

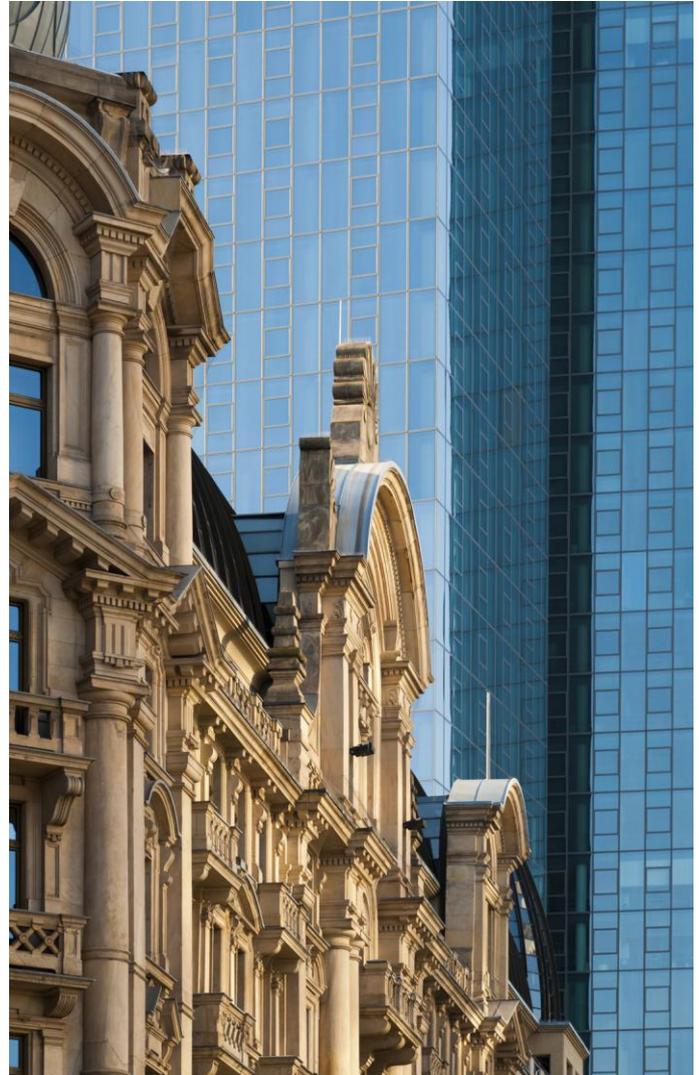
Executive pay has always been a thorny subject. However, at times of economic hardship and austerity measures, it tends to become even more contentious. Although tackling this issue may seem straightforward, it is a complex area which has been approached in a variety of ways.

In the European Union, proposals are being drawn up to give shareholders in listed companies binding votes on executive pay. Spain and Italy already have advisory (non-binding) votes, and there have been proposals in some parts of Europe to limit the gap between the lowest and highest paid employee at state-controlled companies and banks.

Disclosure requirements have also been toughened in other markets including Japan and, in Australia, if 25% or more of votes cast at two consecutive AGMs oppose the adoption of a remuneration report, the company must put board members up for re-election within 90 days.

While some critics argue that regulators are in a better position than shareholders to tackle executive pay, 2012 may well be remembered as the year of the ‘Shareholder Spring’. In the UK, the Chief Executives at Aviva, and Trinity Mirror resigned following significant votes against their remuneration reports. Aviva’s and WPP’s report were actually voted down, only the fourth and fifth times this had happened to FTSE 100 companies since the advisory vote was introduced in the UK in 2003. Large (greater than 20%) votes against remuneration reports in the UK are nothing new. However, their perceived signal as a lack of shareholder confidence in management following poor performance of the shares is a new development – although 90% of shareholders at Aviva voted in favour of the CEO’s re-election, the voting down of the remuneration report appeared to make his position untenable.

The Shareholder Spring is not unique to the UK. In the US, where the ‘Say on Pay’ vote was introduced in 2011, Citigroup had its remuneration report voted down this year and, in Switzerland, UBS and Credit Suisse also received significant votes against. The message is clear: shareholders are increasingly willing to vote against executive remuneration, particularly where pay is not aligned with performance. And the dissenting voices of shareholders could be amplified by UK government proposals to give them greater power over executive remuneration. As is the case in most markets with a separate vote on executive remuneration, UK shareholders currently have an advisory vote. This has no direct impact on the company or its executives, who can essentially ignore shareholder dissent. The UK government considers this position unsatisfactory. It is proposing a triennial binding shareholder votes on the



remuneration policy and on exit (severance) payments to executives of more than one year’s salary.

These proposals would enable shareholders to block payments to executives and could have far-reaching repercussions for UK-listed companies. They underline the importance of constructive engagement between companies and shareholders. For example, since the Say on Pay rules were introduced in the US, we have been consulted for the first time by several companies there, including Vistaprint and International Game Technology. Interestingly, an increasing number of US companies have introduced performance conditions to their long-term share awards – hitherto a very unusual practice in the US – as a direct result of engagement with their shareholders.

In our response to the UK government's consultation on enhanced shareholder voting rights (BIS consultation), we highlighted our preference for a binding vote on executive remuneration. Although we recognise that this would force companies to consult their shareholders more frequently on executive remuneration, we believe that the benefits should outweigh the costs.

We have found that companies which devote sufficient time and resources to consulting their shareholders are more likely to design remuneration structures which are better aligned with long-term performance, and significantly reduce the risk of a large vote against their remuneration report.

One example is ASOS (UK-listed online fashion retailer) which consulted us on a co-investment scheme for executives in 2009. Following a lengthy consultation with shareholders, the company introduced a long-term scheme which paid out only if executives delivered exceptional earnings and share price performance over three to five years, and also required them to invest in the company's shares. This also helped to retain top executives whom we believed would be instrumental in implementing the long-term business strategy. ASOS has subsequently achieved an annual compound growth rate in earnings per share of over 40% and its share price has increased by more than 300%. In our opinion, the maximum payout to executives under the scheme reflects exceptional performance.

In contrast, the voting down of Cairn Energy's (UK-listed oil and gas exploration company) remuneration report at its 2012 AGM came after several retrospective changes to its long-term incentive schemes. The company appeared to show little regard for shareholder concerns. The introduction of a binding vote in the UK would undoubtedly make it more difficult for companies to adopt such an approach.

Despite the recent headlines portraying investor fury, and regardless of any future changes to regulation, long-term investors such as Baillie Gifford will continue to focus on the fundamental issues including how well-aligned management and shareholder interests are, and how remuneration structures are tied in to the long-term business strategy. Negative press coverage and large votes against remuneration reports often follow poor consultation with shareholders. A priority for companies and remuneration committees in future will be to consult shareholders well in advance of their AGMs and ahead of major remuneration changes.

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Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	21	Companies	9	Companies	3
Resolutions	178	Resolutions	18	Resolutions	5

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Company Engagement

Engagement Type	Company
Corporate Governance	Aggreko , America Latina Logistica S/A, Hermes International SCA, New Oriental Education & Technology Group Inc.
Executive Remuneration	Straumann Holding AG
AGM or EGM Proposals	America Latina Logistica S/A, FLIR Systems Inc, Google Inc., Intuitive Surgical, Salesforce.Com, Inc., Vale , Whole Foods Market, eBay

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
America Latina Logistica	EGM 27/04/12	2	We supported the remuneration of the company's fiscal council.
America Latina Logistica	EGM(2) 27/04/12	1	To approve the amendments to the Articles of Association.
FLIR Sys.	AGM 27/04/12	5	We supported a shareholder resolution asking the Board to adopt a majority vote standard for the election of directors because we believe that this is in shareholders' best interests.
FLIR Sys.	AGM 27/04/12	4	We supported the shareholder proposal to declassify the company's board of directors.
Google	AGM 21/06/12	10	We supported a shareholder resolution which requested the adoption of equal voting rights for all share classes as this would represent an improvement to shareholders' rights and the level of corporate governance at the company.
Illumina	SGM 18/04/12	1-3	To re-elect four directors to the board.
Salesforce.Com	AGM 07/06/12	4	We supported the shareholder proposal to declassify the company's board of directors.
Companies			Voting Rationale
ABB, Aggreko, Amazon.Com, America Latina Logistica, Atlas Copco A, Belle International Holdings, FLIR Sys., Gazprom ADR, Google, Hermes International, Intuitive Surgical, L'Oreal, PPR Group, Rackspace Hosting, Salesforce.Com, Sandvik AB, Straumann Hldg, Tencent Holdings, Vale Pref ADR, eBay			We voted in favour of routine proposals at the aforementioned meeting(s).

Votes Cast Against

Company	Meeting Details	Resolution(s)	Voting Rationale
Amazon.Com	AGM 24/05/12	13, 14	We opposed two shareholder resolutions requiring the company to produce a report on climate change and its political contributions as we considered them to be overly prescriptive.
America Latina Logistica	EGM 27/04/12	1	We opposed the executive's remuneration due to a lack of information.
Google	AGM 21/06/12	8, 9	We opposed two shareholder resolutions requesting the company amend the Articles of Association and produce a report on political contributions, as we believe they are overly prescriptive and not in shareholders' best interests.
Google	AGM 21/06/12	3, 4	We opposed the introduction of a new class of shares and an increase in the company's authorised share capital. The company currently has a dual-class share structure and we do not believe the introduction of an additional class of shares with different voting rights is in shareholders' best interests.
Google	AGM 21/06/12	6, 7	We opposed the resolutions to amend two stock option plans because both plans permit re-pricing. The company has re-priced options in the past and this is not in the best interests of shareholders.

Company	Meeting Details	Resolution(s)	Voting Rationale
Hermes International	AGM/EGM 29/05/12	15	We opposed several amendments to the Articles of Association which are not in the interests of minority shareholders.
Illumina	SGM 18/04/12	4, 5, 7	We opposed three shareholder resolutions proposed by Roche which sought to take control of the board.
Intuitive Surgical	AGM 19/04/12	4, 5	Our intention was to abstain on resolutions 4 and 5, the amendments to the Stock Option Plan and the executive remuneration report, due to concerns regarding remuneration structure and the levels of dilution from the Stock Option Plan. However, due to an administrative error we voted against both resolutions. While the mistake had no impact on the result of the meeting, we have advised the company of the error. We have also reviewed our procedures to minimise the likelihood of a recurrence.
Sandvik AB	AGM 02/05/12	18	We opposed a shareholder resolution which seeks to micromanage the company without sufficient justification.
Vale Pref ADR	AGM 18/04/12	1.4	We opposed the executive's remuneration due to a lack of information.
Companies	Voting Rationale		
Aggreko	We opposed the proposal that gave the company the right to issue up to two-thirds of its issued share capital via a rights issue under Section 551 of the Companies Act 2006. We do not believe that it is in our clients' best interests to forego the right to vote on a large rights issue at an EGM.		

Votes Abstained

Company	Meeting Details	Resolution(s)	Voting Rationale
eBay	AGM 26/04/12	6	We abstained on the remuneration report. Although we have concerns about some aspects of the current remuneration structure, we will look to engage with the company to gain a better understanding of their policy.
Gazprom ADR	AGM 29/06/12	6	We abstained on the directors' remuneration because although the level of awards are high, this is in part due to requirements under the Russian Corporate Governance Code. We will look to engage with the company in the future to discuss our concerns. Glass Lewis opposed this resolution.

Votes Withheld

Company	Meeting Details	Resolution(s)	Voting Rationale
Gazprom ADR	AGM 29/06/12	9.1, 9.11, 9.12, 9.2, 9.3, 9.4, 9.5, 9.6, 9.7, 9.8-9.9, 10.2, 10.7, 10.9	We withheld support from 11 directors and three auditors and voted in favour of the re-election of an independent director and eight auditors. Since the election of the director and the auditors was held by cumulative voting, we were able to concentrate our votes on the independent director and eight auditors, increasing the likelihood that they will be elected to the board.
Illumina	SGM 18/04/12	6, 6.2	We withheld support from two shareholder resolutions proposed by Roche which sought to elect two of their representative's to the board.

Votes Not Cast

Companies	Voting Rationale
ABB	No Vote - Information Only Meeting

Company	Engagement Report
Aggreko	<p>Aggreko is the world's leading supplier of temporary power rental equipment, selling to a broad range of clients in industries such as power, oil, manufacturing, construction and entertainment, and operating in over 140 countries. It has grown rapidly in the past three years and as a result the role of the Chairman, the board and the company's remuneration structures need to evolve with it. We met the new Chairman to discuss some of these developing challenges and opportunities for the company. From an environmental, social and governance perspective, environmental emission targets are an important and increasing focus, the 2010 UK Bribery Act has resulted in a significant training programme for all relevant employees, and board diversity and executive remuneration are two areas under review. This was a positive meeting with the new Chairman, and we expect ongoing dialogue with the company as additions to the board and amendments to the remuneration packages are made.</p>
New Oriental Education & Technology Group Inc.	<p>New Oriental Education and Technology provides private educational services in China. Its founder retains the positions of Chairman and CEO, and therefore its governance structure is very different to the State Owned Enterprises (SOEs) we met when in China. In addition, New Oriental has an ADR listing on the New York Stock Exchange. As a result, it is much more aware of foreign shareholders' views on governance than many other Chinese companies, particularly when compared to SOEs. However, the board make-up is not comparable to a western counterpart. As with many private companies in China, there remains a lack of qualified independent non-executive directors. Consequently, there is a high percentage of university academics on the board rather than individuals with business experience. Other topics discussed included human capital management, reputation and brand management, as well as relationships with the Minister of Education and the role of education in economic development. This interesting meeting contributed to our knowledge and views on corporate governance structures in China.</p>