Review of Proxy Voting 2019

Prepared by:

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1 Introduction

1.1 Overview of the report

The report details the voting activities of the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) for the period 1 July 2018 to 30 June 2019. 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 Minerva and the data subsequently analysed in terms of dissent. Minerva 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 Minerva'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 during 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. Section 9 examines carbon disclosures within the NILGOSC UK & Ireland and US portfolios.

1.2 Voting Policy

NILGOSC has an agreed bespoke voting policy for which Minerva generates voting guidance for NILGOSC officers. NILGOSC's voting policy preferences are defined on Minerva'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 governance and sustainability disclosures and the meeting business to be voted on by shareholders using Minerva'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. NILGOSC's policy takes a robust and objective approach to the guidance that it generates in order to ensure a consistent application of the fund's principles. 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, who will take all available information into account when exercising NILGOSC's voting rights.

2 Executive Summary

2.1 Regions & Countries

NILGOSC voted at 320 shareholder meetings held by 294 companies annually (1 July 2018 to 30 June 2019). These companies are listed in the following jurisdictions:

UK & Ireland: Ireland, United Kingdom

Europe: Czechia, Denmark, Finland, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland

Japan: Japan

North America: Canada, United States

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

2.2 United Kingdom and Ireland

NILGOSC voted at 63 meetings held by 57 UK and Irish Companies. The UK & Ireland region represented the second largest number of resolutions voted (1,095). Management recommended shareholders to vote in favour of 1,093 resolutions, including one shareholder proposal, and against two shareholder proposals. NILGOSC voted in opposition to management on 195 (17.81%) of 1,095 resolutions. During the period there were no management proposed resolutions defeated and there was one successful shareholder proposal. A proposal at BP plc requesting a report on how the Company's strategy is aligned with the Paris climate accord was successful receiving 97.72% shareholder support. The BP Board had recommended shareholders vote in favour of the proposal.

2.3 North America

NILGOSC voted at 131 company meetings held by 126 North American companies. North America was the region with the largest number of events and resolutions (1,641). NILGOSC voted in opposition to management on 686 (44.72%) of 1,534 management proposed resolutions. The remuneration reports at Netflix Inc and PTC Inc were defeated and NILGOSC voted against both resolutions. There were 107 shareholder proposals put forward in the region and NILGOSC voted in favour of 89 (83.18%). Management recommended voting against all but one shareholder proposal. The Anthem Inc Board provided no recommendation on a proposal requesting the introduction of annual director elections. The Anthem proposal and three further shareholder proposals were successful. The other successful proposals requested the introduction of the majority vote standard on director elections (Intuitive Surgical Inc and Netflix Inc) and the removal of supermajority voting provisions (Norfolk Southern Corp).

2.4 Europe

There were 32 shareholder meetings at 32 companies in the Europe portfolio resulting in 527 resolutions. NILGOSC voted in opposition to management on 168 (31.94%) of 526 management proposed resolutions. NILGOSC opposed all remuneration policy votes, all remuneration reports and all long-term incentive resolutions in the market. There was one shareholder proposal in the Europe region. The proposal was put forward at Danish group Novo Nordisk and requested the Company to reduce the price of insulin and other products if the Company's return on equity exceeds 7%. NILGOSC voted against the proposal and while voting results were not disclosed, the Company stated the resolution was defeated.

2.5 Japan

NILGOSC voted on 289 resolutions at 23 AGMs and 2 EGMs held by 25 Japanese companies. NILGOSC voted in opposition to management on 96 (33.33%) of 288 management proposed resolutions. There was one shareholder proposal in the region, compared to five in the previous year. The proposal was put forward at Mizuho Financial Group, requesting the bank publicly oppose the Bank of Japan's negative interest rate policy. NILGOSC considered inserting a provision into the articles requiring the bank to oppose current government policy would be too prescriptive and would limit flexibility. The proposal was defeated, receiving 6.30% support.

2.6 Rest of the World

NILGOSC voted at 69 events at 54 companies, there were 49 AGMs, 16 EGMs, 2 GMs, 1 OGM and 1 SGM. NILGOSC voted in opposition to management on 216 (39.13%) of 552 resolutions proposed by management. Management recommended shareholders to vote against one resolution. The resolution occurred at Karoon Energy Ltd and was a 'board spill' resolution, whereby if approved, and if the remuneration report received an against vote of 25% or more, the directors would have to stand for re-election at a general meeting held within 90 days of the AGM. 'Board spill' resolutions form part of the Australian 'say on pay' regime. Karoon's remuneration report was defeated receiving 63.52% dissent and NILGOSC voted against its adoption. There were no resolutions put forward by shareholders in the region.

2.7 Key Policy Issues

NILGOSC voted contrary to management on 35.32% of resolutions (excluding resolutions with no management recommendation) during the annual period (1 July 2018 to 30 June 2019), demonstrating an active approach to share voting. This is largely unchanged from last year's dissent of 35.03%.

During the period under review, eight management-proposed resolutions where NILGOSC voted contrary to management recommendation were defeated (inclusive of say-on-pay frequency votes in the US) and NILGOSC supported five successful shareholder proposals. In the previous year, 10 management proposals NILGOSC opposed were defeated (inclusive of say-on-pay frequency votes in the US) and NILGOSC supported 15 successful shareholder proposals.

The general average dissent level (i.e. the meeting results data) for the year was 4.54% (2018: 4.43%), thus it can be assumed that shareholders tend to support management to a considerable extent. Both NILGOSC and general average shareholder dissent levels, whilst slightly up, have stayed relatively flat from the previous year.

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). By contrast, where opposition was expressed, it was often at a very high level, suggesting a more targeted approach on the part of investors. The recently adopted Companies (Miscellaneous Reporting) Regulations 2018 may further impact shareholder voting behaviours on remuneration in the UK.

NILGOSC opposed board related resolutions more than any other category. Approximately half (50.93%) of all dissenting votes were within this category, with remuneration the next largest source of dissenting votes (20.91%), followed by audit & reporting (16.70%). The overall majority of policy flags[1] were recorded in the following resolution categories - board related resolutions had in aggregate 2,041 policy flags in comparison to 608 for remuneration, 513 for audit & reporting, 195 for capital, 129 for sustainability, 68 for corporate actions, 49 for shareholder rights and four 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 58.33% of resolutions voted, when considering the large number of board related policy flags. The overall number of policy flags is smaller than last year's count of 5,993. This is due to the smaller number of resolutions voted during the year, meaning a reduced opportunity for a policy flag.

Corporate governance is important to investors because it defines the system of checks and balances between the directors of the company and its owners. Hence, good governance is the first step to effective risk management and sustainable long-term returns. 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 and remuneration-related resolutions prove to be the most consistently contentious resolution category of those routinely and predominantly proposed by management. Remuneration packages are increasingly complex, with both fixed and variable elements. Voting decisions are based on the absolute levels of pay for the past year, the size of any increases proposed for the coming year and the alignment between performance targets and company strategy.

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 and regulatory initiatives. It should be noted that key governance themes such as remuneration practices and board composition should be assessed over the longer term when looking for changes in company practices and should be considered to be an evolution process over time.

[1] NILGOSC's voting policy preferences are defined on Minerva's research and advisory systems, thereby producing a voting policy template 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 4,104 resolutions during the period under review, 1 July 2018 to 30 June 2019, 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	124	7	131	1621	20	1641	13.07	2.86	12.53
UK & Ireland	54	9	63	1078	17	1095	19.96	1.89	17.38
Rest of the World	49	20	69	493	59	552	10.06	2.95	8.00
Europe	27	5	32	510	17	527	18.89	3.40	16.47
Japan	23	2	25	270	19	289	11.74	9.50	11.56
TOTAL	**277**	**43**	**320**	**3,972**	**132**	**4,104**	**14.34**	**3.07**	**12.83**

Company law in most jurisdictions sets 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 (re-)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 and excluded the resolutions from dissent analysis.

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 management recommendation on 35.32% 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 all but two shareholder proposals, recommending support for one proposal and providing no recommendation on the other proposal

The overwhelming number of resolutions were proposed by management, with 2.73% of resolutions proposed by shareholders, a slight decrease on the proportion in the prior year (2.98%). 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 (95.54%), 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. The remaining shareholder proposals took place in the UK & Ireland (3), Europe (1) and Japan (1).

3.3 NILGOSC Annual Voting

Table 2: NILGOSC Annual Voting Direction

MANAGEMENT RECOMMENDATION	NILGOSC VOTING				
	FOR	ABSTAIN	WITHHOLD	AGAINST	TOTAL
For	2,628	7	95	1,256	**3,986**
Abstain	1	5	-	-	**6**
Against	90	-	3	18	**111**
No Recommendation	1	-	-	-	**1**
TOTAL	**2,720**	**12**	**98**	**1,274**	**4,104**

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 shows 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.

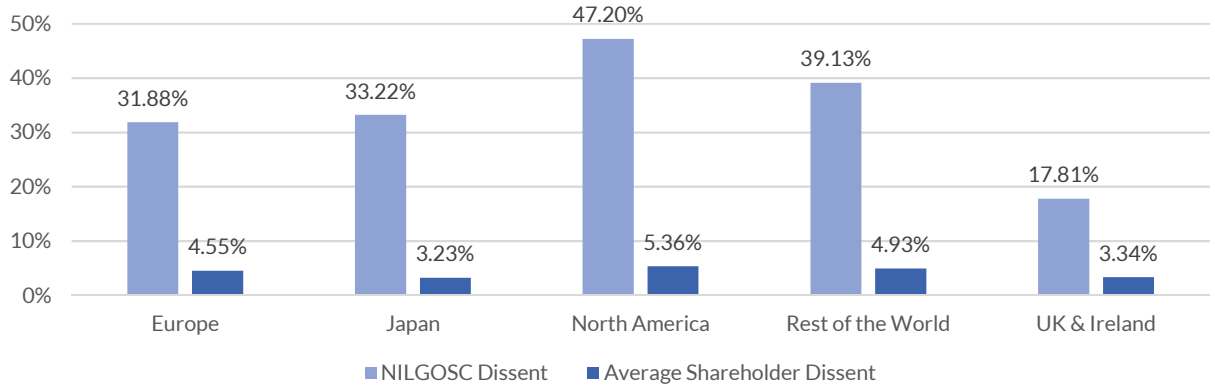
Table 3: Annual NILGOSC Dissent by Resolution Category

RESOLUTION CATEGORY	TOTAL NUMBER OF RESOLUTIONS PROPOSED	NILGOSC DISSENT*	AVERAGE SHAREHOLDER DISSENT**
Audit & Reporting	471	51.38%	1.38%
Board	2,394	30.84%	3.82%
Capital	510	18.24%	3.73%
Corporate Actions	53	7.55%	7.88%
Other	4	100.00%	-
Remuneration	440	69.09%	9.11%
Shareholder Rights	146	13.70%	7.05%
Sustainability	86	51.16%	15.91%
TOTAL	**4,104**	**35.32%**	**4.54%**

**NILGOSC Dissent excludes resolutions where management provided no recommendation/*

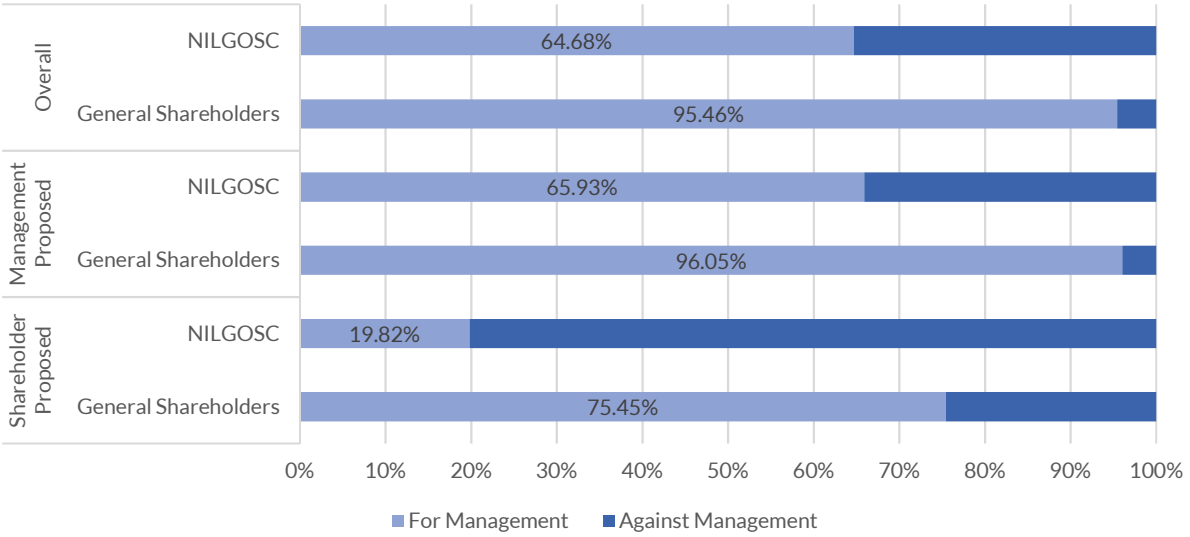
***Average Shareholder Dissent calculated from resolutions in respect of which shareholder voting results were available. All four "Other" resolutions were withdrawn.*

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 2019, Minerva has been able to collect poll data in respect of 90.89% of all resolutions. On a regional basis, Minerva has collected voting results for 61.94% of the Japan portfolio at the time of analysis. Readers should therefore be careful in generalising from the results from the market. 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: NILGOSC 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 4.54% - in other words, an approval rating of more than 95%. In terms of management proposed resolutions, general shareholder dissent stood at 3.95% whereas, for shareholder proposed resolutions, it stood at a higher level of 24.55%. This shows that shareholders are more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution.

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 1,449 occasions, which constitutes an overall average opposition level of 35.32% (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, 80.18% compared to 34.07%. It is recognised that 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 63 meetings held by 57 UK and Irish Companies. UK & Ireland represents the second largest number of resolutions voted (1,095).
- Management recommended shareholders to vote in favour of 1,093 resolutions, including one shareholder proposal, and against two shareholder proposals. NILGOSC voted in support of management on 82.19% of resolutions.
- All management resolutions passed during the period.
- There were three shareholder proposals in the region, of which NILGOSC supported two. A proposal requesting BP plc to produce a report on how the Company's strategy is aligned with the Paris climate accord was successful. The BP Board recommended shareholders support the proposal and NILGOSC backed the proposal.

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 UK & Ireland

RESOLUTION CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	482	16.80%	2.97%	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	270	6.30%	2.45%	NILGOSC opposed 10.64% of dividend resolutions, mainly due to dividend cover concerns. All remaining oppositional votes within this category pertained to capital authorities, namely share issues and share buybacks.
Audit & Reporting	158	27.22%	1.02%	NILGOSC opposed 18.52% of resolutions seeking to (re-)elect auditors and 60.00 % of resolutions to approve report & accounts.
Remuneration	94	53.19%	10.65%	NILGOSC opposed 57.14% of remuneration policy approvals, 53.70% of remuneration reports and all LTIP resolutions.
Shareholder Rights	46	6.52%	5.31%	NILGOSC opposed resolutions seeking authority to waive rule 9 of the takeover code and one resolution to approve shorter notice periods for ordinary general meetings, other than AGMs.
Sustainability	30	3.33%	4.03%	NILGOSC voted against the adoption of the sustainability report at International Consolidated Airlines.
Corporate Actions	15	0.00%	0.58%	NILGOSC voted in-line with management on all corporate actions-related resolutions.

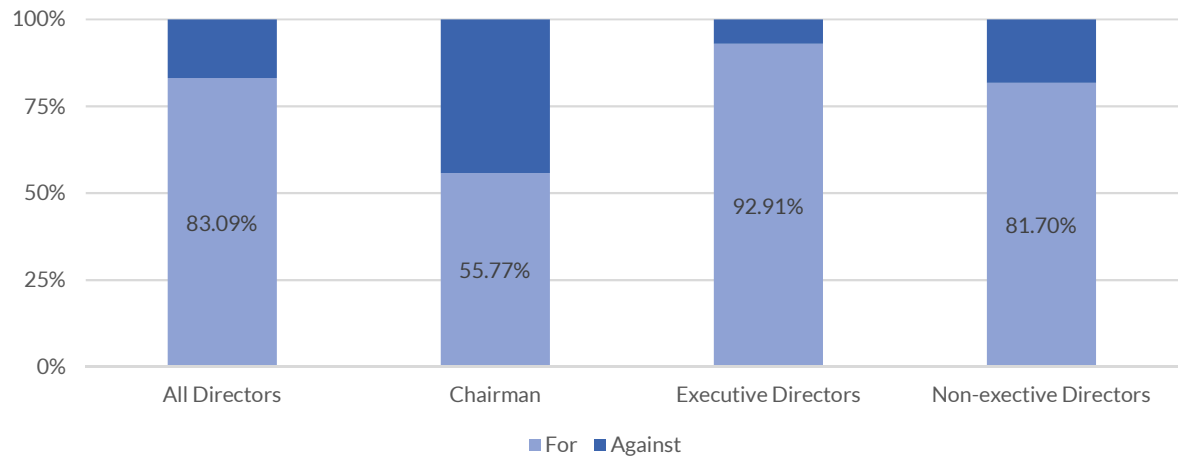
**Dissent = (Votes Abstain + Votes Against)/ Total votes cast. Discretionary votes are assumed to be voted in favour of the management.*
**Based on NILGOSC portfolio and voting results availability.*

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 2018 UK Corporate Governance Code removed the small company exemption on annual re-elections meaning the number of director elections in the market is expected to increase. During the period covered in this report, 43.56% of all resolutions proposed in this market related to director elections.

Figure 3: NILGOSC Director Elections Voting Direction UK & Ireland



4.3.1 Chairman

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 explains the large level of votes against board chairs.

The most common reasons for against votes on the chair of the board related to where the chair also served as chair of the nomination committee and concerns were held with progress on board diversity and where no gender and/or ethnic diversity target had been disclosed. The next most common concern was that the chair previously served as the company's CEO. Chairman (re-)elections received average general shareholder dissent of 7.51%.

Table 5: High Shareholder Dissent – Chairman UK & Ireland

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Playtech plc	Alan Jackson	38.43%	Passed	**Against**	The nominee served as Chair of the Nomination Committee and no Lead Independent Director had been appointed.
Ryanair Holdings plc	David Bonderman	32.72%	Passed	**Against**	Concerns had been held regarding the grant of remuneration other than fees to the Chairman, as NILGOSC felt this may compromise independence. In addition, concerns had been held with the number of other listed roles held by the nominee.
Renishaw plc	David McMurtry	24.15%	Passed	**Against**	NILGOSC was concerned that the nominee served as Board Chair in an executive capacity, thereby limiting the Board's role to hold executive management accountable. Concerns were also held regarding the Company's progress on gender diversity.
Abcam plc	Peter Allen	22.33%	Passed	**Against**	The nominee served as Chair of the Nomination Committee and concerns were held regarding the number of independent directors on the Board.
Softcat plc	Martin Hellawell	18.65%	Passed	**Against**	The nominee had previously served as the CEO of the Company. 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. Concerns were also held regarding the Company's progress on gender diversity.

4.3.2 Executive Directors

NILGOSC voted against nine 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, the lack of disclosure of the executive's notice period, and the combination of an executive role with the role of company secretary. Executive directors received average general shareholder dissent of 1.37%.

4.3.3 Non-executive Directors

The UK Code recommends that at least half the board, excluding the chair, should be comprised of independent non-executive directors. 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 average general shareholder dissent of 3.39%.

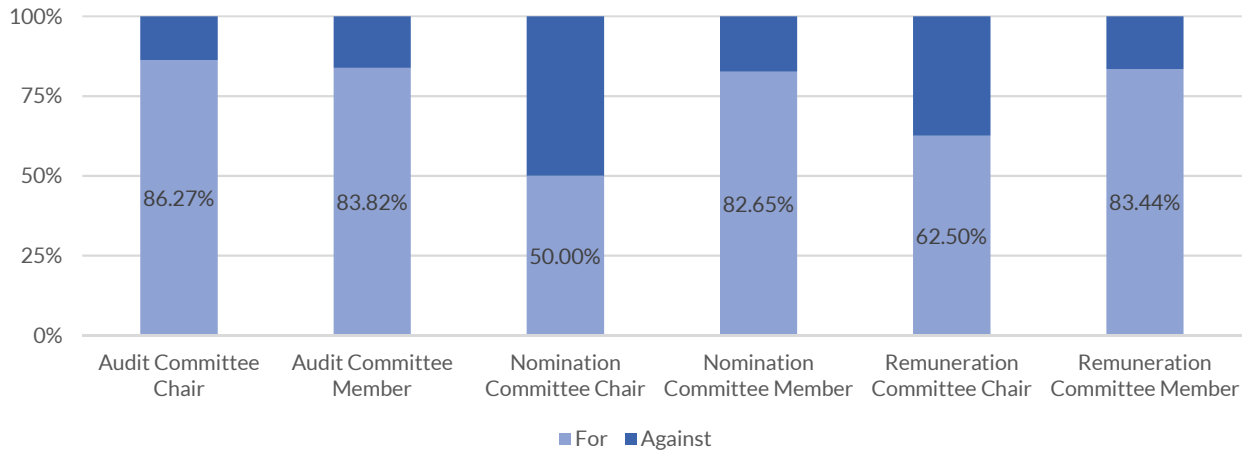
NILGOSC opposed 26.67% of (re-)elections of lead independent directors. Many lead independent directors are members of committees and may act as committee chairs, so when an independence issue was identified for such a director, or concerns were held with a committee's oversight functioning, NILGOSC voted against their (re-)election. Lead independent directors received average shareholder dissent of 4.45%.

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

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Ryanair Holdings plc	Kyran McLaughlin	35.89%	Passed	**Against**	Concerns had been held regarding the grant of remuneration other than fees to the non-executive directors, as NILGOSC felt this may compromise independence. NILGOSC had been concerned there was an insufficient number of independent directors on the board.
Games Workshop Group plc	Christopher Myatt	32.18%	Passed	**Against**	The nominee served as Chair of the Audit Committee and the auditor provided non-audit services however no policy on how auditor objectivity and independence is safeguarded had been disclosed.
Ryanair Holdings plc	Howard Millar	22.92%	Passed	**Against**	Concerns had been held regarding the grant of remuneration other than fees to the non-executive directors, as NILGOSC felt this may compromise independence. NILGOSC had been concerned there was an insufficient number of independent directors on the board.
Ryanair Holdings plc	Michael Cawley	19.60%	Passed	**Against**	The nominee chaired the Nomination Committee and there was an insufficient number of independent directors on the board.
CoCo Group plc	Angela Seymour-Jackson	19.22%	Passed	**Against**	The nominee was considered non-independent and was a member of the Audit and Remuneration Committees.

4.3.4 Board Committees

Figure 4: NILGOSC Board Committees Voting Direction UK & Ireland



As Figure 4 shows, NILGOSC is generally 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 4.99%, with nomination committee chairs receiving 7.45%, remuneration committee chairs 4.57%, and audit committee chairs 3.09%. NILGOSC opposed a higher proportion of audit committee members than chairs due to independence concerns identified with members.

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 lack of disclosure of a diversity policy, lack of disclosure of a gender diversity target, and poor progress on female board representation. Gender diversity has been an issue of focus for investors since the 2011 Davies Review. The Hampton-Alexander Review recommends FTSE350 boards to target 33% female representation by 2020 and calls for greater representation in executive roles. The Parker Review expanded the scope of diversity considerations by calling on FTSE100 boards to have at one director from an ethnic minority background by 2021 and for each FTSE250 board by 2024.

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 policy. 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, such as instances where NILGOSC had voted against a remuneration resolution at a company in successive years.

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 the usual 50%. Notably, the UK Government held around 62% of the share capital at the time of the AGM meaning it effectively decided the outcome of the resolution. As the Government did not back the proposal it was defeated, receiving 0.72% support. NILGOSC supported the proposal considering the establishment of a Shareholder Committee could enhance engagement between the Board and shareholders.

Shareholder committees are common features in other markets, such as in Sweden, and the UK Government previously considered recommending shareholder committees as part of its 2016 consultation on corporate governance reform – the Government ultimately decided not to take forward new measures on shareholder committees. The RBS Board recommended shareholders to vote against citing concerns regarding the difficulty of finding a representative panel; the potential for the proposed Shareholder Committee to entrench large investors' influence, the potential for the Committee to blur the lines between stewardship and executive decision-making, and potentially undermining the unitary board model.

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 voted against 53.19% of remuneration-related resolutions in the region and ,at four companies, (Abcam, AVEVA Group, Ocado Group, and TP ICAP) registered its dissent against the companies' remuneration practices (by voting against the remuneration report, remuneration policy and an incentive plan.

The UK Enterprise and Regulatory Reform Bill amendment in October 2013 introduced a requirement for 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 remuneration report. Once approved, companies can only provide remuneration that is consistent with the policy, unless they obtain shareholder approval to a revised policy or for a specific payment. Due to the three-year cyclical nature of policy votes, there were 14 policy votes during the year compared to 38 last year, the number of policy votes in 2020 is expected to increase.

It should be noted that not all policy votes in the UK region are actually binding. This is 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 2018 Companies (Miscellaneous Reporting) Regulations introduces new disclosure requirements on remuneration. Qualifying UK companies will be required to annually publish the pay ratio between the CEO and its employees, illustrate the effect of future share prices on executive pay outcomes that are linked to periods of more than one financial year, and to provide a summary of any discretion that has been exercised during the year. The new requirements 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 10.97% during the period under review in the UK & Ireland region. NILGOSC opposed 53.70% of remuneration reports.

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

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Clinigen Group plc	46.71%	Passed	**Against**	Specific concerns included a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, a lack of clawback provisions, and a high individual participation limit for the LTIP.
Playtech plc	42.74%	Passed	**Against**	Specific concerns included a weak alignment of directors and shareholders' interests, incomplete disclosure of performance conditions, lack of consideration of ESG issues in incentive pay, and a high level of incentive pay available.
Abcam plc	32.89%	Passed	**Against**	Specific concerns included incomplete disclosure of performance conditions, overlap between the metrics used in incentive plans, a significant increase in potential remuneration, and a lack of post departure shareholding requirements.

4.4.2 Remuneration Policy

NILGOSC opposed 57.14% of remuneration policy resolutions and such resolutions received 16.07% average shareholder dissent. In contrast to previous years, the average dissent figure was larger than on the approval of remuneration reports.

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

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Playtech plc	41.13%	Passed	**Against**	Specific concerns included a weak alignment of directors and shareholders' interests, incomplete disclosure of performance conditions, lack of consideration of ESG issues in incentive pay, and a high level of incentive pay available.
Standard Chartered plc	37.74%	Passed	**Against**	Specific concerns included a weak alignment of interests between executives and shareholders, a high level of incentive pay awarded, incomplete disclosure of performance conditions, and excessive pension contributions.
Ocado Group plc	24.70%	Passed	**Against**	Specific concerns included a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, lack of consideration of ESG issues in incentive pay, salary rate disclosure concerns, and a high level of incentive pay available.

4.4.3 Long-term Incentive Plans

Approval (or re-approvals) of share plans attracted an average general shareholder dissent across the market of 8.31%. NILGOSC voted against all nine 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 the linkage between the performance measures used and the company's reported key performance indicators.

Table 9: High Shareholder Dissent – LTIP UK & Ireland

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Ocado Group plc	24.56%	Passed	**Against**	Concerns included the high level of incentive pay available and the utilisation of only one performance metric.
Ocado Group plc	19.29%	Passed	**Against**	Concerns included the high level of incentive pay available and no clearly identifiable link between the performance measures used and Company KPIs.
AO World plc	12.56%	Passed	**Against**	Concerns included no clearly identifiable link between the performance measures used and Company KPIs and the length of the performance period.

In addition to long-term incentive approvals, NILGOSC also voted against individual share award approvals at AVEVA Group. Last year AVEVA withdrew a resolution seeking to partially replace its LTIP with a restricted share plan before its AGM was held following feedback from shareholders. This year the Company sought shareholder approval of performance and retention award agreements with its CEO and Finance Director. NILGOSC voted against the resolutions as the fund does not support the use of retention awards and had concerns the performance period applicable to the awards was too short. Both resolutions passed receiving 27.72% dissent.

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. Auditor elections attracted more dissent than other resolutions in this category (1.34% compared to an overall average of 1.02% in the category). The role of the auditor is 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 10 auditor (re-)elections (18.52%) and the most common reasons were that the company had not disclosed a break-down of non-audit work performed by the auditor, the level of non-audit fees were considered material and concerns were held regarding auditor tenure and tender.

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 fee 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 1.05% during the period. NILGOSC voted 'Against' 60.00% of such resolutions. Common reasons for voting against included:

- The Company had not referenced the UN Sustainable Development Goals;
- Minerva Say on Sustainability disclosure grade;
- There was no independent verification of the Company's ESG reporting;
- There was insufficient reporting on human capital management;
- All disclosure recommendations under the applicable corporate governance code had not been complied with;
- There was a lack of explanation for non-compliance with a corporate governance code provision; and
- There were no disclosures to indicate non-executive only meetings were held.

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.

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 and an additional 33% rights authority) and authority to issue shares without pre-emption rights for up to 10% of the issued share capital in aggregate (comprising a 5% general authority and an additional 5% to be used only in relation to acquisitions or specified capital investments). In addition, it is common for financial institutions, credit institutions and investment firms to seek additional share issue authorities in relation to regulatory capital requirements.

NILGOSC opposed 3.13% of share issue resolutions, typically due to the authority size deviating from recommendations contained in good practice guidelines, such as the Pre-Emption Group Statement of Principles. The average general shareholder dissent on share issues was 3.61%.

NILGOSC opposed 12.50% 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 1.32%.

In July 2019, the UK Government published a report examining the connections between executive pay incentives and share buybacks, and between share buybacks and investment levels.

The research found no significant relationship between buybacks and either the existence of an EPS condition or the proportion of an incentive award linked to that condition within executive pay incentives and buybacks. Senior executives also stated in a survey conducted as part of the research that they considered LTIP targets to be one of the least important considerations in decisions to repurchase shares. The analysis did however find some evidence of a link between EPS conditions in incentives and lower investment

4.6.2 Dividends

NILGOSC opposed management on five dividend proposals because the proposed dividend was not covered by earnings or there was a lack of disclosure regarding dividend policy. Dividend related proposals are normally common items in the UK market and are generally considered non-contentious, they received average shareholder dissent of 0.14%. 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.

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 one such request as NILGOSC considered that the company had utilised the notice period since the last AGM for meeting business that was not considered time critical.

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 both waivers sought during the period under review. The waiver resolutions averaged 48.39% shareholder dissent – the high dissent was due to the major shareholders at the companies in question voting "Abstain" on the resolutions.

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 Minerva's Say on Sustainability assessment. The assessment 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[2].

There were two sustainability related shareholder proposals in the UK & Ireland region during the period. Both proposals were put forward at FTSE 100-listed oil major BP plc. The first proposal was coordinated by Climate Action 100+ and asked the Company to report on how its strategy is consistent with the goals of the Paris Agreement. The Board recommended shareholders to vote in favour and the proposal passed receiving 97.72% support. NILGOSC voted in favour of the proposal.

The second proposal was put forward by Dutch group Follow This and asked BP to set emission targets consistent with the Paris Agreement to limit global warming to below 2°C, covering scope 1, 2 and 3 emissions. BP recommended shareholders to vote against the proposal raising concern that scope 3 (end user) emissions are not under BP's control and that the adoption of fixed long-term targets would restrict BP's ability to adjust to the pace and direction of the energy transition. NILGOSC voted against the proposal and it received less than 10% votes in favour.

[2] Please see Section 9 for an analysis of carbon disclosure in NILGOSC's UK & Ireland and US portfolios.

5 North America

5.1 Summary

- Annually NILGOSC voted at 131 company meetings held by 126 North American companies. North America was the region with the largest number of events and the highest number of resolutions (1,641).
- NILGOSC voted in opposition to management on 686 (44.72%) of 1,534 management proposed resolutions.
- NILGOSC voted against two defeated remuneration reports at Netflix Inc and PTC Inc. NILGOSC opposed 97.41% of remuneration reports and 87.42% of all remuneration related resolutions proposed by management.
- NILGOSC voted 'For' 89 (83.18%) of 107 shareholder proposals, including four successful proposals. The successful proposals concerned the voting standard used on director elections, the frequency of director elections and the removal of supermajority voting provisions.

5.2 Dissent by Resolution Category

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

Table 10: NILGOSC Dissent by Resolution Category North America

RESOLUTION CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	1192	37.03%	4.02%	Opposed 37.03% of board-related resolutions, with 94% of opposing votes concerning director elections. NILGOSC supported 24 board related shareholder proposals.
Remuneration	177	87.57%	9.26%	NILGOSC voted against 97.41% of remuneration reports and 96.43% of LTIP related resolutions. NILGOSC supported nine of 10 remuneration related shareholder proposals.
Audit & Reporting	139	81.29%	2.32%	NILGOSC voted against 85.71% of auditor (re-) elections, four of seven report & accounts approvals and one special auditor appointment.
Sustainability	55	78.18%	22.39%	All but one Sustainability resolution was proposed by shareholders. NILGOSC supported 43 of the 54 shareholder proposals within this category.
Capital	38	15.79%	5.14%	NILGOSC voted against three share issue authorities, two share buyback authorities and one resolution to authorise a new class of preferred stock.
Shareholder Rights	36	44.44%	16.58%	NILGOSC supported all 13 shareholder proposals in the category. NILGOSC voted against three management proposed resolutions, although two were meeting formalities to declare whether the shareholder was an interested party.
Corporate Actions	4	0.00%	4.16%	NILGOSC voted in-line with management on all corporate actions-related resolutions.

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

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 Corporate 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.

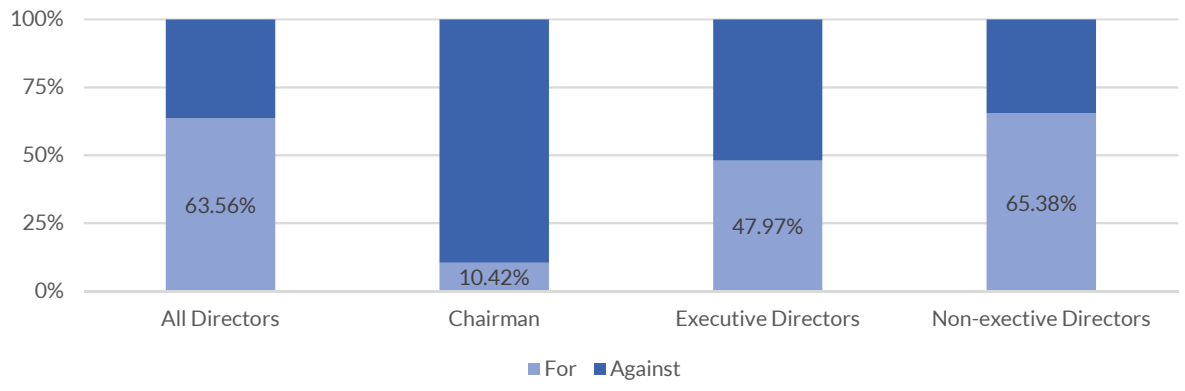
5.3 Board

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 and during 2019 aligned its independence expectations in Canada to two-thirds. This has resulted in NILGOSC voting against more director elections in the markets than in previous years.

Some 75.75% of resolutions in North America proposed by management dealt with the board and 28.04% 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 North America



5.3.1 Executive Directors and Chairman

NILGOSC opposed 89.58% of board chair (re-)elections. The two most common reasons for opposition were independence concerns, typically due to the combination of the chairman and CEO roles, and Minerva's Say on Sustainability Grade.

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, 50% of companies in NILGOSC's North America portfolio combined the roles. Of those companies that had separated the roles, 40.98% had a demonstrably independent chair; 14.75% had an executive chair; and 44.26% had a non-executive chair with a potential independence issue, such as being a former executive. Two companies did not have a named board chair (NVIDIA Corp and Netease Inc).

Other common concerns contributing to oppositional votes 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 were concerns regarding board independence; and the nominee held a significant number of other directorships. The average general shareholder dissent on the (re-)elections of chairs and executive directors was 4.08% and 3.24% respectively.

Table 11: High Shareholder Dissent – Chairman North America

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Chubb Ltd	Evan Greenberg	27.48%	Passed	**Against**	The nominee served as combined CEO and Chairman.
Allergan plc	Brenton Saunders	17.79%	Passed	**Against**	The nominee served as combined CEO and Chairman and independence concerns had been identified with the Lead Independent Director.
Triton International Inc	Brian Sondey	16.19%	Passed	**Withhold**	The nominee served as combined CEO and Chairman and the Company had received a low Minerva Say on Sustainability Grade.
DexCom Inc	Jay Skyler	12.51%	Passed	**Against**	The nominee served as combined CEO and Chairman.
Facebook Inc	Mark Zuckerberg	9.72%	Passed	**Against**	The nominee served as combined CEO and Chairman and independence concerns had been identified with the Lead Independent Director. NILGOSC had also noted the recent US Congress, European Parliament and UK parliament questionings regarding the data breach if Facebook users and sale of this data to third party firms and the nominee's accountability and oversight.

5.3.2 Non-executive directors

NILGOSC opposed 34.62% of non-executive director (re-)elections. NILGOSC primarily voted against non-executives where independence issues were identified with the director and the board, or a board committee, was considered insufficiently independent. Both NILGOSC and Minerva 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 3.48%.

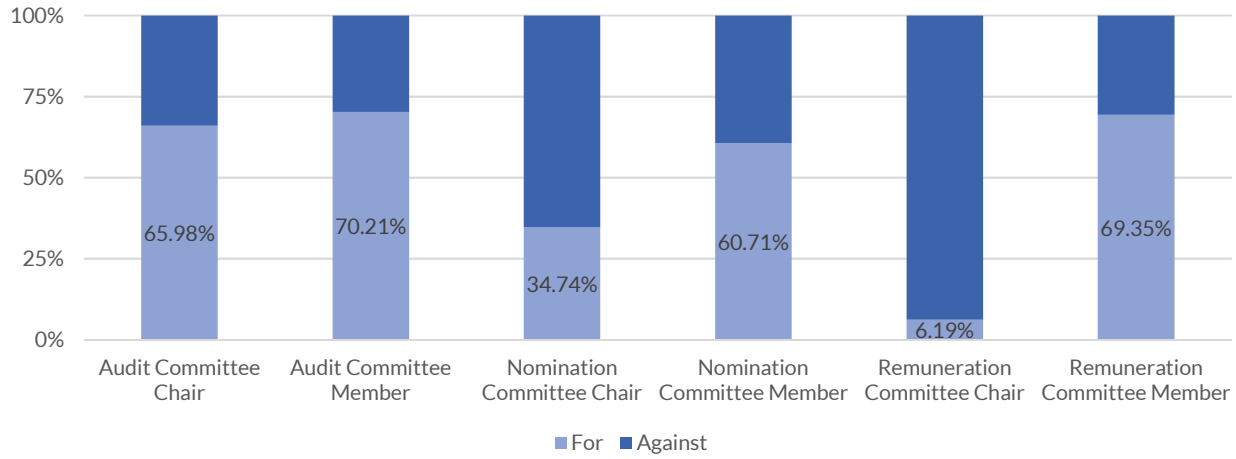
NILGOSC voted against 62.96% of lead independent director (re-)elections. The vast majority of cases were due to the nominee being considered non-independent or where the nominee chaired a committee and concerns were held with the committee's oversight functions, such as remuneration structure and disclosure issues. Lead independent director (re-) elections received average dissent of 5.80%.

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

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Netflix Inc	Timothy Haley	55.52%	Passed	**Withhold**	The nominee was considered non-independent and served as Chair of the Remuneration Committee. In addition, concerns were held with remuneration practices and the Board was considered insufficiently independent.
Exelon Corp	Stephen Steinour	44.43%	Passed	**Withhold**	The nominee held a significant number of other directorships.
Fifth Third Bancorp	Gary Heminger	44.28%	Passed	**Against**	The nominee held a significant number of other directorships.
Cincinnati Financial	Rodney McMullen	40.27%	Passed	**Withhold**	The nominee was considered non-independent and served as Chair of the Remuneration Committee. In addition, concerns were held with remuneration practices and the nominee held a significant number of other directorships.
Texas Instruments Inc	Todd Bluedorn	39.01%	Passed	**Withhold**	The nominee held a significant number of other directorships.

5.3.3 Board Committees

Figure 6: NILGOSC Board Committees Voting Direction 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 composition concerns, including a lack of independence and a lack of gender diversity. NILGOSC also voted against chairs and members of nomination committees where the nominee was considered non-independent and the committee was insufficiently independent.

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. Due to market practice in North America differing to a UK investor's perspective on remuneration good practice NILGOSC voted against a notable number of committee chairs.

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, only three companies held a vote during the year compared to 23 in the previous year. NILGOSC voted in accordance with good practice recommendations and supported an annual frequency in all cases. The annual frequency vote passed at Fifth Third Bancorp and Post Holdings, while the triennial vote passed at Facebook.

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

NILGOSC opposed 97.41% 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 9.03% on remuneration report approvals.

Table 13: High Shareholder Dissent – Remuneration Reports North America

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
PTC Inc	58.34%	**Defeated**	**Against**	Concerns included a weak alignment between executive and shareholder interests, performance conditions did not apply to all long-term incentive awards, additional one-off awards had been granted, a high level of incentive pay available, and excessive termination provisions.
Netflix Inc	50.19%	**Defeated**	**Against**	Concerns included a weak alignment between executive and shareholder interests, the long-term incentive awards were not subject to performance criteria and had a short vesting period, a high level of incentive pay available, and excessive termination provisions.
Gap Inc; The	43.27%	Passed	**Against**	Concerns included a weak alignment between executive and shareholder interests, a significant salary increase granted to the CEO, performance conditions did not apply to all long-term incentive awards, an overlap in the performance conditions used in the short-term and long-term incentives, a high level of incentive pay available, and excessive termination provisions.
Celanese Corporation	41.64%	Passed	**Against**	Concerns included a weak alignment between executive and shareholder interests, a lack disclosure on the performance targets applicable to the long-term incentives, a high level of incentive pay available, 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 11.52%. NILGOSC voted against all LTIP resolutions. 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 (both on a face value and expected value basis);
- The plan allowed for the vesting of awards on favourable terms in the event of a change of control; and
- There were concerns as to whether the performance targets were sufficiently stretching.

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

COMPANY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Tesla Inc	33.12%	Passed	**Against**	Concerns included the duration of the vesting and performance periods, incomplete disclosure of performance conditions, and the plan allowed for accelerated vesting in the event of a change of control.
Costco Wholesale Corp	28.38%	Passed	**Against**	Concerns included the duration of the vesting period and the performance period applicable to awards.
Gap Inc; The	25.56%	Passed	**Against**	Concerns included the duration of the vesting and performance period, incomplete disclosure of performance conditions, and non-executives could participate in the plan.

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 average general shareholder dissent of 2.52%. NILGOSC voted against 85.71% of such resolutions. The most common policy issue related to auditor tenure and no recent, or planned, audit tender. Unlike other markets, there are no regulatory requirements in the US or Canada on auditor tender and rotation resulting in a number of companies having the same auditor in place for an extended period of time.

5.5.2 Reports and Accounts

Only seven 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 0.63% and NILGOSC opposed four report & accounts due to sustainability disclosure concerns.

5.6 Capital & Shareholder Rights

5.6.1 Capital Authorities

Companies incorporated in Canada and the US 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, such as in the case of share issues in connection to an acquisition. NILGOSC opposed three of 20 of share issue authorities and two of five share buyback authorities. The resolutions received 7.76% and 2.59% average dissent respectively.

The average dissent on share issue resolutions was pushed up by resolutions at AerCap Holdings and BeiGene, both of which NILGOSC opposed. The resolutions in question received 22.78% and 38.65% dissent respectively. The most common reason for opposition on capital authorities concerned the size of the authority requested. NILGOSC also voted against the creation of a new class of preferred stock at Fifth Third Bancorp and the resolution received 6.57% dissent.

5.6.2 Shareholder Rights

NILGOSC voted against an amendment and restatement of a Shareholder Rights Plan Agreement at EnCana Corp. NILGOSC is opposed to the use of anti-takeover devices. The OECD Principles of Corporate Governance states anti-takeover devices should not be used to shield management and the board from accountability.

5.7 Shareholder Proposals

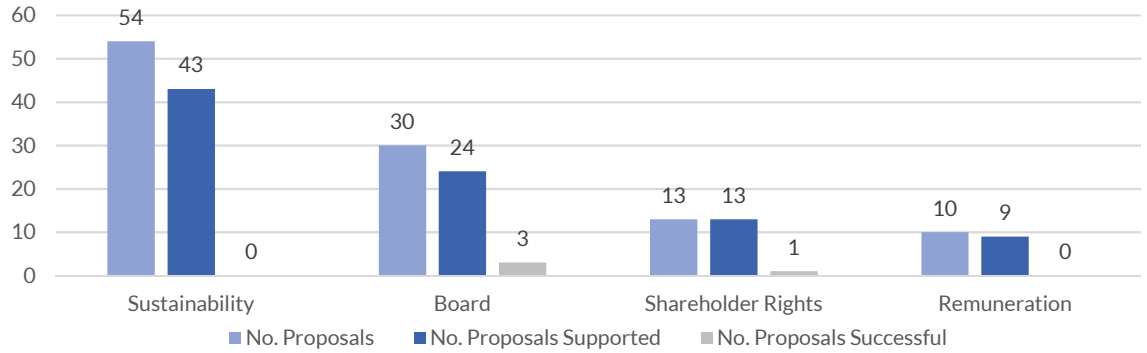
There were 107 shareholder resolutions proposed in the North America portfolio during the period under review. Shareholder proposals are resolutions put forward by shareholders who want the board of a company to implement certain measures, for example around corporate governance, social and environmental practices. Although they are generally not binding, they are a powerful way to advocate publicly for change on policies such as climate change. 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.

Four proposals were successful, representing 3.74% of shareholder proposals. In the prior reporting period 13 proposals were successful out of 188 proposals, representing 6.91% of shareholder proposals. Shareholder resolutions received average support (i.e. votes cast in favour) of 25.81%.

This year shareholders continued to put forward proposals on sustainability concerns, with proposals relating to political expenditure and lobbying disclosure and human rights & workforce the most numerous. Proposals concerning shareholder rights tended to receive the highest level of support.

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



SUSTAINABILITY	In the sustainability category there were 54 shareholder proposals of which 21 concerned human rights & workforce issues. These proposals covered topics such as gender and ethnic pay gap reporting, diversity disclosure, and human rights policy and practice. NILGOSC supported 13 of the proposals and the proposals received average support of 16.79%. There were 17 proposals related to political activity, namely enhanced disclosure on, or prohibition of, political donations and/or lobbying. The political activity proposals received average shareholder support of 35.14% and NILGOSC supported 16 proposals. There were nine proposals concerning environmental practices. These proposals covered topics such as climate change and food waste. The environmental proposals received 21.58% average support and NILGOSC supported seven proposals. The remaining proposals covered various ESG issues, including animal welfare, content governance and cyber security, and received average support of 12.33%[3].
BOARD	12 of the board related shareholder proposals requested the adoption of a policy requiring the chair to be independent, NILGOSC supported all such proposals. The independent chair proposals received average support of 29.78%. There were 11 proposals concerning election rules, namely proxy access provisions, director election frequency, and the voting standard used on director elections. NILGOSC supported all such proposals and they received average support of 37.14%. Four proposals requested the creation of a specific board committee. NILGOSC supported a proposal requesting the introduction of a board committee on climate change at Exxon Mobil Corp. There were three shareholder proposed nominee candidates at Methanex Corp. M&G Investments had originally put forward four nominees for election at Methanex's AGM however M&G agreed to withdraw its proposals ahead of the meeting and Methanex added one of M&G's candidates to its own list of nominees. NILGOSC supported the management-backed nominee and had lodged against votes on the withdrawn candidates.
SHAREHOLDER RIGHTS	The shareholder rights proposals voted by NILGOSC consisted of the right for shareholders to call a special meeting (5), the right for shareholders to act by written consent (5), the removal of supermajority voting provisions (1) a recapitalisation plan to introduce the one-share, one-vote principle, and a report on vote counting practices on shareholder proposals (1). NILGOSC supported all proposals in the category and they received average support of 37.60%.
REMUNERATION	All remuneration related shareholder proposals were defeated; such resolutions averaged 19.83% support. NILGOSC supported nine proposals covering the incorporation of ESG performance metrics into incentive pay, the disclosure of the CEO employee pay ratio, and proposals seeking to strengthen alignment with shareholders through means such as prohibiting accelerated vesting on termination and stock retention requirements.

5.7.1 Successful Shareholder Proposals

There were four shareholder proposals that received majority shareholder support during the period, all of which NILGOSC supported. Three of the successful proposals concerned director election rules, with two requesting the introduction of the majority vote standard for the election of directors (Intuitive Surgical Inc and Netflix Inc) and the other requesting the introduction of annual director elections (Anthem Inc). The other successful shareholder proposal occurred at Norfolk Southern Corp and requested the removal of supermajority voting provisions from the governing documents.

[3] Please see Section 9 for an analysis of carbon disclosure in NILGOSC's UK & Ireland and US portfolios.

6 Europe

6.1 Summary

- Annually there were 32 shareholder meetings at 32 companies in the Europe portfolio, resulting in 527 resolutions.
- NILGOSC voted in opposition to management on 168 (31.94%) of 526 management proposed resolutions.
- There was one shareholder proposal in the Europe region at Danish group Novo Nordisk AS. The proposal requested the company reduce the price of insulin and other products if the company's return on equity exceeds 7%. NILGOSC voted against the proposal and while the voting results were not disclosed, the company disclosed that the resolution was defeated.
- A resolution to authorise the Kering SA Board to issue shares reserved for employees for use in employee savings plans was defeated. NILGOSC had backed the resolution as it met the fund's capital authority guidelines. NILGOSC voted against 46.55% of share issue authority approvals in the region.

6.2 Dissent by Resolution Category

Table 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	241	24.48%	4.87%	The majority of NILGOSC's oppositional votes concerned director elections. NILGOSC also opposed eight board committee-related resolutions and one director discharge resolution.
Capital	113	33.63%	4.88%	NILGOSC opposed 46.55% of share issue authorities, 50.00% of share buyback authorities and one resolution to issue contingent convertible securities.
Remuneration	73	57.53%	6.85%	NILGOSC opposed all 14 remuneration policy resolutions, all eight remuneration report resolutions and both LTIP resolutions. NILGOSC also voted against 13 of 14 individual total remuneration resolutions.
Audit & Reporting	60	46.67%	1.39%	NILGOSC voted against 40.91% of auditor (re-) elections and 63.33% of report & accounts resolutions.
Shareholder Rights	31	0.00%	2.21%	NILGOSC voted in-line with management on all shareholder rights-related resolutions.
Corporate Actions	7	0.00%	2.98%	NILGOSC voted in-line with management on the sole sustainability-related resolution.
Sustainability	1	0.00%	-	NILGOSC voted in-line with management on the sole sustainability-related resolution in the region.

**Dissent does not include resolutions where management gave no recommendation. There was one 'Other' resolution in Europe. The voting results for the one 'Sustainability' resolution in Europe was not disclosed.*

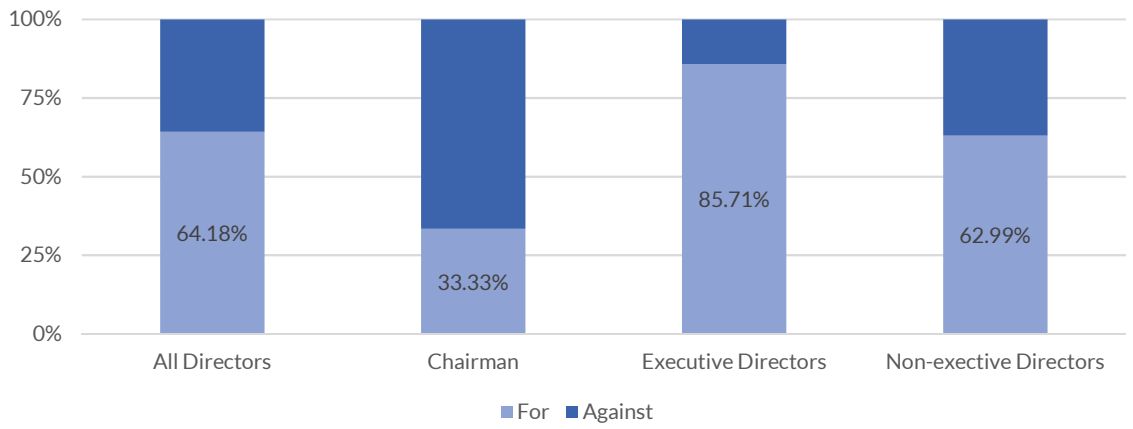
6.3 Board

The table below sets out an element of different governance principles in Europe regarding board composition:

Table 16: Europe Board Structures

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

NILGOSC voted against two-thirds of board chair elections in the Europe region. The most common policy concerns were there was no disclosure to indicate the non-executives met without the executives present, the chair was considered non-independent, and the chair served as chair of the nomination committee and there were concerns with board diversity. NILGOSC also held the chair accountable when there was a deviation from the principle of one-share, one-vote.

NILGOSC voted against 14.29% of executive directors with the most common issue being where the director also served as the chair of the board. NILGOSC considers board chairs should serve in a non-executive capacity and be demonstrably independent. The average dissent for board chairs and executive director (re-)elections was 8.20% and 1.30% respectively.

6.3.2 Non-Executive Directors

NILGOSC voted against 37.01% of non-executives standing for (re-)election and the average general shareholder dissent was 5.84%. The common reasons for NILGOSC's oppositional votes were due to concerns regarding a non-executive director's independence and composition of the board and/or committee, or where the director served on a committee and there were concerns with the committee's functioning.

NILGOSC voted against all resolutions to elect directors by way of a slate in the Europe 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 17: High Shareholder Dissent – Directors Europe

COMPANY	COUNTRY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
SGS SA	Switzerland	Gérard Lamarche	30.46%	Passed	**Against**	The nominee was considered non-independent and concerns were held with the level of independence on the Board and its Committees.
SGS SA	Switzerland	Ian Gallienne	28.98%	Passed	**Against**	The nominee was considered non-independent and concerns were held with the level of independence on the Board and its Committees. The resolution to appoint Gallienne to the Remuneration Committee also received significant dissent.
SGS SA	Switzerland	August Francois von Finck	25.82%	Passed	**Against**	The nominee was considered non-independent and concerns were held regarding the level of independence on the Board and its Committees. The resolution to appoint on Finck to the Remuneration Committee also received significant dissent.
Rocket Internet SE	Germany	Marcus Englert	22.67%	Passed	**Against**	NILGOSC held concerns with the Company's progress in terms of increasing Board diversity. The Company had no female board members and had not disclosed a gender diversity target.
SGS SA	Switzerland	Kory Sorenson	20.65%	Passed	**Against**	The nominee held a significant number of other directorships.

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 introduces new 'say on pay' rules including an annual advisory vote on the remuneration report and a vote on the remuneration policy at least every four years. Member States have discretion to decide whether the policy vote will operate on a binding or advisory basis. The revised directive also states that the remuneration policy should contribute to the company's overall business strategy, long-term interests and sustainability. Member states had until 10 June 2019 to transpose the directive into law.

6.4.1 Remuneration Reports and Remuneration Policies

NILGOSC opposed all remuneration reports and remuneration policies voted on in the European region. The average general shareholder dissent was 9.75% and 10.23% respectively.

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

COMPANY	COUNTRY	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
Deutsche Lufthansa AG	Germany	42.58%	Passed	**Against**	Specific concerns included a lack of alignment of interest between executives and shareholders, incomplete disclosures of performance conditions, a lack of disclosure on clawback provisions, excessive severance provisions, and a high level of incentive pay and pension contributions during the year.
Partners Group Holding AG	Switzerland	30.85%	Passed	**Against**	Specific concerns a weak alignment of interests between executives and shareholders, incomplete disclosure of performance conditions, the high level of incentive pay available, no post-departure share retention policy, and a lack of disclosure on dilution limits.
Peugeot SA	France	26.30%	Passed	**Against**	Specific concerns included incomplete disclosure of performance conditions, the high bonus cap, a lack of disclosure on clawback provisions, the high level of pension contributions, and the fact that some elements of incentive pay are pensionable.

6.4.2 Remuneration Amount

In certain EU markets shareholders have the ability to vote on the individual and/or 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. While in Switzerland shareholders have a binding vote on the aggregate fixed and variable remuneration paid to the board of directors and the executive committee.

There were 35 votes in total, 21 of which concerned aggregate approvals and 14 of which concerned individual approvals. Overall, NILGOSC opposed 45.71% of the resolutions and the average dissent level was 6.82%.

Three resolutions received over 20% dissent; the approval of the individual remuneration for the year granted to Peugeot SA executive Carlos Tavares (27.08%), and the approvals of the individual remuneration for the year granted to Kering SA's Chairman & CEO Francois-Henri Pinault (21.26%) and Managing Director Jean-Francois Palus (21.26%). NILGOSC voted against the resolutions due to concerns with the lack of disclosure on performance conditions, the high level of incentive pay available, and the lack of disclosure regarding clawback provisions.

6.4.3 Other Remuneration Resolutions

There were two LTIP resolutions during the period, both proposed at Delivery Hero SE. NILGOSC voted against the resolutions due to concerns with the lack of limit on incentives, the performance period length, and the lack of shareholding requirement. Despite these concerns, the resolutions received a low level of dissent of 1.38% and 0.65%.

NILGOSC voted against a resolution to approve the termination provisions for Remy Cointreau CEO Valerie Chapoulaud-Floquet due to the provisions providing for potentially excessive severance payments. The resolution received 9.63% dissent.

NILGOSC voted against a request by Rocket Internet SE for an exemption on the requirement to disclose individually the remuneration of each member of the Management Board. NILGOSC supports full individual disclosure of all elements of directors' pay to ensure full accountability. The Company withdrew the resolution from the meeting agenda reporting "no vote is taken" in the voting results.

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 63.33% of 30 report & accounts resolutions and the average general shareholder dissent was 0.34%. NILGOSC typically expressed its dissent due to:

- There were no disclosures to indicate that non-executive only meetings took place;
- The Company had not conducted an external Board performance evaluation within the last three years;
- Minerva Say on Sustainability disclosure grade;
- The Company had not referenced the UN Sustainable Development Goals; and
- There were no disclosures to indicate a Board performance evaluation process was undertaken during the year.

6.5.2 Auditor Elections

NILGOSC opposed 9 of 22 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 disclosure concerns regarding non-audit fees. Auditor (re-)election resolutions received average shareholder dissent of 3.06% in the European market.

6.6 Capital

6.6.1 Capital Authorities

NILGOSC opposed 46.55% of share issue authorities sought in the European region and such resolutions received average shareholder dissent of 6.98%. 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 and capital types.

The most common reasons for dissent was when the overall ceiling in respect of share capital increases without pre-emption rights exceeded NILGOSC's policy guidelines (10% of the share capital) or that the specific authority exceeded this limit. Other concerns included the ability for directors to use the authority during a period where the company is the subject of a takeover offer and the duration of the authority being considered too long.

NILGOSC voted against a resolution to grant the NN Group NV Board the authority to issue contingent convertible securities. NILGOSC had held concerns with the potential level of dilution resulting from conversion of the securities into ordinary shares.

NILGOSC opposed 50.00% of resolutions allowing companies to make market purchases of their own shares. The most common reasons were 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 3.98%.

7 Japan

7.1 Summary

- NILGOSC voted at 289 resolutions at 23 AGMs and 2 EGMs held by 25 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 the majority of AGMs were held in the month of June.
- NILGOSC voted in opposition to management on 96 (33.33%) of 288 management proposed resolutions. All management proposed resolutions passed.
- There was one shareholder resolution proposed during the period. NILGOSC voted against the proposal and the resolution was defeated receiving 6.30% support.

7.2 Dissent by Resolution Category

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

Table 19: NILGOSC Dissent by Resolution Category Japan

CATEGORY	RESOLUTIONS	NILGOSC DISSENT	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	250	34.00%	3.47%	All of NILGOSC's oppositional votes in the board category concerned director elections. The most common cause was board composition concerns.
Audit & Reporting	19	0.00%	0.42%	NILGOSC voted in-line with management on all audit & reporting-related resolutions.
Remuneration	11	100.00%	2.25%	NILGOSC opposed all four non-executive remuneration approvals, all four LTIP resolutions and all three short-term incentive resolutions.
Shareholder rights	7	0.00%	4.58%	NILGOSC voted in-line with management on all shareholder rights-related resolutions.
Corporate Actions	1	0.00%	-	NILGOSC voted in-line with management on the sole corporate actions-related resolution in Japan.
Capital	1	0.00%	0.45%	NILGOSC voted in-line with management on the sole capital-related resolution in Japan.

**Dissent does not include resolutions where management gave no recommendation. Poll data not disclosed for the one resolution in the "Corporate Actions" category.*

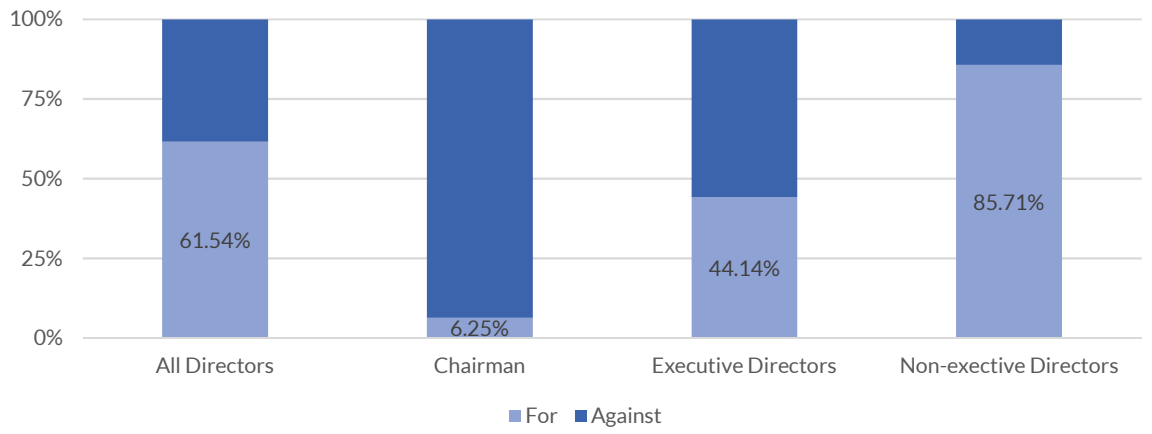
7.3 Board

Table 20 summarises Japanese board structures.

Table 20: Japan 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 directors that sat on board committees where committee composition concerns were held. NILGOSC also opposed non-independent corporate auditors where the statutory auditor board was not majority independent. Non-executive directors averaged 2.70% dissent and corporate auditors 6.08%.

NILGOSC opposed 15 of 16 (re-)elections of board chairs. The most common reasons for opposition were that the chair was considered non-independent, typically because the chair served in an executive capacity; there was no lead independent director appointed; and the board had insufficient independent representation. In addition, NILGOSC held the chair accountable when a company paid a dividend yet did not put forward a resolution to approve the distribution or where concerns were held with sustainability disclosure. Chair (re-)elections received average shareholder dissent of 5.28% and executive director (re-)elections 3.38%.

Table 21: High Shareholder Dissent – Directors Japan

COMPANY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
NTT DoCoMo Inc	Hironobu Sagae	20.70%	Passed	**Against**	The nominee was considered a non-independent corporate auditor and the Audit & Supervisory Board was insufficiently independent.
Nexon Co Ltd	Patrick Söderlund	15.73%	Passed	**Against**	The nominee was considered non-independent and the Board was considered to be insufficiently independent.
Toray Industries Inc	Nobuyuki Inohara	13.43%	Passed	**Against**	The nominee served as an executive director and concerns were held with the size and balance of the Board.
Nikon Corp	Chihiro Kanagawa	11.17%	Passed	**Against**	The nominee served as combined Chairman and CEO and no lead independent director had been appointed.
Subaru Corp	Yasuyuki Yoshinaga	8.30%	Passed	**Against**	The nominee served as combined Chairman and CEO and no lead independent director had been appointed.

7.4 Remuneration

In the Japan market NILGOSC voted against all four non-executive remuneration resolutions, all four short-term incentive proposals and all four LTIP resolutions. The LTIP resolutions received the highest level of average shareholder dissent of 4.14%. Both the non-executive remuneration resolutions and short-term incentive proposals received less than 1% average dissent.

The most common issues identified on remuneration related resolutions were a lack of individual remuneration disclosure, concerns regarding the length of the performance period and/or vesting period, and non-disclosure of the performance targets under an annual bonus plan.

The resolution to approve the issue of stock options to directors at Nexon Co Ltd recorded the highest dissent level, 14.64%, for a remuneration resolution in the Japan portfolio. NILGOSC voted against the resolution as the recipients of grants could include non-executive directors and there was also a lack of disclosure on the individual limits on awards and the vesting and performance conditions attached to awards.

8 Rest of the World

8.1 Summary

- Annually NILGOSC voted at 69 events at 54 companies. There were 49 AGMs, 16 EGMs, 2 GMs, 1 OGM and 1 SGM.
- NILGOSC voted in opposition to management on 216 (39.13%) of 552 resolutions.
- There were no resolutions put forward by shareholders in the Rest of the World region during the period under review.
- Management recommended shareholders vote against one management proposed resolution. The resolution occurred at Karoon Energy Ltd and was a 'board spill' resolution, whereby if approved, and if the remuneration report received an against vote of 25% or more, the directors, other than the managing director, would have to stand for re-election at a general meeting to be held within 90 days of the AGM. NILGOSC voted in favour of the resolution. The remuneration report at Karoon Energy was defeated, however the 'board spill' resolution did not pass.

8.2 Dissent by Resolution Category

Table 22 below notes the number of resolutions opposed by NILGOSC as a percentage per defined resolution categories:

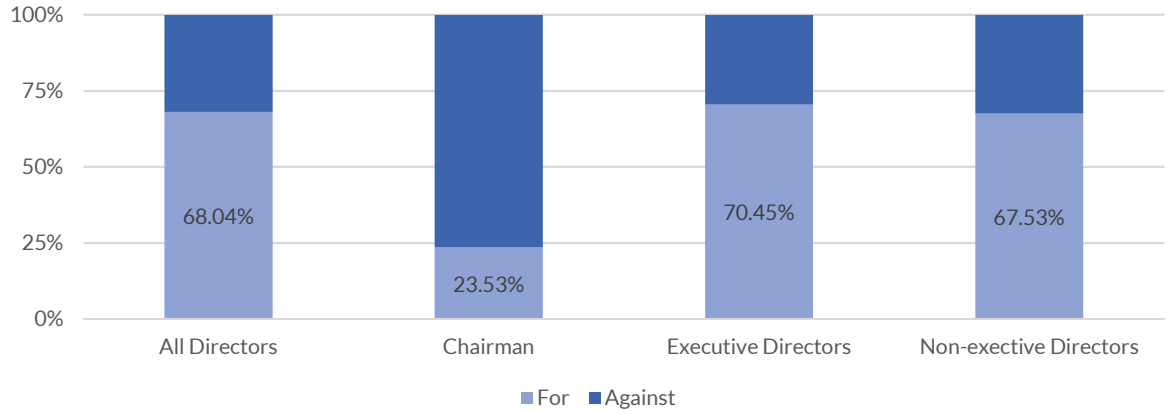
Table 22: NILGOSC Dissent by Resolution Category Rest of the World

RESOLUTION CATEGORY	RESOLUTIONS	NILGOSC DISSENT %	AVERAGE SHAREHOLDER DISSENT*	NILGOSC ACTION
Board	229	31.44%	3.80%	NILGOSC opposed 32.71% of director (re-) elections. NILGOSC also voted against one resolution seeking approval to changes in the Board due to insufficient disclosures and one board committee related resolutions.
Audit & Reporting	95	61.05%	0.63%	NILGOSC opposed 80.00% of report & account resolutions and 61.11% of auditor (re-)elections
Capital	88	36.36%	5.65%	NILGOSC opposed 68.42% of share buybacks and 53.85% of resolutions to issue shares. NILGOSC also voted against four dividend approvals and one bond & debt resolution.
Remuneration	85	54.12%	9.74%	NILGOSC voted against 85.71% of remuneration reports and both remuneration policy approvals in the region. In addition, NILGOSC opposed six of eight LTIP resolutions, 36.54% of resolutions relating to non-executive remuneration and all resolutions seeking to approve a share award to an individual or a collective.
Shareholder Rights	26	3.85%	3.53%	NILGOSC opposed one article of association amendment resolution in this category.
Corporate Actions	26	15.38%	16.23%	NILGOSC opposed four resolutions under this category, two concerns related party transactions, one was an acquisition approval and the remainder the approval of a recovery plan (which had insufficient disclosure).

**Dissent does not include resolutions where management gave no recommendation. There were three '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 13 of 17 board chair (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; the chair held a significant number of other directorships, raising concerns over their aggregate time commitments; and there was no disclosure to suggest that non-executives held meetings without the executives present.

NILGOSC typically opposed executive director (re-)elections within the Rest of the World portfolio where the executive director also served as chair of the board. NILGOSC also opposed resolutions where an executive sat on an insufficiently independent committee or held an excessive number of other directorships. Executive directors averaged general shareholder dissent of 3.24%.

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 practice due to independence concerns.

Other issues included committee specific issues, such as the audit committee's oversight of audit fees, as well as overboarding and attendance concerns. NILGOSC voted against 32.47% of non-executive directors standing for (re-) election. The average general shareholder dissent on non-executive directors was 3.86%.

As was the case in the Europe region, NILGOSC voted against the election of directors standing for election by way of a slate in the Rest of the World market.

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

COMPANY	COUNTRY	DIRECTOR	DISSENT	OUTCOME	NILGOSC VOTE	COMMENTS
WH Group Ltd	Hong Kong	Kong Wai Lee	36.41%	Passed	**Against**	The nominee held a significant number of other directorships. The nominee was considered non-independent and sat on the Remuneration Committee and the Board was insufficiently independent.
CK Hutchison Holdings Ltd	Hong Kong	Frank John Sixt	30.55%	Passed	**Against**	The executive director held a significant number of other directorships and was a member of the Nomination Committee.
HKT Trust & HKT Ltd	Hong Kong	Fushen Li	27.50%	Passed	**Against**	The nominee was considered non-independent and sat on the Nomination and Remuneration Committees. In addition, there were concerns relating to the director's attendance record.
Housing Development Finance Corp Ltd	India	Deepak Parekh	22.64%	Passed	**Against**	The nominee served as Board Chair and was not considered independent due to his previous CEO role. In addition, no Lead Independent Director had been appointed and the nominee held a significant number of other directorships.
Hong Kong and China Gas Co Ltd	Hong Kong	Mo Chi Chenh	17.12%	Passed	**Against**	The nominee held a significant number of other directorships.

8.4 Remuneration

8.4.1 Remuneration Reports and Remuneration Policies

NILGOSC voted against six of seven remuneration report approvals in the Rest of the World region and the resolutions averaged 26.67% shareholder dissent.

The remuneration report at Karoon Energy Ltd was defeated after it received 63.52% dissent. In the previous year the Company had received 44.06% dissent indicating there are ongoing shareholder concerns that have not been addressed by the Company. NILGOSC voted against the remuneration report and concerns had been identified with the alignment of pay with performance, the discretionary nature of the annual bonus, and the lack of shareholding requirements.

There were two remuneration policy resolutions put forward in the region and NILGOSC voted against both. The policy resolutions occurred at South African-listed Nampak Ltd and PPC Ltd. The Nampak policy resolution received 16.02% dissent. Concerns at Nampak included a potentially weak alignment of interests between executives and shareholders, a reduced stretch in the LTIP performance targets for the coming year, high vesting for threshold performance, the lack of shareholding requirements, and no disclosures regarding clawback provisions.

8.4.2 Level of Director's Fees

NILGOSC voted against 36.54% of 52 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 11 resolutions seeking to grant a share award to an individual director due to concerns with the length of the applicable performance period. The resolutions received average shareholder dissent of 19.51% and three resolutions to grant performance shares to individual executive directors at Goodman Group Ltd received dissent in excess of 40%. NILGOSC also voted against a resolution seeking a grant of shares to senior employees at Samsonite International SA and on six of eight LTIP resolutions, the LTIP resolutions averaged 11.06% dissent.

8.5 Audit & Reporting

8.5.1 Report & Accounts

NILGOSC voted against 80.00% of report & account approvals during the period under review and such resolutions averaged 0.15% dissent. The most common concerns related to sustainability reporting, including a lack of reference to the UN Sustainable Development Goals, and a lack of disclosure on 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.

8.5.2 Auditor Elections

NILGOSC opposed 22 of 36 (61.11%) auditor (re-)election resolutions in the region. The most common reasons for opposition related to concerns over tenure and no recent, or planned, audit tender; a lack of disclosure regarding non-audit fees; and the payment of material fees for tax-related services. Auditor (re-)election resolutions received average shareholder dissent of 1.37%.

8.6 Capital

NILGOSC voted against 53.85% of requested share issue authorities in the region 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 16.64%.

An authority to issue shares at WH Group Ltd narrowly passed after it received 56.55% support. NILGOSC voted against the authority due to the aggregate dis-application of pre-emption rights under the resolution and other resolutions exceeding 10% of the share capital.

NILGOSC opposed 68.42% of proposals to allow a company to make market purchases of its own shares and such resolutions received average dissent of 0.93%. 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.

9 Sustainability Disclosure

Climate change has been an issue of focus from both investors and regulators in recent years. Following the Paris climate agreement, investors cannot overlook the implications for investment risks and returns amidst a shift in market sentiments towards a transition to a low carbon economy. How companies are responding to climate change risks is therefore important to investors.

In 2018 the UK Government passed legislation requiring occupational pension schemes to clearly outline their policy in how they take account of climate change within their portfolios. As a result, from October 2019, relevant schemes will need to have a policy on "financially material considerations" which could arise from climate change. As part of the UK Government's 2019 Green Finance Strategy the Pensions Regulator has been asked to update its investment guidance for defined contribution pensions to reflect the legislation and to co-establish an industry working group on climate change to produce guidance for pension schemes on climate change. In addition, the LGPS Scheme Advisory Board has agreed that its draft guidance should be extended to include a checklist enabling administering authorities to measure whether their ESG policy, including climate change risk, represents the minimum to comply with the law, good practice or best practice.

9.1 TCFD Recommendations

The G20's Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) [4] has developed voluntary, consistent climate-related financial risk disclosures to help investors, lenders, insurers, and other stakeholders understand, measure and respond to climate change risks. The TCFD framework recommends companies to make public disclosures, i.e. in annual reports, on:

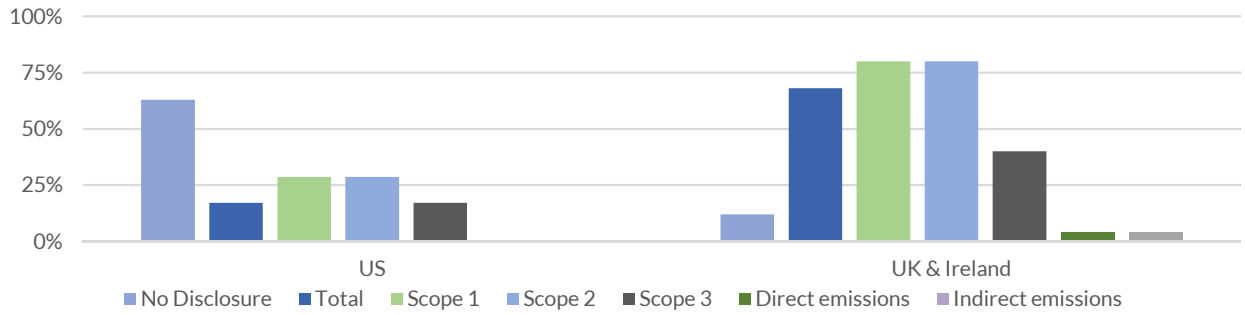
- **Governance**: The organisation's governance around climate-related risks and opportunities.
- **Strategy**: The actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy and financial planning.
- **Risk Management**: The processes used by the organisation to identify, assess, and manage climate-related risks.
- **Metrics and Targets**: The metrics and targets used to assess and manage relevant climate-related risks and opportunities.

9.2 Carbon Disclosure

An analysis of the carbon disclosures of NILGOSC's UK & Ireland and US portfolios identified that:

- 62.86% of US-listed companies provided no disclosures on emissions. The companies providing no disclosure were from a range of industries – including retail, financial, oil and gas production, utilities and pharmaceuticals – as well as notable industry names, including Amazon and Netflix.
- 12.00% of UK-listed companies provided no disclosure on emissions. The companies providing no disclosures were incorporated outside of the UK and/or were not listed on the Main Market of the London Stock Exchange. This means that, in accordance with the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, they were not legally required to report on their greenhouse gas emissions.[5].
- 80% of UK-listed companies disclosed Scope 1 and 2 emissions and 40% disclosed Scope 3 emissions. 28.57% of US-listed companies disclosed Scope 1 and 2 emissions and 17.14% disclosed Scope 3 emissions.

Figure 11: UK and US carbon disclosure



Only two companies disclosed direct & indirect emissions, UK oil major BP and UK recruitment firm Hays. Notably BP did not disclose Scopes 1, 2 and 3 like other UK Companies, although Hays chose to report direct & indirect emissions in addition to Scopes 1, 2 and 3. Direct & indirect emissions comprise 100% of emissions from activities by a company and also includes emissions from certain other activities, such as contracted drilling activities. Whilst BP did disclose all required data as per IPIECA guidelines[6], their method of disclosure prevents comparisons with other companies.

[4] Minerva Analytics is an accredited supporting company of TCFD.

[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206392/pb13944-env-reporting-guidance.pdf

[6] http://www.ipieca.org/resources/good-practice/petroleum-industry-guidelines-for-reporting-greenhouse-gas-emissions-2nd-edition/

10 Conclusion

As direct owners of shares, NILGOSC can have a positive influence on the running of the companies they invest in. 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) 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 the 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, often granted in response to public policy problems caused by failures of governance.

The financial crisis is a prime example which led to various new regulations globally. The recent cases of BHS, Carillion and Sports Direct in the UK have also led to a push for governance reform. The recent emission scandals at automobile companies, such as at BMW, Daimler and Volkswagen, has again highlighted the importance of effective governance and internal control systems.

The implementation of the revised Shareholder Rights Directive and recent UK governance reforms is expected to have an impact on the governance disclosures and practices of companies in the two regions and increase number of resolutions to be voted on by shareholders in the coming years.

In total, NILGOSC voted contrary to management recommendation on 35.32% of resolutions, demonstrating an active approach to voting. NILGOSC's dissent is broken down as follows:

- 34.07% of management sponsored resolutions were voted contrary to management recommendation; and
- 80.18% of shareholder sponsored resolutions were voted contrary to management recommendation.

NILGOSC's dissent has increased by 0.29 percentile points from last year and is 30.78% higher than general shareholders. Average general shareholder dissent for the year was 4.54%, compared to 4.43% in the previous year. NILGOSC's dissent level continues to stand significantly higher than the average shareholder. Average shareholder dissent on management-proposed resolutions was 3.95% (2018: 3.74%), while it stood at 24.55% (2018: 20.10%) on shareholder-proposed resolutions. This highlights that shareholders are more likely to oppose management by supporting a shareholder-proposed resolution than by opposing a management-proposed resolution

Notably, resolutions which NILGOSC opposed management on received 7.88% dissent, more than double the dissent on resolutions which NILGOSC supported management (2.69%). This highlights that NILGOSC has a robust voting policy which is consistent and aligned with other investors' governance concerns. At the same time, it is recognised that public sector pension funds do tend to have a much higher propensity to oppose management on resolutions than the general shareholder average.

There were 112 shareholder proposals put forward during the year, down from 211 last year. The smaller number of shareholder proposals is due to the overall smaller number of resolutions voted, 4,104 compared to 7,080. The majority of shareholder resolutions were proposed in North America (95.54%), where, in the absence of a national corporate governance code, active shareholders make use of shareholder resolutions as a tool to try and improve corporate governance practices at companies. The remaining shareholder proposals took place in the UK & Ireland (3), Europe (1) and Japan (1). There were five successful shareholder proposals, four were filed in North America and one in the UK & Ireland.

NILGOSC opposed eight management-proposed resolutions that were defeated (inclusive of say-on-pay frequency votes in the US). The defeated resolutions included

- Three 'say on pay' resolutions. The resolutions took place at Karoon Energy Ltd, Netflix Inc and PTC Inc. NILGOSC had concerns with the structure of remuneration and the alignment of executive pay with performance at the companies.

NILGOSC supported five successful shareholder-proposed resolutions:

- Two proposals requesting the introduction of the majority vote standard for the election of directors at Intuitive Surgical Inc and Netflix Inc.
- One proposal at Anthem Inc requesting the introduction of annual director elections.
- One proposal at BP plc requesting a report on how the Company's strategy is aligned with the Paris climate accord.
- One proposal at Norfolk Southern Corp requesting the removal of the supermajority voting provisions.

This year NILGOSC recorded the highest level of dissent in the North America portfolio, overtaking the Japan portfolio which had the third highest level of dissent this year. The Rest of the World region received the second highest level of dissent. 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, contributed to NILGOSC's high dissent level.

Board and remuneration related resolutions continue to be most flagged by NILGOSC's voting template, which is reflected in NILGOSC's dissent levels in these categories. Taken together, board and remuneration resolutions accounted for 70.81% (2018: 73.3%) 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. 50.93% of all NILGOSC's contrary votes were on board related resolutions and NILGOSC opposed management on 30.84% of all board resolutions.

The second most common group of policy issues identified relate to remuneration. Remuneration packages are increasingly complex, with both fixed and variable elements. Variable pay performance is measured over annual and (typically) three-year periods with multiple performance metrics often utilised. Voting decisions are based on the absolute levels of pay for the past year, the size of any increases proposed for the coming year and the alignment between performance targets and company strategy.

The remuneration related issues most commonly flagged related to Minerva'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), a lack of disclosure on performance targets, and a lack of disclosure to indicate that clawback and/or malus provisions were in place for incentive pay.

NILGOSC opposed management on 69.10% of all remuneration related resolutions, up from last year's dissent rate of 64.69%. NILGOSC opposed 84.32% (2018: 81.7%) of all remuneration reports, 94.12% (2018: 86.7%) of LTIP resolutions, and 81.25% (2018: 63.50%) of policy resolutions. Notably all defeated management-proposed resolutions concerned remuneration, namely the 'say on pay' vote and the frequency on which the 'say on pay' should be voted on.

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.