Review of Proxy Voting 2018

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August 2018

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1 Introduction

1.1 Overview of the report

The report details the voting activities of Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) for the period 1 July 2017 to 30 June 2018. The report provides a snapshot on a region by region basis of how key resolutions were voted by NILGOSC and compares NILGOSC's voting activity with general shareholder voting.

The outcome of shareholder meetings held by companies in the NILGOSC portfolio has been collated by Manifest and the data subsequently analysed in terms of dissent. Manifest defines "dissent" to be where a vote is cast contrary to the management recommendation. Hence, where the management recommendation is to vote in favour, dissent is measured as the sum of against votes plus abstentions.

The most contentious resolutions are identified from this process, and the reasons for this dissent discussed by reference to Manifest's research and public sources of information. The NILGOSC voting activity is cross-referenced against these 'contentious' resolutions.

The structure of the report is described below:

Section 3 identifies the number of meetings and resolutions voted by NILGOSC and the voting direction in comparison to management recommendations.

The following sections, 4-8, examine the resolutions voted upon in the period under review on a region by region basis. It identifies the NILGOSC voting direction by resolution category and provides a snapshot of key resolutions and governance concerns in each category that attracted noteworthy shareholder dissent in comparison to how NILGOSC voted.

1.2 Voting Policy

NILGOSC has an agreed bespoke voting policy for which Manifest generates voting guidance for NILGOSC officers. NILGOSC's voting policy preferences are defined on Manifest's research and advisory systems, thereby producing a voting policy template which is applied uniquely and only to NILGOSC's accounts. The policy guidance is generated by expert analysis of the meeting business, governance and sustainability disclosures using Manifest's proprietary governance analytics template and database technology.

The voting policy template consists of a set of agreed criteria and actions to be taken in the event of any resolution having failed to meet NILGOSC's policy criteria. Where the resolution in question is in line with the NILGOSC voting policy standards, the guidance is to vote 'For' management. Where a concern is identified, the voting guidance will be determined by the voting policy system settings chosen by NILGOSC: most commonly 'Against', but sometimes 'Case by Case', while 'Abstain' is rarely used. These recommendations may or may not be carried out by the officers of the fund.

2 Executive Summary

2.1 Region & Countries

NILGOSC voted at 540 shareholder meetings held by 497 companies annually (1 July 2017 to 30 June 2018). These companies are listed in the following jurisdictions:

UK & Ireland: Ireland, United Kingdom

Europe: Austria, Belgium, Czech Republic, Denmark, France, Germany, Italy, Netherlands, Norway, Russia, Spain, Sweden, Switzerland

Japan: Japan

North America: Canada, United States

Rest of the World: Australia, China, Hong Kong, India, Indonesia, Israel, Malaysia, Mexico, New Zealand, Philippines, Singapore, South Africa, South Korea, Taiwan, Thailand

2.2 United Kingdom & Ireland

NILGOSC voted at 123 meetings held by 105 UK and Irish Companies. The UK & Ireland region represented the second largest number of resolutions voted (1,979). Management recommended shareholders to vote in favour of all 1,975 resolutions proposed by management and against the four shareholder proposals put forward in the region. NILGOSC voted in support of management on 83.48% of resolutions. NILGOSC opposed 46.94% of remuneration reports, 39.47% of remuneration policy votes and 78.57% of long-term incentive schemes. The resolution to approve the remuneration report at Playtech was defeated and AVEVA Group withdrew a LTIP resolution ahead of its AGM after receiving objections from shareholders, NILGOSC lodged against votes on both resolutions. NILGOSC voted in favour of two of four shareholder proposals in the region; a proposal at Royal Bank of Scotland to establish a Shareholder Committee and a proposal at BHP Billiton to enhance shareholder ability to requisition resolutions. Both proposals were defeated.

2.3 North America

NILGOSC voted at 212 company meetings held by 208 North American companies. North America was the region with the largest number of events and resolutions (2,731). NILGOSC voted in opposition to management on 1,046 (41.13%) of 2,543 management proposed resolutions. NILGOSC opposed 98.93% of remuneration reports and 72.50% of all remuneration related resolutions proposed by management. NILGOSC voted against three defeated remuneration reports at McKesson Corp, The Walt Disney Company and Fleetcor Technologies Inc. At Kinder Morgan's AGM NILGOSC supported holding an annual say-on-pay vote over the triennial vote recommended by the Board. The annual frequency vote was successful. NILGOSC voted 'For' 160 (85.11%) of 188 shareholder proposals in the region, including 13 successful proposals. The successful proposals related to; the removal of supermajority provisions (4), shareholder ability to call special shareholder meetings (2), climate change risk (2), the introduction of annual director elections (2), proxy access provisions (1), sustainability reporting (1), and shareholder right to act by written consent (1).

2.4 Europe

There were 63 shareholder meetings at 55 companies in the Europe portfolio resulting in 868 resolutions. NILGOSC voted in opposition to management on 265 (30.99%) of 855 management proposed resolutions, whilst management provided no recommendation on seven resolutions. A share issue authority with the dis-application of pre-emption rights NILGOSC opposed at LEG Immobilien AG was defeated after it did not receive a sufficient majority due to the resolution's classification as a special resolution. There were six resolutions proposed by shareholders in the European region. NILGOSC supported a successful proposal at Arkema SA to appoint an employee representative to the Board, the election was contested with two candidates standing for one position.

2.5 Japan

NILGOSC voted on 745 resolutions at 57 AGMs held by 57 Japanese companies. An overwhelming majority of Japanese companies prepare their accounts to a year end of 31 March, and Japanese corporate law stipulates that companies must hold a shareholder meeting within three months of the year-end. Due to this there were only 13 AGMs outside of the month of June. NILGOSC voted in opposition to management on 350 (47.62%) of 735 management proposed resolutions. There were 10 shareholder resolutions proposed during the period. NILGOSC supported five proposals, none of which passed. As was the case in the previous year, Japan was the region with the highest level of NILGOSC dissent. NILGOSC voted contrary to management recommendation on 47.65% of resolutions.

2.6 Rest of the World

NILGOSC voted at 85 events at 72 companies, there were 69 AGMs, 13 EGMs, 2 OGMs and 1 SGM. NILGOSC voted in opposition to management on 323 (42.4%) of 752 resolutions proposed by management whilst management did not provide a recommendation on two resolutions. NILGOSC voted against four management proposed resolutions that were defeated. Three concerned director elections and the other a share issue authority. In addition, two share issue authorities NILGOSC supported were defeated due to receiving an insufficient majority. There were three resolutions proposed by shareholders in the Rest of the World region, one of which was successful. At Bezeq-Israeli Telecom NILGOSC supported a shareholder nominated director and voted against a Board nominee and an additional shareholder nominee as part of a contested election. The nominee backed by NILGOSC received the largest number of votes cast in favour and was therefore appointed to the Board. NILGOSC also supported a shareholder proposal at Commonwealth Bank of Australia Ltd requesting a clause be inserted into the Company's constitution to ensure the Board manages the business of the Company with the objective of holding global warming to below two degrees Celsius.

2.7 Key Policy Issues

NILGOSC voted contrary to management on 35.03% of resolutions (excluding resolutions with no management recommendation) during the annual period (July 2017 to June 2018), demonstrating an active approach to share voting. This is an increase on last year's dissent of 30.6%.

During the period under review, 10 management-proposed resolutions where NILGOSC voted contrary to management recommendation were defeated and NILGOSC supported 15 successful shareholder proposals. In the prior year, 38 management proposals NILGOSC opposed were defeated and NILGOSC supported 14 successful shareholder proposals. The fall in the number of defeated management-proposed resolutions is due to the cyclical nature of say on pay frequency votes in the US.

For the period under review, the general average dissent level (i.e. the meeting results data) was 4.43% (2017: 4.4%), thus it can be assumed that shareholders tend to support management to a considerable extent. Recent developments indicate that shareholders are 'picking' their battles, resulting in a small number of high profile severe dissent levels but low overall dissent levels. For example, the introduction of the vote on remuneration policy in the UK has influenced shareholder voting with many investors adopting a "wait and see" approach regarding policy proposals (preferring to see how the Regulations bed in) and all but the most controversial policy proposals received respectable levels of support. By contrast, where opposition was expressed, it was often at a very high level, suggesting a more targeted approach on the part of investors.

NILGOSC opposed board related resolutions more than any other category. Over half (52.99%) of all dissenting votes were within this category with remuneration the next largest source of dissenting votes (20.27%). The overall majority of policy flags[1] were recorded in the following resolution categories - board related resolutions had in aggregate 3,357 policy flags in comparison to 1,045 for remuneration, 820 for audit & reporting, 349 for capital, 168 for shareholder rights, 161 for sustainability, 80 for corporate actions and 13 for other. Readers should note that a single resolution may have more than one policy flag, and the fact that board related resolutions accounted for 58.62% of resolutions voted on, when considering the large number of board related policy flags. The number of policy flags on remuneration related resolutions is down from 2,419 last year, however remains above 2016's 883 policy flags. The primary reason for the reduction in the number of flags is the lower number of say on pay frequency votes held in the United States during the year.

Although the volume (in absolute terms) of the most common governance concerns identified is heavily affected by the sheer number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board related considerations. The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account.

Remuneration continues to be a contentious issue as such resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management, as well as the area with the lowest level of alignment with the governance good practice analysis.

These two general themes, taken together, namely remuneration and board issues, raise questions about the significance which many companies attribute to the quality of board input, as well as their approach and attitude towards pay for performance. These questions are on-going general concerns for shareholders which are as prevalent today as they were 5 years ago and continue to spark debate such as the current UK governance reform agenda.

[1] NILGOSC's voting policy preferences are defined on Manifest's research and advisory systems, thereby producing a voting policy template which is applied uniquely and only to NILGOSC's accounts. Where a company's governance practice varies from NILGOSC's voting policy template preference a 'policy flag' is created. Analysis of the voting template settings allows for a study of the specific governance issues that have been flagged according to NILGOSC's governance preferences to identify the most common 'issues' at companies in the NILGOSC portfolio.

3 Meetings and Voting Snapshot

3.1 Meetings and Resolutions by Region

NILGOSC voted on 7,080 resolutions during the period under review, 1 July 2017 to 30 June 2018, across all markets.

Table 1: Total Number of Meetings and Resolutions by Region

REGION	MEETINGS HELD			TOTAL NUMBER OF RESOLUTIONS			AVG NO OF RESOLUTIONS		
	AGM	OTHER	TOTAL	AGM	OTHER	TOTAL	AGM	OTHER	TOTAL
North America	203	9	212	2,710	21	2,731	13.35	2.33	12.88
UK & Ireland	101	22	123	1,945	34	1,979	19.26	1.55	16.09
Europe	53	10	63	836	32	868	15.77	3.20	13.78
Rest of the World	69	16	85	696	61	757	10.09	3.81	8.91
Japan	57	-	57	745	-	745	13.07	-	13.07
TOTAL	**483**	**57**	**540**	**6,932**	**148**	**7,080**	**14.35**	**2.60**	**13.11**

Company law in most jurisdictions set out certain mandatory business which must be put to the shareholders at an AGM. Such business typically includes; receiving of the annual report & accounts (in some markets); director (re-)elections; director remuneration/say-on-pay proposals; capital return proposals; and appointment and remuneration of auditors.

AGM business will also often contain resolutions to approve the issue of new share capital up to a certain maximum, along with an accompanying request for the dis-application of pre-emption rights. For this reason, a larger number of resolutions are proposed at AGMs on average than are for other types of meetings.

Other types of meetings include: EGM or a Special General Meeting where a special resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout); Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management; and Class Meetings where only shareholders of a specified class of share are able to vote.

3.2 NILGOSC Voting vs Management Recommendation

Where we use the term 'Dissent' or 'Opposition', this is the result of having added up all votes cast differently to the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where management recommended a 'For' vote and 'For' votes where management recommended 'Against'). Where there was no clear recommendation from management, we have not counted any votes cast on those resolutions as dissent.

NILGOSC uses its voting rights as a means of expressing concern over corporate governance issues and fulfilling its fiduciary duty towards its members. NILGOSC voted contrary to the management recommendation on 35.03% of all resolutions (not including resolutions where management provided no recommendation). In the case of shareholder proposed resolutions this figure was over 75%. Management recommended voting against 98.10% of shareholder proposals, supporting 0.95% and provided no recommendation on the remaining 0.95%.

The overwhelming number of resolutions were proposed by management, with 2.98% of resolutions proposed by shareholders, an increase on the number of shareholder proposals in the prior year (2.30%). NILGOSC's policy is to support those shareholder proposals which sought governance improvements in cases where compelling arguments were made by the proponent and where the proposal followed market good practice.

The majority of shareholder resolutions were proposed in North America (89.10%), where, in the absence of a corporate governance code, active shareholders make use of shareholder resolutions as a tool to try and improve corporate governance practices at companies. Of the remaining shareholder proposals, 4.74% were proposed in Japan, 2.84% in Europe, with four proposals in UK & Ireland and three in the Rest of the World.

3.3 NILGOSC Annual Voting

Table 2: NILGOSC Annual Voting Direction

MANAGEMENT RECOMMENDATION	NILGOSC VOTING				
	FOR	ABSTAIN	WITHHOLD	AGAINST	TOTAL
For	4,508	4	138	2,164	6,814
Abstain	1	43	-	2	46
Against	169	-	10	30	209
No recommendation	6	-	-	5	11
Total	**4,684**	**47**	**148**	**2,201**	**7,080**

NILGOSC believes that there should be no grey area when it comes to voting and therefore has a policy of not abstaining. The 'Abstain' votes in the table above were mainly due to say-on-pay frequency proposals at US Companies. Technically, it is a single resolution at which investors have to choose amongst three options - annual, biennial and triennial – to determine the frequency of a say-on-pay vote. NILGOSC voted for an annual frequency, and 'abstained' on the biennial and triennial frequency alternatives.

3.4 General Resolution Category Analysis

Table 3: Annual NILGOSC Dissent by Resolution Categoryshows the most common categories of resolutions at meetings voted at the companies within the NILGOSC portfolio on an annual basis.

We calculate the average dissent figure by aggregating all the poll data (expressed in terms of % of votes cast 'For') on all resolutions of that type, then dividing the aggregate figure by the number of resolutions. In most cases, this gives an accurate statistical indication of the dissent that a typical resolution type attracts, relative to others.

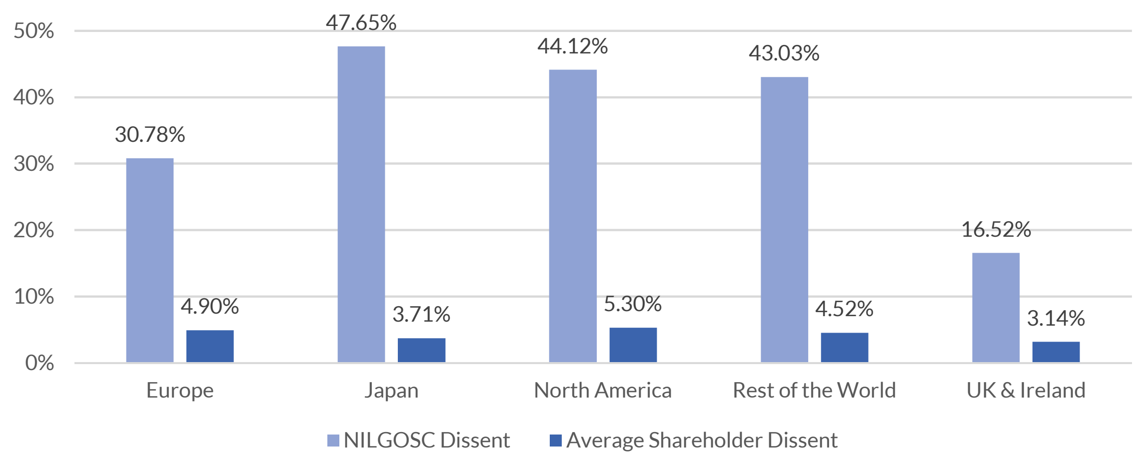
Table 3: Annual NILGOSC Dissent by Resolution Category

RESOLUTION CATEGORY	TOTAL NUMBER OF RESOLUTIONS PROPOSED	NILGOSC DISSENT*	AVERAGE SHAREHOLDER DISSENT**
Audit & Reporting	809	46.35%	1.67%
Board	4,150	31.68%	3.52%
Capital	840	17.02%	3.88%
Corporate Actions	63	12.70%	4.25%
Other	13	92.31%	-
Remuneration	776	64.69%	8.56%
Shareholder Rights	301	21.07%	11.39%
Sustainability	128	47.66%	12.25%
TOTAL	**7,080**	**35.03%**	**4.43%**

**NILGOSC Dissent excludes resolutions where management provided no recommendation (11 resolutions in total).*

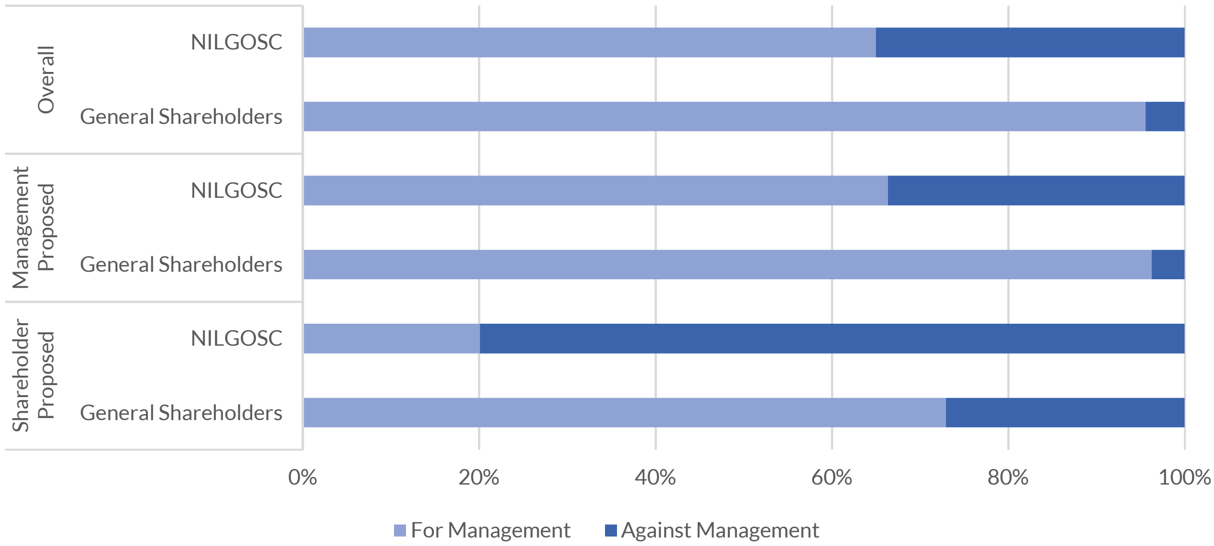
***Average Shareholder Dissent calculated from resolutions in respect of which shareholder voting results were available. Of the 13 resolutions classified as Other, 11 were withdrawn and poll data was not disclosed for the remaining two resolutions.*

Figure 1: NILGOSC Dissent by Region



In some global markets, poll data is made available on a lesser degree by companies, though we are seeing a gradual improvement. In markets where it is not compulsory to report meeting results, companies may choose not to do so. As of August 2018, Manifest has been able to collect poll data in respect of 90.52% of all resolutions. On a regional basis, Manifest has collected voting results for 64.43% of the Japan portfolio and 82.96% of the Rest of the World portfolio. Readers should therefore be careful in generalising from the results from these markets, however there are still enough to provide a general indication as to which proposals attract shareholder dissent and the average level during the period under review.

Figure 2: Dissent by Resolution Proponent



When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent. Recent developments indicate that shareholders are 'picking' their battles, resulting in a small number of high profile significant dissent levels. Average dissent across all resolutions was 4.43% - in other words, an approval rating of more than 95%. In terms of management proposed resolutions, general shareholder dissent stood at 3.74% whereas, for shareholder proposed resolutions, it stood at a higher level of 20.10%.

The data shows that NILGOSC is much more active in expressing concerns through its votes at corporate meetings than the average shareholder, voting against management recommendation on 2,476 occasions, constituting an overall average opposition level of 35.03% (when excluding resolutions where management provided no recommendation). As with the general shareholder pattern, NILGOSC's dissent figure for shareholder proposed resolutions was higher than that for resolutions proposed by management, 79.90% compared to 33.66%. Public sector pension funds do tend to have a much higher propensity to oppose management on resolutions than the general shareholder average.

4 UK & Ireland

4.1 Summary

- NILGOSC voted at 123 meetings held by 105 UK and Irish Companies. UK & Ireland represents the second largest number of resolutions voted (1,979).
- Management recommended shareholders to vote in favour of 1,975 resolutions and against four shareholder proposals. NILGOSC voted in support of management on 83.48% of resolutions.
- The resolution to approve the remuneration report at Playtech was defeated. NILGOSC voted against the adoption of the report.
- AVEVA Group withdrew a resolution to introduce a Restricted Share Plan ahead of its AGM after receiving objections from shareholders, NILGOSC had intended to vote against the plan's adoption. In addition, seven director elections were withdrawn ahead of AGMs after the nominees' in question decided to step down from the board, typically due to retirement.
- There were four shareholder proposals in the region, of which NILGOSC supported two. All four proposals were defeated.

4.2 Dissent by Resolution Category

Table 4 below notes the number of resolutions opposed by NILGOSC as a percentage by resolution category.

Table 4: NILGOSC Dissent by Resolution Category within UK & Ireland

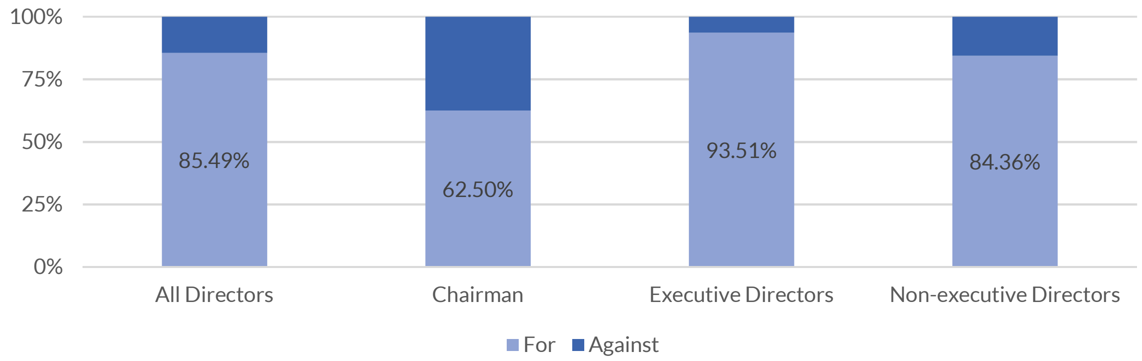
CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	891	14.37%	2.69%	All but one vote cast against management recommendation related to director (re-) elections due to issues including board and committee composition, director independence and attendance concerns.
Capital	481	8.52%	2.68%	NILGOSC opposed 17.07% of dividend resolutions, all where dividends were not covered by profits. Remaining oppositional votes within this category pertained to capital authorities, namely share issues (including one capital raising authority) and share buybacks.
Audit & Reporting	296	25.68%	1.49%	NILGOSC opposed 8.82% of resolutions seeking to (re-)elect auditors and 65.69% of resolutions to approve report & accounts.
Remuneration	160	45.00%	8.69%	NILGOSC opposed 46.94% of remuneration reports, 39.47% of remuneration policy votes and 78.57% of LTIP resolutions
Shareholder Rights	81	8.64%	5.90%	NILGOSC opposed resolutions seeking authority to waive rule 9 of the takeover code, one article amendment and two resolutions to approve shorter notice periods for ordinary general meetings, other than AGMs.
Sustainability	51	0.00%	2.96%	NILGOSC voted in-line with management on all sustainability-related resolutions.
Corporate Actions	19	15.79%	1.39%	NILGOSC opposed the acquisition of Touchstone Innovations by IP Group and voted against resolutions to approve the takeover of CityFibre Infrastructure Holdings by Connect Infrastructure Bidco.

**Based on NILGOSC portfolio and voting results availability.*

4.3 Board

The high proportion of resolutions pertaining to board matters is directly linked to the fact that director (re-) elections in the UK are frequently (indeed preferably) conducted on an individual basis (i.e. one resolution per director) and regularly form part of the common or mandatory business for an AGM. The current UK Corporate Governance Code recommends director elections for FTSE 350 listed companies should be on an annual basis and at least every three years for companies outside the FTSE 350. The 2018 version of the Code does not set out a small company exemption in terms of annual re-elections and therefore the number of board resolutions in the region may increase in the coming years. During the period covered in this report, 44.67% of all resolutions proposed in this market related to director elections.

Figure 3: NILGOSC Director Elections Voting Direction within UK & Ireland



4.3.1 Chairman

The common reasons for against votes on the (re-)election of the chairmen were:

- The Chair was also the chair of the Nomination Committee and there were diversity disclosure and/or progress concerns;
- The Chair was a prior CEO;
- The Chair was an executive director;
- The Chair was a non-independent member of a Board committee and the said committee was insufficiently independent; and.
- The Chair held a significant number of other directorships.

It is relatively common for the board chair to also chair the nomination committee in the UK and concerns regarding nomination committee responsibilities are often associated with the (re-)election of the committee chair. This partly explains the large level of votes against board chairs as around 75% of board chairs were also the chair of the nomination committee at the same company. Chairman (re-)elections received average general shareholder dissent of 6.03%.

Table 5: High Shareholder Dissent - Chairman UK & Ireland

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
TalkTalk Telecom Group plc	Charles Dunstone	40.85%	Passed	**Against**	NILGOSC was concerned that the nominee served as Board Chair in an executive capacity limiting the Board's role to hold executive management accountable.
Playtech plc	Alan Jackson	35.29%	Passed	**Against**	The nominee served as Nomination Committee chair and NILGOSC was concerned with the Company's progress in terms of increasing Board gender diversity.
Ashtead Group plc	Chris Cole	26.08%	Passed	**Against**	The nominee held a number of other directorships at listed companies and NILGOSC had concerns as to whether the nominee would be able to meet the time commitments expected of the role.
Renishaw plc	David McMurtry	24.04%	Passed	**Against**	NILGOSC was concerned that the individual served as joint CEO and Chair.
Sky plc	James Murdoch	22.78%	Passed	**Against**	NILGOSC considers that boards should display a clear division of responsibilities at the top and is opposed to a chief executive becoming chair in the same company.

4.3.2 Executive Directors

NILGOSC voted against 15 executive director (re-)elections. The most common reasons for opposition were the chairman serving as an executive, chairing the nomination committee where board gender diversity concerns were held, concerns over external time commitments and the combination of an executive director role with the role of company secretary. Executive directors attracted average general shareholder dissent of 1.56%.

4.3.3 Non-Executive Directors

The current UK Code recommends that the board should comprise at least half non-executive directors, excluding the chairman, determined by the board to be independent. For companies outside the FTSE 350, the requirement is for at least two non-executive directors, excluding the chairman, determined to be independent. NILGOSC evaluates directors' independence and votes against directors in cases where an independence issue is identified and the company's explanation is not found satisfactory. Non-executive directors received an average general shareholder dissent of 2.79%.

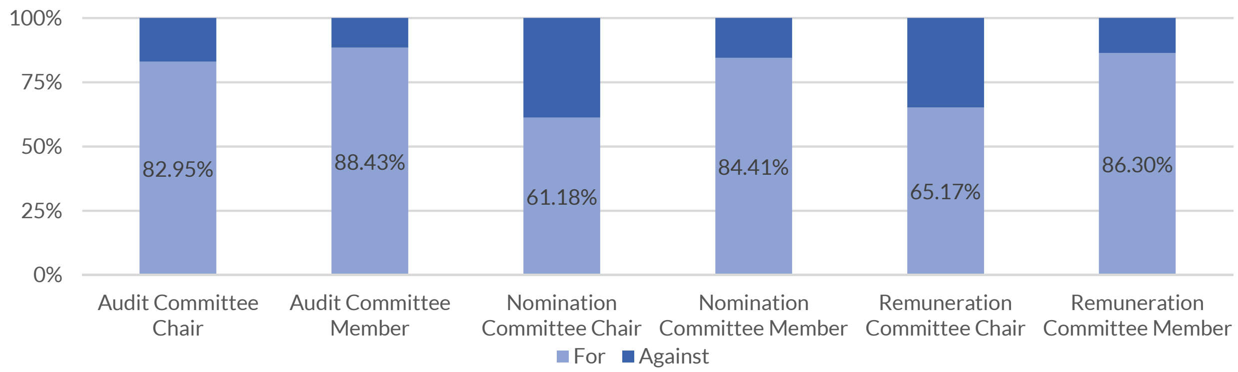
NILGOSC opposed 26.67% of (re-)elections of lead independent directors. Many lead independent directors are members of committees and may act as committee chairs, so when an independence issue was identified for such a director, or concerns were held with a committee's oversight functioning, NILGOSC voted against their (re-)election. Lead independent directors received an average shareholder dissent of 3.36%.

Table 6: High Shareholder Dissent - Non-executives UK & Ireland

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Playtech plc	John Jackson	42.96%	Passed	**Against**	The nominee was the chair of the Remuneration Committee and NILGOSC held concerns with the Company's remuneration policy.
British American Tobacco plc	Marion Helmes	41.78%	Passed	**Against**	The nominee held a number of other directorships at listed companies and NILGOSC was concerned as to whether the nominee would be able to meet the time commitments expected of the role.
Ricardo plc	Malin Persson	34.93%	Passed	**Against**	The nominee held a number of other directorships at listed companies and NILGOSC was concerned as to whether the nominee would be able to meet the time commitments expected of the role.
Wizz Air Holdings plc	Stephen Johnson	33.22%	Passed	**Against**	NILGOSC held concerns relating to the director's attendance at Board meetings.
AstraZeneca plc	Marcus Wallenberg	25.46%	Passed	**Against**	The nominee held a number of other directorships at listed companies and NILGOSC was concerned as to whether the nominee would be able to meet the time commitments expected of the role.

4.3.4 Board Committees

Figure 4: NILGOSC Board Committees Voting Direction within UK & Ireland



As Figure 4 shows, NILGOSC is more likely to vote against the chair of a committee rather than its individual members. The chairman of a committee is more likely to be held accountable and responsible where governance concerns are highlighted relating to the committee's remit. The average general shareholder dissent for the (re-)election of committee chairs was 4.24%, with nomination committee chairs receiving 5.72%, remuneration committee chairs 4.18%, and audit committee chairs 2.87%.

Audit Committee – In addition to independence concerns, audit committee chairs were held accountable for high non-audit fees paid during the year and over the course of a three-year period, where non-audit services had been provided but no policy on the allocation of non-audit work had been disclosed, and where the committee had insufficient financial expertise.

Nomination Committee – NILGOSC voted against nomination committee chairs and members where the nominee was considered non-independent and the committee's composition did not meet good practice recommendations. In addition, NILGOSC voted against committee chairs where concerns were held in relation to board gender diversity including the disclosure of a gender diversity target and/or a diversity policy, and progress on board gender diversity. Gender diversity has been an issue of focus since the 2011 Davies Review, which recommended for FTSE100 boards to target 25% female representation by 2015. More recently, the Hampton-Alexander Review recommended for FTSE350 boards to target 33% female representation by 2020 and for FTSE100 executive committees to target 33% female representation. In addition, gender pay gap reporting became mandatory in April 2017 requiring employers in Great Britain with more than 250 staff to annually report on the gender pay gap, the gender bonus gap, the proportion of men and women receiving bonuses, and the proportion of men and women in each quartile of the organisation's pay structure.

Remuneration Committee - NILGOSC does not generally oppose (re-)elections of members of the remuneration committee where the remuneration policy is not in line with NILGOSC's policies. NILGOSC generally only votes against remuneration committee members when potential independence issues threaten objective and independent pay-setting, although NILGOSC did hold committee chairs accountable for ongoing remuneration policy concerns.

4.3.5 Shareholder Proposals

At the Royal Bank of Scotland Group's AGM, the UK Individual Shareholders Society (ShareSoc) and the UK Shareholders' Association (UKSA) put forward a proposal requesting the Board set up a Shareholder Committee. The vote took place via a special resolution, meaning it needed 75% support to pass rather than 50%. Notably, the UK Government held over 70% of the share capital at the time of the AGM meaning it effectively decided the resolution outcome. As the Government did not back the proposal it was defeated receiving 1.35% support. NILGOSC supported the proposal considering a Shareholder Committee could enhance engagement between the Board and shareholders. The Government had previously put forward a suggestion that Shareholder Committees could help drive engagement in its Green Paper on Corporate Governance Reform, however in its final paper decided that it would not take forward new measures on such committees at this time.

At the London Stock Exchange Group, the institutional investor The Children's Investment Master Fund requisitioned an EGM to remove Chairman Donald Brydon from the Board and to extend the employment of CEO Xavier Rolet. NILGOSC voted against the proposal and the resolution was defeated receiving 20.25% support.

4.4 Remuneration

Remuneration is, on average, the most contentious issue at a typical UK company AGM. This is perhaps partly because the disclosure regime which applies to executive and board remuneration is so demanding that there is an abundance of information about how much the UK's top board members get paid. These figures therefore often grab the headlines and consequently attract a relatively high level of opposition from shareholders.

NILGOSC will support companies with remuneration policies and payments that are compatible with the best interests of shareholders. Other considerations relevant to remuneration policy and practice include the role and composition of the remuneration committee, often with a focus on independence, along with appropriate peer review in order to be able to set the company within a meaningful wider context. NILGOSC registered its dissent against the remuneration practices of five companies (Rio Tinto, Smurfit Kappa Group, TalkTalk Telecom Group, Just Eat, and ZPG) by voting against the remuneration report, remuneration policy and an incentive plan.

The UK Enterprise and Regulatory Reform Bill amendment in October 2013 requires companies to put their remuneration policy to a forward-looking binding vote at least every three years, in addition to the annual backward-looking advisory vote on the report on the policy implementation during the year. Once approved, companies can only provide remuneration that is consistent with the policy unless they obtain shareholder approval to a revised policy or to a specific payment. Due to the three-year cyclical nature of policy votes, there were 38 policy votes during the year compared to 61 last year.

It should be noted that not all policy votes in the UK region are actually binding. This is largely due to companies incorporated outside the UK (e.g. in Bermuda, Jersey, Guernsey, and Ireland) not being subject to the UK regulations, although a number of such companies have voluntarily put forward a remuneration policy for a vote. Such "voluntary" pay policy resolutions may not necessarily be of a binding nature.

The UK remuneration disclosure regime is set to see further changes with the pending approval of the Companies (Miscellaneous Reporting) Regulations 2018 which will require quoted companies with more than 250 UK employees to annually report the ratio of their CEO's single figure of pay to the median (50th), 25th, and 75th percentile full-time equivalent remuneration of their UK employees annually. In addition, companies will also be required provide a narrative explanation regarding any changes to the ratio and how it is consistent with the company's wider policies on employee pay.

In addition, the Regulations will also require companies to report on how their directors take employees and other stakeholder interests into account, report on any discretion applied to executive pay outcomes, and show what effect an increase in share price could have on executive pay outcomes. Subject to Parliamentary approval, the new requirements will apply to company reporting on financial years beginning on or after 1 January 2019.

4.4.1 Remuneration Report

Remuneration reports attracted an average shareholder dissent level of approximately 9.53% during the period under review in the UK & Ireland region. NILGOSC opposed 46.94% of remuneration reports during the period.

Table 7: High Shareholder Dissent – Remuneration Reports UK & Ireland

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Playtech plc	59.69%	**Defeated**	**Against**	Specific concerns included a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, a high bonus cap, and the lack of consideration of ESG issues in incentive pay.
Vectura Group plc	43.98%	Passed	**Against**	Specific concerns included a weak alignment of directors and shareholders' interests, incomplete disclosure of performance conditions, and the lack of consideration of ESG issues in incentive pay.
CRH plc	42.35%	Passed	**Against**	Specific concerns included a weak alignment of directors and shareholders' interests, incomplete disclosure of performance conditions, the lack of post departure shareholding requirements, high individual participation limits for the annual and long-term incentives and the high level of incentive pay awarded during the year.

4.4.2 Remuneration Policy

NILGOSC opposed 39.47% of remuneration policy resolutions and such resolutions received 8.96% average shareholder dissent. In-line with previous years this is lower than the average dissent figure on the approval of remuneration reports.

Table 8: High Shareholder Dissent – Remuneration Policy UK & Ireland

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Unilever plc	38.57%	Passed	**Against**	Specific concerns included a weak alignment of directors and shareholders' interests, incomplete disclosure of performance conditions, the high individual participation limits for incentive pay and the high level of incentive pay awarded during the year.
ZPG plc	32.06%	Passed	**Against**	Specific concerns included a weak alignment of interests between remuneration and strategy, incomplete disclosure of performance conditions, the lack of disclosure regarding clawback measures, the structure of the LTIP and the high level of award made to the CEO under the plan.
Experian plc	24.65%	Passed	**Against**	Specific concerns included the high level of incentive pay awarded during the year and high individual participation limits, the lack of consideration of ESG issues, a concern that, historically, stretching targets may not have been set and the lack of post departure share retention requirements.

4.4.3 Long-term Incentive Plans

Approval (or re-approvals) of share plans attracted an average general shareholder dissent across the market of 6.80%. NILGOSC voted against 78.57% of approvals of share plans. The common themes for voting against these plans were concerns over the length of the vesting and/or performance period; the size of the individual participation limit; and, in the case of restricted share plans, where the discount rate applied to the size of awards was considered too low.

AVEVA Group withdrew a resolution seeking to partially replace its LTIP with a restricted share plan before its AGM following feedback from shareholders. NILGOSC had intended to vote against the plan due to concerns over an insufficient discount rate applied to executive awards. Good practice guidelines recommend restricted share plans should have an opportunity level set 50% lower than the LTIP it is due to replace because of the increased certainty in pay outcomes.

Table 9: High Shareholder Dissent – LTIPs UK & Ireland

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
ZPG plc	31.96%	Passed	**Against**	Concerns included the high individual participation limits, the lack of an underpinning measure and the fact that awards may be released after only three years.
Johnson Matthey plc	10.18%	Passed	**Against**	Concerns included no clearly identifiable link between the performance measures and KPIs, the length of the performance period, the lack of a post departure share holding policy, and a high individual participation limit.

4.5 Audit & Reporting

This category covers approvals of report & accounts, auditor (re-)elections and remuneration – common items in the UK market and generally considered non-contentious. The most significant item of dissent was on auditor related resolutions – elections attracting average dissent of 1.92% with auditor remuneration having an average dissent of 1.12%. The role of the auditor is of course critical in ensuring shareholders are receiving properly verified information from the company. If the independence of the auditors, or those on the audit committee responsible for their appointment and working with them, may be called into question, this is a matter of some potential concern.

NILGOSC did not support nine auditor (re-)elections (8.82%) and the most common reasons were that the auditor's length of tenure exceeded 10 years with no recent tender and concerns with non-audit services provided by the auditor. Following the enactment of EU audit legislation companies are required to tender their audit contract every 10 years and rotate audit firm every 20 years. The UK audit regulations have transitional arrangements in place that allow for companies with the longest tenure audits (over 20 years) until 16 June 2020 to change firm. Furthermore, under the regulations, non-audit services are restricted to 70% of the average of the previous three years' audit fees, the cap will apply to the three years after financial years commencing on or after 17 June 2016. These regulatory developments have had the effect of establishing greater expectation on this question by investors globally, irrespective of local market traditions.

Resolutions to approve the report & accounts received average shareholder dissent of 1.41% during the period. NILGOSC voted 'Against' 65.59% of such resolutions. Common reasons for voting against included:

- Manifest Say on Sustainability disclosure grade;
- There was no independent verification of the Company's ESG reporting;
- The Company had not referenced the UN Sustainable Development Goals;
- All disclosure recommendations under the applicable corporate governance code had not been complied with;
- There were no disclosures to indicate non-executive only meetings were held; and
- There was no separate proposal to approve the dividends for the year.

4.6 Capital, Corporate Actions & Shareholder rights

4.6.1 Capital Authorities

Companies routinely include in their regular AGM business a general authority to issue new shares during the forthcoming year, as well as a certain percentage being issuable without pre-emption rights. These requests are sought to provide flexibility in the capital structure and to allow companies to respond quickly should there be a requirement for additional capital. Good practice guidelines have been published by UK institutional investor bodies, and NILGOSC generally expects companies to comply with these guidelines.

NILGOSC opposed 2.75% of share issue resolutions, common reasons were the proposal not meeting good practice guidelines in regard to the authority size requested. The average general shareholder dissent on share issues was 3.80%.

In the UK market, it is routine for companies to seek a general authority to issue shares with pre-emption rights for up to 66% of the issued share capital (comprising a 33% general authority plus an additional 33% rights authority) and the authority to issue shares without pre-emption rights for up to 10% in aggregate (comprising a 5% general authority and an additional 5% to be used only in relation to acquisitions or specified capital investments). In March 2017 the Financial Conduct Authority published updated Prospectus Rules with the key amendment being an increase to the threshold for the requirement to publish a prospectus where the annual increase of shares is less than 10% to 20%. The new rules may portend the return of cashbox placings and circumvention of the Pre-Emption Group guidelines. In February 2018 TalkTalk became the first company to use the higher limit through a cashbox placing of shares equivalent to 20% of its share capital.

NILGOSC opposed 18% of resolutions pertaining to share buybacks. The most common reason was concerns about the potential for creeping control by a company's largest shareholder. Other concerns included the size of the authority requested and the maximum purchase price under the authority being considered too high. Share buyback related proposals received average general shareholder dissent of 1.38%. In January 2018, the UK Government commissioned new research to understand how companies use share buybacks and in particular on buybacks potential to inflate executive pay.

4.6.2 Dividends

NILGOSC opposed management on 14 dividend proposals because the proposed dividend was not covered by earnings. This was the sole cause for oppositional votes on dividend resolutions across all markets. Dividend related proposals are normally common items in the UK market and generally considered non-contentious, they received average shareholder dissent of 0.33%. Notably, NILGOSC registers dissent at companies by either opposing the chairman or the adoption of the report & accounts where a dividend has been paid and no resolution is put forward to approve the distribution at the AGM. One investment consideration on this issue is the balance between short and long-term investment returns. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business. Furthermore, especially in the case of 'income' stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed.

4.6.3 Meeting Procedures & Articles

UK Company Law allows companies to seek shareholder approval to convene any general meetings (other than AGMs) to be held in the next 12 months on 14 days' notice provided that electronic communication is available to all shareholders.

Generally, such approvals are considered routine within a UK context, and the flexibility is considered desirable so as to allow companies to respond quickly to certain situations which may impact the company's financial situation, such as making acquisitions or raising capital. It is however good practice that companies do not use the shorter notice period for less urgent situations, for example a change of name or the introduction of a new share plan for the directors.

NILGOSC opposed two requests due to the companies in question (Micro Focus International and JD Sports Fashion) having utilised the shorter notice period since the last AGM for meeting business that was not considered time-critical.

The average general shareholder dissent on general meeting procedures was 4.74%, this is above average in the market. The dissent can be explained as follows; this being largely a UK practice, foreign shareholders and proxy advisors are not sympathetic towards approving such permissions. Overseas investors do not generally trust the cross-border voting system to get their vote across in time and focus this concern on the acceptance of such resolutions. With the increasing proportion of UK companies being held by foreign shareholders who often follow the voting advice their proxy advisors give them in markets foreign to them, an increasing proportion of companies are now finding significant levels of dissent on this issue.

4.6.4 Waiver of Mandatory Bid Requirement

Rule 9 of the Takeover Code requires that any person who acquires an interest (as defined in the Takeover Code) in shares which, taken together with shares in which he is already interested and in which persons acting in concert with him are interested, carry 30% or more of the voting rights of a company, make a general offer to all the remaining shareholders to acquire their shares.

Similarly, when any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30% of the voting rights of such a company but does not hold shares carrying more than 50% of such voting rights, a general offer will normally be required if any further interests in shares are acquired by any such person.

The Takeover Panel may grant a waiver to the purchase/concert party, so that no mandatory bid is required. Such a waiver is made subject to the approval of the independent shareholders. The granting of waivers has the potential for creeping control by the concert party, and NILGOSC voted against four of six waivers sought during the period under review. The waiver resolutions averaged 25.54% shareholder dissent.

4.7 Sustainability

NILGOSC believes that good corporate governance includes the management of environment, social, and governance (ESG) issues. Failure to address these issues can lead to higher operating costs, reputational damage and subsequent loss of confidence and shareholder value. The growth in importance of ESG considerations in investment decisions heightens the profile of ESG information provided by companies and hence increases the need for its veracity. As more investors use ESG information in their decisions, it follows that such information should be subject to levels of verification equivalent to those of more traditional disclosures such as financial updates and governance reports.

NILGOSC therefore votes against report & account resolutions where there are ESG disclosure concerns highlighted by Manifest's Say on Sustainability assessment. Manifest's Say on Sustainability analysis examines the way in which the governance of ESG issues are managed by a company, taking into account; disclosure and transparency, management processes, risk management, stakeholder relations, audit & verification, and participation in public initiatives. NILGOSC voted against 57 report & account resolutions where a company received a low Manifest Say on Sustainability grade.

As a local government pension fund, NILGOSC does not support payments to any politically related entity. The UK Companies Act 2006 requires companies to seek shareholder approval for political donations and expenditure made within the EU. The legislation encompasses more than just donations to political parties and includes expenditure towards the realisation of political aims such as political lobbying and trade association memberships. Accordingly, UK incorporated companies routinely seek shareholder approval at AGMs for authority to incur EU political expenditure as a compliance exercise to avoid inadvertent infringement of the legislation. NILGOSC will support such resolutions provided appropriate limits are in place and no political donations are made. NILGOSC supported all resolutions seeking political expenditure authorities. However, companies are not required to seek shareholder approval for donations or outside EU states. Political donations made outside of the EU were a factor in seven oppositional votes on report & accounts resolutions.

There was one sustainability related shareholder proposal in the UK & Ireland region during the period, at BHP Billiton plc. The proposal requested the BHP Board to review the Company's public advocacy on climate change and energy policy including membership of industry associations. The proposal was conditional on another shareholder proposal requesting an amendment to BHP Billiton Ltd's constitution to allow shareholders to put forward ordinary resolutions to express an opinion, ask for information, or make a request about the way a power of the Company is exercised by directors. As the first proposal was not successful, receiving 6.75% support, the sustainability proposal was void. The first proposal concerned BHP Ltd's constitution as BHP plc and BHP Ltd have a dual-listed structure whereby BHP plc, which is incorporated in the United Kingdom, and BHP Ltd, which is incorporated in Australia, function as a single economic entity with an identical Board and a joint electorate where votes are cast in aggregate by shareholders of both companies.

5 North America

5.1 Summary

- Annually NILGOSC voted at 212 company meetings held by 208 North American companies. North America was the region with the largest number of events and highest number of resolutions (2,731).
- NILGOSC voted in opposition to management on 1,046 (41.13%) of 2,543 management proposed resolutions.
- NILGOSC opposed 98.93% of remuneration reports and 72.50% of all remuneration related resolutions proposed by management.
- NILGOSC voted against three defeated remuneration reports at McKesson Corp, The Walt Disney Company, and Fleetcor Technologies Inc.
- Two management resolutions at Elli Lilly & Company NILGOSC supported did not pass due to not receiving a sufficient majority, the resolutions sought the introduction of annual director elections and to remove supermajority voting provisions.
- NILGOSC voted 'For' 160 (85.11%) of 188 shareholder proposals, including 13 successful proposals.

5.2 Dissent by Resolution Category

Table 10 shows the number of resolutions opposed by NILGOSC as a percentage by resolution category.

Table 10: NILGOSC Dissent by Resolution Category within North America

CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	1,969	33.77%	3.74%	Opposed 33.77% of board-related resolutions, with the majority of opposing votes on director elections. NILGOSC supported 34 board related shareholder proposals.
Remuneration	347	73.90%	8.70%	Opposed 98.92% of remuneration reports and 89.09% of LTIP related resolutions. NILGOSC supported 20 remuneration related shareholder proposals.
Audit & Reporting	219	78.08%	1.92%	NILGOSC voted against 79.51% of auditor (re-) elections and seven of nine report & accounts approvals.
Shareholder Rights	75	61.33%	28.48%	NILGOSC supported 44 of 45 shareholder proposals in the Shareholder Rights category. NILGOSC voted against two management proposed resolutions, both concerning special meeting provisions.
Sustainability	74	79.73%	19.37%	All but one Sustainability resolution was proposed by shareholders., NILGOSC supported 60 of the 73 shareholder proposals within this category.
Capital	45	17.78%	2.74%	NILGOSC voted against four share issue authorities, three share buyback authorities and supported one shareholder proposal in the Capital category.
Corporate Actions	5	20.00%	1.37%	NILGOSC supported a shareholder proposal at DowDuPont Inc requesting a report on investment in India.

**Based on NILGOSC portfolio and voting results availability. There were three 'Other' resolutions in North America.*

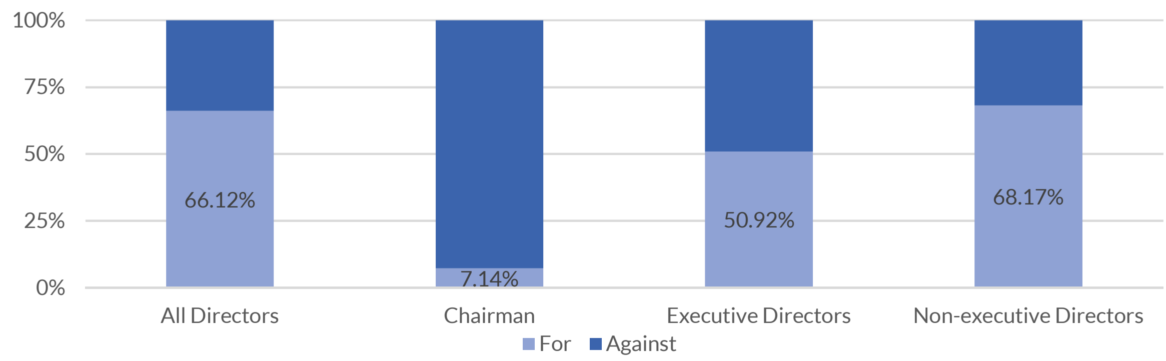
Companies in the United States are incorporated in individual states, as each US state has its own company law. This means there is no independent national corporate governance code, as in, for example, the FRC's UK Governance Code. Companies in the United States region are therefore subject to a much higher potential variance of general governance standards compared with the UK context, which partly explains why NILGOSC's dissent was higher in this region as compared to the UK.

5.3 Board

The Council of Institute Investors (CII) Corporate Governance Policies recommend that at least two-thirds of the board should comprise independent directors. During 2018 NILGOSC increased its expectation on board independence in the United States from a majority to two-thirds. NILGOSC applies a majority independence requirement to companies listed in Canada. Some 75.58% of resolutions in North America proposed by management dealt with the board and 25% of shareholder proposed resolutions likewise.

Good practice recommends for directors in uncontested elections to be elected by a majority of the votes cast and for plurality voting to apply to contested elections. An election is contested when there are more director candidates than there are available board seats.

Figure 5: NILGOSC Director Elections Voting Direction within North America



5.3.1 Executive Directors and Chairmen

NILGOSC opposed 92.86% of board chairman (re-)elections. The two most common reasons for opposition were Manifest's Say on Sustainability Grade and the combination of the chairman and CEO roles.

The board's role is to hold the executive management accountable, and accordingly, NILGOSC believes that the board chair should be seen as a separate role to that of an executive director with operational responsibilities. The CII Policies recommend that the board should be chaired by an independent director and the CEO and chairman roles should be combined only in very limited circumstances. If combined, the board should name a lead independent director to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors. While the number of companies separating the roles of board chair and CEO has grown over the years, 45.18% of US companies in NILGOSC's portfolio combined the roles. Of those companies that had separated the roles, 12.04% had a prior CEO serving as chairman and 25% had an executive chair. Overall only 20.30% of boards had a demonstrably independent chair.

Other common issues for opposing a chairman's (re-)election (and executive directors) in the North America region included; the nominee was considered non-independent and no lead independent director had been appointed or the lead independent director was also considered non-independent; the nominee was previously the CEO; there was no disclosure to indicate a board performance evaluation process was in place; the nominee held a significant number of other directorships; and there was a deviation from the one-share, one-vote principal. The average general shareholder dissent on the (re-)elections of chairmen and executive directors was 4.12% and 3.37% respectively.

Table 11: High Shareholder Dissent – Chairman North America

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Alder Pharmaceuticals Inc	Stephen Dow	44.85%	Passed	**Withhold**	There was no disclosure to indicate that non-executives met without the executives present or that there was a Board performance evaluation procedure in place. The Company also received a low Manifest Say on Sustainability Grade.
Equifax Inc	Mark Feidler	36.16%	Passed	**Against**	The Company had made political donations during the year and had received a low Manifest Say on Sustainability Grade.
Expedia Inc	Barry Diller	25.50%	Passed	**Withhold**	The nominee held a number of other directorships, there was no Nomination Committee and no Board evaluation in place. The Company also had a low Manifest Say on Sustainability Grade and deviated from the one-share, one-vote principle.

5.3.2 Non-executive directors

NILGOSC opposed 31.85% of non-executive director (re-)elections. NILGOSC primarily voted against non-executives where independence issues were identified and the board was considered insufficiently independent, or where board committees did not comply with good practice recommendations. Both NILGOSC and Manifest apply tenure as an additional criterion when assessing independence in North America, resulting in a stricter policy application than the typical US and Canadian standards. Shareholder dissent on non-executive director (re-)elections averaged 3.22%.

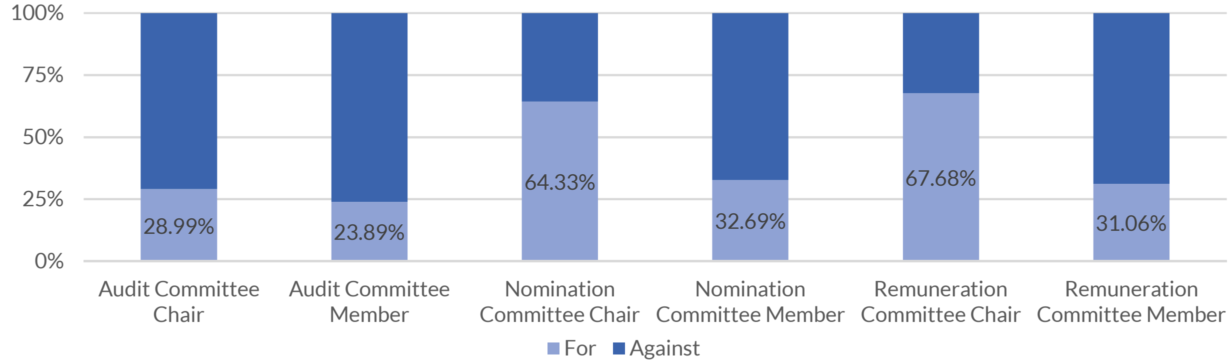
NILGOSC voted against 58.49% of lead independent director (re-)elections, the vast majority of cases were due to the nominee being considered non-independent. Lead independent director (re-)elections received average dissent of 4.36%.

Table 12: High Shareholder Dissent – Non-executives North America

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Expedia Inc	Peter Kern	49.72%	Passed	**Withhold**	The nominee served as chair of the Remuneration Committee and concerns were held with remuneration practices.
Andeavor	Paul Foster	47.00%	Passed	**Against**	The nominee was considered non-independent and sat on the Audit Committee. In addition, the nominee was also a member of the Nomination Committee and the Committee was insufficiently independent.
Netflix Inc	Richard Barton	45.72%	Passed	**Withhold**	NILGOSC opposed all directors standing for election as the Board had not enacted shareholder resolutions that had been approved at the previous AGM. In addition, the nominee was considered non-independent and concerns were held with the level of independence on the Board.
Netflix Inc	Bradford Smith	44.25%	Passed	**Withhold**	NILGOSC opposed all directors standing for election as the Board had not enacted shareholder resolutions that had been approved at the previous AGM.
Philip Morris International Inc	Sergio Marchionne	38.73%	Passed	**Against**	The nominee was considered non-independent and concerns were held with the level of independence on the Board and with the number of other directorships held by the nominee.

5.3.3 Board Committees

Figure 6: NILGOSC Board Committees Voting Direction within North America



Audit Committee - NILGOSC opposed the (re-)election of chairs and members of audit committees in instances where the nominee was considered non-independent, having considered explanations from the company. In addition, NILGOSC held committee chairs accountable in instances where concerns were held with the non-audit fees paid to the external auditor.

Nomination Committee - NILGOSC holds the chairs of nomination committees accountable for board and governance structures and will register dissent over board independence and diversity issues. NILGOSC also voted against/ withheld its votes on chairs and members of nomination committees in instances of a non-independent director being a member of the committee and the composition of the committee not meeting good practice.

Remuneration Committee - NILGOSC opposed the re-election of chairs and members of remuneration committees in instances where the nominee was considered non-independent, having considered explanations from the company. NILGOSC also registered dissent on committee chairs where concerns were held with remuneration practices or if there was no say on pay resolution at the AGM.

5.4 Remuneration

US remuneration policies typically contain many practices seen as unacceptable in other markets such as the UK. This reflects, to a degree, a lack of accountability in recent years, with 'say-on-pay' only having been introduced in 2011.

In the US, a 'say on pay' advisory vote is taken on the remuneration of the named executive officers. These are defined as being a company's CEO and the four most highly compensated executive officers who were serving as executive officers at the end of fiscal year. The entitlement of the directors to remuneration is not conditional upon the approval of this resolution. However, most companies who have previously received significant levels of dissent have taken remedial steps. The vote takes in both forward looking policy and the details of the amounts paid in respect of the year.

This is a different approach to the UK market where the remuneration report is voted on to approve the remuneration of all directors (and none below board level). There is no regular opportunity available to vote on non-executive director remuneration in North America.

Companies are required to have a 'say on pay' vote at least every three years, with the frequency to be voted on by shareholders. This resolution is proposed in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act 2010, which requires quoted companies to provide shareholders with a non-binding shareholder advisory vote on named executive officers' compensation at least once every three years.

The say on pay frequency resolution is non-binding and must be submitted to a vote at intervals of no more than six years. The options are annual, biennial, and triennial. The resolution has majority requirements with the frequency receiving the most votes in favour considered to be passed. Due to the cyclical nature of the frequency votes, 23 companies held a vote during the year compared to 147 in the previous year. NILGOSC voted in accordance with good practice recommendations and supported an annual frequency in all cases. All but Kinder Morgan Inc, which backed a triennial vote, recommended shareholders to support an annual frequency and the annual frequency vote passed at all 23 companies.

5.4.1 Remuneration of Named Executive Officers ('Say on Pay')

NILGOSC opposed 98.92% of remuneration reports voted upon in the North America portfolio during the period under review. Based on company disclosures, there was an average dissent of 9.34% on remuneration report resolutions.

Table 13: High Shareholder Dissent – Remuneration Reports North America

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Fleetcor Technologies Inc	85.67%	**Defeated**	**Against**	Manifest had identified a weak alignment between executive and shareholder interests; performance conditions did not apply to all long-term incentive awards; the annual bonus and LTIP used the same performance metric and targets had not been disclosed; and there was no disclosure to indicate clawback provisions were in place. Fleetcor Technologies' remuneration report was also defeated in the previous year.
McKesson Corp	73.57%	**Defeated**	**Against**	Manifest had identified a weak alignment between executive and shareholder interests; 40% of the LTIP had no performance conditions and a short vesting period; disclosure concerns regarding the bonus individual performance modifier; potential excessive levels of incentive pay; and excessive termination provisions.
The Walt Disney Company	56.44%	**Defeated**	**Against**	Manifest had identified a weak alignment between executive and shareholder interests; a significant salary increase granted to the CEO; a transaction related cash bonus without formal performance conditions; 50% of the LTIP had no performance conditions; and excessive termination provisions.
Fidelity National Information Services Inc	44.37%	Passed	**Against**	Manifest had identified a weak alignment between executive and shareholder interests; performance conditions did not apply to all long-term incentive awards; a significant salary increase had been granted to the CEO; and excessive termination provisions.
Wex Inc	42.93%	Passed	**Against**	Manifest had identified a weak alignment between executive and shareholder interests; potential excessive levels of incentive pay; performance conditions did not apply to all long-term incentive awards; and excessive termination provisions.

5.4.2 Incentive Pay

Approval (or re-approvals) of long-term incentive plans attracted an average general shareholder dissent across the market of 11.0%. NILGOSC voted against 89.09% of such plans. The most common issues were:

- The performance period was considered too short;
- The minimum vesting period was considered too short;
- A large individual limit under the plan;
- Inadequate disclosure on performance conditions;
- Non-executive directors could participate in the scheme; and
- The plan allowed for a high potential dilution of the share capital.

NILGOSC voted against the one short-term incentive approval put forward during the period, at Microsoft, due to performance conditions disclosure concerns. The resolution received 1.38% shareholder dissent.

Table 14: High Shareholder Dissent – Incentive Pay Plans North America

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
ServiceNow Inc	21.69%	Passed	**Against**	Manifest had identified that the minimum vesting and performance period was too short, there was a large individual limit under the plan and a high potential for dilution of the share capital from awards.
Alnylam Pharmaceuticals Inc	21.44%	Passed	**Against**	Manifest had identified that the minimum vesting and performance period was too short, non-executives could participate in the plan, there was a large individual limit under the plan and a high potential level of dilution should all outstanding share awards and/or options vest.

5.5 Audit & Reporting

5.5.1 Auditor Elections

There is no legal requirement for auditor election to be put to a shareholder vote in most US states but increasing numbers of companies seek the ratification of the auditor appointment, seeing it as good practice. This is largely a non-contentious item within the region given the highly stringent regulatory and compliance requirements imposed on the auditors and companies to safeguard auditor independence by the US Securities and Exchange Commission. Auditor (re-)election resolutions attracted a low average general shareholder dissent of 1.99%. NILGOSC voted against 79.51% of such resolutions. The most common policy issue related to auditor tenure and no recent, or planned, audit tender.

5.5.2 Reports and Accounts

Only nine report & accounts resolutions were proposed in the North America region, which was due to the jurisdiction of incorporation and relevant legal requirements of the companies in question. A number of US listed companies are incorporated in Europe and are therefore required to submit their report & accounts to shareholder approval. The resolutions received average dissent of 1.02% and NILGOSC opposed seven report & accounts due to sustainability disclosure concerns.

5.6 Capital & Shareholder Rights

5.6.1 Capital Authorities

American and Canadian incorporated companies are not normally required to seek shareholder approval for authorisations to issue shares or to dis-apply pre-emption rights on the issue of shares. Provided a company's authorised capital includes sufficient headroom, management may issue shares subject only to certain limitations set out in the stock exchange listing rules. NILGOSC opposed four of 22 of share issue resolutions and three of 10 share buyback authorities. Such resolutions received 3.09% and 2.70% average dissent respectively. The most common reason for opposition on share issue authorities concerned the size of the authority without pre-emption rights, whilst concerns with the maximum purchase price was the most common factor for opposition to buyback authorities.

5.6.2 Shareholder Rights

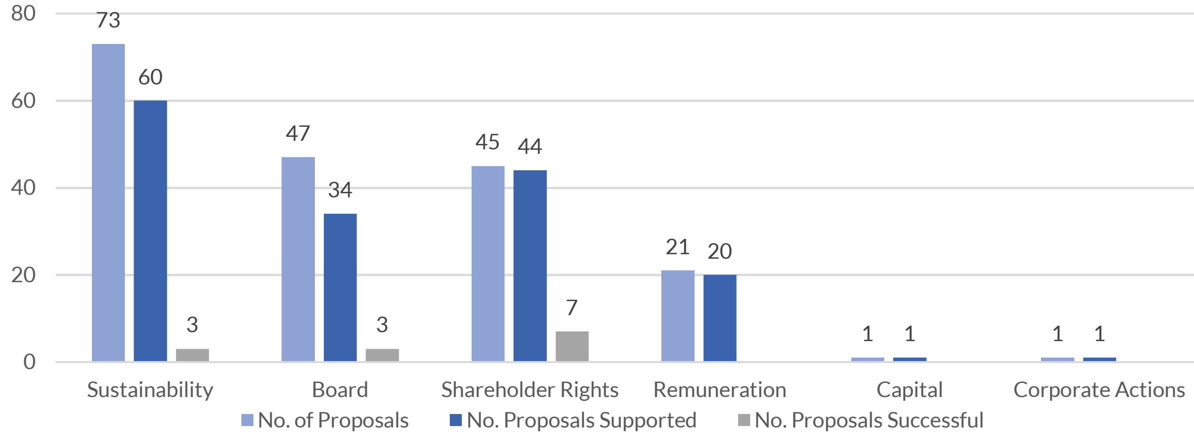
NILGOSC voted against two resolutions seeking to ratify the ownership threshold in place for shareholders to request a special meeting. The companies in question, Capital One Financial Corp and eBay Inc, had received a shareholder proposal requesting the threshold be lowered to 10%, however, instead of putting the proposal to the vote, the companies sought shareholder ratification of the higher 25% threshold currently in place. The resolutions received 45.92% and 46.96% shareholder dissent respectively indicating a significant minority of shareholders supported the lower threshold.

5.7 Shareholder Proposals

There were 188 shareholder resolutions proposed in the North America portfolio during the period under review. Most shareholder resolutions are advisory in nature, typically requesting the board to bring forward its own proposals on a specific matter or to request improved disclosures. A minority are binding, such as proposals to amend the articles of association (rather than requesting the board to do so) and thus may be subject to a higher majority. 13 proposals were successful, 6.91% of shareholder proposals. In the prior reporting period 14 proposals were successful out of 161 proposals, representing 8.70% of proposals. Shareholder resolutions received average support (i.e. votes cast in favour) of 29.13%.

In the US, many issues typically enshrined in company law in other markets are not included automatically in the various US states, nor is there a 'comply or explain' based corporate governance code. Instead, these issues must be included in a company's articles of associations. Thus, shareholder meetings in the US frequently include proposals from shareholders which seek the implementation of improved corporate governance practices at companies through changes to the company articles or by-laws. NILGOSC supports changes which are in the best interests of shareholders as a whole, which follow good practice guidelines, and are not duplicative of existing measures.

Figure 7: Shareholder Proposals – North America



5.7.1 Shareholder Proposals - Sustainability

In the sustainability category there were 73 proposals, of which the majority related either to human rights & workforce issues or political activity. 27 proposals related to human rights & workforce issues such as gender pay gap reporting, diversity disclosure, and human rights policy. Such proposals received on average 13.95% support. 25 proposals requested enhanced disclosure on, or prohibition of, political donations (9) and lobbying (16). All political spending related proposals were defeated receiving average shareholder support of 27.00%. One proposal requesting a report on political donations at NextEra Energy Inc received over 40% support. In the previous year a shareholder proposal asking the NextEra Energy Board to affirm its political non-partisanship also received over 40% support. The remaining 21 proposals in the sustainability category related to climate change, general sustainability reporting, tobacco, and online content governance policies, amongst others. Such proposals received an average of 22.41% shareholder support.

Three sustainability related proposals were successful during the period; a proposal at TransCanada Corp requesting a report on how the Company assesses long-term risks and opportunities in relation to climate change and two proposals at Kinder Morgan Inc - one requesting a report on sustainability and the other a report assessing the long-term portfolio impacts of scenarios consistent with global climate change policies.

5.7.2 Shareholder Proposals - Board

16 board related proposals requested the adoption of a policy requiring the chair to be independent, NILGOSC supported all such proposals. None of the proposals were successful, receiving on average 32.28% support, with the proposal at Verizon Communications Inc receiving the highest level of support of 47.17%.

Nine proposals related to proxy access provisions and such proposals averaged shareholder support of 31.88%. NILGOSC supported all such proposals. The proxy access proposal at Netflix passed after 57.72% of shareholders voted in favour. There were a further six proposals relating to director election procedures, NILGOSC supported proposals requesting annual director elections, including successful proposals at Fleetcor Technologies and Illumina, and the majority voting standard on elections and voted against requests for cumulative voting on elections. Although receiving majority support, a proposal requesting the majority voting standard at Netflix did not pass. As the proposal requested a binding amendment to the bylaws, it was subject to a higher threshold of 66% support.

At Boeing Company's AGM NILGOSC supported a proposal requesting the Board to adopt a policy that an increase in the size of the Board to more than 14 directors would require shareholder approval; the proposal was defeated receiving 7.66% support. NILGOSC also supported proposals requesting the introduction of a Human Rights Committee at Apple Inc and a Risk Oversight Committee at Facebook Inc. The proposals received 5.40% and 11.53% support respectively.

5.7.3 Shareholder Proposals - Shareholder Rights

The shareholder rights proposals voted by NILGOSC consisted of the following matters; the right for shareholders to call a special meeting (23); the right for shareholders to act by written consent (11); the removal of supermajority voting provisions (5); recapitalisation plans to introduce the one-share, one-vote principle (3); proposals concerning article amendments (2); and amendments to vote counting practices on shareholder proposals (1). NILGOSC supported all but one proposal in this category - the sole proposal opposed by NILGOSC was put forward at Procter & Gamble Co and requested for each provision or amendment to the articles adopted by the Board subsequent to 8 April 2016 and prior to the AGM to be repealed. As the Board reported no such article changes had been made during this timeframe NILGOSC voted against the resolution. The proposal was defeated receiving 5.03% support.

Four proposals requesting the removal of supermajority voting provisions and the introduction of the simple majority vote standard were successful. The successful proposals took place at Costco Wholesale, DowDuPont, Netflix and Salesforce.Com. In addition, two proposals requesting the threshold required for shareholders to call a special shareholder meeting were successful at Cognizant Technology Solutions and Netflix, whilst a proposal requesting the right for shareholders to act by written consent was also successful at Netflix.

5.7.4 Shareholder Proposals – Remuneration

All remuneration related shareholder proposals were defeated; such resolutions averaged 22.32% shareholder support. NILGOSC supported 20 of 21 remuneration related shareholder proposals relating to; the incorporation of sustainability performance metrics, such as cyber security and drug pricing strategies, in incentive pay; and proposals seeking to strengthen alignment with shareholders through means such as introduction or strengthening of clawback provisions, prohibiting accelerated vesting on termination and stock retention requirements. Other remuneration related proposals included preventing management access to vote tallies on say on pay resolutions prior to the AGM, enhanced disclosure on executive pay, reducing pension entitlements, adopting a policy to deduct the impact of buybacks on pay and adopting a policy that no financial performance metric used in incentive pay be adjusted to exclude legal costs.

5.7.5 Shareholder Proposals – Capital & Corporate Actions

At General Electric Company Inc's AGM, a shareholder proposal was put forward requesting the Board report on share buybacks. The report would include the Company's rationale for repurchase programmes, all pertinent metrics regarding buybacks, and a 10-year historical overview of buybacks. NILGOSC supported the proposal and it was unsuccessful receiving 5.57% support.

At DowDuPont Inc's AGM, NILGOSC supported a shareholder proposal requesting the Board prepare a report on investment in India. The proponent requested the report to provide an assessment of how the public's association of the Company with the Bhopal tragedy may be relevant to plans for investment in India until 2025. The proposal was defeated receiving 4.74% votes in favour.

6 Europe

6.1 Summary

- Annually there were 63 shareholder meetings at 55 companies in the Europe portfolio, resulting in 868 resolutions.
- NILGOSC voted in opposition to management on 265 (30.99%) of 855 management proposed resolutions, whilst management provided no recommendation on seven resolutions.
- NILGOSC voted against a share issue authority at LEG Immobilien AG which did not pass due to receiving an insufficient majority (less than 75% support).
- There were six shareholder proposals, of which NILGOSC supported one. The proposal was part of a contested election at Arkema SA for the position of employee representative with two candidates for one position, the candidate backed by NILGOSC was successful.

6.2 Dissent by Resolution Category

Table 15Table 15 notes the number of resolutions opposed by NILGOSC as a percentage by resolution category.

Table 15: NILGOSC Dissent by Resolution Category Europe

CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	343	23.81%	4.38%	NILGOSC opposed 30.60% of director (re-) elections. NILGOSC also opposed four board committee-related resolutions and two director discharge resolutions.
Capital	172	23.26%	4.83%	NILGOSC opposed 6.98% of dividend resolutions, 17.72% of share issue authorities, 33.33% of treasury shares related resolutions and 56.67% of share buyback authorities.
Remuneration	141	63.83%	9.91%	NILGOSC opposed all 6 remuneration reports and all 19 individual total remuneration resolutions. NILGOSC also voted against 88.25% of LTIP resolutions, 87.10% of remuneration policy resolutions, 50% of contract related resolutions and 25% of non-executive remuneration resolutions.
Audit & Reporting	120	40.00%	1.98%	NILGOSC voted against 43.90% of auditor (re-) elections, 51.79% of report & accounts resolutions and one appropriation of profits.
Shareholder Rights	65	3.08%	0.67%	NILGOSC opposed two resolutions seeking amendments to the articles of association.
Corporate Actions	23	8.70%	8.54%	NILGOSC opposed two corporate actions relating to change in control provisions at Belgian companies.

**Dissent does not include resolutions where management gave no recommendation. There were four 'Other' resolutions in Europe.*

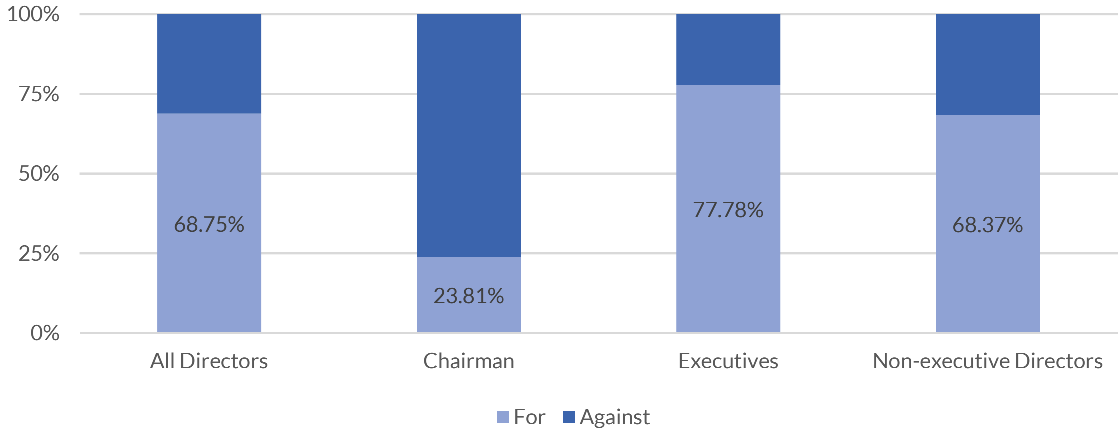
6.3 Board

Table 16 sets out a summary of different governance structures in Europe regarding board composition.

Table 16: Board Structures within Europe

BOARD STRUCTURE	COMMENTS
UNITARY BOARD	There is a single board comprising both executive and non-executive directors. This system is prevalent in France, Spain, and Italy. Some Scandinavian markets operate a unitary board, although there are no executives on the board.
DUAL BOARD	The two-tier system, found typically in Germany and Austria, is also widespread in Denmark, Finland, Netherlands, Norway, Poland, and Switzerland. This system consists of a supervisory board of non-executives and a separate management board of executives. In certain markets, such as Austria and Germany, the supervisory board must consist of both employee representatives and directors elected by shareholders.
ITALIAN SYSTEM	Italian companies may choose a system comprising the board of directors and the board of statutory auditors. The board of statutory auditors undertakes monitoring functions, including of adherence to company law and the company's articles, the adequacy of the company's organisational structure and the implementation of corporate governance arrangements. They are responsible for supervising the financial reporting, internal control, and risk management systems

Figure 8: NILGOSC Director Elections Voting Direction Europe



6.3.1 Executive Directors and Chairmen

The most common reasons for NILGOSC voting against chairman (re-)elections during the period under review were: there was no disclosure to indicate the non-executives met without the executives present, the chair was considered non-independent and no lead independent director had been appointed; the chair held a significant number of other directorships; the chair was a prior CEO; and the chair was on a board committee and there were concerns with the committee's independence or oversight function.

NILGOSC also held the chair accountable when there was a deviation from the principle of one-share, one-vote. NILGOSC voted against executive directors in instances where the director also served as the board chair. The average dissent for chairman and executive directors (re-)elections was 7.54% and 6.28% respectively.

6.3.2 Non-Executive Directors

NILGOSC voted against 31.63% of non-executives standing for (re-)election and the average general shareholder dissent was 4.71%. NILGOSC voted against non-executive directors where:

- The nominee was a non-independent member of a Board committee and said committee's composition did not meet good practice recommendations;
- The nominee chaired a committee and the charter/terms of reference of the committee had not been made publicly available;
- The nominee was identified as non-independent and the Board did not meet local market independence requirements;
- The nominee was chairman of the Remuneration Committee and concerns were held with remuneration practices;
- The nominee had a significant number of other directorships raising concerns over time commitments;
- The nominee served as Audit Committee chairman and non-audit services had been provided but no policy on the allocation of non-audit work had been disclosed; and
- The nominee served as Nomination Committee chair and the Board had made poor progress on Board gender diversity.

Table 17: High Shareholder Dissent – Directors Europe

COMPANY	COUNTRY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
SGS SA	Switzerland	August von Finck	34.31%	Passed	**Against**	The nominees were not considered to be independent and NILGOSC was concerned about the composition of the Board and its committees in relation to the proportion of independent directors. Eight of the top ten director elections with the highest dissent levels in the Europe region occurred at SGS. The highest level of dissent (22.82%) outside of SGS took place at Euronav NV on the re-election of Anne-Hélène Monsellato. NILGOSC voted against Monsellato on account of her role as Audit Committee chair and the lack of disclosure of a policy on the allocation of non-audit work.
SGS SA	Switzerland	Ian Gallienne	33.04%	Passed	**Against**	
SGS SA	Switzerland	Gérard Lamarche	32.96%	Passed	**Against**	
SGS SA	Switzerland	Paul Desmarais	32.29%	Passed	**Against**	
SGS SA	Switzerland	Sergio Marchionne	32.04%	Passed	**Against**	

Additionally, NILGOSC voted against two director discharge resolutions in the Europe portfolio. NILGOSC voted against the director discharges at UBS Group due to ongoing litigation against the Company and at SGS SA due to concerns with the high degree of deviation from corporate governance best practice in the market, as well as the quality of the Company's disclosures. NILGOSC voted against eight of 10 director elections at SGS SA due to Board independence concerns.

6.3.3 Italian Elections – Proportional Elections by Candidate Lists

Italian law mandates a system whereby shareholders, rather than the board or nomination committee, propose candidates for election. The system is similar in many respects to that used for political elections in Italy. Subject to holding the minimum shareholding requirement (either individually or collectively), shareholders file candidate lists. Voting then proceeds following a proportional representation process. Where there are competing lists, the majority of candidates are taken from the list which received the most votes in favour, with the next most popular list being guaranteed at least one board seat. Companies have flexibility in deciding how many seats are allocated to the 'minority' lists, subject to this being approved by shareholders and inserted into the articles. Typically lists are proposed by the largest shareholders, although on occasion institutional investors' work together to compile a list containing independent directors, so as to maximise the independent contingent on the board. Whilst the candidate lists are proposed by shareholders, the resolutions are actually put forward and added to the agenda by the board and are therefore still classified as a management resolution.

At UniCredit Spa NILGOSC voted on candidate lists for the Board of Directors and supported the slate submitted by UniCredit over the slate submitted by institutional investors. UniCredit also held an EGM during the year at which resolutions to elect two new permanent Statutory Board auditors and two new stand-in-statutory auditors were put forward following the resignation of two statutory auditors. In addition to nominees put forward by minority shareholders and Allianz France II Luxembourg SARL a shareholder nominated himself for a position. NILGOSC voted against the self-nominated candidate and supported the other four nominees. The self-nominated candidate was unsuccessful.

6.4 Remuneration

Across Europe the shareholder approvals on remuneration differ widely between markets. In 2017 the European Parliament adopted amendments to the EU Shareholder Rights Directive, which has been agreed with the European Commission and European Council. The Directive will introduce new say on pay rules allowing shareholders to vote at least every four years on a listed company's remuneration policy, and an annual advisory vote on the remuneration report. Member States will need to implement the regulations by 10 June 2019 and have discretion to decide whether the policy vote will be binding or advisory.

6.4.1 Remuneration Report and Remuneration Policy

NILGOSC opposed all remuneration reports voted on in the European market. The average general shareholder dissent was 11.33%. As mentioned above, a number of European markets also operate a remuneration policy vote. NILGOSC voted against 27 of 31 policy resolutions in the market. The average dissent on remuneration policy votes was 13.59%.

Table 18: High Shareholder Dissent – Remuneration Reports and Remuneration Policies Europe

COMPANY	COUNTRY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Anima Holding SpA	Italy	39.41%	Passed	**Against**	Specific concerns included a lack of alignment of interest between executives and shareholders and the fact that the salary increase for the CEO for the year exceeded 10% and no explanation had been provided.
LEG Immobilien AG	Germany	38.20%	Passed	**Against**	Specific concerns included the overall level of disclosure, a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, and a lack of disclosure on clawback provisions and shareholding guidelines.
Adidas AG	Germany	29.82%	Passed	**Against**	Specific concerns included a weak alignment of interests between executives and shareholders, incomplete disclosure of performance targets, and a lack of disclosure on clawback provisions and shareholding guidelines.

6.4.2 Long Term Incentive Plans

NILGOSC voted against 15 of 17 LTIP resolutions during the period and the average dissent was 7.83%. The most common reason for an 'Against' vote was concerns over the length of the performance and/or vesting period. The LTIP resolution at UCB Group recorded the highest dissent level of 28.74%. NILGOSC voted against the resolution citing concerns over the lack of a disclosed individual participation limit and the fact that awards are not subject to performance conditions.

6.4.3 Remuneration Amount

In certain EU markets shareholders have the ability to vote on the individual and/or the aggregate amounts paid to directors. For example, following the implementation of Sapin II in France, shareholders are provided with a binding vote on the variable and exceptional remuneration granted to an executive during the financial year in addition to a binding remuneration policy vote. The 2013 Minder Initiative in Switzerland introduced binding votes on the aggregate amount paid, both fixed and variable, to the board of directors and the executive committee.

There were 40 votes in total, of which NILGOSC opposed 55% and the average dissent level was 9.06%. The highest dissent (41.18%) was recorded at Thales SA on the approval of the remuneration paid during the year to chairman & CEO Patrice Caine. NILGOSC voted against the resolution citing concerns with the lack of disclosure on clawback and malus provisions, the lack of transparency around the targets used under the annual bonus, the overlap in the performance metrics used across incentive plans, and the high vesting level for threshold performance under the LTIP.

6.4.4 Non-executive Remuneration

There were 24 remuneration resolutions relating to non-executive director provisions. NILGOSC opposed 6 resolutions noting insufficient disclosures and the provision of remuneration other than fees to non-executive directors. The average general shareholder dissent was 4.78%.

6.5 Audit & Reporting

6.5.1 Reports & Accounts

NILGOSC opposed report & accounts related resolutions on the most consistent basis within the Audit & Reporting category. NILGOSC opposed 51.79% of 56 report & accounts resolutions and the average general shareholder dissent was 0.96%. NILGOSC typically expressed its dissent due to:

- There were no disclosures to indicate that non-executive only meetings took place;
- The Company had not referenced the UN Sustainable Development Goals;
- Manifest Say on Sustainability disclosure grade;
- The Company had not conducted an external Board performance evaluation within the last three years;
- The auditors had highlighted fundamental uncertainties within the accounts or other areas of concern; and
- Political donations had been made during the year without shareholder approval.

6.5.2 Auditor Elections

NILGOSC opposed 18 of 41 auditor (re-)election resolutions in the European market. The most common reasons for opposition related to concerns over tenure and no recent, or planned, audit tender, as well the level of non-audit fees. Auditor (re-)election resolutions received average shareholder dissent of 2.92% in the European market.

6.6 Capital

6.6.1 Capital Authorities

NILGOSC opposed 17.7% of share issue authorities sought in the European region. The regulatory systems on share issues differ widely between markets, with multiple authorities often sought in France – each for a different purpose. In Austria, Switzerland and Germany, authorities to issue shares and to dis-apply pre-emption rights are often combined into one resolution, although there may be multiple resolutions as authorities relate to specific types of share issuance.

The most common reason for dissent was when the authority sought the dis-application of pre-emption rights over a proportion of the issued share capital and this exceeded NILGOSC's policy guidelines (most commonly 10%) or that no further authorisation would be required to issue shares without pre-emption rights. The average general shareholder dissent was 8.13%. The resolution to approve the creation of a new authorised capital with the dis-application of pre-emption rights at LEG Immobilien AG was defeated due to receiving an insufficient majority. NILGOSC voted against the resolution due to concerns over the size of the authority sought and the corresponding potential for dilution.

NILGOSC opposed 56.67% of resolutions allowing companies to make market purchases of their own shares. The most common reason was when an authority's maximum purchase price was considered too high or where NILGOSC held creeping control concerns. The average general shareholder dissent on share buybacks was 3.28%.

6.7 Shareholder Proposals

There were six shareholder proposed resolutions in the European portfolio. NILGOSC voted against two shareholder counter-motions at LEG Immobilien AG; the first requested the dividend to be lowered from €3.04 per share to €1.00 per share and the second requested a change in remuneration policy, however little disclosure on what policy amendments the proponent wanted had been provided. At Sandvik AB NILGOSC voted against an unsuccessful proposal requesting the Company to relocate its head office to Sandviken.

In France there were three shareholder proposals relating to employee representatives. At Arkema SA there was a contested election for the employee shareholder representative Board position with two candidates standing for the role. NILGOSC supported the successful candidate who was also backed by the Board. At Total SA's AGM, NILGOSC voted against a proposal seeking amendments to the procedure for appointing employee shareholder representatives, the proposal was defeated receiving 6.44% support.

7 Japan

7.1 Summary

- NILGOSC voted at 745 resolutions at 57 AGMs held by 57 Japanese companies.
- An overwhelming majority of Japanese companies prepare their accounts to a year end of 31 March, and Japanese corporate law stipulates that companies must hold a shareholder meeting within three months of the year-end. Due to this there were only 13 AGMs outside of the month of June.
- NILGOSC voted in opposition to management on 350 (47.62%) of 735 management proposed resolutions.
- There were 10 shareholder resolutions proposed during the period. NILGOSC supported five proposals, none of which passed.
- Japan was the region with the highest level of NILGOSC dissent. NILGOSC voted contrary to management recommendation on 47.65% of resolutions.

7.2 Dissent by Resolution Category

Table 19 notes the number of resolutions opposed by NILGOSC as a percentage by resolution category.

Table 19: NILGOSC Dissent by Resolution Category Within Japan

CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	639	49.30%	3.52%	NILGOSC opposed 50.40% of director (re-) elections, most commonly due to independence issues with the board, and voted against one board alternate election.
Audit & Reporting	44	2.27%	1.84%	NILGOSC opposed one resolution to appropriate profits as the dividend was not covered by earnings.
Remuneration	36	91.67%	3.80%	NILGOSC opposed all eight non-executive remuneration and all 10 short-term incentive resolutions. NILGOSC also opposed 15 of 17 LTIP resolutions.
Shareholder rights	24	20.83%	10.53%	NILGOSC opposed a poison pill renewal at Tokyo Ohka Kogyo Co Ltd and supported four shareholder proposals within this category.
Capital	2	50.00%	-	NILGOSC supported a shareholder proposal relating to treasury share cancellation.

**Dissent does not include resolutions where management gave no recommendation. Poll data not disclosed for Capital resolutions.*

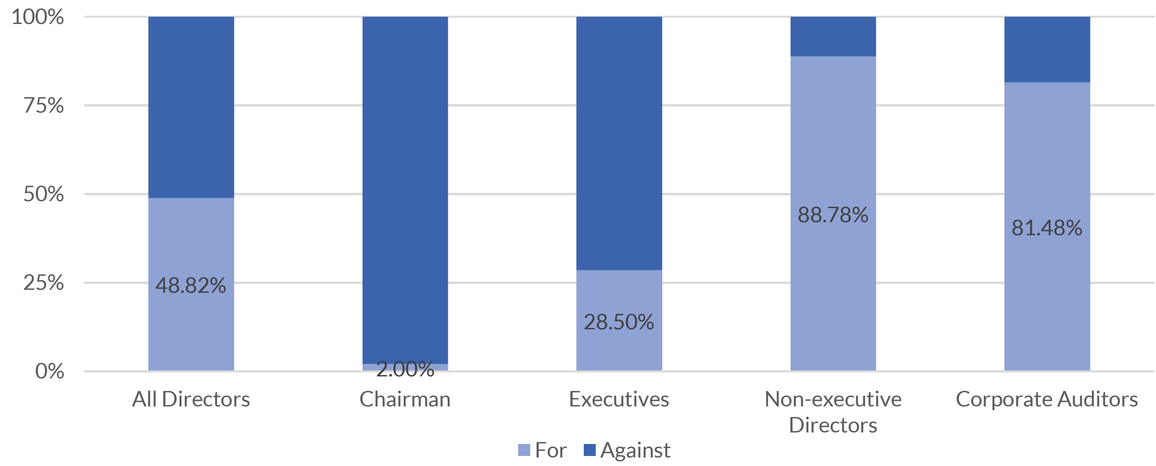
7.3 Board

Table 20 summarises Japanese board structures.

Table 20: Japanese Board Structures

BOARD STRUCTURE	EXPLANATION
CORPORATE AUDITORS SYSTEM	This is the dominant structure in Japan. The board of directors has ultimate responsibility for administration of the company's affairs and monitoring of the execution of business by directors. Companies with the system are not obliged to appoint an independent director, although company law requires companies to provide an explanation if none are appointed and the Governance Code recommends boards to have at least two independent directors. The board of corporate auditors must include some outside corporate auditors and is independent of the company's finance and reporting functions. The corporate auditors make decisions concerning audit policies, duty assignments and other relevant matters. Each corporate auditor attends board of directors' meetings and other important meetings, audits the execution of duties by the directors and reports to shareholders.
COMMITTEE SYSTEM	This system is based around a unitary board with audit, nomination and remuneration committees given the authority to make decisions on issues including candidates for the board, audits concerning the business execution of directors and executive officers, and compensation for directors and executive managing directors. Under the committee system, the directors are primarily responsible for the oversight of management. This system resembles the board structure seen in the UK and other markets.
SUPERVISORY SYSTEM	In this structure, a supervisory committee comprised of three or more directors, with a majority of outside directors, audit the management of the company instead of a corporate auditor board. Such directors have a term of office of two years, rather than the one-year term for other directors, and are appointed by shareholders separately from other directors. Supervisory committee members are also directors and can therefore vote at board meetings.

Figure 9: NILGOSC Director Elections Voting Direction Japan



In line with market good practice NILGOSC set its independence requirement at one-third independent directors in the Japan market. NILGOSC registered its dissent in cases where there were too few independent non-executive directors on companies' boards by opposing the (re-)election of executive directors and non-independent non-executive directors.

In addition, NILGOSC opposed non-independent non-executives that sat on board committees where committee composition concerns were held, and non-independent corporate auditors where the statutory auditor board was not majority independent. Non-executive directors averaged 3.49% dissent and corporate auditors 1.94%.

NILGOSC opposed 49 of 50 (re-)elections of board chairs. The most common reasons for opposition were that the chair was considered non-independent, typically because the roles of the chair and CEO were combined, and there was no lead independent director appointed; the board had insufficient independent representation; the company had received a low Manifest Say on Sustainability Grade; there was no disclosure on board performance evaluation; and there was no disclosure in relation to either cybersecurity, risk, strategy, or management. In addition, NILGOSC held the chair accountable when a company paid a dividend yet did not put forward a resolution to approve the distribution. Chairman (re-)elections received average shareholder dissent of 5.31% and executive director (re-)elections 3.55%.

Table 21: High Shareholder Dissent – Directors Japan

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Minebea Mitsumi Inc	Takashi Matsuoka	21.69%	Passed	**Against**	The nominee was considered non-independent and the Board was considered to be insufficiently independent.
Eisai Co Ltd	Bruce Aronson	20.12%	Passed	**Against**	The nominee was considered non-independent and the Board was considered to be insufficiently independent.
Eisai Co Ltd	Yasuhiko Katoh	20.09%	Passed	**Against**	The nominee served as Board Chairman and NILGOSC was concerned that a dividend had been paid yet no resolution to approve the distribution had been put forward.
Shin-Etsu Chemical Company Ltd	Chihiro Kanagawa	16.48%	Passed	**Against**	The nominee served as Chairman and was considered non-independent due to serving in an executive capacity and no Lead Independent Director had been appointed. In addition, NILGOSC also held concerns with the level of independence on the Board and the number of other directorships held by the nominee.
SMC Corp	Yoshiyuki Takada	13.12%	Passed	**Against**	The nominee served as Chairman and was considered non-independent due to serving in an executive capacity and no Lead Independent Director had been appointed. In addition, the Company had received a low Manifest Say on Sustainability Grade and there were concerns with the level of independence on the Board.

7.4 Remuneration

In the Japan market NILGOSC voted against all 10 short-term incentive proposals and all eight non-executive remuneration related resolutions. In addition, NILGOSC voted against 15 of 17 LTIP resolutions during the period under review. The most common issues identified on remuneration related resolutions were;

- The remuneration of the directors was not individually disclosed;
- The length of the performance period and/or vesting period for LTIP awards was considered too short;
- An upper limit had not been set or disclosed in respect of a LTIP;
- The nature of the performance targets under the annual bonus scheme had not been disclosed;
- The LTIP performance conditions had not been disclosed; and
- The exercise of share options and/or the vesting of share awards were not subject to performance conditions.

Average shareholder dissent on remuneration related resolutions in Japan amounted to 3.80% with short-term incentive resolutions receiving the highest average dissent (6.16%).

The resolution to approve bonus payments to directors at Daiwa House Industry Company Ltd recorded the highest dissent level of 18.47% in the Japan portfolio. NILGOSC voted against the resolution due to the lack of disclosure on performance targets, individual awards, and the participation of non-executive directors.

7.5 Shareholder Proposals

NILGOSC voted on 10 shareholder proposals in Japan, of which seven were proposed at Mitsubishi UFJ Financial Group. NILGOSC supported three proposals at Mitsubishi UFJ which sought to improve governance practices. The supported proposals requested enhanced remuneration disclosure, adoption of a policy requiring the separation of the roles of chairman and CEO, and a strengthening of the proxy voting procedure at subsidiary companies. Whilst the three proposals were not successful they did receive a high level of support from shareholders (all over 30%). The other four proposals received less than 4% support each.

At Itochu Corp NILGOSC supported two shareholder proposals requesting an amendment to the articles of association concerning treasury shares and the cancellation of shares currently held in treasury. As the article amendment proposal was defeated, receiving 25.01% support, the cancellation proposal was withdrawn.

NILGOSC also voted against a proposal requesting an amendment to the articles of association concerning the threshold for the Board to seek shareholder approval of acquisitions at Takeda Pharmaceutical Company Ltd. The proposal was defeated after it received 10.43% votes in favour.

8 Rest of the World

8.1 Summary

- Annually NILGOSC voted at 85 events at 72 companies. There were 69 AGMs, 13 EGMs, 2 OGMs, and 1 SGM.
- NILGOSC voted in opposition to management on 323 (42.95%) of 752 resolutions proposed by management, whilst management provided no recommendation on two resolutions.
- NILGOSC voted against four management resolutions that were defeated. Three were director elections and one a share issue authority. Two additional share issue authorities that NILGOSC supported were defeated due to receiving an insufficient majority.
- There were three resolutions proposed by shareholders in the Rest of the World region, one of which was successful. At Bezeq-Israeli Telecom NILGOSC supported a shareholder nominated director and voted against the Board nominee and an additional shareholder nominee as part of a contested election. The nominee backed by NILGOSC received the largest number of votes cast in favour and was therefore appointed to the Board. NILGOSC also supported a proposal at Commonwealth Bank of Australia Ltd requesting a clause be inserted into the Company's constitution to ensure the Board manages the business of the Company with the objective of holding global warming to below two degrees Celsius.

8.2 Dissent by Resolution Category

Table 22 shows the number of resolutions opposed by NILGOSC as a percentage per defined resolution categories.

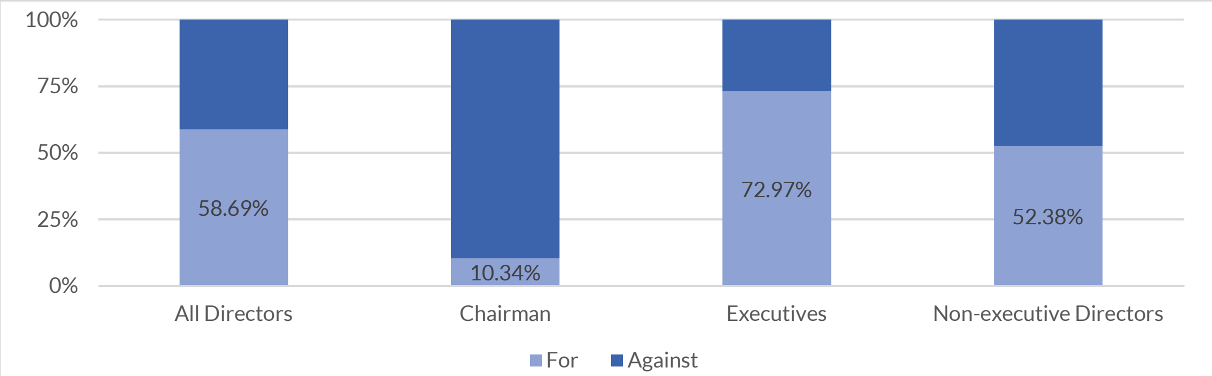
Table 22: NILGOSC Dissent by Resolution Category within the Rest of the World

CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	309	40.52%	3.60%	NILGOSC opposed 42.39% of director (re-) elections. NILGOSC also voted against three board committee related resolutions, two board composition related resolutions and two other board/director related resolutions.
Capital	140	37.86%	7.28%	NILGOSC opposed 70% of share buyback resolutions and 68.29% of resolutions to issue shares. NILGOSC also voted against two bonds & debt resolutions, one capital structure related resolution, and one dividend approval.
Audit & Reporting	131	60.77%	1.32%	NILGOSC opposed 73.85% of report & account resolutions and 63.83% of auditor (re-)elections. NILGOSC also opposed one resolution to appropriate profits as the dividend was not covered by earnings.
Remuneration	98	56.12%	7.44%	NILGOSC voted against 75.00% of remuneration reports and all three remuneration policy approvals. In addition, NILGOSC opposed 80% of LTIP resolutions, all resolutions seeking to approve an individual share award to a director, and 39.98% of resolutions relating to non-executive remuneration.
Shareholder Rights	56	5.56%	4.61%	NILGOSC opposed three article of association amendment resolutions in this category.
Corporate Actions	16	12.50%	2.65%	NILGOSC opposed two resolutions under this category due to insufficient disclosures in the meeting notice.
Sustainability	3	66.67%	1.01%	NILGOSC opposed an authority for the board to make external donations due to disclosure concerns and supported a shareholder proposal on climate change risk.

**Dissent does not include resolutions where management gave no recommendation. There were six 'Other' resolutions in the Rest of the World.*

8.3 Board

Figure 10: NILGOSC Director Elections Voting Direction Rest of the World



NILGOSC voted against 26 of 29 chairman (re-)election resolutions and shareholder dissent averaged 4.95%. The most common policy issues were that the board chair was not independent and no lead independent director had been appointed, there was no disclosure to suggest that non-executives held meetings without the executives present, and the chair held a significant number of other directorships raising concerns over their aggregate time commitments.

NILGOSC typically opposed executive director (re-)elections within the Rest of the World portfolio where the executive director also served as board chair. NILGOSC also opposed resolutions where an executive sat on an insufficiently independent committee and/or held an excessive number of other directorships. Executive directors averaged general shareholder dissent of 3.96%.

NILGOSC voted against non-executive directors in instances where the board and/or committee composition subsequent to that appointment would have fallen short of recommended local market good practices due to independence concerns. Other issues included committee specific issues, such as the audit committee's oversight of audit fees, and overboarding and attendance concerns. NILGOSC voted against 47.62% of non-executive directors standing for (re-)election. The average general shareholder dissent on non-executive directors was 3.52%.

One director election was defeated at Bezeq-Israeli Telecom and two at Bank Leumi Le-Israel BM. At Bank Leumi the elections were contested with two candidates standing for a position on the Board and two candidates standing for a position as statutory external director, in both cases NILGOSC supported the successful candidate and opposed the unsuccessful candidate. Whilst the Company disclosed the resolution outcomes, it did not disclose the poll data.

As was the case in other markets, NILGOSC voted against the election of directors standing for election by way of a slate in the Rest of the World market. NILGOSC considers it good practice for directors to be elected on an individual basis, rather than by way of slate which limits individual director accountability.

Table 23: High Shareholder Dissent – Directors Rest of the World

COMPANY	COUNTRY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Techtronic Industries Co Ltd	Hong Kong	Christopher Patrick Langley	47.09%	Passed	**Against**	The nominee was not independent and the Board was insufficiently independent. In addition, the nominee sat on the Remuneration Committee.
Bezeq-Israeli Telecom	Israel	Hagai Herman	33.35%	**Defeated**	**Against**	The nominee was not considered independent and was a member of the Audit and Remuneration Committees.
Brambles Ltd	Australia	Stephen Johns	24.89%	Passed	**Against**	The nominee was not independent and served as Chairman and no Lead Independent Director had been appointed and concerns were held with Board independence.
CK Asset Holdings Ltd	Hong Kong	Tak Chuen Ip	24.50%	Passed	**Against**	The executive director held a significant number of other directorships.
Hang Lung Properties Ltd	Hong Kong	Ronald Arculli	23.67%	Passed	**Against**	The nominee held a significant number of other directorships and there were concerns relating to the director's attendance at Board meetings.

8.4 Remuneration

8.4.1 Remuneration Report and Remuneration Policy

NILGOSC voted against nine of 12 remuneration report approvals and the resolutions averaged 15.58% shareholder dissent. Karoon Gas Australia Ltd and Nampak Ltd both received shareholder dissent in excess of 30% and NILGOSC opposed the remuneration reports at both companies. NILGOSC voted against all three remuneration policy resolutions put forward in the region. The policy resolutions averaged 17.75% dissent with the resolution at Nampak Ltd recording the highest level of dissent of 37.61%. Concerns at Nampak included a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, no clawback provisions, a large salary increase granted to the CEO, excessive termination provisions, and no limit under the LTIP and a high level of award made under the plan.

8.4.2 Level of Director's Fees

NILGOSC voted against 38.98% of 59 resolutions pertaining to the level of director fees. The most common causes for opposition were remuneration not being disclosed on an individual basis and non-executives receiving remuneration other than director fees. NILGOSC continues to push companies to provide adequate disclosures on remuneration and considers aggregate remuneration disclosures insufficient to take informed voting decisions.

8.4.3 Incentive Pay

NILGOSC opposed all 12 resolutions seeking to grant a share award to an individual director due to concerns over the length of the performance period for awards, the lack of disclosure on clawback provisions, and concerns with the size of the award. The resolutions received average shareholder dissent of 16.25% and two resolutions to grant options and shares to executives at Karoon Gas Australia Ltd received dissent in excess of 40%. NILGOSC also voted against eight of 10 LTIP resolutions due to the same policy concerns, LTIP resolutions averaged 6.38% dissent.

8.5 Audit & Reporting

8.5.1 Report & Accounts

NILGOSC voted against 73.85% of report & account approvals during the period under review and such resolutions averaged 1.01% dissent. The most common concerns related to sustainability reporting and disclosure issues as to whether non-executive directors met independently of the executives or if a board evaluation process was in place. In a number of cases the lack of availability of an English language version of the annual report in advance of the AGM was a contributing factor. It remains a matter of concern for institutional investors that the annual report and meeting documentation are available in English in a timely fashion ahead of the international proxy voting deadline.

8.6 Capital

8.6.1 Capital Authorities

NILGOSC voted against 68.29% of share issue resolutions with the primary reason being that the authority, or aggregate authorities, sought for the dis-application of pre-emption rights exceeded 10% of the share capital. Share issue resolutions received average dissent of 20.16% and one authority opposed by NILGOSC was defeated. The resolution would have granted the Techtronic Industries Board the authority to issue shares without pre-emption rights up to 20% of the issued share capital. The limit could also have been extended to 30% through the inclusion of repurchased shares pursuant to a buyback authority. The resolution to extend the authority was also defeated after it failed to receive a sufficient majority. A share issue authority at PPC Ltd was also defeated after failing to reach a sufficient majority.

NILGOSC opposed 70% of proposals to allow a company to make market purchases of its own shares and such resolutions received average dissent of 0.98%. The key issue for opposition concerned creeping control concerns in respect of a major shareholder that could see an increase in the percentage of the share capital they held.

8.7 Shareholder Proposals

There were three resolutions put forward by shareholders in the Rest of the World region. Two proposals concerned nominees put forward by shareholders as an alternative to Board nominee Hagai Hermann at Bezeq-Israeli Telecom. NILGOSC voted against Hermann's re-election due to independence concerns regarding his involvement in the discussions concerning the YES acquisition, which is under investigation for fraud, and membership of key committees. NILGOSC supported the appointment of shareholder nominee Zeev Wurmbrand and voted against the other nominee. Wurmbrand was appointed to the Board after receiving the highest number of votes cast in favour.

The other shareholder proposal took place at the Commonwealth Bank of Australia Ltd and requested the Board to embed the effective management of climate change risk into Company constitution with the objective of holding global warming to below two degrees Celsius above pre-industrial levels. NILGOSC supported the proposal and it received 2.76% support.

9 Conclusion

As direct owners of shares, NILGOSC can have a positive influence on the running of the companies they invest in on members' behalf. Most shares give their owners a right to vote on some company decisions, including things such as whether to take over another company or approve executive remuneration. Voting usually takes place at each company's AGM.

Voting shares is therefore a pivotal tool through which shareholders voice their opinion and act as good stewards. Should an investor use its governance preferences purely as a means of selecting companies in which to invest, the choice would be between compromising the investible universe of companies (not a choice which sits comfortably alongside the fiduciary obligation to maximise returns on investment – some risk has to be taken on in order to obtain RoI) or compromising the values of the investor.

There is therefore a fiduciary duty for investors, especially public sector pension funds who hold shares on behalf of thousands of individual members, to hold management to account for the corporate culture of some of our largest companies as economic actors and for their social and environmental impact. Many of the voting rights shareholders have today have been granted over time with company law developments largely being granted in response to public policy problems caused by failures of governance, of which the recent financial crisis is a typical example. The recent cases of BHS, Carillion and Sports Direct in the UK have also led to a push for governance reform.

NILGOSC in total opposed 35% of resolutions, showing its active approach to voting. During the period, 10 management proposed resolutions NILGOSC opposed were defeated and NILGOSC supported 15 successful shareholder proposals.

NILGOSC's overall dissent has increased by 4.4 percentile points from last year whilst general shareholder dissent has remained at 4.4% - although it should be noted that shareholder dissent on Shareholder Rights resolutions increased by 3.6%. NILGOSC's dissent has increased in each resolution category type with remuneration related resolutions seeing a 15.9% increase. NILGOSC's dissent level continues to stand significantly higher than the average shareholder dissent.

As was the case last year, NILGOSC recorded the highest level of dissent in the Japan portfolio, although NILGOSC's dissent in the region has fallen by 5.1%. This year, North America was the portfolio with the second highest level of dissent, overtaking the Rest of the World portfolio, after NILGOSC's dissent increased by 7.1% in the region. In the Japan and Rest of the World portfolios there are still concerns about the relatively lower levels of disclosure and governance standards, whilst in North America the number of shareholder proposals, combined with investors coming from a UK governance perspective expecting a high standard of governance, contributed to NILGOSC's high dissent level in the region.

There were 211 shareholder proposals put forward during the year, up from 187 last year. The majority of shareholder resolutions were proposed in North America (89.10%), where, in the absence of a corporate governance code, active shareholders make use of shareholder resolutions as a tool to try and improve corporate governance practices at companies. Of the 15 successful shareholder proposals that NILGOSC supported, 13 were filed in North America, and one each in Europe and the Rest of the World. Four requested the removal of supermajority voting provisions, two were director elections, two requested the introduction of annual director elections, two concerned climate change risk reporting, two sought amendments to the shareholder right to call special meetings, and one resolution each related to proxy access provisions, the right to take action by written consent and sustainability reporting.

Board and remuneration related resolutions continue to be most flagged by NILGOSC's voting template, which is reflected in the level of NILGOSC dissent. Taken together, board and remuneration resolutions accounted for 73.3% (2017: 74.4%) of all NILGOSC's dissenting votes. Hence it may be plausible to question whether companies attribute significance to the quality of board input, as well as their approach and attitude towards pay for performance.

Director (re-)elections are the key point of accountability between the board and shareholders. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable and that a wide number of considerations are taken into account. 53% of all NILGOSC's contrary votes were on board related resolutions and NILGOSC opposed management on 31.7% of all board resolutions. In the previous reporting period NILGOSC opposed management on 28% of board resolutions. NILGOSC's dissent on board resolutions was up in all portfolios excluding Japan where it fell by 6.5%, whilst North America saw the largest increase of 4.6%.

The second most common group of policy issues identified relate to remuneration. The remuneration related issues most commonly flagged related to Manifest's Remuneration Grade assessment, whether the length of performance and/or vesting period was suitably long-term, the level at which the potential for executive pay was capped, a lack of individualised remuneration disclosure (largely occurring in the Japan and Rest of the World portfolios), and a lack of disclosure to indicate that clawback and/or malus provisions were in place for long-term incentives.

NILGOSC opposed management on 64.69% of all remuneration related resolutions, including 81.7% (2017: 80.4%) of all remuneration reports. Four remuneration reports were defeated in the period (one in UK & Ireland and three in North America). NILGOSC also opposed 86.7% (2017: 68.2%) of LTIP resolutions and 63.5% (65.1%) of policy resolutions.

The debate on corporate governance continues to grow in importance, and the quality of governance scrutiny, and the perception of its importance, is on the increase. It is up to asset owners like the Northern Ireland Local Government Officers' Superannuation Committee to ensure that the quality and focus of this scrutiny is maintained by professional investors.