

In ten years time, it is likely that we will all look back with wide eyes and ask ‘did all those changes really happen over such a short time period?’.

In 2008, the UN Principles for Responsible Investment had been in existence for just two years. Since then, in the UK, we have had amendments to the Corporate Governance Code; the introduction of the Stewardship Code; a binding vote on remuneration policies; changes to the Audit Report, and an EU Audit Directive now requiring the mandatory re-tendering of contracts for auditors. We also have the European Commission’s Shareholder Rights Directive, and Integrated Reporting is a common topic of discussion and debate. In addition, Japan has introduced its Stewardship Code and there is talk of other countries following suit. Meanwhile, binding votes on remuneration are appearing in other European markets, and the Corporate Governance Committee of the Organisation for Economic Co-operation and Development (OECD) is about to embark on a revision of its Principles. Most are a direct result of the financial crisis.

The purpose of these developments, in broad terms, is to increase disclosure in order to provide investors and other stakeholders with more information, hold management to account through the binding vote and auditor re-tendering, hold investors to account via the Stewardship Code, and ultimately to improve long-term market stability and growth.

This is good in principle but governance is about people. Rules, codes, guidelines and directives are there to be complied with, circumvented and reported against. It is very difficult to influence corporate culture through a code or ruling from a regulatory body. A company’s attitude to minority shareholder rights or related party transactions will not normally change because of a section in a Directive. But the information in the annual (integrated) report might be different.

The sector that has been most criticised and has come under most public scrutiny is the banks. Yet, despite much engagement, and restrictions to the maximum size of variable pay awards (through CRD IV), several banks continue to challenge the spirit of the rules. The result was that HSBC and Standard Chartered received significant numbers of votes that were not in favour of their new Remuneration Policies, 22% and 41% respectively. More engagement is required with them all.

Do these changes to global regulations mean anything for governance analysts? Not really, is the short answer. We need to analyse companies as we always have. We cannot rely on rules or regulations to influence corporate values or behaviour; they only serve to direct reporting. What we do have is more information on which to



base views and initiate engagement with our investee companies. And the greatest value comes from meeting senior management and board directors, understanding the values of the company and its future strategy, and learning about relationships between the executives and non-executives as well as with broader stakeholders including customers, suppliers, employees and the regulators.

At the recent ICGN (International Corporate Governance Network) conference in Amsterdam, a panel session included representatives from Glencore and Chevron. The verbal responses to questions about Integrated Reporting were more helpful in confirming these companies’ views regarding their corporate attitudes towards environmental and social concerns than reading their public documents.

Many of the initiatives listed above are very new or still in the process of being finalised. It will be interesting to see if this flurry of global regulatory activity slows down over the next two to three years, and whether there are tangible benefits to the changes in prescribed disclosure.

Voting Activity

Votes Cast in Favour		Votes Cast Against		Votes Abstained/Withheld	
Companies	21	Companies	5	Companies	7
Resolutions	157	Resolutions	10	Resolutions	9

Developments in governance regulations and guidelines increase disclosure for the benefit of all stakeholders

Members of the banking sector continue to ignore the spirit of remuneration regulations

Continued engagement with investee companies is imperative to adding value to the investment process

Firm-Wide Company Engagement

Engagement Type	Company
Corporate Social Responsibility	Amazon.com
AGM or EGM Proposals	Google Inc., LinkedIn Corp A, Salesforce.Com, Inc., Splunk Inc, Tesla Motors , eBay
AGM/ EGM	Hermes International SCA

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

Company	Engagement Report
Amazon.com	We spoke to the company following the AGM and touched on a number of broad ESG matters including governance structure, the flow of information between executives and non-executives, tax policy and warehouse working conditions. The board is fully involved in discussions regarding these matters and is very aware of the reputational risks associated with them. We are confident that all issues that could have an impact on the long-term reputation of the company are actively discussed at the highest level.

Votes Cast in Favour

Company	Meeting Details	Resolution(s)	Voting Rationale
Tesla Motors	AGM 03/06/14	5	We supported a shareholder resolution to introduce a majority voting standard for all resolutions. We believe this is in shareholders' best interests.
TripAdvisor	AGM 12/06/14	3	We supported a shareholder resolution to implement a majority vote standard as it improves minority shareholder rights and board accountability.
Companies		Voting Rationale	
AIA Group, ARM Holdings, Aggreko, Amazon.com, Atlas Copco A, Facebook, Google, Hermes International, Intuitive Surgical, Kering, L'Oreal, LinkedIn Corp A, Rackspace Hosting, Salesforce.com, Seattle Genetics, Splunk Inc, Tencent, Tesla Motors, TripAdvisor, Twitter Inc, 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 21/05/14	4	We opposed a shareholder resolution requesting reports on political contributions as it is overly prescriptive.
Facebook	AGM 22/05/14	6	We opposed a shareholder resolution regarding advertising policies and childhood obesity as it represents a duplication of effort and is not in shareholders best interests.
Facebook	AGM 22/05/14	7	We opposed a shareholder resolution requesting a report on sustainability as it is not currently in shareholders best interests.
Facebook	AGM 22/05/14	5	We opposed a shareholder resolution regarding political contributions as it overly prescriptive and is not in shareholders best interests.
Facebook	AGM 22/05/14	4	We opposed a shareholder resolution requesting a report on lobbying payments as it is not in shareholders best interests.
Google	AGM 14/05/14	7	We opposed a shareholder resolution requesting a report on the company's tax strategy as it represents a duplication of efforts and is not in shareholders best interests.
Google	AGM 14/05/14	5	We opposed a shareholder resolution requesting a report on lobbying payments as it represents a duplication of efforts and is not in shareholders best interests.
Google	AGM 14/05/14	8	We opposed a shareholder resolution requesting an independent chairman as we believe that there is sufficient independent board leadership to align the board with shareholders interests.
Salesforce.com	AGM 02/06/14	3	We opposed the executive's compensation due to a lack of performance conditions and the use of one-off equity awards.

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
eBay	AGM 13/05/14	5	We abstained on a shareholder resolution as we believe it would have minimal benefits for shareholders.
Facebook	AGM 22/05/14	3	We abstained on a shareholder resolution on equal voting rights as we support the management but acknowledge that the current share structure is not in the best interest of minority shareholders. We are aware of the company's unique governance structures and consider our votes on all resolutions on a case-by-case basis. We consider this action to be in the best interest of our clients.
Google	AGM 14/05/14	6	We abstained on a shareholder resolution on majority vote standards as we are already aware of the company's unique governance standards and consider this action to be in the best interest of our clients.
Google	AGM 14/05/14	4	We abstained on a shareholder resolution on equal voting rights as we are aware of the company's unique governance structures and consider this action to be in the best interest of our clients.
Hermes International	AGM/EGM 03/06/14	16, 17	We abstained on two resolutions to grant stock options and issue restricted shares due to a lack of disclosure.
Splunk Inc	AGM 10/06/14	3	We abstained on the executives' compensation as the Compensation Committee made an additional award to the CEO during the year. We have not yet had an opportunity to discuss our expectations with regards to compensation and intend to engage with the company to encourage improved practices.
Tesla Motors	AGM 03/06/14	3	We abstained on the amendments to the Equity Incentive Plan as it includes a couple of provisions which are not in line with best practice. We intend to engage with the company to outline our expectations and encourage improved practices.

Votes Withheld

Company	Meeting Details	Resolution(s)	Voting Rationale
LinkedIn Corp A	AGM 10/06/14	1b	We withheld support from a member of the Compensation Committee as we do not believe the Committee's decision to grant exceptional equity awards during the year was appropriate or aligned with shareholders' interests.