Annual Report on Global Corporate Governance

1 April 2017 – 31 March 2018

Annual report on UK Corporate Governance
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This paper describes the broad trends seen in UK Corporate Governance, as well as some examples of BAPIML engagement, during the period 1 April 2017 to 31 March 2018. The Funds use Institutional Shareholder Services Inc. (ISS) as a research provider, incorporating the guidelines of the Pension and Lifetime Savings Association (PLSA) formerly the National Association of Pension Funds (NAPF). In the majority of cases, votes were cast in line with ISS guidelines, however, in certain instances an alternative course of action was taken.

As in previous years, the main areas of concern to the Funds were remuneration and re-election of directors. BAPIML continues to engage with investee companies where a vote has been cast against the company and is out of line with the ISS vote recommendation.

On 37 occasions during the period under review, the Funds voted against at least one proposal at investee companies' Annual General Meetings (AGM) (20% of the total). This is slightly lower than the previous year when, between 1 April 2016 and 31 March 2017, the Funds voted against management on 48 occasions (26%). The Funds voted against two Extraordinary General Meeting (EGM) resolutions, compared with five votes against in the previous 12 month period.

Companies' remuneration reports are backward-looking, non-binding and voted annually. The Funds voted against remuneration reports on 14 occasions at AGMs in 2017/18, down from 22 in the prior year. Remuneration policies, on the other hand, are forward-looking, binding and voted (at least) every three years. The first series of remuneration policies were introduced in 2014/15, following government legislation enacted in 2013. This meant 2017/18 was a crucial season for most companies as they sought to renew their maiden remuneration policy.

The Funds voted against remuneration policies on four occasions during the period under review, compared with eight during 2016/17. As a proportion of total remuneration policies voted on, this represented 4% compared to 21% in 2016/17 and 8% in 14/15 (the last major triennial).

Companies have made some progress with their remuneration arrangements which is reflected in the overall reduction in the Funds' level of dissenting votes. This is particularly the case for FTSE100 companies. On the other hand, the Funds have taken a harder line on director re-elections. The Funds voted against director re-elections on 21 occasions during the period under review, compared with 15 in 2016/17. The Funds continue to monitor over-boarding and director independence.

At a pharmaceuticals and biotechnology company AGM in April 2017, the Funds voted against the remuneration report (in line with ISS) due to changes in the performance conditions of outstanding executive share awards. As the company looked likely to miss its performance targets in 2017 these changes protect executives against the lapse of their outstanding share awards. The Remuneration Committee argued that the changes would guard against short-termism and encourage management to invest in their late-stage pipeline.

Whilst BAPIML certainly advocates long-term incentive mechanisms, retrospectively changing the vesting conditions of share awards defeats the purpose of setting such targets and rewards failure. The resolution passed but with only 60.3% of the vote (38.3% against; 1.4% abstain). A letter explaining BAPIML's stance was sent to the company, without response.

Another of the more contentious AGMs in the period under review was that at a support services company, in April 2017. The Funds voted against a new remuneration policy and a new restricted share plan (in line with ISS) that the company had put forward for approval, one year ahead of the scheduled lapse of the existing policy approved at the 2015 AGM. Citing a more mature growth profile for the group and the need to keep executives motivated, the new policy proposed the use of non-performance based restricted share awards. BAPIML does not support incentives without performance targets and this was explained in a letter sent to the company.

On the morning of the AGM, the company withdrew the resolutions, with the Chairman stating, "Whilst both resolutions would have gained majority support, the level received for the Restricted Share Plan element is not one that we are comfortable proceeding with". The company vowed to re-engage with shareholders to produce a revised policy for approval at the 2018 AGM. Interestingly, across the wider UK equity market, the 2017 AGM season did see a modest trend of companies withdrawing new remuneration resolutions over concerns of significant shareholder rebellions.

Elsewhere, in May 2017 at a mobile telecommunications company AGM, the Funds voted against the remuneration report (in line with ISS) and against the re-election of a non-executive director (contrary to ISS recommendation to abstain). With respect to the remuneration report, BAPIML took exception to the full award of incentives under the bonus share award scheme despite targets not being fully met. The company indicated that overachievement against one metric can compensate for a lack of achievement against another metric. This was not made clear when the original policy was approved by shareholders and hence is not in line with market practice. The resolution was approved by only 47% of shareholders (45% against; 8% abstain).

Furthermore, the Funds were concerned by the degree of independence of a non-executive director at the company who, crucially, also sat on the audit and remuneration committees. The director had served 11 years on the board concurrently with the chairman (who until 2014 was an executive). This is not in line with the UK Corporate Governance Code which led BAPIML to vote against the director's re-election (contrary to ISS recommendation to abstain). The resolution was passed, however, with 77% of votes in favour (3% against; 20% abstain). The UK equity team wrote to the company to outline its concerns but received no response.

Another example that involved director re-election was at an industrial engineering company AGM in May 2017. The Funds voted against the re-election of a non-executive director (in-line with ISS) due to over-boarding. In addition to his appointment at the company, the director was positioned on six other public company boards. ISS voting guidelines consider it excessive if any director has more than five non-chair non-executive director positions. The resolution narrowly avoided defeat with 47.3% of votes in favour (39.1% against; 13.7% abstain).

As in previous years, BAPIML had cause, on some occasions, to vote in favour of proposals for which ISS either recommended an abstention or a vote against. 15 such instances occurred in 2017/18, down from 16 in the prior year.

At the AGM of a bank in May 2017, the Funds voted in favour of the remuneration policy (contrary to ISS recommendation to vote against). The fund manager responsible noted ISS concerns that the remuneration committee would in future be allowed more discretion when assessing management performance. However, in order to retain talent and to give the company a chance to normalise under government control and intense public scrutiny a vote in favour was considered to be warranted. Other shareholders seemed to largely concur (even after considering the 71% government stake), with 96.2% voting in favour (3.7% against; 0.1% abstain).

In the period under review, BAPIML voted against proposals on two occasions for which ISS recommended either to vote in favour or abstain. One notable occurrence was the decision to vote against the new remuneration policy at a media company in June 2017.

The remuneration of the chief executive attracted regular media attention in recent years which mainly stemmed from an overly generous policy approved by shareholders in 2009. Despite a narrowing of the gap between the CEO's pay and other FTSE CEOs, variable pay potential under the new remuneration policy would still be very high at ten times salary. BAPIML deemed this unacceptable and voted against the remuneration policy (contrary to ISS recommendation to vote in favour). A letter to the company outlining our concerns received no response. The resolution was passed with 92% of votes cast in favour and 8% against.

The Funds continue to vote all shares where practicable at all investee company meetings.

UK Portfolio Manager

11 September 2018

Annual Report on International Corporate Governance
1 April 2017 – 31 March 2018

1 Overview

BAPIML's International Equity Team voted on 712 shareholder meetings between April 2017 and March 2018, a decline of 5% from the prior fiscal year. The table at the end of this report gives a detailed illustration of the voting results.

The percentage of meetings voted against management recommendation on at least one proposal increased by 2%, to 48%.

Asia and Europe both increased in the percentage of meetings voted contrary to management. Asia had 53% of all meetings with at least one proposal voted against management, an 8% increase from last year. European dissent increased by 2% from last year. Emerging Markets had the largest reduction in votes against, decreasing by 4% to 44%. Japan continued the trend of fewer votes against management recommendations, falling below 30%. North America also saw a small decrease, with 53% of votes against.

BAPIML uses Institutional Shareholder Services (ISS) as a research provider. In the majority of cases, votes were cast in line with ISS guidelines. In certain instances however, a proposal may be voted alternatively to the ISS recommendation. The number of individual proposals that were voted in favour, contrary to ISS recommendation to vote against or abstain, increased from 13 to 22. Management support for director elections in Asia, Japan and Europe accounted for the majority of these votes.

The period under review had a continuation of the key governance concerns from the prior year, namely appropriate shareholder representation on the board and remuneration levels that are justifiable and supported by adequate performance hurdles. In North America, environmental and social issues raised through shareholder proposals continue to see greater scope. This is especially in the area of carbon emissions, with an unsurprising focus on the energy and mining sectors. Remuneration and director elections in Europe were the most contentious items.

The number of votes against management declined significantly in Japan. This has been a developing trend with director re-elections remaining the main focus of governance. In Asia, director elections and the standard market proposal in Hong Kong of share issuance without pre-emptive rights are the consistent two areas receiving the largest volume of votes against. In Emerging Markets, director elections and remuneration were the most contentious proposals on the agenda.

2 North America

The percentage of meetings in North America with at least one proposal voted against management recommendation fell 2% from last year to 53%. The number of governance proposals voted against continued to decline. As suggested in the outlook from last year, environmental and social related shareholder proposals dominated the votes against management. Investors increasingly look to understand the impact of climate change and particularly carbon risks on the business. This has led to an increase in proposals requesting greater environmental and social disclosure and improved risk reporting. BAPIML voted against management, for the shareholder proposal, in line with ISS, on environmental-related proposals 16 times, up from nine times last year. BAPIML voted with management, against the shareholder proposal on environmental and social issues 28 times, compared with 18 last year. The reason for voting with management is primarily down to the proposal being overly restrictive on management, and when the company often already has the appropriate standards and policy in place. Further details of environmental and social voting are discussed in the BAPIML SRI report.

The governance proposal that received a high number of votes against management was the advisory vote approving executive compensation, with 11 votes against. One example of this was Exxon Mobil, the US oil and gas company. The company's executive compensation program fell short of BAPIML best practice and that of the peer group. The decision made by the compensation committee raised questions over appropriate linkage of performance and pay. The lack of any performance vesting criteria on executives' generous grants particularly stood out relative to peer companies. Long vesting periods and the lack of transparent performance targets led BAPIML to vote against. Ultimately, the proposal passed with 67.7% support.

At a US bank meeting, BAPIML votes in favour of the shareholder proposal to introduce cumulative voting, contrary to management and ISS recommendations. Cumulative voting is a corporate governance tool that provides shareholders the ability to have greater influence over director selection. A shareholder can amass their entire stock position behind one or as many of the directors as the shareholder chooses to support. This helps facilitate the election of minority representatives to the board. The company has had significant failings at board level over their mis-selling scandal and has failed to make significant changes to the board. The mis-selling involved various financial products, including opening unauthorised deposit and credit card accounts and transferring of funds from authorised existing accounts to unauthorised newly initiated accounts. The underlying cause of the sales practice failings was seen to be due to the sales culture, and performance management system in place. The shareholder proposal could promote greater board accountability in future. The proposal received 8% support at the AGM. At the same meeting, BAPIML voted against the re-election of 12 directors due to those involved in the audit and examination, risk and human resource committees failing, over a number of years, to provide timely and sufficient risk oversight. At the AGM the directors received between 52% and 75% shareholder support.

3 Japan

There have been continued signs of improvement in Japanese board profiles since the corporate governance code change in 2015. The percentage of companies in the stock market with at least two outside directors reached 85% in 2017 up from 57% at the introduction of the code. The percentage of companies with at least a third of the board represented by outside members has reached 34%, up from 21% in 2015. The board composition improvements are highlighted by the reduction in the number of BAPIML votes against director elections; on 13 occasions. Similarly, meetings voted against statutory auditor elections fell from 19 to 12.

There were many examples of corporate engagement through the year, to discuss environmental, social or governance (ESG) issues and advise companies in ways they could improve their overall ESG score. At the meeting of an industrial engineering company is one such example where the fund manager engaged with the company over their new board structure. The company added additional outside director resources with relevant skills that the company had been lacking. The company also looked to reduce the number of board meetings from 15 to 12 and increase the speed of decision making by allocating more power to heads of divisions. Risk management and controls have also been overhauled. The fund manager was positive about the changes.

A development in 2017 was the new introduction of stock-based compensation plans at a limited number of companies. BAPIML reviews incentive plans on a case by case basis. The Funds voted down the compensation proposal at a media company due to the lack of sufficient transparency surrounding performance targets, and vesting period. This is an issue on which the fund manager will engage with the company. The company's equity compensation plan was voted for by the fund manager due to limited equity dilution, and a significantly long vesting period. The plan will help focus senior management on long term share price performance and align their interests more closely with those of shareholders.

4 Asia Pacific

There were no new themes in Asia. Director elections, share issuance without pre-emptive rights and re-issuance of repurchased shares continued to be the main areas of contention in Hong Kong.

One meeting that was voted contrary to ISS recommendations, for management, was at the AGM of a Chinese internet company. ISS recommended voting against the founder, and the largest independent shareholder. This was due to the lack of majority board independence, and that the founder served as a non-independent member of two committees. The fund manager voted for, contrary to ISS, in-line with management on the re-election of the two directors. The fund manager's view was that to some extent the two influential personalities on the board act as counter-balance to each other. BAPIML believed voting against these directors would not be the best route to achieving appropriate board independence. The fund manager is focussed on the structure of the board overall, and in the future may vote against other non-independent directors, to strive towards majority independence of the board.

At the beginning of 2017, a South Korean electronics company was involved in a political and corporate scandal, as discussed in last year's BAPIML corporate governance report. The vice-chairman and grandson of the founder of the Group was found guilty of bribery and embezzlement charges to secure political favours and sentenced to five years in prison. The sentence was later reduced to two and a half years with four years' probation. At the 2018 AGM the fund manager voted against the re-election of the vice-chairman as a director. The company kept the director on the board whilst in prison and unable to physically attend board meetings. This raised questions over the board's efforts to fulfil fiduciary duties and appropriate board oversight. The previous CEO resigned in October 2017, clearing the way for an overhaul of the board. The rest of the board members up for election at the AGM were newly appointed, which the fund manager supported.

BAPIML reported on Australia's largest bank which featured in the last year's report due to its remuneration report being voted down by BAPIML. It was the first company to fall foul of the board accountability for pay law. One year on and the board has reacted to shareholder concerns. There has been a refresh of the board including a new female chair that has led to; improvements in communication with shareholders, exercising board discretion to limit variable awards, restraining of remuneration increases and reducing director fees. The Funds voted for the approval of the 2017 remuneration report and against the approval of the 'spill resolution'. A spill resolution is one that occurs after a company has received greater than 25% of votes cast against their remuneration report for two subsequent years, referred to as a 'second strike'. Shareholders vote on the spill resolution, which if passed with a majority requires a follow-up AGM within 90 days. The directors in office at the time of the remuneration report, excluding the managing director, would be required to stand for re-election.

5 Europe

The percentage of meetings voted against management in Europe increased to 59%, from 50% in the prior year. Director elections and remuneration remain the areas with the greatest degree of dissent. France was the country to once again receive the highest portion of votes against management.

An Irish packaged foods company was an example of the power of shareholders to change boards for the better. At the 2016 AGM, shareholder dissent was high, as key management received over 30% of votes against their re-election. Historically the group's largest shareholder had nominated candidates for the board. This had led to the top shareholder having a disproportionately high level of representation on the board. In recognition of shareholders' concerns, the nomination committee agreed that previous nomination practices were no longer acceptable. It was agreed that the new process would eliminate new appointees who were also members of the top shareholder's board. BAPIML fully supported the changes which illustrated the power of shareholders' collective voting for positive change.

At the meeting of a Portuguese energy company, BAPIML voted with management contrary to ISS recommendation to vote against. The company proposed the election of a non-independent chair and non-independent director. The two candidates are daughters of the previous chairman. ISS recommended a vote against due to concerns over independent representation on the board. BAPIML voted for the election of the two directors, as the fund manager deemed that the candidates were appropriately qualified. The relatively large size and experience of the board implied the candidates would be unable to unduly influence decision making. Neither sister has executive powers. They had been nominated to represent their father's interests given his holding of 33.34% of the company. The question over board independence was a wider concern after the Portuguese Company Code change recommended a third of the board to be independent. The fund manager will further look at the overall independent structure and size of the board in future.

The funds engaged with an Irish hotel operator prior to making a vote decision. The fund manager had a series of e-mail discussions regarding the remuneration proposal at the AGM. ISS recommended a vote against the management remuneration proposal due to the proposed large percentage increase in compensation. BAPIML questioned the large increase with the company. In response, the company stated that over the last three years, since the company initially listed, the scale and size of the business, and the roles and responsibilities of the senior management team have grown significantly. The company's approach to executive pay through the remuneration committee was to consciously hold salaries at lower levels until the performance promised to investors was delivered. On achieving its target growth, the company looked to raise compensation levels more in line with peer companies. Although the increase in total compensation looked high in percentage terms, when looked at in absolute Euro levels it was in line with the lower quartile of peer companies. BAPIML voted with management and the proposal passed with 74% shareholder support.

6 Emerging Markets

Director elections and remuneration were the two main areas of dissent across the Emerging Market spectrum. The majority of the remuneration proposals voted down were in Brazil, due to the lack of disclosure, a common problem in the Emerging Markets. Board independence in South Africa, although at a relatively high level compared to Latin America, remained an area of contention. The concerns with many of the remuneration proposals were due to the lack of appropriate performance criteria.

The meeting at a South African real estate investment trust was an example of the concerns over remuneration. The structure of the long term incentive plan allowed awards of discounted share options that were not subject to performance conditions. An award of this type was given to the finance director. The King Corporate Governance Code IV (King Code IV) recommends that companies provide shareholders with separate, annual, non-binding votes on the remuneration policy and implementation report. The awards granted in this case were related to retention. The exercise price was set at a significant discount to the market price and the value of the awards was high compared to total annual fixed remuneration. The fund manager voted against the plan and its implementation. On a positive note the company has been engaging with shareholders over intentions to implement a performance-based long term incentive scheme from the next AGM. The fund manager is supportive of this move and regards the company very highly in its engagement activities.

At a South African bank meeting, BAPIML voted contrary to ISS in supporting the re-election of three directors. The company complies with many of the best practices of the King Code IV but fails in board independence, with the majority of the board not being independent. The fund manager voted for the director elections as the three directors bring significant experience and knowledge to the board. The fact that they sit on the board of a subsidiary company is not deemed to compromise their ability to maintain independence, given that the parent company operates a holding company structure.

7 Outlook

BAPIML will look to further integrate an in-house developed ESG screening tool to help the fund managers mitigate ESG risks, and aid stock selection based on best in peer group scores.

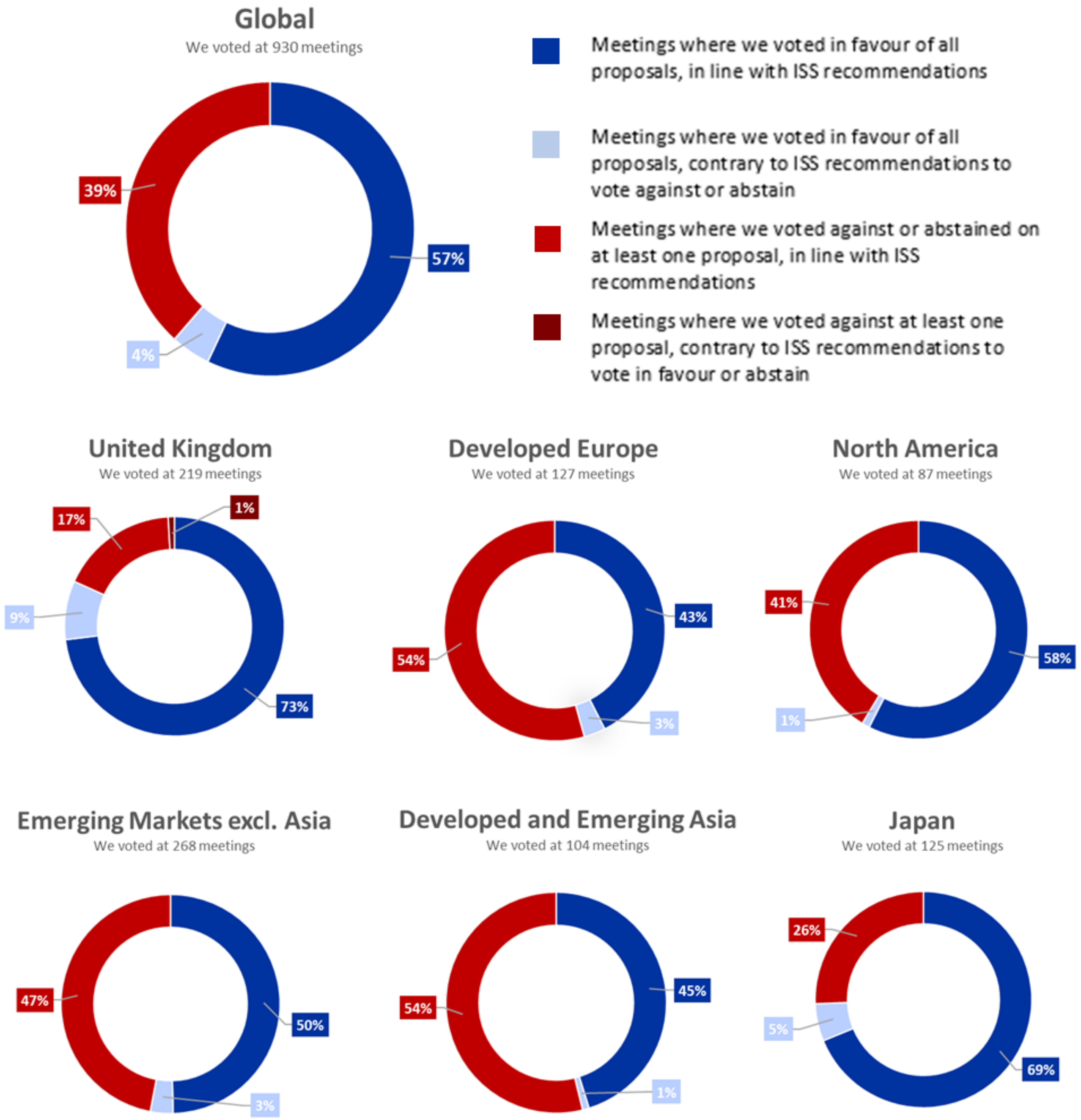
Overall many of the same trends seen in this report are expected to continue for the coming proxy voting season. A continuation is expected in North America of shareholder proposals pertaining to the main topics of environmental and social requests, and in particular related to climate change. More equity based compensation plans are expected to be introduced in Japan, after seeing a small portion of companies introduce them in 2017. Regulations continue to evolve in the Emerging Markets, with the hope of increased transparency and further ‘comply or explain’ measures in Latin America.

BAPIML will continue engagement activities across the regions.

Japanese Portfolio Manager & Corporate Governance Manager
11 September 2018

Global Voting Activity
Meetings

Between 1st April 2017 – 31st March 2018 we voted at 930 meetings in total. At 359 (39%) meetings we voted against or abstained on at least one proposal. The most common type of meetings were predominantly Annual General Meetings. In Emerging Markets excl. Asia, we experienced a high number of Extraordinary General Meetings and Special meetings (92 meetings), which explains the higher number of total meetings in comparison to the other regions. The high number of meetings in the UK reflects the mid-cap and small-cap holdings.



Global Voting Activity
Proposals

Between 1st April 2017 – 31st March 2018, we voted against 807 proposals and abstained on 31 proposals. Director elections were the most common type of contentious proposals (288), as depicted in red under “Board structure, membership and responsibilities”. We voted against 181 proposals relating to executive remuneration, which continued to be a contentious area for all regions except for Japan.