

In the first quarter of 2013, there was much preparation for the voting season and ongoing engagement with regulators and companies. Four initiatives discussed below are: loyalty shares, integrated reporting, remuneration (again), and the NAPF's Stewardship Framework.

Loyalty shares, those that carry additional voting or dividend rights, are being spoken about at the moment as a way to address short termism and promote share ownership that has a longer-term focus (two or more years) and therefore more engaged, responsible shareholders. This is obviously interesting in principle, but in practice, there are question marks about what behaviours the incentive will encourage. In Europe, where these share structures are more common, we see entrenched management, anti-takeover devices and average holding periods which remain below one year.

Integrated reporting is also a topic receiving a lot of airtime. The idea is that if corporate sustainability reports are integrated into the Annual Report, the information will be more relevant than if it is presented in a separate report. In reality, the relevance and interest is probably determined by the people putting the report together, rather than a set of guidelines. South Africa, following the introduction of King III (South Africa's corporate governance guidelines), is the first country where all companies are required to complete Integrated Reporting. What is clear is that producing a good integrated report is not easy. We will continue to watch the direction and speed of discussions achieved by this global initiative. We are currently engaging with one South African company on the quality of its annual (integrated) report, and we hope this will be helpful for the company as well as being a learning opportunity for us in terms of

understanding the practical and internal difficulties of attempting to produce a good integrated report.

Remuneration continues to be a hot topic in Europe with both the Council of European Union and BIS (Department for Business, Innovation & Skills) publishing guidelines this quarter. Added to this, we received our first remuneration consultation from an emerging market company. Not so long ago, remuneration was a UK-focused discussion point; no longer! As there is still much engagement and debate to be had, we will continue to stay involved in the conversation and will keep you updated.

A final UK-focused initiative is that the National Association of Pension Funds (NAPF) has launched a Stewardship Framework. It aims to provide pension funds or asset owners with a tool to assist them in assessing the effectiveness of their investment managers' approach to stewardship. We have completed the draft framework for the NAPF and expect to be consulted on how it can be developed to ensure it is of real value and interest to asset owners in the future.

The four topics mentioned above are all happening now and are focused on encouraging long-term ownership, promoting improved stewardship and improving alignment between management and shareholders. These are four of many initiatives that we are watching and engaging on, and we have not even mentioned the Investor Forum as proposed in the UK's Kay Review of UK Equity Markets and Long-Term Decision Making. We don't expect the focus to change in the next 12 to 18 months, and will continue to inform you of regional and global initiatives as they occur.

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View over Cape Town, Table Mountain and the Twelve Apostles from top of Lion's Head Mountain as the sun sets in the ocean.

Company	Engagement Report
Apple	<p>We engaged with the company following our decision to oppose the executives' compensation at the AGM. In particular, we do not believe the vesting schedule attached to the long-term incentive plan is appropriate, and we are concerned by management's minimal retention of previously vested awards. During the call we encouraged the company to extend the vesting period for executives' equity awards, whilst also strengthening their shareholding requirements. We believe these changes will provide increased alignment with shareholders. We also discussed the company's failed attempt to introduce a majority voting standard for the election of directors by amending its articles. The proposal was contested by one shareholder and subsequently removed from the agenda because it was bundled with other changes. Despite the resolution's removal, we believe that this indicates a positive development in Apple's governance practices. We therefore reaffirmed our support for the proposed changes, and encouraged the company to put the resolution forward at the next shareholder meeting.</p>
BHP Billiton	<p>BHP is a broadly-diversified resources company with a wide range of products. We met the Chairman to discuss the recent CEO succession process. Andrew Mackenzie, the CEO of the non-ferrous division, is an internal appointment and will become CEO in May 2013. The Chairman highlighted that the appointment does not signal a fundamental strategy change. Nevertheless, there is likely to be less focus on M&A, and more on the consolidation of existing investments, strengthening cash flow and improving the balance sheet and capital allocation. Given the CEO's extensive experience within the industry, he appears to be well-placed to achieve these objectives. The oil and gas (O&G) business is increasingly important for the company. With the two non-executive directors (NED) most experienced in O&G likely to retire in the next 12-18 months, the Board is looking for suitable replacements. It expects to appoint a new NED in the next few months with upstream O&G experience in the US, which we welcome. It was refreshing to learn that the Remuneration Committee (Remco), which has become increasingly concerned about the use of benchmarking and ratcheting executive pay, has decided that the new CEO's remuneration should be less than the current CEO's (the actual amounts will be confirmed in May). Nevertheless, the Remco won't make any structural changes to remuneration, which will continue to focus heavily on long-term performance. We look forward to further discussions with the company prior to its AGM in October 2013.</p>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	5	Companies	3	Companies	None
Resolutions	21	Resolutions	6	Resolutions	None

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Loyalty shares, those that carry additional voting or dividend rights, are being spoken about at the moment as a way to address short termism and promote share ownership that has a longer-term focus

The 2013 Global Corporate Governance Principles and Guidelines are just being finalised and will be on our website by mid April

Company Engagement

Engagement Type	Company
Corporate Governance	BHP Billiton
Executive Remuneration	Deere & Company
AGM or EGM Proposals	Apple , Deere & Company

Notes on company engagements highlighted in blue can be found in this report. Notes on other company engagements are available on request.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Salesforce.Com	SGM 03/20/13	1	To approve the increase in authorised share capital.
Companies	Voting Rationale		
Apple, Deere, Novozymes, Whole Foods Market	We voted in favour of routine proposals at the aforementioned meeting(s).		

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Apple	AGM 02/27/13	5, 6	We opposed two shareholder resolutions requiring executives' to retain a specific portion of their vested equity awards and to establish a new board committee on human rights, as we believe the proposals are overly prescriptive.
Apple	AGM 02/27/13	4	We opposed the executives' compensation as we do not believe the vesting schedule attached to the Long-Term Incentive Plan is appropriate and there has been poor retention of vested awards by management.
Deere	AGM 02/27/13	2	We opposed the executives' compensation as we do not believe the performance conditions attached to the Long-Term Incentive Plan are sufficiently challenging or align management and shareholders' interests.
Whole Foods Market	AGM 03/15/13	5	We opposed a shareholder resolution requesting the company issue a report on product packaging as it is overly prescriptive and not in shareholders' best interests.
Whole Foods Market	AGM 03/15/13	6	We opposed a shareholder resolution to adopt a policy for an independent Chairman, as the board currently has an independent Chairman and each of the Board committees comprise independent non-executive directors, we believe that there is sufficient independent representation at this time.

Votes Abstained

We did not abstain on any resolutions during the period.

Votes Withheld

We did not withhold on any resolutions during the period.