policies to our fund managers, thereby helping to propagate our requirements along the investment chain. This is about risk management as much as about responsible ownership, and therefore it is not only applicable to one asset class or market in our portfolio."*

- *"Each year our investment consultant undertakes a review of the active ownership practices of our listed equity managers. This has also been extended to cover a number of other asset classes, including private equity, infrastructure, real estate and fixed income. These reviews are reported to the Trustee as part of its oversight function. Where we believe an investment manager is not operating to our policy, we will raise this with the manager utilising the comply or explain principle. We will also engage with our investment managers to promote best practice where we believe this is appropriate."*

Appendix 1
Steering Group members

Stephen Haddrill (Chair)	**Financial Reporting Council**
Jocelyn Brown	**Financial Reporting Council**
Frank Curtiss	**RPMI Railpen**
Richard Davies	**Investor Relations Society**
Professor Igor Filatotchev	**CASS Business School**
David Jackson	**BP**
Huw Jones	**M&G Investment Management**
Jarkko Syyrila	**EFAMA**
Liz Murrall	**IMA**
Frances Wells	**IMA**

Appendix 2
Respondents to the questionnaire

Asset Managers

- Aberdeen Asset Management
- Aerion Fund Management
- Alliance Bernstein
- Artemis Investment Management
- Aviva Investors
- AXA Investment Managers
- BAE Systems Pension Funds Investment Management
- Baillie Gifford & Co
- BlackRock
- BP Investment Management
- Capital International
- Cazenove Capital Management
- CCLA
- CFB Methodist Church & Epworth Investment Management
- Ethos Foundation Switzerland
- F&C Investments
- Fidelity Investments International
- Gottex Fund Management
- Governance for Owners
- Henderson Global Investors
- HSBC Global Asset Management (UK)
- Impax Asset Management
- Insight Investment Management Global
- Invesco Perpetual
- Investec Asset Management
- JPMorgan Asset Management
- Jupiter Asset Management
- Kames Capital
- Lazard Asset Management
- Legal & General Investment Management
- Lofoten Asset Management
- Longview Partners
- M&G Investment Management
- Martin Currie Investment Management
- MFS Investment Management
- Montanaro Asset Management
- Morgan Stanley Investment Management
- Newton Investment Management
- Old Mutual Asset Managers UK
- Pictet Asset Management
- Progressive Asset Management
- Pyrford International
- RC Brown Investment Management
- Royal London Asset Management
- Russell Investments
- Schroder Investment Management
- Scottish Widows Investment Partnership
- Standard Life Investments
- SVG Investment Managers
- T. Rowe Price International
- The Co-operative Asset Management
- The National Farmers Union Mutual Insurance Society
- Thomas Miller Investment
- Threadneedle Investments
- TT International
- UBS Global Asset Management
- Vanguard Asset Management
- Wellington Management

Asset Owners

- Alliance Trust
- Barclays Bank UK Retirement Fund
- BBC Pension Trust
- Bedfordshire Pension Fund
- British Airways Pensions
- Greater Manchester Pension Fund
- Hermes Equity Ownership Services[1]
- London Pensions Fund Authority
- Marks & Spencer Pension Scheme
- NI Local Government Officers' Superannuation Committee
- North East Scotland Pension Fund
- Ontario Teachers' Pension Plan
- Pension Protection Fund
- RPMI Railpen
- Somerset County Council Pension Fund
- UK Financial Investments
- Universities Superannuation Scheme
- Wellcome Trust
- West Midlands Pension Fund
- Whitbread Pension Trustees

Service Providers

- Aon Hewitt
- Glass Lewis
- Manifest
- Pensions Investment Research Consultants (PIRC)
- Towers Watson

[1] On behalf of BT Pension Fund and other Pension Fund clients.

Appendix 3
Detailed practical examples

Tesco plc
September 2010 to July 2011

Background

Tesco's US business had for some time traded at a loss. At the July 2010 AGM, 48 per cent voted against or abstained on Resolution 2, approval of the Remuneration Report, following concerns over the remuneration of executives in the US.

Tesco overhauled its executive pay ahead of the 1 July 2011 AGM and replaced executive share options with a performance share award and its four long-term incentive plans with a single plan. The scheme for US executive Tim Mason was revised.

In August 2011, Tesco announced that it would be selling its Japanese operations having spent eight years trying to break into the market. Analysts' comments at the time were that this would now focus Tesco's attention on its loss making US business. The new Chief Executive, Philip Clarke, had undertaken to turn the US operations around by 2013.

Respondents' concerns

48 respondents had a holding during the period of which 29 engaged – Table I. For 13 respondents, remuneration was the sole concern, with ten specifically noting concerns about recent changes and the alignment with shareholders' interests. Some focused on operations, including the overseas business. Other concerns were:

- *"...keen for the company to appoint a new, independent Chairman and had been seeking this for some time......... the level of the company's UK capital expenditure and we have also had an active debate with the company about its remuneration policies."*
- *"Supply chain issues - price pressure on suppliers - water related risk - climate change."*
- *".....governance and sustainability issues ....these include: - Board structure, mix of skills and succession planning; - Executive remuneration; - ESG-related performance objectives in executive remuneration - Labour relations in the US; - Supply chain management and sustainable sourcing - Climate change strategy; - Animal welfare; - Responsible marketing - Business ethics - Sustainability reporting."*
- *".....whether growth was still possible in the UK given the current market share of the company, how the US operations would be made profitable and the risk associated with expanding in financial services."*
- *"board refreshment......, in particular for the long-standing chair. ......With the appointment of the new CEO we expect significant focus on this [international expansion] in the near future....... We have also engaged with the company on a variety of SEE issues, including labour rights in the UK and the US as well as the company's commitment to become a zero-carbon business by 2050."*

19 did not engage, reasons included:

- holdings too small to influence (five);
- support management (two), for example, one considered that Phil Clarke should be allowed some time to "get his feet under the desk" and that past performance was acceptable; and
- did not feel these issues warranted it and/or were happy with the report (seven).

Only three changed their holdings. One divested some and continues to do so, and two acquired more shares, one viewing the strategy positively.

Table I: Engagement with Tesco plc

	Number of respondents	
Did not engage	19	
Engaged	29	
Remuneration		13
Remuneration and other		5
Operations and overseas		4
Other		7
Total	**48**	

One Service Provider had a holding and to quote: *"We engaged both in our own right, and on behalf of a client in this period. [Service Provider]: Continuing concern about remuneration and proposed share plan. Client: Approach to employee motivation and development. Allegations of anti-union activity in US operations".*

Respondents' objectives

28 of the 29 set out what they wanted to achieve. For nearly all, 27, these related to issues around remuneration, for example "*understand how the Remuneration Committee intended to respond to the increased shareholder opposition to their remuneration strategy; and give our views on the proposed amendments". *Other concerns were around board refreshment; alcohol mis-use; improved relations with US trade unions and the business model/risk management. To quote: *"understanding the company's approach to managing these risks and to encourage transparency in the supplier relationship - to be a friendly critic".*

One sought a new Chair. Another did not provide details but stated: *"If we invest in a company we are generally supportive of the management team and remuneration is not usually deemed to be significant enough an issue to warrant direct engagement. Engagement tends to focus more on the management team's fundamental strategy for the business and any other issue that may negatively impact shareholder value".*

Conflicts

No conflicts of interest were noted by the respondents during the period.

What respondents did

A total of 104 contacts were made by 21 respondents, an average of five each[1]. This was mainly with the Company Secretary - 14 respondents 26 times – and the Non-Executive Directors and Executive Directors – Table II.

Table II: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	12	8
Senior Independent Director	5	4
Non-Executive Directors	27	10
Executive Directors	25	12
Management	16	7
Company Secretary	26	14
Investor Relations	12	5

It was mainly the portfolio managers or the dedicated specialists that had contact (the latter particularly the case for Asset Owners) - Table III.

Table III: Number of contacts and who by

	Number of contacts	Number of respondents
Portfolio managers/analysts only	46	11
Dedicated specialists only	44	11
Portfolio managers/analysts and dedicated specialists	31	9

However, Tables II and III only include details recorded by respondents. Others did not maintain such details but clarified:

- *"We had regular engagement with the board on all the above issues."*
- *"The number of engagements, with both the REMCO chairman (Stuart Chambers) and CoSec (Jonathan Lloyd) were sufficient in number to ensure that our residual concerns were expressed and to receive assurance, from the company, that they would be addressed."*
- *"Relatively small holding as a proportion of share capital so our position relative to other shareholders was significantly weaker."*

[1] This is the average for those where numbers have been given.

- *"We do not comment on the number of engagements undertaken as we do not feel that reflects the quality and impact of engagements which we consider to be more important. That said, we will ensure we will meet with the appropriate individuals (both at board and senior management levels) within companies on as many occasions as necessary to reinforce our message. Many engagements are undertaken in conjunction with the portfolio managers."*

The dedicated specialists at the Service Provider had two contacts with the Executives, Company Secretary and Investor Relations.

Collaboration

13[2] respondents collaborated with others, nine to share views or to gather a collective view ahead of meeting with the company – Table IV. To quote: *"The company was unwilling to meet a group of investors, preferring to have one-on-one meetings. [Manager] led an initiative to consolidate investors' views and identify common areas of concern that investors may wish to raise with the company".*

Another noted that Tesco offers a bi-annual investor meeting on ESG issues[3].

Ten considered this collaboration was helpful. To quote: *"It gave comfort to investors that their concerns were shared by others, provided a list of priorities when engaging with the company and avoided the company "dividing and conquering" its shareholders".*

Table IV: Collaboration

	Number of respondents
Joint meetings with the company	6
Collective agreement on how to vote	1
Other	7

The Service Provider was involved in a conference call on remuneration issues.

2011 AGM and Resolution 2

Tesco overhauled its remuneration structure ahead of the 1 July 2011 AGM and only one respondent attended the meeting. Although the majority of respondents at 90 per cent supported the remuneration report, this was slightly less than the meeting overall where 96 per cent voted in support - Table V. To quote: *"Many of the changes in remuneration look positive and they seem to have addressed issues we raised with the company last year. The remuneration report is much more accessible and far easier to comprehend as there is now clearer line-of-sight between pay and performance"[4].*

Two respondents voted against and one abstained, two informing the company of the reason in advance. One changed its decision from against to abstain to reflect the *"move towards best practices but there were still remaining Executives who had a contractual guaranteed bonus".*

Table V: Resolution 2

	Number of respondents
For	26
Against	2
Abstain	1

The Service Provider recommended a vote against on the basis it considered the remuneration excessive.

Outcomes and conclusions

25 of the 27[5] that engaged achieved their objectives. This was mainly as the remuneration policy was changed or they gained a better understanding of it. However, the one that wanted a change of Chair had reservations in that it had taken over two years and a further two are still having on-going dialogue.

Only two did not achieve their objectives in that for one the issues are on-going, though it noted some positive momentum, and for the other there was still a lack of clarity on Fresh & Easy.

[2] This does not agree to the Table as some collaborated in more than one way.
[3] Three did not explain.
[4] Three did not state why they voted as such.
[5] Two did not give their reasons.

Two did not confirm either way, although one stated: *"We achieved some of our objectives by ensuring that the company was aware of our concerns".*

The Service Provider considered it had a better understanding of US operations and that conflicts with the trade unions might be resolved.

21 considered the engagement worthwhile 16 of whom explicitly stated that they continue to engage, for example:

- *"Engagement was certainly worthwhile and we note that there will be a new Chairman at the end of November who is asking investors for a one-to-one meeting as it is important to him to have a good understanding at the outset of the views of major shareholders and any concerns they may have."*
- *"The engagement was very important and resulted in a remuneration structure which better aligns management and shareholder interests. We intend to meet with the new Chairman in December 2011."*
- *"Generally, the engagement was worthwhile as it achieved the desired objective, although the time taken to achieve this was not immaterial. There is no planned engagement with the company on this issue. However, given the change in chairman, [Manager] will be meeting with the new chairman to understand his objectives, priorities for the company and its strategy, policies, practices and procedures."*
- *"Engagement was worthwhile. This will be necessary to continue given the continued uncertainty regarding the US business and the commitment to continue building new stores even though the returns on this investment do not appear satisfactory."*

Prudential plc

June 2010 to May 2011

Background

The proposed acquisition of AIG's Asian operation, which was later withdrawn, gave rise to concerns over those responsible for the deal. Some investors reported that they would vote against the re-election of board members at the 2011 AGM.

There were certain changes to the board during the year. Paul Manduca, former Chief Executive of Deutsche Asset Management, took over as Senior Independent Director at the start of 2011 when Howard Davies, former Director of the London School of Economics, also joined the board. Mike Wells succeeded Clark Manning as President and CEO of Jackson National Life Insurance Company and joined Prudential's board in January 2011.

The entire board stood for re-election at the 19 May 2011 AGM.

Respondents' concerns

45 respondents had a holding during the period – Table VI. 32 engaged (including one that did not have a holding) where the main focus of 14 was the proposed acquisition: one to understand the rationale; another to share its concerns about potential value destruction; and another on the lack of communication between the company and shareholders.

Once the deal was withdrawn, 10 focused on the board's leadership and their role in the failed bid. To quote:

- *"We wanted to discuss board leadership, the strategic direction of the company following the failed AIA bid and whether its "plan B" would deliver for long-term shareholders, its plan for refocusing management following the distraction of the failed AIA acquisition, the induction of new non-executive directors, improving investor relations, and support for management in succession planning in case the failed deal had resulted in an unsettled senior executive team (we were concerned that there was a risk the CEO would leave)."*

- *"We ....wanted to see Board change at a very senior level."*
- *"[Manager] discussed with Chairman Harvey McGrath and the company secretary to discuss [Manager's] AGM vote against McGrath. [Manager's] concern about McGrath's leadership in the proposed AIA transaction, particularly the concerns relating to McGrath making representations about regulatory approval and shareholder support which were not accurate."*

A further three had general concerns about performance of the board. Of the remaining five, two covered more general business issues, one of which wanted to look at how the business would go forward; two focussed on governance issues; and the last had a conflict of interest and did not engage over the deal, but looked at board issues afterwards.

14 did not engage. Reasons given include seven where their interest was too small; one that does not engage in relation to UK holdings; and three that did not consider there were sufficient reasons or that they would achieve the desired outcome[1].

Five changed their holdings. Two increased – one after the deal stating: *"[Manager's] understanding of the company and its board provided the necessary comfort in order to increase investment exposure".* Another's holdings were adjusted; and two reduced their exposures[2].

Table VI: Engagement with Prudential plc

	Number of respondents	
Did not engage	14	
Engaged	32	
AIG deal		14
Board leadership following failed bid		10
Board leadership and composition		3
Other		5
Total	**46[3]**	

Only one Service Provider had a holding and engaged on remuneration issues.

Respondents' objectives

28 respondents clarified their objectives. Eight aimed to understand or voice concerns about the AIG deal and the board's effectiveness.

After the deal was aborted, 11 sought a greater understanding of the process leading up to the deal, and/or reassurance that the board would avoid a repeat. To quote:

- *"To ensure the governance and oversight model of the company was appropriately reformed to ensure the avoidable mistakes associated with AIA would not be repeated."*
- *"A thorough understanding of the process leading to the proposed transaction and the future strategy of the group following the aborted deal and implications for Board composition."*
- *"We wanted to achieve better understanding of the above. We did not support a change in leadership following the failed acquisition because we were concerned it would further unsettle the company and/or derail the delivery of strategic objectives. We were, for the right price, supportive of the deal, which was in line with the company's stated strategy, we just thought they were paying too much."*

A further nine wanted changes to the board, four specifically a new Chairman. To quote:

- *"We believed that there should be some change within the boardroom to recognise the poorly executed proposed deal. We also believed that remuneration should have reflected the significant costs to shareholders of the deal."*
- *"We initially wanted the Board to replace the CEO but after discussion with other shareholders decided to press for the appointment of a new Chairman."*
- *"We wanted to achieve a number of goals: hold board to account for the failed transaction; discuss future strategy in light of this; convey views regarding need to strengthen the board; and convey views on remuneration."*

The Service Provider focussed on remuneration.

[1] Three did not explain.

[2] One other did not say how and another answered incorrectly.

[3] Including one with no holding.

Conflicts

Three respondents had a conflict of interest:

- one was a client and exercised its votes in line with a third party provider's recommendations;
- another's funds are distributed by Prudential, however, the marketing and distribution arms are kept separate from those taking a position on the investment; and
- the third was an adviser to the deal and had the deal gone ahead would have followed its conflict of interest procedures in polling all clients on how to vote.

What respondents did

24 respondents had a total of 136 contacts with the company, an average of 5.6 each[4]. The majority were with the Chairman, Senior Independent Director and Executive Directors. No respondent had contact with the Non-Executives - Table VII.

Table VII: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	39	17
Senior Independent Director	31	18
Executive Directors	43	19
Management	16	8
Company Secretary	13	8
Investor Relations	31	6

In the main contact was by/with the portfolio managers/analysts – Table VIII.

Table VIII: Number of contacts and who by

	Number of contacts	Number of respondents
Portfolio managers/analysts only	86	17
Dedicated specialists only	49	10
Portfolio managers/analysts and dedicated specialists	50	17

One elaborated: *"First meeting - In July we had a meeting with the Chairman and SID. This was convened at our request to discuss the governance and leadership issues arising out of the controversial and aborted proposal to acquire AIA. Second meeting - We had a one to one conference call with the Chairman and Company Secretary in November to discuss the appointment as non-executives of Howard Davies (also to chair the Risk Committee) and Paul Manducca (to be SID). Third meeting - We met the Chairman and SID for an update on the board's consideration of its effectiveness, especially in the light of feedback arising from Paul Manducca's engaging with the larger shareholders. Fourth meeting - The Chairman and Company Secretary called following the AGM on the previous day when 22% of the voting shareholders did not support his re-election. The Chairman explained that only 4 out of the top 30* shareholders had voted against him".

However, Tables VII and VIII only include details recorded by respondents. Others that did not maintain such details clarified:

- one engaged extensively with the board and company's advisors;
- another contacted a number of other shareholders to pressure the company to change leadership; and
- one considered that the quality of engagement is more important than the number, but ensures it meets the appropriate individuals on many occasions as necessary to reinforce the message. Many are undertaken in conjunction with portfolio managers[5].

[4] This is the average for those where numbers have been given.

[5] Two did not state.

The Service Provider's dedicated specialists had contact with the company secretary.

Collaboration

14 collaborated with others – Table IX:

- joint meetings (eight), two attending a meeting hosted by the National Association of Pension Funds;
- one reached collective agreement to vote the same way as part of a coalition with like-minded investors; and
- of the five that stated "other", all conversed with other investors to share views.

Two considered that this allowed them to leverage their small holdings. It allowed four to convey collective views to increase pressure on the company, for one this helped to determine the priority this issue should be given and another to ascertain how widely its views were shared. Only one respondent did not value this collaboration on the basis that other shareholders were not willing to press the issue and two noted that it was hard to reach a consensus[6].

Table IX: Collaboration

	Number of respondents
Joint meetings with the company	8
Collective agreement on how to vote	1
Other	5

2011 AGM - Resolution 13, to re-elect the Chairman

Only three respondents attended the 19 May 2011 AGM where the entire board stood for re-election. All directors were re-elected but Resolution 13 for the re-election of the Chairman, Harvey McGrath, received nearly 22 per cent votes against.

The majority of respondents, 22, voted in favour of Resolution 13 – Table X - supporting the Chairman following the changes made after the bid. One clarified: *"The time to push for change was in 2010. By 2011, the pressure for change of chairman had withered away. It was irrelevant to vote against in 2011. If shareholders would not act in 2010, then after a year of good performance, it was ridiculous to think they would act against the board in 2011. We met the company before the 2011 AGM and noted we would not vote against for these reasons".*

Six voted against and two abstained, five advising the company in advance. In the main respondents considered the Chair bore the responsibility for the failed deal and wanted a change. To quote:

- *"While we appreciate that there have been changes to the board in the interim period, leadership of the board is the responsibility of the Chairman and we consider that without a change of Chairman, confidence in the board is unlikely to be fully restored."*
- *"In view of the progress that had been made with board refreshment and shareholder communication, and acknowledging that a large vote against the chairman would have been very destabilising for the company we decided abstention was more appropriate than opposition."*

Table X: Resolution 13

	Number of respondents
For	22
Against	6
Abstain	2
Did not vote	2

The Service Provider recommended a vote for the Chairman.

Outcomes and conclusions

23 of the 32 respondents that engaged achieved their objectives[7]. The main reasons included:

- gained a better understanding of the deal and the board's strategy (seven);
- as the deal had been withdrawn (seven), to quote two: *"The deal was aborted and the company learned a lesson on how to engage more effectively*

[6] Five did not state.

[7] One did not state.

with shareholders" and "the recovery in the share price after the AIA deal was dropped was beneficial. The review by the SID of the chairman's role was of some use but led to no change in that position"; and

- welcomed the change in the boardroom (three).

While one felt its objectives were met, the meetings did not clarify the rationale for the deal and it was still not comfortable with the valuation of AIA[8]. Eight did not meet their objectives. For six[9] this was mainly due to the lack of changes in the board, four of which wanted a change of Chairman and one that insufficient shareholders had agreed the leadership was flawed. The Service Provider did not consider it achieved its objective, and did not comment on whether it was worthwhile or on-going.

19 respondents considered the engagement had been worthwhile, with sixteen respondents planning further engagement.

The Chairman has since announced he is stepping down, therefore changes to the board may be achieved, though this may not have been within the timescale expected by shareholders.

BP plc

April 2010 to September 2011

Background

In April 2010, following an explosion at the Deepwater Horizon oil rig in the Gulf, 11 workers died and there was a large oil spill. The US government named BP as the responsible party and BP subsequently set up a US$20billion compensation fund. Following this, the company suspended its dividend payments in June 2010 and by July 2010, its share price had halved. In February 2011, BP announced that dividends would be resumed and the fourth quarter 2010 dividend paid.

In 2011 BP set up the US$500-million Gulf of Mexico Research Initiative to study and monitor the long-term effects of the oil spill and its potential impacts on the environment and human health. In March 2011, Chief Executive, Bob Dudley, opened a speech to a major oil industry conference in Houston with an apology to the industry for the Deepwater Horizon disaster. In August/September 2011, it shut production at its eight oil and natural gas platforms in U.S. regulated areas of the Gulf of Mexico and evacuated workers ahead of a weather disturbance.

Respondents' concerns

51 respondents had a holding during the period – Table XI. 44 engaged of which 19 focussed on the oil spill. To quote:

- *"Possibility that the accident reflected systemic failure of safety systems and processes within BP. High level of uncertainty surrounding the total cost of the disaster to BP. Possibility of lawsuits for negligence. Defensibility of bonus payments."*
- *"In relation to BP, we identified issues surrounding events in the Gulf of Mexico and how those events would affect the company's performance and governance structure in the future."*
- *"Spillover effect to other operations & safety/environmental issues. Potential size of compensation fund, including possibility of gross negligence. Depth of management expertise following the departure of CEO."*

[8] Two did not state reason.

[9] Two did not state reason.

Another: *"decided first to co-file a resolution requesting a review of the risk assessment and risk management plans in place for each of the company's major projects in North America. Then in early 2011 it was decided to postpone the filing of the resolution to allow BP to take the necessary actions".*

Five concentrated on BP's health and safety record, to quote: *"On-going concerns over safety issues, dating back to Texas City and ANWR drilling had led to BP being flagged as an outlier".*

An additional 12 focussed on a range of issues in addition to the above including remuneration, board effectiveness, concerns relating to other business ventures such as those in Russia, risk management, sale of assets and refinancing. To quote:

- *"Lack of board oversight and understanding of the company's operations, ineffectiveness of the board's assurance committee, lack of board leadership on health & safety, failure to control contractors and supplier."*
- *"We have been engaging with BP for many years on a variety of governance, remuneration and risk management issues. Specifically, we tested whether board is correctly composed and sufficiently committed to take company to next phase of development. Sought evidence of genuine change in health & safety culture."*
- *"engagement ......focused around long-term strategic issues facing the business and its areas of operations on, rather than specific resolutions at the April 2011 AGM."*

One was not specific but clarified: *"We have engaged extensively with BP for many years, escalating in the last 2 years surrounding the shareholder resolution we co-filed".*

Seven did not engage, for example, two did not have the process to do so, the holdings for two were too small, and another considered the issues did not warrant engagement.

19 changed their holding, as follows:

- eight increased their holding, one as it considered the market overreacted in the aftermath of the spill;
- five reduced; and
- a further six considered it impacted its valuations but did not state whether it reduced or increased.

Table XI: Engagement with BP plc

	Number of respondents	
Did not engage	7	
Engaged	44	
Implications of Deepwater Horizon oil spill		19
Health and safety		5
Wider governance issues		12
Other[1]		8
Total	**51**	

One Service Provider engaged on remuneration and on behalf of its clients on social and environmental issues.

Respondents'objectives

39 clarified their objectives of which 18[2] wanted greater insight or understanding of the events leading up to and the ramifications of the oil spill. To quote:

- *"Improve understanding of how the company was handling/handled the Deepwater Horizon oil spill. Processes and procedures in place to avoid a similar incident recurring."*
- *"Understanding of legal consequences. Capability of Chairman and the board to understand and manage HSE risks."*
- *"With the appointment of a new chief executive, we wanted assurances from the chief executive that capex would be given a higher priority than before and that the asset base would be properly maintained."*

Four wanted to express concerns over safety issues.

16 wanted changes in other areas, including improved leadership and management of health and safety issues. Another wanted to see remuneration adjusted following the explosion. To quote: *"(1) Oil sands - many*

[1] Of which three did not state.

[2] Four did not state, and one engaged via the Local Authority Pension Fund Forum, at arm's length.

of the issues raised by oil sands extraction are ones on which we are maintaining vigilance across our investments given the uncertainties faced in developing oil resources. We believe dialogue must continue on these issues (and abstained on the resolution) to encourage further positive and open dialogue whilst supporting the steps already taken by the company. (2) Explosion - For the Company to be open on all aspects of this, and then to fully learn all lessons and take whatever actions are needed. (3) For remuneration arrangements to be addressed following the Explosion".

Conflicts

No conflicts of interest were noted by the respondents during the period.

What respondents did

There was much engagement during this period. 33 respondents had 320 contacts with the company, an average of nearly ten each[3]. Due to the significance of the issues, this was at senior levels across all parts of the business, mainly involving the portfolio managers with the Executive Directors and the Chairman. There was notably less contact with the Senior Independent Director and Non-Executive Directors - Tables XII and XIII. Some elaborated, for example, *"We met multiple times with multiple parts of the business to listen to the company's explanations as the situation developed and to provide our perspective on a whole range of topics under discussion. This series of engagements included our credit, equity and governance teams. ....There were at least 20 engagements".*

Table XII: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	59	21
Senior Independent Director	21	7
Non-Executive Directors	20	8
Executive Directors	92	22
Management	54	15
Company Secretary	58	18
Investor Relations	72	21

Table XIII: Number of contacts and who by

	Number of contacts	Number of respondents
Portfolio managers/analysts only	124	20
Dedicated specialists only	113	17
Portfolio managers/analysts and dedicated specialists	77	17

However, Tables XII and XIII only include details recorded by respondents. Others that did not maintain such details clarified:

- one engaged extensively with senior executives, non-executives and the Chairman over a long period of time. All engagement was undertaken by senior dedicated specialists and/or senior portfolio managers; and
- one considered the quality of engagements is more important than the number, but noted that it ensures it meets the appropriate individuals on many occasions as necessary to reinforce the message. Many are undertaken in conjunction with portfolio managers.

The Service Provider's dedicated specialists contacted the Company Secretary twice.

[3] This is the average for those where numbers have been given.

Collaboration

22[4] respondents collaborated with others, the majority having a joint meeting with the company – Table XIV. To quote:

- *"We led investor roadshows to encourage investors to vote in favour of the shareholder resolution. Worked on this full time for a number of months."*
- *"We co-ordinated an international coalition of like-minded investors in the engagement with BP. This included brokering a deal that removed a potential 2011 shareholder resolution in favour of an in-depth 'case committee' engagement approach with the potential for a shareholder resolution in 2012 should BP not have made sufficient progress."*

For three this was helpful as they obtained more information and seven[5] were able to identify areas of common ground and have a stronger voice: "*We believe that the company gained a better understanding over the degree of shareholder concern from having a collective meeting*".

Another noted: *"examples of helpful events: - BP's regular group updates on the implementation of its safety reform - Joint ABI organised meetings with BP's Chairman of the Remuneration Committee - Meetings with BP senior management to discuss sustainability strategy"*.

Table XIV: Collaboration

	Number of respondents
Joint meeting with company	19
Collective agreement to vote same way	2
Other	7

2011 AGM - Resolutions 2, 6, 15

Eight attended the AGM on 14 April 2011. 15 respondents voted for all three resolutions with four specifically stating that they supported management – Table XV.

Resolution 2, to approve the remuneration report

Resolution 2, approval of the Remuneration Report, received overall 11 per cent votes against.

This compares with 17 or 41 per cent of respondents that voted against or abstained on considering the award of large bonuses to the Chief Financial Officer, Byron Grote and Iain Conn, the Chief Executive for Refining inappropriate given the safety issues. Two welcomed the bonuses being withheld, but considered the metrics too vague, as one clarified: *"Whilst [Manager] welcomed the fact that the remuneration committee has exercised its discretion to withhold bonuses and has decided to tie health and safety metrics into performance measures, [Manager] was concerned at the vagueness of these metrics and at the decision to regard Hayward and Inglis as 'good leavers' without a mechanism for clawback."*

24 or 59 per cent or voted in favour. To quote: *"Generally no bonuses paid due to the Gulf of Mexico disaster and 2011 proposed compensation was based on detailed performance criteria".*

One went against the advice of its service provider's recommendation as it considered: *"their [provider's] rationale appears to hinge in large measure on termination payments made to two departing executive directors (Tony Hayward and Andy Inglis). However, they did receive compensation in line with their service contracts and, per the Remuneration Committee, by limiting compensation to one year's basic salary (with no entitlement to payments linked to bonus or other aspects of the package), BP's contracts are significantly more restrictive than those in place elsewhere".*

Resolution 6, to re-elect William Castell, Chair of the Safety, Ethics and Environment Assurance Committee and Senior Independent Director

Similarly whilst Resolution 6, the re-election of the Chair of the Safety, Ethics and Environment Assurance Committee, Senior Independent Director, Sir William Castell received 25 per cent votes against overall, 45 per cent or 19 respondents voted against or abstained. To quote:

[4] This does not agree to the Table as some collaborated in more than one way.

[5] 11 did not state.

- *"[Manager] wanted to send a signal to the board that since there was no resolution regarding the oil spill on the agenda, we reflected all our concerns on the management of health and safety as well as our concerns over the disclosure of risk and internal controls on the annual report and accounts."*
- *"Owing to the SEEAC's responsibility of overseeing the company's approach to safety and the company's failings in this area, [Manager] instructed votes against the re-election to the board of the five members of this committee."*

23 or 55 per cent voted in support, reasons including:

- sufficient changes to safety procedures to make a vote against unnecessary (three);
- the Chairman should have taken a more prominent role and more leadership and voted against him rather than William Castell (two);
- not wanting to: *"destabilize the board at a time of significant upheaval in the company"* (one);
- the two most culpable had already left (one); and
- concerns about the alternative candidates (one).

Resolution 15 to re-elect the Chairman

Whilst overall 7 per cent of the votes were against Resolution 15, the re- appointment of the Chairman, Carl-Henric Svanberg, 10 or 24 per cent of respondents voted against or abstained due to a lack of leadership and visibility. To quote:

- *"A very sensitive situation was not managed well and the Chairman was conspicuous by his absence."*
- *"......given his failure to demonstrate strong leadership during the turbulent period."*
- *"ultimate responsibility rests with him for the running of the board, oversight of both executive and non-executive management, together with the activities of the board committees."*

31 or 76 per cent voted in support. To quote:

- *"In relation to resolutions 6 and 15 we took the view that the Board was responding appropriately to the disaster, and that voting against individual non-executive directors was not warranted."*
- *"BP had engaged extensively with shareholders & had tried to explain itself. After much debate we took the view that this engagement deserved our clients support."*
- *"We gave Svanberg conditional support, though this will be monitored."*

Other reasons included: one that did not want to destabilize the board; another that wanted continuity; and a third that considered Tony Hayward's departure sufficient and there had been other changes to safety procedures.

Table XV: Resolutions 2, 6, 15

	Number of respondents		
	Resolution 2[6]	Resolution 6[7]	Resolution 15[8]
For	24	23	31
Against	11	11	5
Abstain	6	8	5

22 of those who voted against or abstained on the resolutions informed management in advance, only four did not.

The Service Provider recommended a vote against all three resolutions and clarified: *"decided to focus principally on remuneration policy and inappropriate rewards for directors in light of events".*

Outcomes and conclusions

32 respondents achieved their objectives[9]. Seven as there were significant improvements in health and safety procedures. To quote:

- *"We were able to form a view of the adequacy of BP's safety systems, and of the measures instigated to ensure non-recurrence of similar accidents. We were also better able to assess the scope and cost of BP's liabilities."*

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[6] Three did not state how they voted.

[7] Two did not state how they voted.

[8] Three did not state how they voted.

[9] Excludes seven that did not state either way but includes one that stated "no" but then gave a reason as to why it had. Three did not state why and three had other reasons.

- *"The engagement is still ongoing. In the interim, the Company has invested significant resources in managing its health and safety risks."*
- *"In numerous one-on-one and group meetings with the company our recommendations have encouraged the company to further enhance its approach to safety management and reporting. We measure when such improvements occur in* response to our engagement."

For three, the problems were prioritised or changes proposed to the board. Another five had been given sufficient opportunity to voice their concerns, while ten had a better understanding of the issue and how the board was dealing with it. To quote: *"The engagement with the company helped us to develop an understanding of both the impact of the event and the way in which the company had responded to it, both of which were significant factors in the investment case."*

Four did not meet their objectives, two as there were outstanding issues and engagement is on-going, one as there were no changes to the board and one did not explain.

27 of the 44 considered the engagement worthwhile. However, one had reservations: *"Our understanding was improved surrounding the tragedy and its causes, and we felt that our engagement was effective in changing the safety culture. However we were frustrated by the speed of implementation in initiating a strategic review".*

18 of these have on-going engagement: *"Yes, it was essential, particularly with regards to the explosion, given the significance of the issue and to ensure the company can pick itself up from this and return confidence to investors. Engagement will continue through meetings with management".*

Another six continue to engage as one clarified, *"The discussions on how best to report on and measure safety performance is still ongoing and will be one of the key areas of our engagement in the coming year. We will also focus on robust board oversight and monitor how safety performance will be reflected in executive remuneration going forward."*

The Service Provider considered the engagement worthwhile and continues to do so.

Cable and Wireless Worldwide plc

September 2010 to July 2011

Background

In June 2011, Chief Executive, Jim Marsh, resigned following three profit warnings within 15 months, after the company warned that core earnings would be between 5 and 10 per cent below market expectations and cut its dividend for the year in half from 4.5p to 2.25p. Shares fell 13.9 per cent on the news and closed at 45p. There were also concerns that Jim Marsh and John Pluthero, the former Chairman who succeeded Marsh as Chief Executive, had secured payments running into millions of pounds under a remuneration plan at the old Cable and Wireless group, from which Cable and Wireless Worldwide demerged in 2010.

Respondents' concerns

28 respondents had a holding during the period - Table XVI. 11 engaged, four solely due to concerns over the remuneration plans.

Another four were also concerned about performance: *"We had concerns regarding the performance of the company since the demerger of Cable & Wireless plc. These concerns were compounded by governance issues: - the board succession and the recruitment process of Mr. Pluthero to the CEO position. - board communication with shareholders. - remuneration policies".*

A further three had concerns over strategy and succession planning: *"A succession of profit warnings, fundamental strategic challenges and remuneration and board structure concerns".*

17 did not engage, 12 due to the small size of their holding, whilst another two had passive holdings[1].

Two reduced their holding due to this issue - one by 21 per cent.

[1] Three did not state why not.

Table XVI: Engagement with Cable and Wireless Worldwide plc

	Number of respondents	
Did not engage	17	
Engaged	11	
Remuneration		4
Performance and remuneration		4
Strategy and succession planning		3
Total	**28**	

Only one Service Provider engaged due to:
"Remuneration policy & proposed incentive scheme."

Respondents' objectives

Four wanted a greater understanding of the issues around remuneration and another four to share concerns. As one stated: *"We are supportive of what they are doing but will relay our full support once the EPS targets are known. Subsequently, share price has continued to fall therefore we do not believe that awards should be at the 3x salary level, 2x salary is more appropriate for the foreseeable future".*

Two wanted to improve long term performance[2].

Conflicts

No conflicts of interest were noted by the respondents during the period.

What respondents did

There was less engagement than for the other examples with an average of two contacts per respondent[3], with eight respondents reporting a total of 18 contacts, mainly with the Chairman and Non-Executive Directors - Table XVII.

Table XVII: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	5	5
Senior Independent Director	1	1
Non-Executive Directors	4	3
Executive Directors	1	1
Management	2	1
Company Secretary	2	2
Investor Relations	1	1

Contacts were made by dedicated specialists or dedicated specialists and portfolio managers together - Table XVIII.

Table XVIII: Number of contacts and who by

	Number of contacts	Number of respondents
Dedicated specialists only	6	7
Portfolio managers/analysts and dedicated specialists	11	4

Tables XVII and XVIII only include details recorded by respondents. Others that did not maintain such details clarified:

- *"We had one-one communication around remuneration with the Remuneration Committee Chairman and Company Secretary."*
- One felt that the quality of engagements is more important than the number, but noted that it ensures it meets the appropriate individuals on many occasions as necessary to reinforce the message. Many are undertaken in conjunction with portfolio managers.

The Service Provider's dedicated specialists contacted the Company Secretary once.

[2] One did not state.
[3] This is the average for those where numbers have been given.

Collaboration

Only three respondents collaborated with others, two having joint meetings with the company, which for one allowed it to reinforce the key messages – Table XIX. Another clarified this was: *"Sharing views with another investor on the EPS range".*

Table XIX: Collaboration

	Number of respondents
Joint meeting with company	2
Other	1

2011 AGM - Resolution 12

At the 21 July 2011 AGM, Resolution 12, to authorise the establishment of the Cable & Wireless Worldwide Incentive Plan 2011, received 33 per cent votes against.

Only one respondent attended the AGM. Four voted in support of Resolution 12, for two this was following discussions with management and one on the basis that the bonus is at the lower end - Table XX. Another voted in favour, but had concerns that: *"this could focus management on managing the share price rather than the business and feel that this element of the scheme will need revision. We also wonder whether this scheme could cause further retention issues as executives could become frustrated by how the share price may respond to operational improvements".*

Six of the seven who voted against Resolution 12 informed the company of the reason, which included:

- *"There was no obvious link between executive reward and shareholder returns." And "Structure, excessiveness, lack of linkage to current strategy and approach to shareholder engagement from the remuneration committee."*
- *"We had concerns regarding the alignment of pay with performance. In particular, we do not support the use of cumulative EPS targets across the three year performance period or the increase in threshold vesting under the Incentive Plan 2011."*
- LTIP was too generous.
- *"....the company issued two profit warnings and both its CEO and CFO resigned from the board. These events resulted in a substantial fall in the company's share price and the chairman relinquishing his role by becoming the company's CEO......... In recognition of the company's performance, [Manager] felt the size of awards should have been reduced. Given that the company failed to appreciate these concerns, [Manager] instructed votes against the proposed new remuneration scheme."*
- *"Concerns that the Chairman continued to participate in executive plans[4]."*

Table XX: Resolution 12

	Number of respondents
For	4
Against	5
Abstain	2

The Service Provider recommended a vote against Resolution 12.

Outcomes and conclusions

Only three met their objectives, for one on-going engagement is planned. Two explained:

- *"The company explained remuneration strategy and its necessity to attract new employees. The company confirmed that they were looking into succession planning and the chairman confirmed that the board will retain the appropriate distance to judge fairly Mr Pluthero's performance as CEO given the change from executive to non-executive and back."*
- *"We would normally expect a company of this size to have a potential bonus of around 180 - 200% of salary. Taking this into account and the removal of a plan with the possibility of awards over 4x salary is a good thing."*

However, for eight their objectives were not met. As five explained[5]:

- a lack of response or action from the company (two);

[4] One did not state.

[5] Three did not state.

- *"company was unable to provide assurances around succession planning and the remuneration arrangements were not considered to aligned with the interests of the company's shareholders";*
- *"company performed poorly"; and*
- *"given the executive departures we are exploring with the company further what a longer-term governance structure will look like."*

Thus of these eight, one felt the engagement was of limited benefit and for three it is still on-going[6]. However, despite not achieving their objectives two did consider the engagement worthwhile:

- *"The engagement was worthwhile to the extent that the company was clear on [Manager's] concerns. However, the company was unwilling to compromise on certain matters and allay [Manager's] concerns."*
- *"Yes the engagement is worthwhile and we have a series of further meetings with the company to make sure progress is being made."*

[6] One did not comment on whether it was worthwhile.

Vodafone plc

July 2010 to September 2011

Background

In 2010, a particular shareholder demanded a major boardroom shake-up to address "strategic weakness", "poor capital allocation" and "disastrous" acquisition track record. It called for the resignation of the Chairman, Sir John Bond. However, at the 26 July 2010 AGM, Resolution 2 was passed with 93.5 per cent voting to re-elect Sir John who confirmed that he would continue for the following year. Vodafone initiated succession planning that year and in February 2011, announced that Gerard Kleisterlee was to succeed as Chairman.

Respondents' concerns

53 respondents had a holding during the period - Table XXI. 25 engaged, of which 12 focussed on general business issues such as operations and acquisition strategy: *"Poor acquisition history, lack of clear strategy to unlock value and a board in need of refreshment and technology skills".*

Six had issues with the board and engaged on succession planning as well as wider issues over company performance. Other issues noted were:

- remuneration;
- ESG risks;
- specific issues raised by the activist shareholder; and
- looking at the strategy for Verizon Wireless.

Over half, 28, did not engage, reasons included:

- did not consider the issues warranted engagement (11), as one clarified: *"we have typically met with the Chairman once a year and were happy with his commitment and performance";*
- did not agree with dissident shareholder proposals (two);
- small holdings (four) and one did not hold the stock at the time of the AGM; and
- not specific (ten)[1].

[1] Four did not state.

Four changed their holdings[2], two decreased and two increased, one stating: *"We increased our holding on the basis that management understood the need to return cash to shareholders".*

Table XXI: Engagement with Vodafone

	Number of respondents	
Did not engage	28	
Engaged	25	
General business issues		12
Succession planning		6
Other		7
Total	**53**	

One Service Provider engaged on remuneration and the time commitments of the Non-Executive Directors.

Respondents' objectives

11 wanted a greater understanding of the business and strategy. A further five considered other changes were needed. For examples, one wanted to: *"persuade the company to develop more of a performance driven culture and groom next generation of talent. Encourage enhancement of emerging market and technology expertise on board. Encourage better communication with the market. Encourage better integration of the company's environmental impact into its strategy and risk management as well as encourage overall performance improvement. The company's carbon footprint is recognised as a material CSR issue but does not appear to be one of the principal risks".*

Others wanted risks addressed: *"ensure that the board is actively managing ESG risks and decision-making, particularly in highly charged situations such as the Egyptian revolution. Ensure the board is prepared for incoming legislation that could present material risks to the company if not managed e.g. the UK Bribery Act. Ensure the company is complying with both the letter and the spirit of the law in responsible payment of tax."*

Conflicts

Only one conflict of interest was noted, where: *"the Company Secretary sits on our Advisory Committee. We treated our engagement with the company as normal."*

What respondents did

18 respondents had 104 contacts, an average of 5.8 each[3]. This was mainly with the Executive Directors, with a significant number also with the Chairman and the Senior Independent Director - Tables XXII and XXIII. In the main these were by/with the portfolio managers as opposed to the dedicated specialists. To quote:

- *"Fund manager attended post-results meetings with executive management where performance and strategy were discussed. In addition, a fund manager attended an investor dinner hosted by the Chairman and the Board that provided an opportunity to discuss a range of issues, including strategy, outlook and ESG issues."*
- *"Several meetings, phone calls and letters during the course of engagement, some of which occurred during the period mentioned. This included meetings with executive management and the Senior Independent Director, John Buchanan. The level of representation included all of the UK equity team's investment professionals: seven fund managers and two product directors."*

Table XXII: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	25	11
Senior Independent Director	23	10
Non-Executive Directors	8	6
Executive Directors	35	11
Management	21	7
Company Secretary	3	2
Investor Relations	11	7

[2] One did not state.

[3] This is the average for those where numbers have been given.

Table XXIII: Number of contacts and who by

	Number of contacts	Number of respondents
Portfolio managers/analysts only	88	15
Dedicated specialists only	40	7
Portfolio managers/analysts and dedicated specialists	32	6

However, Tables XXII and XXIII only include details recorded by respondents. Others that did not maintain such details clarified:

- *"Both specialist and portfolio managers were involved in engagements relating to the issues raised by the activist investor."*
- *"We had two collective engagements with the Senior Independent Director and one engagement with the CEO on the relevant issues. Our second engagement with the Senior Independent Director was an escalation of the first."*

The Service Provider's dedicated specialists contacted the Company Secretary once.

Collaboration

Ten[4] collaborated - the majority having joint meetings with the company – Table XXIV. To quote:

- *"Numerous conversations on the appropriate course of action."*
- *"We raised our concerns with other significant shareholders in a meeting in June 2010 and found that most shared our concerns. We followed up with a joint meeting with the Senior Independent Director and a number of shareholders."*

One noted that it: *"increased the pressure on the company to respond to our concerns"*.

Three did not consider it effective, to quote:

- *"Not particularly as we already have a good relationship with the company and so were able to have that discussion individually."*
- *"It provided a means to engage with shareholders but highlighted that there were different views on how the Board was performing and whether there was a need for change."*
- *"The collaboration was ultimately helpful but it was also a frustrating experience. Through the course of collaboration the number of institutions prepared to challenge the incumbent management dwindled from about a dozen to just three. Whilst several other institutions shared our frustrations and desired the same strategic outcomes, most of them were unwilling to challenge management to the degree required to influence change."*

Table XXIV: Collaboration

	Number of respondents
Joint meeting with company	8
Collective agreement to vote same way	1
Other	3

2011 AGM and Resolution 2

Resolution 2 at the 26 July 2011 AGM to elect Gerard Kleisterlee had a 99.1 per cent vote in support.

Only two of the respondents attended the AGM. All voted for Resolution 2 and supported the Board and the appointment of the new Chair – Table XXV. To quote:

- *"The company had responded to our operational and strategic concerns and whilst the new Chairman was not necessarily our first choice we decided not to oppose his election."*
- *"We had concerns about the selection process for the Chairman - the SID declined to meet us to discuss the criteria - so we voted against his re-election. While we have some reservations about the new Chairman they were not sufficient for us to vote against his appointment."*

Table XXV: Resolution 2

	Number of respondents
For	25
Against	–
Abstain	–

The Service Provider recommended a vote against Resolution 2.

[4] This does not agree to the Table as some collaborated in more than one way.

Outcomes and conclusions

All but two[5] of the 25 respondents that engaged stated that they achieved their objectives, nine as they were updated on strategic and business developments[6]. Others commented:

- *"The pressure which we and others brought to bear on the Board was broadly successful in persuading the company to accelerate its exit from non-core assets and businesses. The company also appointed a new Chairman although we were unhappy that our views on the succession process appeared not to have been given much weight."*
- *"the details in this case study only cover a small fraction of a protracted period of engagement with Vodafone's management team and even with support from other investors, change was very hard to influence. We prefer to undertake this type of engagement behind closed doors, but in this instance, it took media involvement to bring about the desired changes. It wasn't until the media seized on the growing shareholder dissatisfaction that Vodafone felt sufficient pressure to prompt a change of strategy."*

17 considered engagement worthwhile[7]. 14 planned further engagement. One clarified: *"Yes it was & further engagement is planned: 1. This was an example of engaging early with a company in order to minimise the loss of shareholder value. 2. We have been pleased with the result of our engagement - no further value destroying acquisitions and the sale of minority interests for over GBP 11bn. 3. The engagement was extremely time consuming but justified by our large holding on behalf of clients. 4. The 2010 engagement was more effective because of our extensive engagement with the board in previous years".*

Of the remaining 11, one specifically stated that it was not planning any further engagement[8].

[5] One did not meet its objectives, the other did not state.

[6] One did not state and a second stated that it had not achieved its objective.

[7] Four did not state.

[8] 10 did not answer this part of the question.

Xstrata plc
September 2010 to May 2011

Background

A service provider recommended that, at the May 2011 AGM, the re-election of some board members of the board of mining company Xstrata should be opposed due to insufficient independent representation on the board.

Respondents' concerns

46 respondents had a holding during the period - Table XXVI. 24 engaged, 12 on issues relating to board remuneration, board independence and/or the appointment of the new Chair. As one clarified: *"We wanted to understand how the board would take an independent position on any bid given the make-up of the board and its closeness to its major shareholder".*

Five had concerns relating to sustainability and environmental and social issues: *"We are concerned by Xstrata's exposure to climate change regulation as a major coal producer, as well as its exposure to the physical impacts of climate change through its operations in the Arctic; finally, we have had a long-standing concern that Xstrata's Chairman is a Glencore representative, and were pleased to see him step down from this role this year".*

Five others focussed on general strategy[1].

22 did not engage. For eight their holding was not significant enough. Other reasons included:

- did not consider there were any governance issues (three);
- considered there was little likelihood of success given shareholder structure (one);
- had an index holding (two); and
- resources not in place or had higher priorities (three).[2]

[1] Two did not state.

[2] Five did not state reason.

None of the respondents changed their holdings as a result of these issues.

Table XXVI: Engagement with Xstrata

	Number of respondents
Did not engage	22
Engaged	24
Remuneration and/or independence of the board	12
Sustainability and environmental and social issues	5
Other	7
Total	**46**

One Service Provider engaged on remuneration and the lack of independent representation on the board

Respondents' objectives

Of those that stated their objectives, six wanted to ensure changes to the board, board oversight, board continuity and: "to understand the process and criteria for the new chairman".

Another wanted: *"the development of a coherent strategy for management of the physical impacts of climate change on the company's assets, and also for managing the impacts of its products on climate change; A strategy for ensuring the company's oversight remains independent of Glencore; Finally, introducing links between executive pay and volume growth, as well as TSR and cost-saving metrics".*

Four others addressed remuneration, one the company's ESG performance, two the influence and risks relating to Glencore and five had more general objectives[3].

What respondents did

18 respondents had 57 contacts with the company, on average three each[4] - Tables XXVII and XXVIII. This was predominantly with the Executive Directors and Management and to a lesser extent Investor Relations. As one clarified: *"April 2011 - Correspondence re. board structure and remuneration July 2011 - Meeting with the new Chairman - discussion included the role of the Chairman, board structure and E&S issues associated with a specific project July 2011 - Correspondence re E&S issues associated with a specific project July 2011 - Company management meeting Aug 2011 - Company management meeting Sept 2011 - Feedback on CSR report".*

In addition, in a press release in 2011, one respondent publically named Xstrata as one of seven UK companies that consistently failed to address investors' concerns about corporate governance.

Table XXVII: Number of contacts and who with

	Number of contacts	Number of respondents
Chairman	4	3
Senior Independent Director	10	6
Non-Executive Directors	0	0
Executive Directors	18	9
Management	13	5
Company Secretary	3	3
Investor Relations	12	6

Table XXVIII: Number of contacts and who by

	Number of contacts	Number of respondents
Portfolio managers/analysts only	25	8
Dedicated specialists only	20	8
Portfolio managers/analysts and dedicated specialists	14	8

Tables XXVII and XXVIII only include details recorded by respondents. Others that did not maintain such details clarified:

- one engaged on remuneration with the chairman once in situ; and
- another considered that the quality of engagement more important than the number, but noted that it ensures it meets the appropriate individuals on as

[3] Five did not state.

[4] This is the average for those where number have been given.

many occasions, as necessary, to reinforce the message. Many are undertaken in conjunction with portfolio managers.

The Service Provider's dedicated specialists contacted the Company Secretary once.

Collaboration

Six collaborated, three having joint meetings with the company and one had an agreement to vote the same way – Table XXIX. Two "other" had informal exchanges of views on the basis it was helpful to understand the views of other institutional investors

Two respondents stated collaboration was useful, allowing them to "better understand as how other investors perceived the risk[5]".

Table XXIX: Collaboration

	Number of respondents
Joint meeting with company	3
Collective agreement to vote same way	1
Other	2

2011 AGM and Resolutions 6, 10, 11

None of the respondents attended the 2011 AGM. These Resolutions were for the re-appointment of Glencore Chief Executive, Ivan Glasenberg (Resolution 6), Steve Robson (Resolution 10) and David Rough (Resolution 11). The latter two had been on Xstrata's board for almost a decade. These Resolutions were passed with 96.2 per cent, 98.7 per cent and 95.7 per cent voting for, respectively.

18 respondents voted in support of all three Resolutions – Table XXX. Reasons included[6]:

- to ensure continuity of the board (three). To quote: *"We do not vote against executive directors solely for governance reasons and we believe the other directors continue to provide good value to the board";* and
- another: *"we remain confident that these directors add value to Xstrata's board, and that due safeguards have been put in place to manage potential conflicts of interest between Xstrata and Glencore".*

One noted: "*The Board had a balance of independent and Non-Independent Directors. Although Ivan Glasenberg was Non-Independent, he was not on the audit or remuneration committees. According to our calculation, David Rough & Steve Robson had been on the board for fewer than ten years, which allowed them still to be counted as Independent for the purpose of board balance and committee representation".*

Three voted against or abstained on all three resolutions due to issues over independence. To quote: *"Res 6 Under the terms of the Relationship Agreement between the Company and its major shareholder, Glencore has the right to nominate three directors for appointment to the Board. The agreement stipulates that there will be at all times a majority of independent NEDs on the Board. However, we do not consider this to be the case. There appears to be only four independent non-executives on the board of thirteen. Consequently we are unable to support the re-election of non-independent non-executives".*

Two voted against Resolution 6 again due to independence issues but for Resolutions 10 and 11. One abstained on Resolution 11 clarifying: *"we abstained on Resolution 11 (David Rough) and Resolution 3 (remuneration report) due to independence issues".*

Four advised the company in advance that they intended to vote against or abstain, two did not.

Table XXX: Resolutions 6, 10, 11

	Number of respondents		
	Resolution 6	Resolution 10	Resolution 11
For	19	21	20
Against	3	2	2
Abstain	2	1	2

The Service Provider recommended a vote against all three resolutions, stating, *"Not independent, lack of other balancing independent representation, board tenure".*

[5] Four did not state.

[6] Two did not state.

Outcomes and conclusions

15 achieved their objective[7] mainly as an Independent Chairman was appointed. To quote: *"Xstrata's chairman stepped down at the AGM in 2011, addressing investor concerns about the company's relationship with Glencore. The company is committed to addressing its climate change strategy in 2012".*

Six did not:

- this was as the issues largely unresolved and still on-going (two);
- remuneration still too high (one); and
- another that this was a poor example of shareholder communications[8].

The Service Provider considered this was "*Partial success. Significant opposition to remuneration report (likely a majority of the free float). Lack of independent representation attracted public attention, and led to further focus on such companies with controlling shareholders".*

Ten considered the engagement worthwhile[9]: *"we regard the engagement as having been worthwhile. Companies with remuneration arrangements that do not meet best practice often propose improvements when their plans are renewed, even if they do not amend existing plans as we would prefer".*

Of these, five continue to engagement. To quote: *"Further engagement is planned because the situation is still evolving. The meeting with the senior independent director was helpful because the board got a very clear signal of the concerns of minority shareholders".*

Only one did not consider the engagement worthwhile and a further eight, although they did not confirm either way, intend to continue to engage.

The Service Provider stated: *"Definitely worthwhile. Demonstrated extent of investor unease and raised broader questions. Engagement around issues raised by companies like Xstrata is ongoing".*

[7] Three were not specific.
[8] Two did not state.
[9] Five did not state.

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June 2012