Investment Management Association

Adherence to the FRC's Stewardship Code

At 30 September 2013

Detailed practical examples

May 2014

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May 2014

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Afren plc

Background

At the Annual General Meeting on 11 June 2013, nearly 80 per cent of shareholders voted against Resolution 2, to approve the Remuneration Report. This followed a series of significant votes against the Report in previous years, with 52 per cent voting against in respect of 2011 and 49 per cent in respect of 2010.

Six of the directors received over 25 per cent of votes against their re-election, reflecting some concerns over independence and executives' failure to declare an alleged conflict of interest[1]:

- Resolution 3, to re-elect the Chairman Mr Egbert Imomoh – 30 per cent
- Resolution 4, to re-elect Mr Peter Bingham as a director – 44 per cent
- Resolution 5, to re-elect Mr John St John as a director – 28 per cent
- Resolution 6, to re-elect Mr Toby Hayward as a director – 28 per cent
- Resolution 7, to re-elect Mr Ennio Sganzerla as a director – 25 per cent
- Resolution 8, to re-elect Mr Patrick Obath as a director – 25 per cent

Chairman Imomoh said: "Since our [flotation] in 2005 we have delivered total shareholder returns of 556%. Our remuneration philosophy has reflected the need to retain exceptional talent in a highly competitive market, further compounded by the fact that we operate in very challenging areas. However, we have been sent a clear message by our shareholders and are committed to ensuring that the results are very different at next year's AGM[2]".

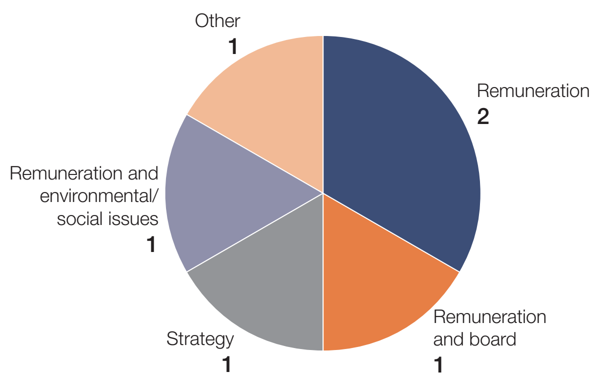
Objectives

Of the 14 respondents that had a holding in Afren, six engaged. Remuneration was the main concern for four respondents, of which one also engaged on succession planning and another on environmental and social issues (Chart I). One respondent's objective was to: *"Understand board succession planning; receive assurances that no more 'exceptional' project-specific bonuses would be paid; understand potential conflicts of interest for directors as a result of the FHN [First Hydrocarbon Nigeria] transaction".*

One respondent engaged on strategy and the one "other" respondent stated that it generally expresses concerns over corporate governance issues via voting in that it sends a letter to companies when it does not support management's resolutions.

Two of the respondents that engaged changed their holding because of their concerns. One divested its holding for *"fundamental reasons and concerns about shareholder returns"* and the other significantly reduced its holding from 3 per cent to under 0.5 per cent of the outstanding share capital.

Chart I: Engagement with Afren – **No. of respondents**



Eight respondents that had a holding in Afren did not engage, the reasons including:

- too small a holding (four).
- engagement criteria not fulfilled e.g. engagement would not be in their clients' best interests (three).
- issue not significant to the respondent's interest in the company (one).

[1] Theguardian.com 11 June 2013

[2] Ibid.

Outcome

Four of the six respondents that engaged considered their engagement to be partly successful/effective. To quote:

- *"Long standing [remuneration] committee chair stepped down."*
- *"[Afren] appear to recognise the need to improve but we were disappointed by the continued lack of consultation."*
- *"Over the year we have seen some positive developments around remuneration, leading us to support the remuneration report… at the 2013 AGM whereas we had previously voted against."*
- *"As a result of the discussions, our views on risk regarding corporate governance and management priorities were heightened."*

The other two respondents considered the engagement to be of little success. One received no response from the company whereas the other stated that *"some assurances were received regarding remuneration arrangements"*.

Details of engagement

Contact with Afren

The six respondents that engaged with Afren had a total of 12 separate contacts, an average of two each. The Chair of the Remuneration Committee was contacted the most overall by half of the respondents. Management was contacted five times and its Chairman and Executive Directors twice each (Table I).

Table I: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	2	2
Remuneration Committee Chair	6	3
Executive Directors	2	1
Management	5	2
Company Secretary	1	1
Investor Relations	1	1

Contact was mainly by dedicated specialists with a total of nine contacts for four respondents (Table II). Two respondents contacted Afren via portfolio managers/analysts.

Table II: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	5	2
Dedicated specialists only	9	4
Portfolio managers/analysts and dedicated specialists	1	1

Contact with other investors

Only one respondent collaborated with other investors. This was initiated by an established local authority pension fund group and the respondent considered the collaboration effective.

2013 AGM

None of the respondents attended the AGM.

Resolution 3, to re-elect the Chairman, Egbert Imomoh

Four respondents voted in support of Resolution 3 to re-elect the Chairman (Table III). Three explained the rationale, to quote:

- *"The board was adequately independent by our standards. We also chose to express our concerns about remuneration by voting against the remuneration report as voting against the directors was considered unnecessarily aggressive at this point."*
- *"We believe that the company have recognised that improvements are required and believe that the Chairman is working towards these improvements."*

Two respondents voted against, one stating: *"[Manager] voted against all of the directors due to concerns over potential conflict of interest regarding the recent FHN transaction in Nigeria, where 'certain directors' were reported as shareholders via a nominee company and* *stood to benefit personally from the deal."* The other respondent explained: *"[Owner] will vote against the election of individual directors if the director is an NED who is not considered to be independent per the UK Corporate Governance Code guidelines and board composition does not comply with the code."*

Resolution 4, to re-elect the Non-Executive Director, Peter Bingham

Four respondents voted against Resolution 4, to re-elect the Non-Executive Director Peter Bingham. Explanations for this decision included:

- *"The audit committee should be fully independent and this director's membership could hamper the committee's impartiality and effectiveness. The remuneration committee should be independent and this director's membership could hamper the committee's impartiality and effectiveness. For widely held companies, the board should include at least 50% independent non-executive directors to ensure appropriate balance of independence and objectivity."*
- *"We were concerned by the remuneration and the lack of consultation and therefore voted against the [remuneration] report and all members of the remuneration committee."*

Two respondents voted in favour of Resolution 4 with one explaining that it considered the Board to be sufficiently independent.

Table III: Resolutions 3 and 4

	Resolutions	
	3	**4**
	No. of respondents	
For	4	2
Against	2	4
Abstain	0	0

None of the respondents of those that engaged with Afren abstained from voting on these two resolutions. Moreover, out of the four respondents that voted against either Resolution 3 or Resolution 4, or both, three notified Afren of their decision.

Conflicts

None of the respondents with a holding had any conflicts of interest.

Service Providers

Only one Service Provider engaged with Afren. It had one contact with the company, and did not collaborate with other investors nor attend the AGM.

AngloAmerican plc

Background

At the Annual General Meeting on 19 April 2013, AngloAmerican faced protests over controversial mining projects in Colombia and South Africa, and the climate impact of its coal extraction[3]. Resolution 17, to give authority to allot shares received 30 per cent of votes against. Special Resolution 18, to give the company the right to disapply pre-emption rights, did not receive the necessary 75 per cent of votes in support. The company stated: "although this is a routine resolution for public companies in the UK, the directors had no present intention of exercising the proposed authority, as set out in the Notice of Annual General Meeting. The Company does not therefore anticipate any consequences arising from the resolution not being passed. The Company will discuss any concerns with those shareholders, predominantly outside the UK, who voted against this resolution[4]".

Resolution 16, to approve the Remuneration Report, received 21 per cent of votes against – an increase from the 13 per cent of votes against in the prior year[5].

In July the Group reported that first-half profits had dropped by 68 per cent as commodity prices fell and the global economy remained weak. The recently appointed Chief Executive, Mr Cutifani, stated that this was unacceptable and promised to cut spending and halve the number of pipeline projects[6].

Objectives

Thirteen of the 23 respondents with a holding engaged with AngloAmerican. Seven respondents were concerned with issues relating to the company's leadership and strategy (Chart II). To quote:

- *"Our initial engagement concentrated on the need for the company to appoint a new CEO and once this was accepted we encouraged the appointment of an external candidate. We have subsequently been pressing the company to find a solution for the problems facing its Platinum business as well as to overcome the difficulties facing its Brazilian iron ore project."*
- *"We had concerns regarding the problems in the South African mining industry and delays to Minas Rio. The search for a replacement CEO was also key for us. We were seeking assurance that the Board and Chairman were implementing the correct approach to all pressing matters affecting the company and wanted to further understand the action(s) being taken."*
- *"We discussed potential candidates for the CEO role."*
- *"Our investment professionals conducted several meetings with AngloAmerican plc over the course of the year to better understand management's strategy and restructuring efforts."*

Two respondents engaged on remuneration and a further two on environmental and social issues, as well as health and safety. The latter two explained that:

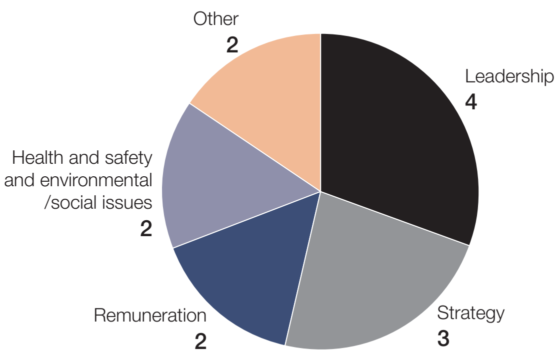
- *"Engagement centred on H&S and environmental management & performance."*
- *"We sought to understand the new management's approach to ESG issues, specifically in light of the labour unrest in South Africa and delays to projects in South America."*

Of the two "other" respondents, one did not describe what it aimed to achieve from its engagement and the second stated that it wrote to the Company Secretary to explain the rationale for not voting in favour of a number of resolutions at the AGM.

Just one respondent changed its holding because of its concerns by changing the proportion of its portfolio invested in AngloAmerican depending on the assessed risk/reward profile.

[3] Wdm.org.uk 18 April 2013
[4] Angloamerican.com
[5] Online.wsj.com 22 April 2013
[6] BBC.co.uk 26 July 2013

Chart II: Engagement with AngloAmerican – **No. of respondents**



Of the ten respondents that had a holding but did not engage, nine provided an explanation. For three AngloAmerican did not fulfil specific engagement criteria, e.g. one respondent only engages with companies listed in its own market which is outside the UK. Two respondents did not have a material holding. A further respondent did not consider the issue material and one other did engage but did so outside the period covered by this report. The other two stated:

- *"We purchased shares at the beginning of 2013 and sold in September 2013 following an assessment of future performance and the potential diluting of the restructuring benefits in South Africa. We voted for all resolutions at the AGM and at the time we held 0.1% of share capital."*
- *"In the Fund Manager's view the company has a good level of governance and is improving remuneration practices."*

Outcome

Two respondents considered their engagement successful. One aimed at replacing the previous Chief Executive, Cynthia Carroll, which was achieved and the other explained: *"Following our meetings with Chief Executive, Mark Cutifani, we were better able to understand the strategic direction and rationale that would be undertaken by the company over the next two years."*

Seven respondents considered their engagement partly successful. To quote:

- *"Our meeting with executives helped us understand senior management's views. However, our discussions coordinated through investor relations were not as helpful."*
- *"Our efforts to encourage the company to appoint a new CEO were fully successful but it's too early to determine the success or otherwise of the company's efforts to improve its operational performance."*
- *"Clarification was sought regarding details of the share award made to the incoming CEO. Awards were made to buy him out of existing arrangements at another company. Since the awards did not have any performance conditions attached to them, we were not able to support the remuneration report. However, we took some comfort from certain mitigating factors such as the shareholding requirement of the role and the award being based on expected value rather than a 1 for 1 replacement. We therefore abstained on the resolution."*

Engagement was not successful for two respondents, one of which explained that *"the company still needs to prove that it is scaling back expensive [capital expenditure]"*.

Details of engagement

Contact with AngloAmerican

Eleven respondents had a total of 36 separate contacts with AngloAmerican, an average of just over three contacts per respondent. In most cases, contact was with the Chairman and the Executive Directors – 13 and 12 contacts, respectively, by six respondents each. For ten and five respondents contact was with Investor Relations and Management, respectively. The Chair of the Remuneration Committee, Non-Executive Directors and the Company Secretary were contacted by one respondent each (Table IV).

Table IV: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	13	6
Remuneration Committee Chair	1	1
Other Non-Executive Directors	1	1
Executive Directors	12	6
Management	5	4
Company Secretary	1	1
Investor Relations	10	5

Contact was mainly by portfolio managers and analysts with a total of 26 contacts (Table V). For seven respondents the dedicated specialists contacted the company once each. For only two respondents contact was by both portfolio managers/analysts and dedicated specialists.

Table V: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	26	5
Dedicated specialists only	7	7
Portfolio managers/analysts and dedicated specialists	4	2

Contact with other investors

Three respondents collaborated with other investors:

- one attended joint meetings with the company on AngloAmerican's initiative.
- one entered into a collective agreement to vote the same way.
- one sent a joint letter with another investor.

In the last two cases, the respondents initiated the collaboration by approaching an established investor group. All three respondents considered the collaboration effective.

2013 AGM

Twelve of the 13 respondents that engaged with AngloAmerican did not attend its AGM in April 2013[7].

Resolution 17, to give authority to allot shares

All twelve respondents voted for Resolution 17 to give the company the authority to allot shares (Table VI). To quote:

- *"[Manager] recognises a company's need for the flexibility to raise money to pursue opportunities without seeking shareholder approval. [Manager] voted FOR resolution 17 because we believe the amount and duration proposed to be reasonable."*
- *"The proposed amount of the equity issuance was not considered excessive."*
- *"We had no concerns with the amounts or duration of the authority."*

Resolution 18, to disapply pre-emption rights

All twelve respondents voted in favour of Resolution 18 to disapply pre-emption rights. To quote:

- *"Whilst we supported resolution 18, we raised our concerns regarding the alignment of pay with performance and the recruitment incentive awarded to the incoming CEO."*

[7] One did not state if it attended.

- *"A statement assuring investors that no more than 7.5% of the issued share capital will be allotted on a non pre-emptive basis over any three year period was provided."*
- *"The resolution was in line with our voting guidelines."*

Table VI: Resolutions 17 and 18

	Resolutions	
	17	**18**
	No. of respondents	
For	12	12
Against	0	0
Abstain	0	0

Conflicts

None of the respondents with a holding had any conflicts of interest in relation to AngloAmerican.

Barclays plc

Background

At the 2012 Annual General Meeting, Resolution 2 to approve the Remuneration Report received nearly 27 per cent votes against. On 27 June 2012 Barclays admitted to misconduct related to submissions for the London Interbank Offered Rate (LIBOR) resulting in a £59.5million penalty imposed by the FSA and further penalties by the US Department of Justice.

This was followed by the resignation of a number of board members and on 12 August 2012, Sir David Walker was appointed as Chairman undertaking to recruit a new Chief Executive and to reform pay structures.

On 30 August 2012, Antony Jenkins was appointed Chief Executive and instigated a six-month strategic review. Moreover, he pledged to rebuild the bank's reputation by changing the culture under which its traders operate, including changes to payment protection insurance selling and staff bonuses.

At the Annual General Meeting on 25 April 2013, Resolution 2 to approve the Remuneration Report, was more widely accepted than in 2012, with just over 5 per cent of votes against. Resolution 18, to authorise the Directors to allot securities received over 8 per cent of votes against.

Objectives

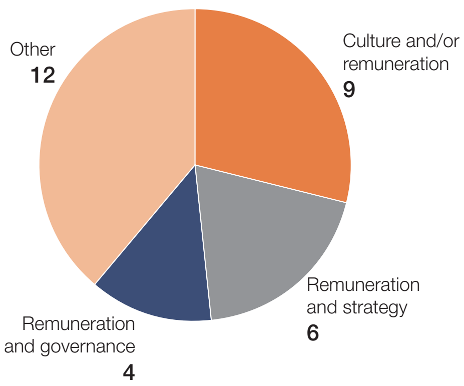
Thirty-one of the 40 respondents with a holding engaged with Barclays. Similar to 2012, remuneration remained the main concern (Chart III). However, this year respondents also focused on the broader issues of strategy, governance and particularly cultural change. To quote:

- *"Comfort that the company has learnt lessons and is improving culture and values and is also looking to reduce pay/address pay issues (and making this more aligned with good culture, long term performance and returns to shareholders)."*
- *"Continuing progress in changing the bank's culture, rebuilding trust and reputation, and remuneration practices more aligned with shareholders' interests to enable a more appropriate distribution between shareholders and staff."*
- *"We wanted to express our views in relation to remuneration, board leadership and succession planning, cultural change and also the implications of the LIBOR settlement. We wished to get confidence that the board consider our views during their further reflection on these issues. We continued to engage with the company on these matters throughout 2013."*
- *"Subsequent to the departure of the CEO and chairman in 2012, we met the new incumbents several times over the year. We wanted to test the new top team's ability to effect cultural and business change at the bank as well as its response to the Salz review, which had clearly been of some embarrassment to Barclays. We also had a number of conversations on remuneration to understand both the structural and cost changes the bank is looking to make, and to ensure that appropriate adjustments were made for the CPI and LIBOR issues. We also wrote to the bank to encourage adoption of the recommendations issued by the Enhanced Disclosure Task Force."*

The twelve "other" ranged from wanting to understand the process of decision making at Barclays to having discussions on the impact of regulatory change on strategy and capital requirements, as well as the company's reaction to the Salz review.

Four respondents changed their holdings because of their concerns. Two respondents increased it, one decreased it but added that *"it's difficult to identify a particular cause"*, and the fourth did not specify but explained that it would *"continue to be concerned about the potential negative impact of tighter regulatory environment, including the new capital requirements, which could lead to lower margins and return on equity (ROE) for Barclays"*.

Chart III: Engagement with Barclays – **No. of respondents**



The nine respondents that had a holding but did not engage with Barclays explained that either the holding was small or that certain engagement criteria were not fulfilled. One respondent stated that it did not engage *"because corporate governance at Barclays has improved since the [new Chairman and CEO] appointments*".

Outcome

Seven of the 31 respondents that engaged achieved their objectives. This was mainly due to the changes in Barclays' management and governance. To quote:

- *"New CEO and Chairman [were] appointed who are committed to improving the culture of the company."*
- *"We heard about positive proposed changes to governance improvements, board changes and renewed commitment to business ethics."*
- *"We were able to satisfy ourselves of the integrity of the Board and to reflect our confidence to the company".*

In addition, one respondent commended that under the new leadership, Barclays *"is making much more effort to interact with shareholders on a wide variety of topics".*

Twenty respondents, i.e. the majority, considered their engagement partly successful. It was generally recognised that Barclays is improving its practices but further reform on remuneration and culture is needed and so engagement is on-going. For example, respondents stated:

- *"We are supportive of the direction that Barclays are going. We can see they mean business in view of the very public positions Sir David and Antony Jenkins are taking regarding changing the culture of Barclays and its pay arrangements, and this was reflected in our support (and improved voting position) for the 2013 AGM. We will continue to hold the company accountable for further improvements but for now they have made a promising start."*
- *"This is still an ongoing engagement. While there have been changes around the leadership of the company, the review of culture is still ongoing. We also consider that the company's remuneration policy and practices of do not sufficiently take account of the shareholders' interest in having a conservative approach to remuneration."*
- *"Our engagement with Barclays is ongoing. While we are seeing encouraging evidence of the cultural and business change that the new top team have been promoting it is too early to determine whether the plan has been fully effective. On remuneration we are encouraged by the cost changes that the bank is implementing, however we believe that Barclays could go further in reforming its pay structures to better align them with the interests and experiences of its long-term shareholders."*
- *"Some aspects of the engagement were achieved. For example, we gained assurance regarding the new risk oversight provisions Barclays has introduced and the commitment of the board to embedding new cultural values throughout the organisation. Many of the issues discussed, such as risk management and cultural changes are very long-term issues and it will take longer than a few months to see the impact and success or not of such initiatives. The uncertainty regarding the regulatory framework for banking remuneration has restricted engagement on this issue during 2013. We anticipate that remuneration will once again become a key topic for engagement post September 2013."*

Only two respondents found their engagement to be of little success, with one stating that it did not receive a response from the company.

Details of engagement

Contact with Barclays

Barclays was contacted more than any other of the companies in this section. Twenty-seven respondents contacted it 184 times, an average of 6.8 contacts per respondent. Most contact was with the Executive Directors and Investor Relations – 65 and 74 contacts by 20 and 14 respondents, respectively. There were 46 contacts with the Company Secretary by fifteen respondents, 34 with the Chairman by 18 respondents and 32 with the Chair of the Remuneration Committee by 15 respondents. One respondent alone contacted the company 46 times (Table VII).

Table VII: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	34	18
Senior Independent Director	7	5
Remuneration Committee Chair	32	15
Audit Committee Chair	1	1
Other Non-Executive Directors	5	4
Executive Directors	65	20
Management	23	9
Company Secretary	46	15
Investor Relations	74	14

Most contact was by portfolio managers/analysts (Table VIII). Three respondents' portfolio managers and analysts accounted for 105 contacts.

Table VIII: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	140	14
Dedicated specialists only	77	17
Portfolio managers/analysts and dedicated specialists	41	15

Contact with other investors

Eighteen of the 31 respondents that engaged did so in collaboration with other investors. In most cases this involved attending joint meetings with the company (Table IX). Two respondents participated in collective engagement on how to vote and six engaged through associations such as the LAPFF, NAPF and ABI.

Two collaborations were initiated by the respondents and the other 16 either by an established investor group or (in two cases) by the company.

All respondents considered their collaboration with other investors to be effective.

Table IX: Collaboration

	No. of respondents
Joint meetings with the company	13
Collective engagement on how to vote	2
Other	6

2013 AGM

None of the respondents that engaged with Barclays attended its AGM in April 2013.

Resolution 2, to approve the Remuneration Report

Two thirds of respondents voted in support of Resolution 2, to approve the Remuneration Report (Table X). This was mainly due to the reforms introduced to the pay structure such as establishing a two-year vesting period for the 2013 Long Term Incentive Plan and making clawback arrangements. For example:

- *"We agreed to support the remuneration arrangements at Barclays this year on the understanding that the company continues to build on the improvements that are underway. … We will review progress again at next year's AGM."*
- *"We supported all resolutions at the shareholder meeting in recognition of the new leadership and Barclays' apparent willingness to make wide-ranging changes."*
- *"… Barclays has disclosed several changes to its remuneration policy, which we view as generally*

positive overall. … In addition, the 2012 compensation/net income ratio has decreased compared to the prior year, and the company has stated that it intends to reduce it further over the next few years."

- *"Remuneration was being reformed; Directors were engaging more effectively; trust was being repaired."*

The one respondent that abstained from voting stated: *"… the discrepancy between the insiders' rewards compared to shareholders and that contrast over time … underscores a fundamental misalignment that we are looking to see resolved. Given the new team are aware, focused on and committed to addressing that, with some initial indications of a move in the right direction … we are not opposing, but the current imbalance means we remain unable to support at present."*

Nine respondents voted against Resolution 2, citing long-term issues with the remuneration structure and its misalignment to shareholder returns. To quote:

- *"Our vote has taken into consideration clear improvements in the company's remuneration practices… We also acknowledge the forfeiting of bonuses by the chief executive and finance director. However our vote reflects ongoing concern that the economics between executive and shareholder returns is still not in proper balance. … While we acknowledge the positive direction of travel, we cannot support the implementation of the remuneration plan in 2012 because we believe that aggregate rewards to staff were excessive relative to performance."*
- *"… Annual bonus criteria were qualitative which left a great deal of discretion to a board that historically has not acted in the interest of shareholders. Though the board composition has changed to some extent, we have no assurance that future actions will be in the interests of shareholders. We also did not see any change from prior years to the long-term incentive plan. The plan is still linked primarily to return on risk-weighted assets which we do not feel is appropriate. Return on equity or total shareholder return components would be preferred."*

One respondent also commented that Barclays had had the same auditor for more than a hundred years[8].

Resolution 18, to authorise the Directors to allot securities

Although at the AGM Resolution 18 to authorise the Directors to allot securities received a higher percentage of votes against than Resolution 2, all respondents but one voted in support of it. Respondents considered that the amount and the duration of the securities were within acceptable limits and the issue itself was in their clients' interests. To quote:

- *"We strongly objected to the issue of shares on a non-pre-emptive basis in 2009. Since then, the board has acted sensibly and under the new chairman, is aware of the need for an efficient use of capital and share issues."*
- *"In light of the company's need to maintain or increase levels of tier 1 capital, we believe the ability to pre-emptively issue ECN's offers the company a cost effective way to maintain capital. Additionally, we believe the trigger rate of 7% is low enough to reduce the likelihood of any dilutive issuance from occurring."*

The one respondent that voted against the resolution considered the *"potential issuance of new shares was too high".*

Table X: Resolutions 2 and 18

	Resolutions	
	2	**18**
	No. of respondents	
For	20	29
Against	9	1
Abstain	1	0

Seven respondents that voted against or abstained informed the company in advance as to why and four did not.

[8] It was announced in March 2014 that Barclays would replace its auditor and PwC would not be invited to take part in the tender (Accountancy Age 7 March 2014).

Conflicts

Five out of 40 respondents with a holding in Barclays reported a conflict of interest due to the company being a client. Two respondents outsourced their voting decisions to a third party proxy research company and did not engage with Barclays. The other three explained how the conflict was addressed:

- one applied its conflicts of interest procedures and it determined that no conflict occurred from its vote decision.
- one continued its engagement and voting in line with its policy which involves reporting any deviations from the policy with an explanation to senior management.
- one had a conflict due to its parent company and after consulting it updated its stewardship statement to address such a situation. This includes the parent company giving instructions on how to vote the shares held in funds where it is the ultimate beneficiary and not influencing voting when funds are held on behalf of third parties. Also in all other situations the parent company maintains an arm's length relationship with the respondent.

Bumi plc

Background

In April 2013, trading of Bumi shares was suspended whilst it was investigated for accounting irregularities, after having already delayed the reporting of its financial results due to allegations of irregular payments at Berau Coal (of which Bumi held an 85 per cent stake). Bumi announced that it had hired Ernst & Young in addition to their auditors, PwC, to expedite the process.

There had been a very public battle for control of Bumi between Nat Rothschild and his co founders, the Bakrie family. Scott Merrillees resigned from his post as CFO following pressure from Nat Rothschild, who also called for Chairman Samin Tan and director Alex Ramlie to step down from the board[9,10].

At the Annual General Meeting on 26 June 2013, seven out of the eight resolutions to re-elect directors received over 25 per cent votes against, with Resolution 3 to re-elect Samin Tan receiving the largest votes against (29 per cent).

Resolution 2, to approve the Remuneration Report, received nearly 32 per cent votes against, while Resolution 1, to adopt the accounts received nearly 35 per cent of votes against. Both Resolutions 13, the authority to allot shares and 16, the power to disapply pre-emption rights received over 75 per cent of votes against.

In July it was reported that the Chairman had reached a deal with the Bakrie family, which would result in him owning over 47 per cent of the company[11].

Objectives

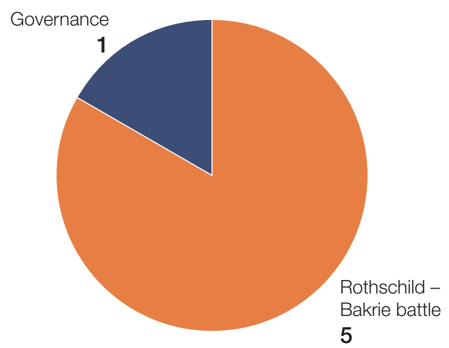
Six out of ten respondents with a holding engaged with Bumi. The main concern for five was the escalating conflict between Nat Rothschild and the Bakrie family (Chart IV). For example, respondents wanted to:

- *"… gain insights into the separation transaction from the Bakrie Group, the strategic steps being taken in light of the company's public battle with Nat Rothschild and the accounting irregularities, and the restructuring of the board."*
- *"… understand how the Board is responding to the actions by their major shareholders and implications of the divestment of the Bakries holding."*
- *"… discuss how to settle the spat between the two major shareholders, which came to a head at an EGM called by Nat Rothschild."*

One respondent focused its engagement on governance stating: *"we wanted assurances that the correct governance procedures were being followed according to regulators … removal from Board of anyone found to be involved in past financial misdemeanour … an independent Chairman and … to protect the interests of minority shareholder interests in any of the separation deals."*

None of the respondents that engaged changed their holding in Bumi.

Chart IV: Engagement with Bumi – **No. of respondents**



The four respondents that had a holding but did not engage explained that this was due either to a too small holding (three) or to Bumi generally not meeting their engagement criteria (one).

[9] Theguardian.com 22 April 2013
[10] Mining.com 17 April 2013
[11] Reuters.com 18 July 2013

Outcome

Four respondents considered their engagement partly successful and explained:

- *"We were satisfied that we had reached the right decision for clients but resolution of issues will take time."*
- *"We supported the removal of board members and Chairman at the EGM in 2013 which was defeated however the Chairman did announce his plans to step down as Chairman once an independent candidate could be found."*
- *"While Mr Rothschild did not win in his battle at the EGM, at which we supported management on all resolutions in the interests of a more tempered resolution, and discussions now appear to be nearly complete regarding a split from the Bakrie family, it feels difficult to say that this has been driven in the main by engagement from minority shareholders. This is particularly pertinent as the split from the Bakrie family involves the Bakries selling their stake to their partner and the company's outgoing chairman Samin Tan, leaving him with a nearly 50% stake in the company. However we hope that this split will draw a line under the issues and allow Bumi to continue as a more stable organisation."*
- *"Changes [were] made to shareholding structure."*

Two respondents considered their engagement to be of little success and explained:

- *"… there have been some improvements to pay arrangements … [however] we have concerns over the findings that Rosan Roeslani received significantly more money than was known about in respect of his executive duties at PT Berau. He received substantially more than had been disclosed to the Board, and it is understood, to the PT Berau Remuneration Committee."*
- *"While we had concerns with the continued service of Samin Tan of the board, the separation transaction with the Bakrie's was paramount and the removal of Tan during this period was not advisable."*

Details of engagement

Contact with Bumi

There were a total of 26 separate contacts by the six respondents that engaged, making an average of 4.3 contacts per respondent. The Senior Independent Director and Executive Directors were contacted the most, with eight contacts each by 4 and 3 respondents respectively. The Chairman and other non-executive Directors were contacted once by three respondents each. One respondent contacted Investor Relations four times (Table XI).

Table XI: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	3	3
Senior Independent Director	8	4
Other Non-Executive Directors	3	3
Executive Directors	8	3
Management	1	1
Investor Relations	4	1

Contact was mainly by dedicated specialists (Table XII). For one respondent its portfolio managers and analysts contacted Bumi six times.

Table XII: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	6	1
Dedicated specialists only	18	5
Portfolio managers/analysts and dedicated specialists	0	0

Contact with other investors

Only one respondent collaborated with other investors. This involved an agreement to vote in the same way and was initiated by another investor. The respondent did not consider this collaboration effective given that the vote did not bring about the change it wanted although later a more moderate solution was announced (change of Chairman).

2013 AGM

Two respondents attended the AGM in June 2013.

One voted against all three resolutions and explained: *"[we] voted against resolutions 1-4 and 6-22 … because we feel the incumbent Board offers the best chance to deliver a recovery in shareholder value. Vote[d] for resolution 5, the removal of Nalinkant Rathod as Director, because we feel he should not be a member of the Board going forward given that he is a representative of the Bakrie Group and is the former CEO of Bumi and Bumi Resources."*

The other respondent abstained from voting for all resolutions *"as a signal to the Board that whilst [Manager] supports the efforts to clean up the company and improve governance procedures, [Manager] does not believe they are doing all they can."*

Resolution 1, to receive and adopt the accounts and reports of the Directors and auditors

None of the respondents that engaged voted in favour of Resolution 1, to receive and adopt the company accounts and reports (Table XIII). In addition to the two explanations above, this was due to the external auditor report stating that there was insufficient information on related party transactions and including an emphasis of matter paragraph relating to a Bumi subsidiary. One respondent in particular considered the audit report to be *"the latest evidence of a deeply troubled business which has failed on a number of levels".* Only two respondents gave the company advance notice of their intention to vote against.

Resolution 13, to give authority to allot shares

Four respondents supported Resolution 13 to give authority to allot shares as they considered that the proposed amount and duration was within recommended limits.

Resolution 16, to give authority to disapply pre-emption rights

Similar to the previous resolution, four respondents voted in favour of Resolution 16 to give the company the authority to disapply pre-emption rights as the proposal met with best practice.

Table XIII: Resolutions 1, 13 and 16

	Resolutions		
	1	**13**	**16**
	No. of respondents		
For	0	4	4
Against	5	1	1
Abstain	1	1	1

Overall, only two respondents informed the company of their intention to vote against or abstain.

Conflicts

None of the respondents had a conflict of interest in relation to Bumi.

Service Providers

Only one Service Provider engaged with Bumi. It did not collaborate with other investors and did not attend the AGM.

Carnival plc

Background

Over the last year Carnival was the subject of much controversy following major shipping incidents such as the fire in the engine room of the Carnival Triumph in February 2013 and the engine failure of the Carnival Dream in March 2013. The company was still recovering from the aftermath of the Costa Concordia disaster in January 2012 where 32 people died. These events led to extensive criticism not only from the media but also from regulators and negatively affected the company's share price[12,13].

At the Annual General Meeting on 17 April 2013 shareholders expressed interest in receiving more information about the Concordia incident at next year's meeting[14]. All resolutions were passed with a high majority of votes in support. Regarding the directors' re-election, Resolution 3, the re-election of Arnold Donald, received the lowest support with 91 per cent of votes in favour, followed by 93 per cent of votes in support of Resolution 1, to re-elect Micky Arison.

On 3 July 2013 Carnival announced that Micky Arison would step down after 34 years as Chief Executive, a role which he held alongside his role as Chairman since 2003. He was replaced by Arnold Donald.

Objectives

Twelve of the 22 respondents with a holding engaged with Carnival. This was mainly on health and safety issues, in some cases in conjunction with governance issues (Chart V). To quote:

- *"We wanted to learn how and why the occurrences happened and what the company is doing to prevent further incidents."*
- *"We had concerns over [the] safety record of company and wanted to understand further the approach to safety taken by the board."*
- *"… we raised a number of governance and Health & Safety issues, which highlighted systemic issues in terms of how the firm has managed its operational risks. We asked the company how it is addressing these issues and what steps the firm has taken to manage/ limit the negative media coverage, and the potential financial impact of litigation and customer refunds, not least the outstanding litigation from Costa Concordia sinking …"*

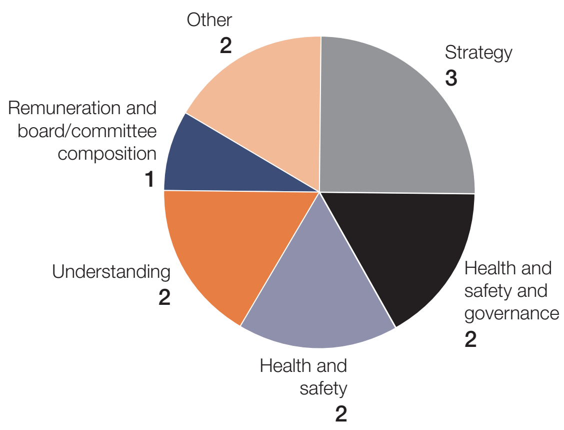
Three respondents were concerned with strategy. One engaged on strategy and financial performance and another on governance and operational issues *"in the context of strategy and managing ESG risks".* The third covered a range of issues that included *"pricing strategy, [Carnival's] reliance on third party distributors for making sales, the quality of the company's ships and potential changes in the Board and management structure".*

Two respondents engaged in order to better understand, and receive clarification and assurance over the business and one to raise concerns regarding board and committee composition and remuneration.

Of the two "other" respondents, one registered votes against Resolutions 15 and 16 to re-appoint PwC as auditors and to authorise the Audit Committee to agree the auditor's remuneration, and the other wrote to the Company Secretary to notify and explain the rationale for not supporting some resolutions at the AGM.

Only one respondent changed its interest as a result in that it increased its holding as it became more confident that the company *"was making progress in addressing the challenges facing it".*

Chart V: Engagement with Carnival – **No. of respondents**



[12] Business.time.com 21 March 2013
[13] Forbes.com 25 June 2013
[14] Seekingalpha.com 17 April 2013

Ten respondents with a holding did not engage with Carnival mainly because their interest was too small and/or held within passive funds, or the company did not meet their engagement criteria. Two respondents had engaged in 2012. One had *"satisfactory"* communication with the company and one stated that it was aware of the incidents but did not feel that change in top management would be the best solution.

Outcome

Three respondents considered their engagement successful. One explained that it continued to hold its interest in the company and the other two stated:

- *"We maintained a constructive dialogue with the company throughout this period and the company has recently taken steps to bring its Board structure more into line with the UK Governance Code and has split the role of Chairman and CEO; a step we had long desired. Further Board changes are expected."*
- *"We voted in accordance with our views. We count this as fully effective and await management response."*

Half of the respondents that engaged considered their engagement partly successful. Three considered Carnival's response to the issues raised to be encouraging but intend to continue monitoring the company. The other two stated[15]:

- *"We welcome the decision to split the CEO/Chair roles, particularly as we had voted against Micky Arison's joint role every year. However, we are slightly sceptical about whether this change would have taken place if it wasn't for the Company's really poor safety record in 2012/13. More still needs to be done on governance including remuneration and also on H&S issues."*
- *"Many of the issues we raise are long-term issues and it takes longer than a few months to see the impact and success or not of the engagement. Whilst immediate changes may not be apparent and we are unable to determine how our engagement was received internally, we encouraged the company to adopt best governance, environmental and social practices."*

One respondent considered their engagement to be of little success and for another two engagement was unsuccessful with one explaining: *"We find Carnival a very difficult company to engage with as access to independent directors is very limited. The engagement is ongoing however, and we will continue to seek a meeting with the Chairman, Mr Arison, to discuss the variety of material ESG risks that exist at Carnival."*

Details of engagement

Contact with Carnival

There was a total of 31 contacts by ten respondents making an average of just over 3 contacts per respondent. One respondent did not have any contact with the company and another does not keep a record of the number of times it engages with an individual company as it has no external clients to report to.

Most of the communication was with Investor Relations – 17 contacts by six respondents – and Executive Directors – 13 contacts by eight respondents. Five respondents contacted the Chairman eight times in total. Carnival's Management and Secretary were contacted twice by two respondents each (Table XIV).

Table XIV: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	8	5
Senior Independent Director	1	1
Executive Directors	13	8
Management	2	2
Company Secretary	2	2
Investor Relations	17	6

[15] One did not explain.

Contact was mainly by portfolio managers and analysts – 21 contacts for six respondents. For five respondents six contacts were by dedicated specialists only. For three respondents four contacts were by portfolio managers/analysts and specialists jointly (Table XV).

Table XV: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	21	6
Dedicated specialists only	6	5
Portfolio managers/analysts and dedicated specialists	4	3

Contact with other investors

Three of the twelve respondents that engaged did so in collaboration with other investors. One had a joint meeting with the company after being approached by an established group. One initiated a joint letter with another investor and another initiated a joint letter with another investor and also agreed to vote the same way.

All three respondents considered the collaboration effective.

2013 AGM

None of the respondents attended the AGM.

Resolution 1, to re-elect the Chief Executive, Micky Arison

Seven respondents voted for Resolution 1 to re-elect the Chief Executive (Table XVI). Three considered that the roles of CEO and Chairman should be split but felt that Micky Arison was the right person for Carnival. Two respondents did not consider this the right time for a change in executive management but voted against the remuneration report. The other two were generally supportive of the company and its management and did not consider the dual role of Chairman and CEO an issue.

The five respondents that voted against this Resolution did so because they were concerned by the combined role. They were also uneasy with a range of other issues. To quote:

- *"… The Arison family are also major shareholders in the company. Succession planning is not clear. These arrangements are seen as a risk to the long term leadership in the company. While a performance evaluation for the board was undertaken, this was internally organised."*
- *"… We also raised concerns regarding: the lack of alignment between the remuneration policy and the long-term interests of shareholders, the tenure of the incumbent audit firm, safety and labour issues, political donations."*

Three of the five respondents that voted against this Resolution informed the company of their decision.

Resolution 3, to re-elect Executive Director Arnold Donald

Half of the respondents that engaged voted in favour of Resolution 3 as they remained supportive of Carnival's management and did not believe that removing Arnold Donald would be in shareholders' interests. At the same time, the other half voted against this Resolution, mainly because they did not consider Arnold Donald to be independent due to *"tenure and outstanding options"* and they already felt that the Board lacked sufficient independent directors. Respondents also added:

- *"… [Arnold Donald] sits on the remuneration committee which we consider as inappropriate as the committee should consist entirely of independent directors."*
- *"[Arnold Donald is] Chair of the Remuneration Committee and member of the Audit Committee. [He] receives remuneration other than director fees from the company."*

Three of the six respondents that voted against this Resolution informed the company of their decision.

Table XVI: Resolutions 1 and 3

	Resolutions	
	1	3
	No. of respondents	
For	7	6
Against	5	6
Abstain	0	0

Conflicts

None of the respondents with a holding in Carnival reported conflicts of interest.

First Group plc

Background

In October 2012 the Government cancelled the deal to award First Group the West Coast franchise awarding it to Virgin Rail instead. As a result, First Group's share price fell.

On 20 May 2013 First Group announced a rights issue to raise up to £615 million for investment into the business and to reduce its debt.[16] On 26 June, the day after the offer closed, the company announced that 87 per cent of the shares offered had been taken up at 85 pence.

Furthermore, Martin Gilbert, the company's Chairman of 27 years announced his plans to resign after the rights issue.[17] Nearly 23 per cent of those who voted did not support Resolution 4, to re-elect Martin Gilbert, at the Annual General Meeting on 17 July 2013.

Resolution 2 to approve the Remuneration Report received nearly 30 per cent of votes against. Resolution 17, to authorise the company to make political donations and incur political expenditure received almost 12 per cent of votes against.

Objectives

Out of the twenty respondents with a holding in First Group, eleven engaged. The level of fees connected with the rights issue was the main concern for four respondents, two of which also wanted to replace the Chairman (Chart VI). To quote:

- *"We had concerns regarding effectiveness of the Board and management and were seeking information regarding the future direction of the company, in particular board refreshment and selection of a new Chairman. We had raised with other shareholders the level of fees incurred from the Rights Issue."*
- *"Hopefully, a message [was] sent to the advisers that fees were too high."*
- *"Key engagement objectives with FirstGroup in the year ending September 2013: ensure effective management of the balance sheet, including management and oversight of debt level [and] improve communication to the market. As the year progressed the objectives were revised to include: concern regarding the rights issue, ensure appropriate replacement for the Chairman."*

Three respondents focused on either board or remuneration issues or both:

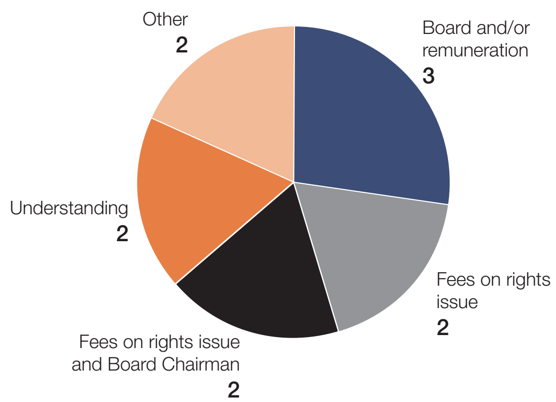
- one focused on *"a change of board chairman and board culture"* and wanted remuneration to become *"more aligned with shareholders' interests".*
- one raised concerns on remuneration.
- one aimed at *"board refreshment including new Chairman".*

Two respondents wanted a better understanding and for the two "other":

- one wanted information on the cause and impact of the cancelation of the West Coast franchise.
- one informed the Company Secretary of its voting intentions ahead of the AGM and sought a meeting with the Senior Independent Director.

Only two respondents changed their holding as a result. One reduced its interest while the other increased it by participating in the rights issue.

Chart VI: Engagement with First Group – **No. of respondents**



[16] Telegraph.co.uk 20 May 2013
[17] Guardian.co.uk 17 July 2013

Nine respondents with a holding did not engage. In most cases, this was due to the holding being too small. Additionally, one respondent felt that engagement would not impact value and another divested to exit the holding.

Outcome

One respondent considered its engagement successful as two new non-executive directors were appointed and Martin Gilbert announced his intention to step down.

Six respondents[18] considered their engagement partly successful, as it is on-going and a new Chairman had not been found[19]. To quote:

- *"Work [is] in progress as the search for a replacement chairman is still underway, monitoring of strategy and performance is ongoing, and [Manager] will be reviewing the remuneration policy and implementation report to monitor progress in its remuneration practices."*
- *"We continue to monitor the company. The search for a new Chairman and the appointment of the correct individual is crucial."*
- *"The chairman remains in place and the company had to return to shareholders to seek more capital through a rights issue. We had been concerned about the company's ability to deal with the failure in the allocation of the franchise as well as other possible issues in the company. In addition we had previously discussed succession but little appeared to have progressed."*

Two considered their engagement of little success, one as no new Chairman had been appointed at the time, and the other explained that: *"It was helpful to understand the background behind the deeply discounted rights issue and the costs involved but it did not give us much confidence in the board given there have been a string of poor decisions and lack of oversight. We got the impression that non-executives can't deal with such delicate issues on their own. They have no choice but to pay for external advice. On pay issues, there is to be a remuneration review in respect of bonus and LTIP plans during 2013/14 which should provide potential for improvement".*

One respondent that had voted against the rights issue considered its engagement unsuccessful.

Details of engagement

Contact with First Group

There were 31 contacts in total by nine respondents, an average of 3.4 times per respondent. Most contacts were with the Chairman and the Executive Directors – eight times each by five and four respondents respectively. There were four contacts each with the Senior Independent Director and the Company Secretary by three and four respondents, respectively. One respondent contacted management three times (Table XVII).

Table XVII: Number of contacts and who with[20]

	No. of contacts	No. of respondents
Chairman	8	5
Senior Independent Director	4	3
Executive Directors	8	4
Management	3	1
Company Secretary	4	4

In the majority of cases, the company was contacted by both portfolio managers and analysts and dedicated specialists (Table XVIII). For three respondents, eleven contacts were by portfolio managers and analysts and for five respondents eight contacts were by the dedicated specialists.

Table XVIII: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	11	3
Dedicated specialists only	8	5
Portfolio managers/analysts and dedicated specialists	15	5

[18] One did not state either way.

[19] At the time of the survey. John McFarlane was appointed to the Board of First Group in December 2013 and became Chairman in January 2014. Source: BBC.co.uk 6 December 2013.

[20] One respondent stated that it had five contacts with company brokers.

Contact with other investors

Two respondents collaborated with other investors by attending a joint meeting with the company after being approached by established groups. Both respondents considered the collaboration effective.

2013 AGM

Of the respondents that engaged, ten did not attend the AGM[21].

Resolution 4, to re-elect the Chairman, Martin Gilbert

Seven respondents voted in support of Resolution 4, to re-elect Martin Gilbert as Chairman (Table XIX) with the majority explaining that this followed reassurance that a successor was being sought and that he would step down on the new appointment.

Three voted against the re-election and clarified:

- *"[Manager] wanted a change of the board chairman and board culture."*
- *"Management performance was questionable during the period, giving us concerns regarding the re-election of the Chairman."*
- *"Given the necessity for the recent deeply discounted rights issue and the performance issues faced by the Company, and whilst we noted Mr Gilbert's intention to step down from the Board once his successor is appointed, we were concerned about the lack of proper stewardship on the Board."*

Resolution 17, to authorise the company to make political donations and incur political expenditure

All ten respondents voted in favour of Resolution 17 to give the company authority to make political donations. For example, one respondent stated: *"Support for this resolution was warranted because the Company stated that it does not intend to make overtly political payments but was making the technical proposal in order to avoid inadvertent contravention of EU legislation. Also, the authority was limited to £100k and 12 months."*

Table XIX: Resolutions 4 and 17[22]

	Resolutions	
	4	**17**
	No. of respondents	
For	7	10
Against	3	0
Abstain	0	0

All three respondents that voted against Resolution 4, informed the company of their decision.

One respondent explained that it voted in favour of both Resolutions but it also *"raised concerns regarding the cash recruitment award made during the year for the new Finance Director. [It] also informed the company that, post the rights issue, [it] did not consider a general authority to issue shares was required."*

Conflicts

Of the eleven respondents that engaged, three reported a conflict of interest. For one it involved a relationship at a senior executive level and was addressed by following the voting recommendation of its research provider. Another had a conflict due to a First Group director being a client. It sought the client's decision in relation to the exercise of voting rights. For the third, the conflict arose as First Group is a client. The respondent addressed it by *"following [its] conflicts of interest policy and taking the voting decisions on an arm's length basis".*

[21] One respondent did not state whether it attended.

[22] One respondent did not provide any details regarding voting of Resolutions 4 and 17.

Glencore Xstrata plc

Background

The merger of Glencore and Xstrata to create Glencore Xstrata was completed on 30 April 2013. The deal had been delayed by shareholders' concerns over board independence and the remuneration plans for the merged company.

The merged company's first Annual General Meeting was on 16 May 2013. The re-election of four directors (all previously with Xstrata) including the Chairman, Sir John Bond, was not supported. Resolution 7, to re-elect Sir John Bond, received 81 per cent of votes against. It was announced that the former BP Chief Executive, Tony Hayward, would be interim Chairman[23]. Resolutions 9, 10, and 11 to re-elect Ian Strachan, Con Fauconnier, and Peter Hooley received 64, 75 and 57 per cent of votes against, respectively.

Resolution 16, to approve the Remuneration Report received 22 per cent of votes against.

Objectives

Twenty-seven of the 36 respondents with a holding engaged with Glencore Xstrata. Approximately half engaged on issues surrounding the merger either alone or in conjunction with issues around board composition, succession and remuneration (Chart VII). To quote:

- *"Before the merger was finalised we had been engaging with both companies to withdraw from the transaction …. Subsequent to the merger, our engagement around the AGM focused on our opposition to the remuneration report and termination payments to Xstrata's CEO as well as the re-election of the company's chairman. Following the AGM we debated the backgrounds and skill sets the board is looking for in a new chairman and impressed upon the company the importance of good process, including consultation with outside shareholders. We also continued to challenge the integration of the two companies and explore the reconciliation of the cultural and commercial differences of the two organisations. We have also been engaging to impress the need for Glencore Xstrata to consider in more detail sustainability issues and risks, including bribery and corruption."*
- *"… We had concerns that the merger transaction would not deliver appropriate value to us as shareholders in Xstrata. … we continued to engage on issues with the remuneration of Xstrata management as part of the merger and on the composition of the Glencore Xstrata board."*
- *"We initially engaged with the company to hear management's view on how it found the initial merger terms satisfactory and to share our disagreement. After the publication of the retention package, we wanted to let the company know that we disagreed with this as well."*

For four respondents the main concern was the new entity's strategy and governance. For example:

- *"…Although [Manager] remained opposed to the deal, [Manager] decided to retain its shareholding and establish a post-merger engagement plan with the merged entity covering strategy, management and governance issues, notably board composition and the search for a permanent Chairman."*
- *"… The portfolio manager held several meetings with management on the strategy of the combined group."*

Four respondents wanted a better understanding on issues such as strategy, the priorities of the new entity, health and safety, and environmental risk management.

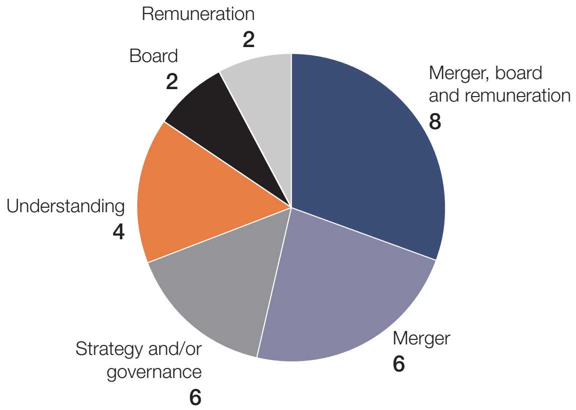
Two respondents only engaged on remuneration and a further two on board composition.

Six respondents changed their holding as a result of their engagement. Four increased it with one stating that it went from zero to a small positive holding. Two reduced it, one explaining that this was due to the engagement only being partly successful and the other that it *"largely sold out"* of its position.

[23] News.com.au 17 May 2013

Chart VII: Engagement with Glencore Xstrata[24]

– **No. of respondents**



Nine respondents had a holding but did not engage[25]. For five, this was due to too small a holding. For one, issues were covered by proxy voting service, one had a short position and one chose not to engage but did not explain why not.

Additionally, one respondent without a holding was member of a coalition partnership that engaged with the company although the respondent did not have direct contact with it.

Outcome

Two respondents did not consider they achieved their objectives. For one, the company was not available for a meeting and for the other – despite its engagement – no changes were made to the board candidates.

Moreover, five respondents considered their engagement to be only of limited success mainly due to the slow progress in appointing a new Chairman and refreshing the composition of the board. To quote:

- *"The company hasn't been very responsive to our concerns on pay or environmental and social issues… we remain concerned regarding the appointment of a new Chairman as there appears to be a limited short-list of candidates available in the new term".*
- *"… [the proposed retention payments] were voted down but the outgoing CEO still received excessive payments. The composition of the Board remains unsatisfactory with the company yet to appoint a permanent, new Chairman and with the independent representation on the Board remaining weak".*

The majority of respondents (sixteen) considered their engagement to be partly successful as some of their objectives such as change of Chairman, improvements in remuneration structure and offer terms for Xstrata were achieved. However, for several, engagement was on-going and a permanent Chairman was still to be appointed. For example, respondents stated:

- *"The portfolio managers … gained an understanding of management's view of the company and component businesses. On governance-related issues, the search for a permanent Chairman is on-going and this, together with composition of the board, is being monitored."*
- *"Offer terms were improved for Xstrata, and the management incentives were changed. Mining shares however have been a poor performer and it is too soon to have seen benefits from the merger."*
- *"… There is an ongoing need for Glencore to appoint further directors to the Board and a new Chairman to take over from the interim Chairman. This process is still ongoing and we continue to engage with the Board on the appointment of the new Chairman."*

Only one respondent achieved its objectives in full and stated that it had *"voiced concerns over elements of the takeover, director independence and remuneration".*

[24] Excludes one respondent that stated it engaged but did not provide any further details as to its objectives.

[25] One respondent with a holding did not state why it did not engage with Glencore Xstrata.

Details of engagement

Contact with Glencore Xstrata

There were 105 contacts by 25 respondents, an average of 4.2 per respondent. Most contact was with the Executive Directors with 50 contacts by 19 respondents, followed by Investor Relations with 32 contacts by 15 respondents. There were 20 and 14 contacts with the Chairman and management, respectively (Table XX).

Table XX: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	20	10
Senior Independent Director	13	7
Executive Directors	50	19
Management	14	7
Company Secretary	7	6
Investor Relations	32	15

Contact was mainly by dedicated specialists and portfolio managers/analysts separately – 51 and 41, respectively. Jointly they had 31 contacts for ten respondents (Table XXI).

Table XXI: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	41	14
Dedicated specialists only	51	13
Portfolio managers/analysts and dedicated specialists	31	10

Contact with other investors

Of the 27 respondents that engaged, twelve collaborated with other investors. Eleven attended joint meetings with the company and one entered an agreement to vote the same way (Table XXII).

Nine respondents stated that the collaboration was initiated by an established investor group whereas two approached individual investors and established groups.

In just one case the collaboration was not effective, however, the respondent did not provide additional clarification.

Table XXII: Collaboration

	No. of respondents
Joint meetings with the company	11
Collective engagement on how to vote	1
Other	0

2013 AGM

None of the respondents with a holding attended the company's AGM.

Resolution 7, to re-elect the Chairman, Sir John Bond

The majority of respondents that engaged either abstained or voted against the re-election of Sir John Bond mainly due to their dissatisfaction with his oversight of Xstrata during the merger and the proposed retention payments (Table XXIII). To quote:

- *"We do not support the election … given our disappointment with the role he played as Chairman of Xstrata during the negotiations leading up to the merger. He was also a member of Xstrata's remuneration committee and therefore accountable for making controversial remuneration proposals a fundamental condition of the merger."*
- *"We voted against … due to serious concerns about how he managed the merger …. We recognised that he indicated he will resign if there is significant shareholder dissatisfaction of this nature. We chose to support all other directors despite similar concerns because we felt it was important to get the right chair before revisiting the board composition more broadly."*
- *"At the time of the 2013 AGM, we had concerns regarding: John Bond's handling of the merger between Glencore and Xstrata and did not support his continued involvement on the board of the combined entity. Additionally, we raised concerns regarding: severance pay arrangements for Mick Davis; auditor independence further to the continued significant level of non-audit fees and the audit firms' role as remuneration consultants."*

These concerns were shared by the three respondents that abstained given the proposal for Sir John Bond to be an interim Chairman.

Eight respondents supported this Resolution mainly because they felt that his removal could affect board stability and give too much power to the incumbent CEO. Comments included:

- *"… we were satisfied that board renewal was being progressed. We accepted that the process would take time and considered board stability to be important in the interim period in order to reduce the risk of disruption to the integration process."*
- *"As Sir Bond is to serve only on an interim basis, the enlarged group could benefit from Sir John Bond's experience in the early stages of integration."*

Resolution 9, to re-elect Ian Strachan as a director

The majority of respondents supported the re-election of Ian Strachan particularly given that he was not a member of the main committees and there was no succession plan. To quote:

- *"Whilst we were not supportive of Mr Strachan's continuation on the Board on a long term basis … we thought it was a mistake to vote him off the Board before successor Directors had been appointed."*
- *"We chose to support the election of Ian Strachan given his extensive experience although we did not agree with [the] company's assessment of his independence. We did not however feel that the overall structure of the board would be compromised by his appointment and therefore supported his election."*
- *"Although not classed as independent Ian Strachan had no committee responsibilities prior to the merger."*

Respondents voted against Resolution 9 due to the way the Xstrata directors handled the bid process. Explanations included:

- *"[We had] concerns over their conduct on behalf of shareholders during merger negotiations [and] concerns over independence (tenure)."*
- *"We believed that the Xstrata directors had not acted in the best interests of us as shareholders in Xstrata and [they] have responsibility for contentious remuneration practices. Therefore [we] were not comfortable with them continuing as directors of the newly merged Glencore Xstrata."*

Respondents that abstained explained that although they questioned his independence due to the length of his service and wanted a refreshed Board in that there were *"insufficient independent representatives on the board"*, they did not take a stronger position given that he was not a member of the Remuneration Committee.

Resolution 10, to re-elect Con Fauconnier as a director

More respondents voted against the re-election of Con Fauconnier than against Ian Strachan due to the former's membership of Remuneration Committee. Another reason was dissatisfaction with the way the merger was handled. For example, respondents stated:

- *"The director was held accountable for the poor design of the remuneration program."*
- *"[He] had supported high management incentives at Xstrata."*

Respondents that abstained were concerned about his role on the Remuneration Committee but recognised that he was independent in a board that was largely non-independent. For example, one respondent explained: *"This vote reflects our concerns over his pre-merger position as a member of the Xstrata Remuneration committee which proposed controversial and excessive remuneration arrangements as a fundamental condition of the merger (which fortunately shareholders voted down). A tougher voting stance was not considered warranted given that he is an independent director on a Board which includes a number of non-independent Directors."*

Fourteen respondents voted in support of the re-election of Con Fauconnier due to the lack of independent directors in the merged company. To quote:

- *"We did not feel that further changes to the board were necessary, given the recent merger and [the] requirement for a new Chairman."*
- *"Con Fauconnier will be an independent director on a Board which includes a number of non-independent directors."*

Resolution 11, to re-elect Peter Hooley as a director

One respondent abstained and three voted against Resolution 11, to re-elect Peter Hooley, again due to the general dissatisfaction over the merger and the view that Xstrata directors had not acted in shareholders' best interests.

However, the majority voted in support mainly because Peter Hooley was considered to be sufficiently independent. For example:

- *"Support was considered appropriate given he is an independent director who did not sit on the Xstrata remuneration committee."*
- *"We recognised Peter Hooley as an independent director with requisite experience and financial expertise and supported his election."*
- *"[This] Director met our criteria for independence, and there were no concerns as to his conduct."*

Table XXIII: Resolutions 7, 9, 10 and 11

	Resolutions			
	7	**9**	**10**	**11**
	No. of respondents			
For	8	17	14	22
Against	15	6	9	3
Abstain	3	3	3	1

Of the respondents that abstained or voted against at least one of these resolutions, nine informed the company of their decision but nine did not.

Conflicts

Three respondents reported conflicts of interest. A subsidiary of one respondent was an advisor to the merger and addressed the conflict by establishing a 'Chinese Wall' between its investment banking and asset management divisions. For the other two respondents a conflict arose as they held shares in both companies prior to the merger. One clarified that on a net value basis it held more of Glencore than Xstrata. The other addressed the conflict by using a *"fiduciary framework"* to make its voting decision for each company. For this it took into account *"what was better for absolute rather than the relative performance of the funds"*, as the latter would be more important for its beneficiaries.

Lonmin plc

Background

During 2012, Lonmin, the South African miner, faced violent strikes resulting in closures at its mines, and incurred a pre-tax loss of US$698 million.

On 9 November 2012, the company announced a rights issue in order to raise approximately US$777 million to strengthen its overall financial position. When the offer closed on 1 December, 97 per cent of the total rights offered had been taken up.

At the Annual General Meeting on 31 January 2013, Resolution 5, to re-elect Roger Phillimore received 25 per cent of votes against. Resolution 15, to give directors authority to allot shares was approved only by 62 per cent of votes.

On 1 July 2013, Bennetor Magara was appointed as the Chief Executive and was tasked with the company's turnaround plan and improving industrial relations. The company have since been negotiating with the unions, and were reportedly close to a deal.

Commenting on Mr Magara's appointment, Lonmin Chairman Roger Phillimore said: "Our renewal plan is on track and progress is being made towards the better definition and achievement of our initiatives to improve both the working and living environment of all Lonmin employees for the benefit of all stakeholders and shareholders. The board is confident that Ben's extensive experience in working in South Africa and the mining community, his relationships and his demonstrated success in proactive relationship building with all stakeholders will drive Lonmin forward[26]".

Objectives

Out of the 13 respondents with a holding, eight engaged with Lonmin. The main concerns were in regards to the strikes at the Marikana mines and remuneration (Chart VIII). To quote:

- *"We sought to achieve a fuller understanding of the rationale behind the CEO's partial bonus for 2012 and the retention award to the CFO. Further, we sought to question the company regarding steps taken to address the root causes of labor unrest in South Africa."*
- *"We wanted to challenge the company's understanding of and response to the Marikana issues. We were not convinced at the time that the board had a full understanding of the human capital issues the company faces as a platinum miner in South Africa. We also wanted to understand some of the remuneration decisions made during the year, particularly around the payment of bonuses following 40 deaths at the Marikana mine and the rights issue. Subsequent to the AGM we welcomed the remuneration committee's decision to tighten the metrics under the incentive schemes and place more emphasis on social issues. We were also pleased to hear that the company has focused its attention on ensuring full union representation, revisiting the structure of the labour force to consider whether more could be done to promote local staffing, and ensuring improved housing for the workforce. Lastly, we wanted to discuss the company's search for a new CEO and its response to a potential bidder."*

Additionally, two respondents wanted to better understand the situation at the Marikana mines. For example, one stated it wanted to gain some *"clarification and deeper understanding of what was a volatile situation"*.

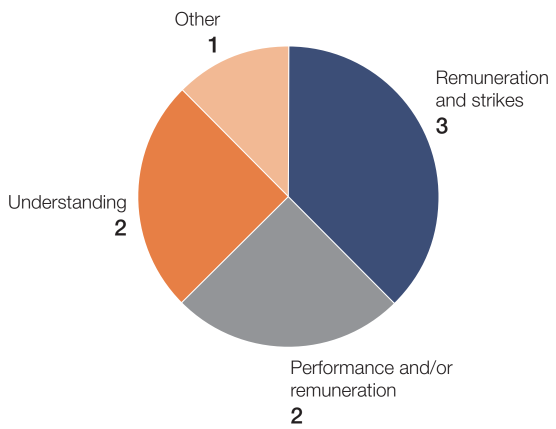
Two respondents focused on remuneration and Lonmin's performance with one wanting to *"communicate dissatisfaction with company performance, the rights issue and executive remuneration"* and the other to *"discuss [its] vote at their AGM on the remuneration item, so that [it] could let them know [its] views on this item"*.

The one "other" respondent engaged to *"support management in a difficult political situation"*.

Two respondents changed their holding in Lonmin with one explaining that it increased it by participating in the rights issue.

[26] Telegraph.co.uk 2 April 2013

Chart VIII: Engagement with Lonmin – **No. of respondents**



Five respondents with a holding did not engage, the reason being that their holding was too small.

Outcome

All eight respondents that engaged achieved their objectives, at least in part.

Some had a more positive view of their engagement. For example, one respondent that engaged on remuneration and the labour unrest considered that Lonmin took its concerns seriously by altering the remuneration framework and making it *"more reflective of the company's social responsibilities, including labor relations with the unions, the use of migrant workers, enhancing the living accommodations for employees, and requirements that migrant workers return home more often".* Another held Lonmin's board accountable for the oversight of human capital issues and noted that *"the company has increased [its] transparency and willingness to engage with shareholders".* Moreover, one respondent stated that it now has a better understanding of issues that affect all companies operating in the area.

Other respondents were not as certain about the effectiveness of their engagement. To quote:

- *"While Lonmin now has a permanent CEO and we have seen some improvements in its pay schemes and its approach to industrial relations we believe more time is needed to judge whether it has been entirely effective, particularly on the latter point."*
- *"We had no option but to support the rights issue as this was required to avoid the company breaching banking covenants."*

Details of engagement

Contact with Lonmin

Eight respondents that engaged had a total of 23 contacts, an average of 2.9 each. The Company Secretary was contacted the most with seven contacts by four respondents. The Chairman and the Management were each contacted five times by four and two respondents, respectively. Three respondents contacted the Chair of the Remuneration Committee, once each (Table XXIV).

Table XXIV: Number of contacts and who with

	No. of contacts	**No. of respondents**
Chairman	5	4
Senior Independent Director	2	2
Remuneration Committee Chair	3	3
Executive Directors	3	2
Management	5	2
Company Secretary	7	4
Investor Relations	1	1

Contact was predominantly by dedicated specialists – a total of seventeen contacts for six respondents (Table XXV). For three respondents, specialists and portfolio managers/analysts had seven contacts. Portfolio managers and analysts alone had two contacts for just one respondent.

Table XXV: Number of contacts and who by

	No. of contacts	**No. of respondents**
Portfolio managers/analysts only	2	1
Dedicated specialists only	17	6
Portfolio managers/analysts and dedicated specialists	7	3

Contact with other investors

Three respondents engaged with Lonmin in collaboration with other investors. Two attended joint meetings with the company and the third one took part in an informal discussion at an industry forum.

In all three cases, the collaboration was initiated by someone else. For two respondents this was an established group and the third was approached by an investment bank that has a specialist Sustainability Team.

Only one respondent did not consider the collaboration to be effective.

2013 AGM

Of the eight respondents that engaged, six did not attend its AGM[27].

Resolution 5, to re-elect the Chairman, Roger Phillimore

All respondents voted in support of Resolution 5, to re-elect the Chairman (Table XXVI). Some explained that this was due to investigations into the Marikana events being still in progress at the time of the AGM. To quote:

- *"…while there had been labour issues at the company during this period, we believed that the AGM was being held at a time when it was too early to apportion blame to individual directors as the formal investigations into the issues had not been concluded."*
- *"A definitive understanding of the events at Marikana is likely to emerge only upon completion of the judicial commission of inquiry that has been established. It appears too early to make a strong case for voting against individual Directors at this stage, but shareholders will wish to see concrete evidence of progress against the Company's new priorities as time goes on."*

One respondent supported the Chairman's re-election but voted against the re-election of two other directors. To quote: *"we opposed the re-election of … Jonathan Leslie who is the Chair of the safety and sustainability committee who have oversight responsibility of many of the issues underlying the events, and Matamela Cyril Ramaphosa who was the chair of the transformation committee of the board in the run up and through the events and had responsibility for oversight housing and quality of life for employees".*

A further two respondents expressed their concern with the board's performance by voting against the remuneration report.

Resolution 15, to authorise directors to allot shares

Resolution 15 to authorise directors to allot shares was supported by all respondents because, as several explained, the proposed issue was within recommended limits. One clarified that *"… in light of the rights issue and in recognition of the views of many of its South African institutional shareholders, the [Lonmin] Board has decided not to seek an allotment authority over an additional 33.3% (as would be standard UK practice), and is not seeking an authority to disapply pre-emption rights".*

Table XXVI: Resolutions 5 and 15

	Resolutions	
	5	**15**
	No. of respondents	
For	8	8
Against	0	0
Abstain	0	0

Conflicts

Out of the thirteen respondents with an interest in the company, twelve did not have any conflicts of interest[28].

[27] Two did not state if they attended.

[28] One did not state whether it had conflicts of interest or not.

Redrow plc

Background

In September 2012, Steve Morgan, Executive Chairman and majority shareholder, revealed plans to make an offer for the company as part of a consortium with two other shareholders.

One shareholder complained to the Takeover Panel that the bid was unfair to small shareholders[29]. There were further concerns that due to the consortium's combined holding of over 50 per cent, the Takeover Panel would not grant "joint offerer" status. The consortium eventually terminated discussions and did not proceed with the offer by the September deadline.

At the Annual General Meeting on 12 November 2012, nearly a quarter (24 per cent) of shareholders voted against Resolution 5, to re-appoint Alan Jackson, the Non-Executive Deputy Chairman, and almost 9 per cent voted against Resolution 6 to re-appoint Debbie Hewitt.

One shareholder commented: "we felt the independent directors were extraordinarily weak throughout the whole process. They allowed executives to get very close to the bidders and effectively become part of the bidding team. Their job is to stand up for the rights of all shareholders. They quite plainly did not do that"[30].

Objectives

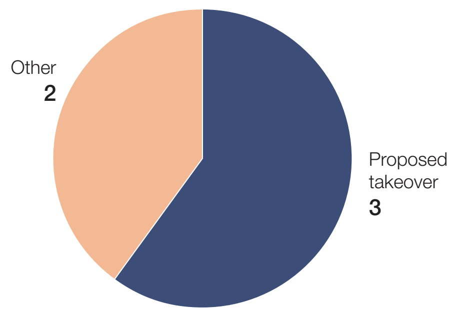
Five out of nine respondents with a holding engaged with Redrow. The main concern was the proposed takeover (Chart IX). To quote, engagement was:

- *"… to prevent the company from being taken private at a price of 152p per share."*
- *"To get independent non-executive directors to seek improved offer terms for the company. Also to seek more independent directors to represent the shareholders who were not part of the offeror's group."*
- *"To highlight our concerns that: At the EGM in May 2012, our support for the Rule 9 waiver (Mr Morgan's shareholding increased from 29.95% to 40.4%) was a consequence of the reassurances that the company supplied that Mr Morgan did not intend to 'seek any change in the composition of the Board or to the general nature or any other aspect of the Company's business'. Yet in August 2012 Mr Morgan led a takeover offer with Tosca fund and Penta Capital that significantly undervalued the business in our opinion. The non-executive directors (with the exception of one individual) had failed to represent minority shareholder interests. We also sought to understand the events leading up to the resignation of non-executive director Paul Hampden-Smith."*

Of the two "other", one's engagement involved contact between a portfolio manager and the company, and the other wrote to the Company Secretary to explain why it would not support a number of the proposed resolutions at the AGM.

Only one respondent changed its holding as a result of its engagement and acquired additional shares in order to strengthen its position in discussions with the company.

Chart IX: Engagement with Redrow – **No. of respondents**



Two of the four respondents that did not engage explained that this was due to their holding being too small. Of the other two, one did not think it would make a *"material difference"* to the value of their holding and the other held stock for only one client in an 'execution-only' mode and had no mandate to vote.

[29] Telegraph.co.uk 3 October 2012
[30] Theguardian.com 12 November 2012

Outcome

One respondent considered its engagement successful as the proposal to take the company private was abandoned. The other four respondents considered their engagement partly successful. Three provided details:

- one raised long-term issues and needed more time to assess the impact of its engagement.
- one has on-going engagement to appoint more independent non-executive directors.
- one voted against the re-election of the Chairman, Steve Morgan, who still holds this position.

Details of engagement

Contact with Redrow

There were 26 contacts in total by four respondents; an average of 6.5 contacts each[31]. One respondent alone had 19 contacts. The majority of contacts were with Non-Executive Directors – 12 contacts by three respondents. Moreover, three respondents had eight contacts with the Executive Directors and two had six contacts with the Chairman. Each of the Senior Independent Director and the Company Secretary had two contacts by one respondent (Table XXVII).

Table XXVII: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	6	2
Senior Independent Director	2	1
Other Non-Executive Directors	12	3
Executive Directors	8	3
Company Secretary	2	1

The majority of contacts were by dedicated specialists – 12 contacts by three respondents. For three respondents, portfolio managers and analysts had eight contacts. Furthermore, one respondent had seven contacts through both specialists and portfolio managers/analysts (Table XXVIII).

Table XXVIII: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	8	3
Dedicated specialists only	12	3
Portfolio managers/analysts and dedicated specialists	7	1

Contact with other investors

Three respondents collaborated with other investors. Two attended joint meetings with the company, and one also had extensive telephone contact with individual investors. The third sent a letter jointly with another investor.

In two cases, the respondent initiated the collaboration, one by approaching an established group and the other by contacting investors individually. One respondent was approached by another investor.

All three respondents considered the collaboration effective.

2013 AGM

None of the five respondents that engaged with Redrow attended its AGM.

Resolution 5, to re-appoint the Non-Executive Deputy Chairman, Alan Jackson

Four respondents voted against Resolution 5 to re-appoint the Non-Executive Deputy Chairman, Alan Jackson (Table XXIX). They explained that this was due to the perceived failure to represent the interests of minority shareholders. To quote:

- *"We were very dissatisfied with the manner in which the Senior Independent Director had represented the interests of the outside shareholders in discussions with the potential offeror. He failed to take a public lead in pressing for a better price and indicated his willingness to recommend an offer which in our opinion fell far below fair value. We also had wider concern that he was too close to the Chairman."*

[31] One respondent stated that it does not count the number of type of engagement but clarified that it *"sends hundreds of letters and engages with a great number of companies each year"*.

- *"We had significant concerns regarding the strength of minority shareholder representation on the Board which is compounded by Steve Morgan's executive role and the recent resignation of Paul Hampden Smith. In light of recent developments, we urged the company to appoint an independent Chairman and appoint additional independent representation to the Board forthwith."*

The one respondent that abstained clarified that this reflected *"this director's chairmanship of the company's nomination committee, because of concerns about board independence. Particularly given that [the] company combines the chief executive and chairman role in [an] individual who also has a controlling stake in the company, we believe that the board should be comprised of a majority of independent directors to ensure alignment of interests between the minority shareholders and the controlling shareholder. We note the recent resignation of one of the company's independent directors, which raises concerns about the climate of independence on the board."*

Resolution 6, to re-appoint the Non-Executive Director, Debbie Hewitt

Resolution 6 to re-appoint the Non-Executive Director, Debbie Hewitt, was supported by all five respondents. To quote:

- *"[We] wished to retain [the] NED to protect 'minority' shareholders."*
- *"We felt that a vote against the Chairman was sufficient".*
- *"In contrast to our interaction with Alan Jackson we had generally very constructive discussions with Debbie Hewitt throughout the offer period."*

Table XXIX: Resolutions 5 and 6

	Resolutions	
	5	**6**
	No. of respondents	
For	0	5
Against	4	0
Abstain	1	0

The four respondents that voted against Resolution 5 informed the company as to why but not the one respondent that abstained.

Conflicts

None of the respondents with a holding in Redrow reported any conflicts of interest.

RSA Insurance Group plc

Background

RSA's profit before tax fell to £479 million for 2012 from £613 million for 2011. As a result, it cut its final dividend in respect of 2012.

Chief Executive, Simon Lee, commented that profits "have been impacted by the Italian earthquakes, extreme wet weather in the UK in the first half of the year and falling bond yields….The board's decision to rebase the dividend is a prudent move that will enable us to invest in the opportunities we see for growth and is in the best interests of our shareholders[32]".

The Chairman, Martin Scicluna, advised shareholders: "given the circumstances, we felt like the right option was to cut our dividend….This decision was a tough one to make. The share performance this year has been disappointing so far but is largely a reaction to the dividend decision[33]".

Shareholders also raised concerns about the independence of RSA's auditors Deloitte in that fees for management consulting services were far in excess of those for the audit. While RSA planned to change its auditors to KPMG, questions were raised about connections with the audit committee chair who had been a long serving partner at KPMG. However, RSA released a statement that the audit committee's chairman "has no remaining financial or other interests in his former firm. The Board is satisfied that Alastair is fully independent on this issue[34]".

At the Annual General Meeting on 15 May 2013, Resolution 14, to appoint KPMG as the auditor, received 99 per cent of votes in support. Resolution 9, to re-elect Alastair Barbour, chair of the Audit Committee, received 96 per cent of votes in support. Resolution 15, to determine the auditor's remuneration received 94 per cent of votes in support. Resolution 3, to approve the Remuneration Report, received 91 per cent votes in support. Directors received £4.3 million in respect of 2012 as compared to £6 million for 2011.

Objectives

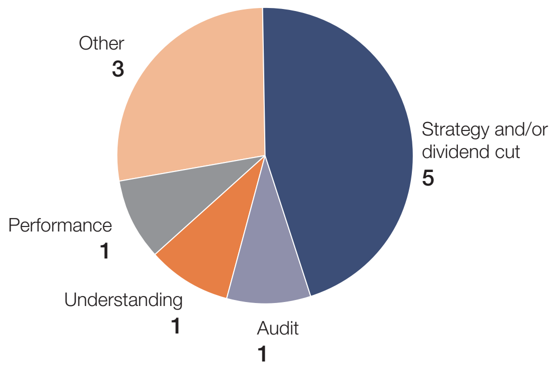
Eleven out of 21 respondents with a holding engaged with RSA Insurance Group. In almost all cases, the main concerns were in relation to the company's strategy, the decision to cut the dividend and issues around the change in auditor (Chart X). For example, one respondent stated: "*We had a number of concerns that were raised with the Chairman including the change to the dividend policy which we believed was unnecessary and badly communicated, concerns about the company's strategy to make selected acquisitions in emerging markets and various issues about the change to the company's auditor"*. Another wanted to have some *"clarification on the appointment of KPMG and [the] role of the chairman of the audit committee".*

Of the three "others", one notified the company of its voting intentions[35].

Two respondents changed their holding as a result of their engagement, one of which reduced its holding[36].

Chart X: Engagement with RSA Insurance Group

– No. of respondents



Nine respondents with a holding did not engage. For one, this was due to a conflict of interest and another stated that it did not *"feel the need to raise any particular*

[32] Proactiveinvestors.co.uk 20 February 2013

[33] Bloomberg.com 15 May 2013

[34] Economia.icaew.com 4 April 2013

[35] Two did not state their objectives.

[36] One did not state.

issues/objections to what the company was doing". Four did not because their holding was too small or in index funds and one did not consider the issue to be significant. Additionally, one respondent has a policy to engage only with companies listed in its domestic market which is outside the UK. Finally, one commented that it *"could not influence the board decision to cut the dividend. [The] announcement was extremely price sensitive and was not discussed with shareholders in advance".*

In addition, there was one respondent with a holding that did not engage as it sold its shares during the period under review.

Outcome

Two respondents considered their engagement successful with one clarifying that it had received all necessary explanations from the company. Six respondents considered their engagement partly successful, mainly due to it still being in progress. To quote:

- *"A good response from the company meant engagement was constructive but it will take time to assess the impact of changes on shareholder value."*
- *"We will continue to see how the company deals with the concerns raised in relation to dividend, strategy and audit work."*
- *"It is work in progress. We had concerns about aspects of the strategy and performance. We discussed the issues with the chairman and will wait to see achievements at the company's results for 2013. We also discussed the auditors. As a result of the discussion, we understood the company's position and agreed with it. (The problem is that there are too few audit firms.)"*

Only two respondents considered their engagement of little success, particularly due to the dividend cut. One stated: *"the company had provided assurance that its claims reserves were sufficient, and that it needed to make emerging markets more profitable. However the dividend cut was a complete surprise."*

Details of engagement

Contact with RSA Insurance Group

Nine respondents had a total of 40 contacts, an average of 4.4 each. Most contact was with the Executive Directors and Chairman with 16 and 15 contacts by eight and seven respondents, respectively. Unsurprisingly given the audit issues, the Audit Committee Chair was contacted seven times by six respondents (Table XXX).

Table XXX: Number of contacts and who with

	No. of contacts	No. of respondents
Chairman	15	7
Senior Independent Director	1	1
Remuneration Committee Chair	6	4
Audit Committee Chair	7	6
Executive Directors	16	8
Company Secretary	2	2
Investor Relations	2	2

Contact was mainly by portfolio managers/analysts and dedicated specialists separately, the former having 16 contacts and the latter 21. Jointly they contacted the company seven times for four respondents (Table XXXI).

Table XXXI: Number of contacts and who by

	No. of contacts	No. of respondents
Portfolio managers/analysts only	16	7
Dedicated specialists only	21	5
Portfolio managers/analysts and dedicated specialists	7	3

Contact with other investors

Seven respondents collaborated with other investors mainly by attending joint meetings with the company (Table XXXII). Five of these meetings were initiated by other investors, primarily established groups. One respondent wrote a letter jointly with other investors and another on their own but with references to discussions they had with other investors. Both approached an established group. All seven found the collaboration effective.

Table XXXII: Collaboration

	No. of respondents
Joint meetings with the company	6
Collective engagement on how to vote	0
Other	2

2013 AGM

Two out of the eleven respondents that engaged with RSA attended its AGM in May 2013.

Resolution 9, to re-elect the Chair of Audit Committee, Alastair Bardour

Nine respondents voted in support of Resolution 9 to re-elect the Audit Committee Chair mainly because they had been given a satisfactory explanation of his independence (Table XXXIII). One respondent also explained that its concerns were rather about the company's performance and not its audit.

Two respondents abstained from voting this resolution due to Alastair Bardour's previous position at the new auditor, KPMG. In particular, they commented:

- *"… [the] new chairman of the Audit Committee, Mr Barbour, is a former partner of the company's newly appointed audit firm, KPMG. In light of the potential conflict of interest, we would encourage the company to appoint a demonstrably independent chairman to the Audit Committee during the forthcoming year. …"*
- *"We had concerns about the lack of consultation with shareholders on the change of auditor. We do not believe that auditors should be allowed to give up their role as auditor in order to receive more lucrative consultancy appointments. In addition KPMG were appointed to replace the existing auditors and we are concerned about possible conflicts due to the fact that audit committee chair is a recently retired long-time partner of KPMG."*

Resolution 14, to appoint KPMG as the auditor

All respondents voted in support of Resolution 14 to appoint KPMG as auditor largely due to RSA's explanations. To quote:

- *"Constructive engagement facilitated improved understanding of the issues raised."*
- *"We understood the company's position and agreed with it."*
- *"… we welcomed the rotation of the audit firm following its appointment to undertake additional consultancy work."*

One respondent also explained that it was more concerned with the company's performance than the audit and another that it supported KPMG's appointment as auditor.

Resolution 15, to authorise the Directors to determine the auditor's remuneration

All respondents but one voted in support of Resolution 15 on the auditor's remuneration. This was mainly because respondents felt that the company provided sufficient explanation of the situation and the auditor's fees.

The one respondent that abstained explained that it had had extensive discussions with the company on auditor rotation and recognised that circumstances made the switch "*inevitable*". However, it stressed that in the future RSA should have a stricter approach regarding non-audit services and noted its abstention *"underlines the importance we attach to this happening".*

Table XXXIII: Resolutions 9, 14 and 15

	Resolutions		
	9	14	15
	No. of respondents		
For	9	11	10
Against	0	0	0
Abstain	2	0	1

All three respondents that abstained from voting informed RSA of their decision.

Conflicts

One respondent with a holding had a conflict of interest as the company was a client. It did not engage.