

The second quarter of each year continues to challenge us. The number of annual meetings, and maybe more accurately, the complexity of what appears on the meeting agendas seems to increase each year.

There have been some themes. These are regional, and they reflect our strengthening stance against requests from companies via their AGM agendas for excessive share issuances, unsatisfactory remuneration structures and anti-takeover devices.

In Europe, many companies request permission to issue shares. If voted through, this provides them with financial flexibility. This in itself isn't problematic, what concerns us is if they were to use the full authorisation, the potential dilution could be excessive; over 50% in some cases.

We have increased our engagement with US listed companies in the past six months. Compensation schemes remain a focus. Essentially, we are supportive of simple, bespoke compensation structures which are consistent with the company's long-term strategy. Conversely, we are opposed to plans which do not align management and shareholder interests through, for example, the inclusion of inadequate pay-for-performance provisions. Of increasing focus for us is to understand the cultural environment in which companies operate. This includes developing an appreciation of the main characters on the board and within the management team, the stage of growth, and the competitive environment. These are critical to ensuring we can accurately assess the appropriateness of a company's corporate governance and compensation structures.



A member of the Corporate Governance Team attended a conference in New York, meeting CEOs and CFOs with our Head of US Equities. The trip provided a great opportunity to hear CEOs discuss the opportunities and challenges they are facing, and provide context for future engagements. These types of trip will continue to serve an important role in developing a holistic understanding of the issues and challenges encountered by the businesses in which we invest for our clients.

In Japan, where approximately 60% of all AGMs happen over a two week period in June, we are again strengthening our position regarding voting for directors and dividend proposals. We have been engaging with Japanese companies on these topics for nearly eight years and, although progress has been slow, we now believe we are at a point where a more robust approach should impact company decision makers. Had we been seen to be noisily opposing directors in the past, we could have been viewed as 'activist' and lost the right to meet with management and therefore all forms of influence and negotiation. This year we are opposing all poison pills, deep discount share plans if they vest prior to retirement, non-independent non-executives, and the President where there is no independent view on the board. As is always the case when we oppose a management resolution, we inform company management of our voting decision and the relevant rationale.

The second half of the year will continue to provide opportunities to increase our research on behalf of investors and engage with companies. We're looking at our systems to make the proxy voting process as efficient as possible and assessing our research procedures to try to improve the focus and quality of the work we do for the investment teams.



Company	Engagement Report
Inditex	<p>Following the factory collapse at the clothing manufacturer in Bangladesh in April, scrutiny of the garment supply chain has increased. A visit to our office by management of the Spanish clothing retailer Inditex presented an opportunity to initiate an engagement on their supply chain policies and management. It appears that disclosure could be more specific and provide more detail. We will continue to report on our engagement with this and other apparel and garment manufacturers.</p>
Intuitive Surgical	<p>We wrote to the Compensation Committee Chairman ahead of the AGM to affirm our continuing support for the existing compensation policy. Option issuance under the Stock Option Plan has been relatively high in recent years as all employees are eligible to participate in the plan. We believe this is appropriate given Intuitive's current growth rate and dispersion of options throughout the organisation, but we outlined our expectation that the committee exercise discretion to ensure future awards are aligned with shareholders' interests. We will continue to engage with the company to encourage further improvements in its compensation policy.</p>
Kering	<p>We had a discussion with Kering, the French apparel and luxury goods company, ahead of its AGM. Our areas of interest were the resolution to authorise the issuance of shares to service the incentive plan, and the company's progress in preparing an environmental profit and loss (P&L) account.</p> <p>In addition we wanted to discuss how the board sets an appropriate remuneration structure for the Chairman/ CEO as he is the majority shareholder via the family holding. His pay is based on the same mechanisms as other senior managers of the group. Hence he receives free shares. Although we do not think it necessary for him to receive share incentives, this is not a concern in our view. The amount of variable pay is reasonable, and we have no concerns on his motivation to manage the business in the long run. The company is reviewing its pay structure for senior managers and we will discuss changes in the future. We are also following up the development of a calculation method for an environmental P&L. The work, in conjunction with auditors, economists and consultancies, is very ambitious and we hope to learn from this process.</p>

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	19	Companies	6	Companies	2
Resolutions	167	Resolutions	13	Resolutions	4

We have been taking a firmer stance on a range of issues including share issuance, remuneration and poison pills.

We favour simple, bespoke pay structures which fit a company's culture and which are aligned with shareholders' interests.

Company Engagement

Engagement Type	Company
Corporate Governance	Google Inc., Intuitive Surgical , Kering
Corporate Social Responsibility	Inditex
Executive Remuneration	Aggreko
AGM or EGM Proposals	ARM Holdings, Facebook
AGM/ EGM	Hermes International SCA, L'Oreal

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
Facebook	AGM 11/06/13	3	We supported an annual vote on the executives' compensation policy as we believe it provides shareholders with enhanced oversight of how the Compensation Committee incentivises management.
Google	AGM 06/06/13	4	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 at the company.
Companies	Voting Rationale		
ARM Holdings, Aggreko, Amazon.com, Atlas Copco A, Belle International Holdings, FLIR Sys., Facebook, Google, Hermes International, Illumina, Intuitive Surgical, Kering, L'Oreal, LinkedIn Corp A, Salesforce.Com, Sandvik AB, 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 23/05/13	3	We opposed the shareholder resolution requiring the company to produce a report on its political contributions as we considered it to be overly prescriptive.
eBay	AGM 18/04/13	2	We opposed the executives' compensation as the company made special one-off awards during the year which we believe are inappropriate.
eBay	AGM 18/04/13	3, 4	We opposed two shareholder resolutions requesting the company report of lobbying payments and privacy and data security as we believe they are overly prescriptive.
Google	AGM 06/06/13	3, 5, 6	We opposed three shareholder resolutions requesting the company to increase stock retention requirements, report on lead battery hazards and succession planning. The company already provides relevant information.
Kering	AGM/EGM 18/06/13	17-20	We opposed four resolutions to issue share capital without pre-emptive rights; of which one with a discount to the share price and a greenshoe provision. The potential dilution is too high.
Sandvik AB	AGM 25/04/13	17	We opposed a shareholder proposal which is too prescriptive.
Companies	Voting Rationale		
ARM Holdings		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
Hermes International	AGM/EGM 04/06/13	18, 19	We abstained on two resolutions to issue shares to service share incentive plans because the amount requested is excessive and the performance targets seem unchallenging.
Hermes International	AGM/EGM 04/06/13	16	We abstained on the resolution which sought authority to issue equity because the potential dilution is excessive.
L'Oreal	AGM/EGM 26/04/13	9	We abstained on the resolution to issue shares with pre-emptive rights as we do not think the amount is appropriate.

Votes Withheld

We did not withhold on any resolutions during the period.