Proxy Review

A pension trustee's guide to key shareholder votes in 2011

committee on workers' capital

Global Unions Committee on Workers' Capital

About the CWC

The Global Unions Committee on Workers' Capital (CWC) is an international labour union network for dialogue and action on the responsible investment of workers' retirement savings. It is a joint initiative of the International Trade Union Confederation (ITUC), the Global Unions Federation (GUFs), and the Trade Union Advisory Committee to the OECD (TUAC).

The CWC works to educate union pension trustees on responsible investment issues, monitor global trends and policies related to corporate and financial market governance and examine ways in which the responsible investment of workers' capital can yield economic and social value in our communities.

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1.0 Introduction

What is Proxy Review?

Proxy Review is a pilot project initiated by the Global Unions Committee on Workers' Capital (CWC). The project identifies trend-setting shareholder votes on social, environmental and corporate governance issues in a small sample of countries that are relevant for pension investors with global equity portfolios. It aims to serve as an accessible resource for pension trustees who would like to evaluate how key proxy votes were cast on their behalf, in order to ensure that such votes comply with the standards set out by their respective pension funds. The CWC intends to replicate this project on an annual basis.

A tool for trustees

The report is aimed at an audience of employee and trade-union trustees (member–nominated trustees or trustees designated or elected by a union). Given the project's unique global focus, the project will also be of interest to other trustees who are concerned with responsible investment issues.

Trustees could use this report to identify key votes relevant to their fund's investment in international equities and engage in dialogue with their fund managers and investment service providers about how proxy votes were cast. If information on how proxies are voted is not readily accessible, this report could further encourage trustees to call for the improved and timely disclosure of this information.

Why is this report needed?

The report grew out of information gaps and challenges identified by pension trustees. Annual reports that identify key proxy votes are usually produced only for specific national markets such as the UK, Canada and the USA. As a consequence, trustees with funds that are invested in foreign equities are often in the dark about the rationale for key proxy votes cast on their behalf in non-domestic jurisdictions. Such information barriers pose a significant challenge for trustees who are serious about their remit as responsible stewards of pension fund assets and want to hold fund managers to account for discretion exercised on their fund's behalf.

Our long-term view

The CWC supports the international labour movement's efforts in being a powerful voice for the responsible investment of workers' retirement savings. Through the Proxy Review project, we hope to reinforce these efforts by building a *community of practice* for labour-appointed or employee pension trustees who are empowered to engage their fund managers and proxy voting service providers on issues that are crucial for the long-term interests of plan participants. We also set out to develop a modest infrastructure for gathering information on key proxy votes so that we can better understand how issues of corporate governance, responsible investment and shareholder rights evolve over time.

2.0 Why proxy voting oversight matters

"Workers' capital is diminished when the violations of human rights and labour rights damage the brand owned by the companies they invest in, when environmental misconduct must be cleaned up, when communities at home or abroad are destabilized or destroyed, or when exploitative business strategies prove unsustainable."[1]

Trustees: A vital link in the investment chain

The term "workers' capital" primarily refers to employees' retirement savings, which are invested in shareholdings in the global financial market. As the ultimate beneficiaries and owners of these deferred wages, workers are the indirect owners of a substantial portion of the world's equities.

Driven by the anticipation of stress on public pension payouts associated with a growing aging population, workers' capital is increasingly invested outside domestic markets in order to secure high rates of return on investments.[2] Though this trend may be receding or stagnating since 2008[3], pension funds still hold a considerable share of equity investments globally. Indeed, the largest funds oversee more than US$ 3 trillion in global equities.[4] This significant contribution of pension funds to the global economy underscores the need for workers' capital to be invested responsibly, rather than risk contributing to unstable and unsustainable economic growth. [5]

In this scenario, pension fund trustees are a vital link in the investment chain as they provide critical oversight and accountability functions that ensure pension investments yield sustainable returns on behalf of plan beneficiaries.

Barriers to adequate proxy voting oversight

Shareholder voting is one of the primary means by which investors can influence a company's operations. It is therefore inherently important for shareholders to participate in the voting process and make their decisions based on a full understanding of the information and legal documentation presented to them.

However, pension equity investments can span hundreds' of companies and numerous countries. As a result, pension trustees face considerable challenges that inhibit them from acting in accordance with active ownership and responsible investment principles. Regulatory differences, conflict of interest problems, agency dilemmas and narrow interpretations of fiduciary duty, all contribute to accountability gaps along the investment chains of pension funds. These challenges are briefly discussed in the next section.

Regulatory differences

The diversity of national legal standards and corporate governance regulations make it difficult for pension funds to take a consistent and coherent approach to proxy voting oversight. In particular, these differences complicate efforts to benchmark proxy processes and to evaluate vote outcomes systematically.

Agency dilemmas and conflicts of interest

The current complexity of investment chains can further inhibit the ability of trustees to be responsible stewards of workers' capital. The pensioner is detached from investment decision-making through intermediaries such as pension trustees. In turn, the practical influence that trustees can exert on the management of pension assets may be diminished through the employment of fund managers, and other service providers (particularly for proxy voting and shareholder engagement). The resulting investment chain raises an agency problem – where the ownership of the fund's assets is divorced from centres of control. [6]

Conflicts of interest between these parties strain accountability and transparency in the investment chain. For example, consultants may provide services to multiple parties at the same time (advising companies on CSR issues while also voting proxies at the same companies on behalf of institutional investors). These conflicts of interest may decrease the efficiency and/or impartiality of investments and could lower investment returns. [7]

Aligning fiduciary duty with long-termism and ESG integration

Despite regulatory differences, trustees in many jurisdictions have a basic fiduciary duty to monitor how their fund manager or proxy voting service exercises the proxy voting rights of the pension plan. According to legislation such as the Corporations Act in Australia, the varied provincial Trustee Acts of Canada, and the Employee Retirement Income Security Act or the Investment Company Act of the United States, these votes must be exercised in the sole interests of plan participants.

While fund managers are obligated to take into account the shareholders' best interests due to legislated fiduciary duty, interpretations of fiduciary duty are most often limited to the accrual of financial benefit. This is related to a corresponding bias in fund management where short-term financial gains may be given greater weight in proxy voting decisions, than the long-term viability of a project, product or industry. Evidence for this trend has emerged from reviews of limits to active ownership in the wake of the most recent global financial crisis. Market analysts suggest this short-term focus tends to decrease market efficiency, reduce investment returns, destroy long-term value, and impede efforts to strengthen corporate governance.

More recently, interpretations of fiduciary duty encourage the integration of non-financial factors (environmental, social and governance – ESG) into investment decision making, though the materiality of these factors may be contested. Cumulatively, these factors make it difficult for pension trustees to broaden the scope of their oversight functions to include sustainability concerns. Aside from short-termism and inattention to extra-financial risks, when beneficiaries are reasonably stratified, it may be difficult for fund managers to define a common standard for what the group's interests are, and for pension trustees to establish whether or not investments made on the group's behalf align with these interests.

Nonetheless, trends aimed at improving corporate disclosure on ESG issues could motivate trustees to take a broader and long-term view. Examples include the 2007 decision by the European parliament in favour of mandatory reporting on corporate social and environmental impacts. [8] Likewise, in the United States stricter environmental regulations related to greenhouse gas emissions have instigated shareholders to lobby the Securities and Exchange Commission (SEC) to require companies to disclose risks associated with climate change.[9] Meanwhile, in 2009, Canadian policymakers conducted a consultation on ESG reporting standards with a view to ensuring that corporate disclosures on these issues are as clear as possible and outcome focused.[10] In addition, recent systematic evaluations have shown that the integration of ESG issues in investment decision-making either positively impacts company performance, or involves no performance penalty. [11]

2008 – A critical juncture?

The global financial crisis beginning in 2008 potentially represents a critical juncture for prevailing debates on the merits of active ownership on the part of pension trustees.

Managerial issues relating to failed oversight have since emerged, with many blaming the crisis on the irresponsible activities of executive boards and lax oversight of investment managers.[12] With regard to pension funds, such practices translated into significant losses - $5.4 trillion or 20 percent of global pension assets in 2008 - and the accelerated closure of defined benefit pension plans.[13]

Since the crash, capital markets are evolving to reflect greater oversight and accountability, through legislation such as the Dodd-Frank Act in the U.S and the Walker Review in the UK. Better proxy voting oversight by pension trustees is one component of these broader trends.

Proxy voting oversight as a tool for improved accountability and innovation

The international labour movement supports the view that pension funds should exercise shareholder rights in manner that is consistent with the principles of responsible investment. In particular, the exercise of shareholder rights such as proxy voting must take into account the interests and values of the workers participating in pension plans; they should also recognize fundamental human rights and workers' rights as well as social, environmental and governance factors that are likely to have an impact on long-term performance of the plan's investments.

By utilizing the key vote checklist provided in Section 5, trustees could:

- evaluate whether particular proxy voting decisions were made in the fund's long-term interests;
- identify proxy voting outcomes that could have benefitted from the application of an ESG perspective;
- use the information contained in this report to encourage fund managers to articulate specific investment guidelines pertinent to the fund's ESG standards, and
- reward the activities of companies that contribute positively to ESG considerations by staying abreast of new and innovative investment opportunities.[14]

In this way, trustees could help to demonstrate that workers' capital investments can generate sustainable returns alongside greater transparency to ensure that shareholders long-term interests are being served.

3.0 Votes at a glance

Geographic scope

The report includes key votes submitted by project partners in Australia, Canada, Spain, Switzerland, the United Kingdom and United States of America.

Issues

Responsible investment principles call attention to the importance of integrating three pillars - social, environmental and corporate governance - within investment decision making processes. However due to varying legal contexts and investment cultures, the emphasis on individual pillars varies across the countries reflected in this report.

The selected key votes tend to focus on corporate governance issues, though environmental and social issues are also highlighted to a lesser extent. The votes covered in this year's edition of the Proxy Review address issues such as the independence of the chair, succession planning, executive compensation/ remuneration and stock options, pay-ratio disclosure, sustainability reporting, and disclosure of policies and practices on human rights and labour standards.

Sectors

The selected votes are drawn from companies that operate in a variety of sectors such as information technology, high technology, extractives, energy, agriculture, building and construction, financial services, travel and tourism, consumer goods, retail and healthcare/pharmaceuticals.

Canada

KEY VOTE ISSUES

- Election of directors
- Auditor appointments
- Executive compensation
- Shareholder rights
- Reporting on environmental risk

UK

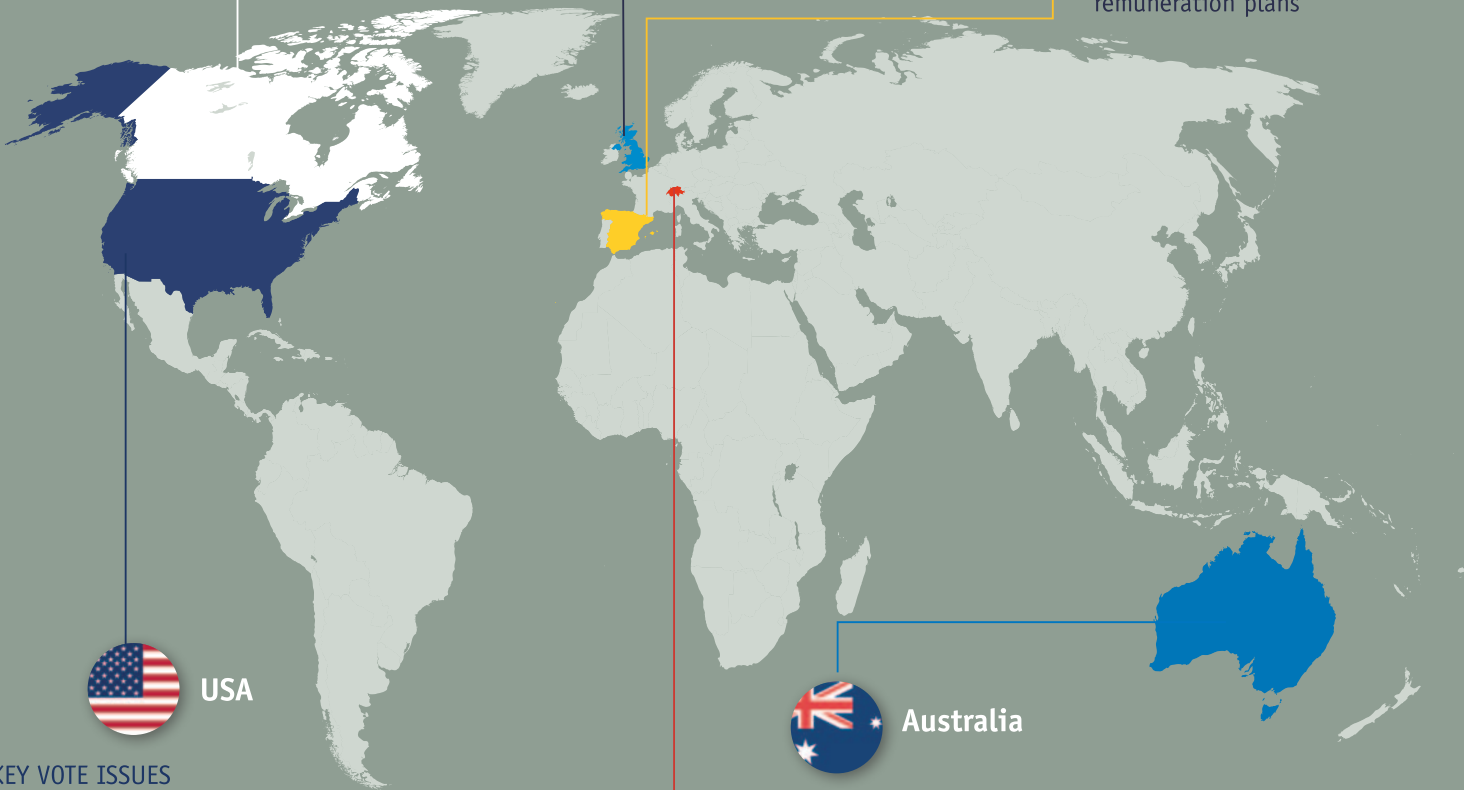
KEY VOTE ISSUES

- Executive remuneration
- Auditor appointments

Spain

KEY VOTE ISSUES

- Say on Pay votes
- Executive remuneration plans



USA

KEY VOTE ISSUES

- Executive compensation/ “Say-on-Pay”
- CEO succession planning
- Country selection process
- Human rights standards
- Lobbying contributions
- Equity holding requirements
- Mortgage servicing compliance
- Safety management
- Link pay to sustainability
- Independent board chair

Australia

KEY VOTE ISSUES

- Executive compensation
- Election of directors
- Approval of new constitutional rules regarding the election of non-board endorsed candidates

Switzerland

KEY VOTE ISSUES

- Board elections
- Executive compensation
- Share capital increases and decreases
- Shareholder discharge rights

4.0 Key votes in 2011

4.1 AUSTRALIA

About ACSI

The Australian Council of Superannuation Investors (ACSI) assists its member superannuation funds to manage environmental, social and corporate governance (ESG) investment risk.

ACSI's overriding objective is to ensure that our members are equipped to deal with governance risks in their investments in a practical way. This manner should be consistent with their general duty to protect and advance the investments of superannuation fund members.

ACSI's vision is to achieve genuine, measurable and permanent improvements in the ESG performance of entities in which our members invest, and in the ESG investment practices of our members and their investment advisors and managers.

Key votes for Australia were selected by ACSI.

ACSI submitted 8 key votes occurring at the 2010-2011 Annual General Meetings of Australian companies.

The votes occurred at the following Australian companies

- Toll Holdings Ltd.,
- Challenger Limited
- Paperlinx
- Rio Tinto Ltd.
- Billabong Group Ltd.
- Transpacific Industries Ltd.
- APN News and Media Ltd.

Key issues from an Australian perspective

Executive compensation

Australia's legal system has allowed shareholders to have their say on executive compensation since 2005. In 2011, the Australian Parliament passed amendments (Corporations Amendment Bill 2011)[15] to the existing rules with a view to increasing the impact of significant "no" votes on company remuneration proposals.*

The core principles ACSI uses to assess compensation reports and policies include:[16]

- Recognising that CEO's and senior executives influence the direction of companies, which ultimately affects shareholder return. Executive pay should therefore reflect company performance, especially long term sustainable performance.
- Executive pay outcomes should not provide perverse incentives harmful to the company's long term interests and returns to shareholders. Companies should therefore seek to deliver a significant proportion of executive pay in equity vesting over time, based on the achievement of demanding performance targets.
- Compensation reports should outline all key aspects regarding the determination of remuneration policy, in particular the linkage between the policy and performance in the interests of promoting long-term shareholder value.
- Reward structures should not allow compensation for mediocre performance or failure. ACSI therefore opposes termination payments to executives of over twelve months base salary. Australian law now requires companies to seek shareholder approval for executive contracts which allow for termination benefits of over 12 months base salary.

The vote recommendations at Paperlinx, Rio Tinto and Billabong are in line with these criteria.

Election of directors

Corporate boards are instituted with a core mandate to represent shareholders and to protect their interests. ACSI supports boards that include independent directors from diverse backgrounds and with considerable relevant experience. The board's performance and the performance of directors on other company boards are among the key factors that shape how ACSI considers the election of directors[17].

ACSI's vote recommendations regarding the approval of new constitutional rules at Toll Holdings reflect these preferences. In ACSI's view, the proposed rules would have made it more difficult for non-board candidates to be proposed by shareholders. Likewise, recommendations to oppose the re-election of directors at Transpacific and APN News and Media were also grounded in deep concerns regarding related parties and the independence of the board.

* Changes will include a 'two-strikes' test whereby if 25% or more of all shareholder votes are cast against a company's remuneration report, this 'first strike' requires that the company respond to the negative vote in the following year's compensation report. The company is free to decide how it will respond to the shareholder pay vote. If it makes changes to its compensation policies and practices, it must disclose this and identify the changes. If it elects to ignore the votes cast against on its pay, it must say so. The 'second strike' occurs if 25% or more of votes cast on pay are again voted against the next year. The second strike imposes far more onerous requirements upon the company than the first.   The Bill also requires that strike two triggers a shareholder vote within the meeting to decide whether the directors must stand for re-election. The vote on director reelection is called a 'spill resolution'. If the director re-election resolution is supported by 50% or more of votes cast, the directors must stand for re-election at a "spill meeting" within 90 days.

TOLL HOLDINGS LIMITED*

Company profile[18]	
Sector	Shipping/Transport
Headquarters	Melbourne, Australia
Number of employees	Over 40,000
Net income in 2010	$284.4 million (AUD)
Annual revenue in 2010**	$6.944 billion (AUD)
Earnings per share‡	$0.399/per basic share (AUD)

Proposal	Approval of new constitution
Partner recommendation	Oppose
Rationale	The proposed constitutional change (requiring a 75% vote) would have made it more difficult for non-board endorsed candidates to be nominated by shareholders.
Voting record	41% voted against or abstained from this resolution. The resolution was withdrawn from the meeting although proxy votes were published.

* Currency figures in the corporate profile tables are the same as reported by the company in their annual reports. This format is used to avoid any discrepancy that may arise from conversion to a single currency.

**The figures in this report are drawn from company reports of listed revenues. However, measures of annual revenue data may vary across companies and we have not been amended this figures for comparative consistency. Citations for all data sources are provided.

‡ EPS data was compiled from latest available annual reports provided by the company or data provided by project partners. Citations for all data sources are provided.

CHALLENGER LIMITED

Company profile[19]	
Sector	Financial
Headquarters	Sydney, Australia
Number of employees	460
Net income in 2010	$447.6 million (AUD)
Annual revenue in 2010	$1.634 billion (AUD)
Earnings per share	$0.553/per basic share (AUD)

Proposal	Vote on the remuneration report ('Say on Pay")
Partner recommendation	Oppose
Rationale	This resolution was opposed by shareholders for a range of reasons. For instance, long-term incentives were insufficiently demanding allowing executives to choose from two performance measures. In addition, a significant proportion of shares on issue are used for the company's equity schemes (12%), and full vesting of zero exercise price options is allowed for the CEO on termination.
Vote results	70% of shareholders voted against or abstained on this vote.

PAPERLINX

Company profile[20]	
Sector	Paper Supply
Headquarters	Melbourne, Australia
Number of employees	6,508
Net income in 2010	(loss) -$27.6 million (AUD)
Annual revenue in 2010	$5.07 billion (AUD)
Earnings per share	(loss) -$0.389/per basic share (AUD)

Proposal	Vote on the remuneration report ('Say on Pay")
Partner recommendation	Oppose
Rationale	The company had posted a $225 million loss and suffered a 20% decline in the share price during the year. Despite this, CEO Tom Park received a total package of $2.68 million, including a short-term bonus of $962,235 for "excellent cash flow management". Given the significant losses suffered by the company, this level of remuneration is considered excessive.
Vote results	Paperlinx received a significant backlash from investors with 67% of shareholders voting against the remuneration report.

RIO TINTO LTD.

Company profile[21]	
Sector	Extractive
Headquarters	London, UK and Melbourne, Australia
Number of employees	77,000
Net income in 2010	$15.184 billion (USD)
Annual revenue in 2010	$56.576 billion (USD)
Earnings per share	$7.305/per basic share (USD)

Proposal	Vote on the remuneration report ('Say on Pay")
Partner recommendation	Oppose
Rationale	Despite continuing a 'fixed pay freeze' the company announced significant increases in short-term bonus potential, annual bonus payments in 2009 and integration bonuses paid to the former CEO of Alcan. The 2009 bonus outcomes are based on underlying earnings measures that exclude the negative impacts of recent management decisions. Investors noted that total impairment charges in 2008 and 2009, most of which relate to Alcan, are now US$9.96 billion. Rio's operating cash flow in 2009 was US$9.212 billion, down from US$14.883 billion. Given the considerable losses incurred by the company during this time period, and failure of the company to include negative impacts of recent management decisions in bonus outcome decisions, ACSI recommended shareholders vote against this proposal.
Vote results	Overall 37.5% of shareholders voted against or abstained on this resolution. At the meeting, 54% of Rio's Australian (Ltd) shareholders voted against the company's remuneration report and a total of 37% of Rio's PLC and Ltd shareholders voted against the company's remuneration report.

BILLABONG GROUP LTD.

Company profile[22]	
Sector	Clothing – Surfwear and Accessories
Headquarters	Burleigh Heights, Queensland, Australia
Number of employees	Approximately 6,000
Net income in 2010	$145.988 million (AUD)
Annual revenue in 2010	$1.487 billion (AUD)
Earnings per share	$0.583/per basic share (AUD)

Proposal	Vote on the remuneration report ('Say on Pay")
Partner recommendation	Oppose
Rationale	Billabong substantially increased the bonus potential of its executive directors in the 2010 financial year because they had failed to meet EPS growth hurdles set for past bonuses. Given the failure of the executive directors to meet past EPS growth targets set for past bonuses, this increase is considered unjustified.
Vote results	59% of shareholders voted against or abstained on this issue.

TRANSPACIFIC INDUSTRIES LTD.

Company profile[23]	
Sector	Waste Management
Headquarters	Brisbane, Australia
Number of employees	7,000
Net income in 2010	$72.736 million (AUD)
Annual revenue in 2010	$2.074 billion (AUD)
Earnings per share	$0.067/per basic share (AUD)

Proposal	Director elections: Graham Mulligan and Bruce Allan
Partner recommendation	Oppose
Rationale	Transpacific was the first ASX200 company in 2010 to have (board endorsed) incumbent directors voted off the board. The major issue at Transpacific were multi-million dollar loans to senior executives made for undisclosed reasons. Investors were extremely concerned with these arrangements given the potential to align the interests of five executives with those of the major shareholders. It is still not clear on what basis the company advanced additional equity grants to these executives in the 2009 financial year – at a time when Transpacific was itself under financial pressure.
Vote results	53.1% of shareholders voted against or abstained from voting on for Mr. Mulligan, and 68.4% of shareholders voted against or abstained from voting on the election of Mr. Allan.

APN NEWS AND MEDIA LTD.

Company profile[24]	
Sector	Media and Communications
Headquarters	Sydney, Australia
Number of employees	5,340
Net income in 2010	$103.1 million (AUD)
Annual revenue in 2010	$1.059 billion (AUD)
Final dividend for 2010*	$0.12/per basic share (AUD)

Proposal	Director election: Cameron O'Reilly
Partner recommendation	Oppose
Rationale	The APN News & Media ('APN') board was under scrutiny for its lack of independent directors. The ten-member board had two independent non-executive directors with seven of the remaining non-executive directors affiliated with the company's largest shareholder *Independent News & Media PLC*, which (as at April) held 32.18% of the company's shares. Due to the lack of independent board members at the company, ACSI recommended shareholders vote against the appointment of Mr. O'Reilly.
Vote results	41.9% of shareholders voted against or abstained from voting for Mr. O'Reilly.

* Information in the Annual Report of APN News & Media was inconsistent with that provided by other companies. The CWC chose to provide the statistic believed to be most consistent with data provided in other company profiles.

4.2 CANADA

About SHARE

SHARE is a Canadian leader in responsible investment services, research and education for institutional investors.

SHARE offers proxy voting, shareholder engagement and responsible investment consulting services, courses and conferences, policy advocacy and timely research that help investors integrate environmental, social and governance issues into their investment management process. SHARE's clients include pension funds, mutual funds, foundations, faith-based organizations and asset managers across Canada.

SHARE's leadership on responsible investment is both national and international. SHARE is a signatory to the United Nations Principles for Responsible Investment (UN PRI) and a Global Reporting Initiative (GRI) Organizational Stakeholder. SHARE also coordinates the Secretariat of the Global Unions Committee on Workers' Capital (CWC).

Key votes for Canada were selected by SHARE.

SHARE submitted 10 key votes occurring at the 2011 annual general meetings of Canadian companies.

The votes occurred at the following Canadian companies

- Barrick Gold Corporation
- Shoppers Drug Mart Corporation
- Baytex Energy Corporation
- Jean Coutu Group
- Crew Energy Inc.
- Savanna Energy Services Corporation
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Transalta
- Extorre Gold Mines Ltd.

Key issues from a Canadian perspective

Elections of directors

In Canada, shareholders cannot vote against directors or auditors. They can only vote for the nominees or withhold their votes. Thus, SHARE's "withhold" votes should be interpreted as votes against the directors and auditors in question.

SHARE bases its votes on nominees for the board of directors on its proxy voting guidelines. The following are our most common reasons for voting against management's nominees:

- The board does not have enough independent directors. Directors have a legal obligation to act in the best interests of the company. However, it is difficult for anyone to avoid being influenced by conflicts of interest. This is why boards of directors must be largely independent of the company's management. Directors are not in a good position to hold management accountable if they depend on the corporation for any benefit or consideration other than their stock in the company and the compensation they receive as directors, or if they have a relationship to the company other than as shareholders and directors. At least two-thirds of the directors should be independent.
- Directors who are not independent serve on the audit, compensation or nominating committees. These key committees are essential in overseeing a company, and they are in the best position to prevent corporate malfeasance and protect shareholder value. They must be fully independent in order to be effective.

- The director has not attended at least 75% of the meetings of the board and the committees of which he or she is a member. Although attendance at board meetings is not the sole determinant of a director's performance, poor attendance makes it difficult for a director to fulfil his or her responsibilities to the board. SHARE makes exceptions if the company discloses a mitigating reason, such as an illness.
- The board or an individual director has failed in his or her duty of care, or has not acted in the best interests of all shareholders. This can include a director's service on the board of another company if that board demonstrated a particularly egregious failure in its duty of care.

Independence of directors

SHARE has a detailed set of criteria for determining whether or not a director is independent. The list below is not exhaustive, but gives some of the key reasons for considering a director not to be independent. In general, an independent director has no material relationship with the company other than that of director and shareholder. This excludes any director who:

- is currently employed or has previously been employed by the corporation or an affiliate of the corporation;
- has an employment or family relationship with any person or entity that does business with the company, including advisors, consultants, accountants, attorneys, investment bankers, customers or suppliers;
- has a family relationship with any of the corporation's executives or management employees;
- is employed by any organization, including a university or research institute, that receives financial support from the company or has some other close relationship with the company.

The votes on directors at Barrick Gold, Baytex Energy Corporation, and the Jean Coutu Group are based on these guidelines.

Auditor appointments

Auditor independence is vital for shareholders. A company's annual financial statement is usually the only independently-verified information shareholders have about the company's performance and financial condition. Shareholders must be confident that they can rely on this information and that the auditors who reviewed the information have not been compromised.

From time to time, companies hire their outside auditors to provide them with tax advice or other services. Some of these services are permitted under securities regulations. However, SHARE believes that hiring the outside auditor to perform other work has the potential to compromise the independence of those auditors.

At a minimum, two-thirds of an auditor's fees from the company should be for the annual audit.[25] This formed the basis for SHARE's vote against the election of the auditors selected by Shoppers Drug Mart.

Executive compensation

Although Canadian companies are not required to allow their shareholders to vote on their overall executive compensation plans, they are required to seek shareholders' approval for some aspects of executive compensation. In particular, companies must submit their stock option plans to a vote by shareholders. Recently, Canadian companies have begun voluntarily to adopt advisory "say-on-pay" shareholder votes on executive remuneration, like those in Australia, the UK and the United States.

SHARE votes against executive remuneration plans for many reasons, including the following:

- The incentive portion of the compensation is not based on performance. This includes stock options or restricted shares that have no performance requirements for the awards themselves, or as a condition for vesting. When incentive pay has no performance requirements it becomes a reward for tenure rather than performance, and loses its effectiveness as an incentive to work for the company's long-term profitability.

- The only measure of performance for incentive compensation is share price, or share price is an important measure of performance. Share price is not a fair measure of executive performance because it can rise or fall for reasons that are beyond the control of any executive and are unrelated to how well the company is run.
- An executive stock option plan includes the non-executive directors. This is not a good compensation practice, for two reasons. First, including directors in management compensation plans can undermine the board's independence, because it tends to align directors' interests with the interests of the executives whose performance the board is supposed to oversee. Second, stock options reward their recipients for increases in share price. Thus, they give directors an incentive to foster relatively short-term gains in share price, even when this does not result in improved long-term shareholder value.
- Disclosure about the compensation plan is inadequate. In order to vote effectively on compensation issues, shareholders must understand the company's executive compensation plan and philosophy. The company should describe its entire executive compensation plan clearly in its proxy circular, including the rationale for salary levels, incentive pay and bonuses, equity-based compensation, severance arrangements, retirement benefits, perquisites, and any other contractual obligations the company has to its executives. The company should describe its compensation plans in enough detail and in terms that will allow a reasonable person to understand why the named executive officers were paid they amounts they received. This disclosure may go beyond what the company is legally required to give about its executive compensation.

SHARE's votes on the compensation plans at Crew Energy, Savanna Energy and the Bank of Nova Scotia are based on these guidelines.

Shareholders' rights

Two of the votes included in this survey raised issues about shareholders' rights. At Extorre Gold, the company proposed to reincorporate in a Canadian province that allows corporations to make significant changes to their share structures or ownership without shareholder approval. It is SHARE's position that any action that alters the relationship between shareholders and the board, or that results in major changes in the structure or control of the corporation should be submitted to the shareholders for a vote.

A shareholder proposal filed with the Canadian Imperial Bank of Commerce asked the bank to change its proxy ballots by adding "abstain" as a vote choice. Currently, shareholders of Canadian companies cannot vote to abstain. SHARE agreed with the filer of this proposal that allowing shareholders to vote "abstain" is reasonable and does not conflict with shareholders' rights in any way.

Environmental Performance and Risks

Companies' responsibility for protecting the environment is a component of shareholder value. Environmental damage risks not only harm to public health and the environment, but also legal liability, remediation costs, the costs of unplanned and possibly significant changes in operations, and a damaged reputation. Corporations have a responsibility to disclose to their shareholders the risks and potential liabilities of their operations, including the risks associated with greenhouse gas emissions and climate change.

SHARE's vote on the shareholder proposal filed at TransAlta Corporation is based on this guideline.

BARRICK GOLD CORPORATION

Company profile[26]	
Sector	Extractive
Headquarters	Toronto, Ontario, Canada
Number of employees	20,034
Net income in 2010	(loss) -$3,274 million (USD)
Annual revenue in 2010	$10,924 million (USD)
Earnings per share	(loss) -$3.32/per basic share (USD)

Proposal	Election of directors: Gustavo Cisneros
Partner recommendation	Oppose/withhold
Rationale	Mr. Gustavo Cisneros attended fewer than 66% of the board's meetings last year. There were only six board meetings, and he does not serve on any committees. The company did not provide any explanation for his poor attendance
Vote results	25.6 of votes cast were withheld.

SHOPPERS DRUG MART CORPORATION

Company profile[27]	
Sector	Retail – Health and Pharmacy
Headquarters	Toronto, Ontario, Canada
Number of employees	Over 51,000
Net income in 2010	$590.743 million (CDN)
Annual revenue in 2010	$10.4 billion (CDN)
Earnings per share	$2.72/per basic share (CDN)

Proposal	Appointment of Deloitte & Touche LLP as auditors
Partner recommendation	Oppose/withhold
Rationale	Shoppers Drug Mart hired its auditors for tax, consulting and other services last year that made up more than one third of the auditors' total fees. The fees for the annual audit and related services were $1,418,680 CDN. The fee for non-audit services were $3,356,805 CDN.
Vote results	At least 47% of votes cast were withheld.

BAYTEX ENERGY CORP.

Company profile[28]	
Sector	Energy
Headquarters	Calgary, Alberta, Canada
Number of employees	219
Net income in 2010	$177.631 million (CDN)
Annual revenue in 2010	$1 billion (CDN)
Income per share	$1.59/per basic share (CDN)*

Proposal	Election of directors: John A. Brussa
Partner recommendation	Oppose/withhold
Rationale	Only 4 of Baytex Energy's 8 directors are independent. For this reason, SHARE voted against those directors who are not independent. Mr. Brussa is not independent because he is a partner with Burnet, Duckworth & Palmer LLP, which provides legal services to Baytex. SHARE voted to withhold for Mr. Brussa.
Vote results	28.1% of votes cast were withheld.

* Information in the Annual Report of Baytex was inconsistent with that provided by other companies. The CWC chose to provide the statistic believed to be most consistent with data provided in other company profiles.

JEAN COUTU GROUP

Company profile[29]	
Sector	Retail – Pharmaceuticals, Cosmetics, Photo (Drugstore Chain)
Headquarters	Longueuil, Quebec, Canada
Number of employees	Over 17,000
Net income in 2010	(loss) -$112.6 million (CDN)
Annual revenue in 2010	$2,543.1 million (CDN)
Earnings per share	$0.48/per basic share (CDN)

Proposal	Election of directors (slate)
Partner recommendation	Oppose/withhold
Rationale	This board was presented to shareholders as a slate; votes on individual directors were not permitted. There were a number of problems with the board's independence, but SHARE was especially concerned about Ms. Sylvie Coutu. Ms. Coutu is a director of the company and a member of the compensation committee. She is also the sister of François Coutu, who is the CEO. This means she participates in setting her brother's remuneration. The company asserts that Ms. Coutu is an independent director. However, SHARE does not agree. Since SHARE could not vote on individual directors, they chose to withhold on this issue.
Vote results	37.73% of votes cast were withheld.

CREW ENERGY INC

Company profile[30]	
Sector	Energy
Headquarters	Calgary, Alberta, Canada
Number of employees	71
Net income in 2010	(loss) -$17.161 million (CDN)
Annual revenue in 2010	$206.343 million (CDN)
Earnings per share	(loss) –$0.22/per basic share (CDN)

Proposal	Approval of unallocated stock options
Partner recommendation	Oppose
Rationale	This is a stock options plan for executives, but it is also extended to directors.
Vote results	35.2% of votes cast were against the proposal.

SAVANNA ENERGY SERVICES CORP.

Company profile[31]	
Sector	Energy
Headquarters	Calgary, Alberta, Canada
Number of employees	2,196
Net income in 2010	(loss) - $8.313 million (CDN)
Annual revenue in 2010	$438.396 million (CDN)
Earnings per share	$0.11/per basic share (CDN)

Proposal	Approval of unallocated stock options
Partner recommendation	Oppose
Rationale	This stock option plan has no performance requirements, either for awards or for vesting.
Vote results	Approximately 30% of votes cast were against the proposal.

BANK OF NOVA SCOTIA

Company profile[32]	
Sector	Financial
Headquarters	Toronto, Ontario, Canada
Number of employees	70,772
Net income in 2010	$4.329 billion (CDN)
Annual revenue in 2010	$15.505 billion (CDN)
Earnings per share	$3.91/per basic share (CDN)

Proposal	Improved linkage of compensation to performance (shareholder proposal)
Partner recommendation	Support
Rationale	The Bank of Nova Scotia discloses some of the specific performance targets and their assigned weights in its executive pay plan, but it does not disclose all of them. Some are lumped into categories called, for example, "corporate performance factor". The result is that although the bank's executive compensation looks good overall, there are gaps in the disclosure that leave shareholders guessing about what the performance criteria really are.
Vote results	35.89% of votes cast supported this proposal.

CANADIAN IMPERIAL BANK OF COMMERCE

Company profile[33]	
Sector	Financial
Headquarters	Toronto, Ontario, Canada
Number of employees	419,28S
Net income in 2010	$2.5 billion (CDN)
Annual revenue in 2010	$12.1 billion (CDN)
Earnings per share	$5.87/per share (CDN)

Proposal	Facilitate shareholder abstention in proxy voting (shareholder proposal)
Partner recommendation	Support
Rationale	Shareholders of Canadian companies currently do not have the right to vote "abstain". This proposal would expand shareholders' rights by allowing them to vote "abstain" if they wish to do so.
Vote results	65.67 of votes cast supported this proposal.

TRANSALTA

Company profile[34]	
Sector	Energy
Headquarters	Calgary, Alberta, Canada
Number of employees	2,389
Net income in 2010	$219 million (CDN)
Annual revenue in 2010	$2.819 billion (CDN)
Earnings per share	$1.00/per basic share (CDN)

Proposal	Report on risks of coal-fired power generation (shareholder proposal)
Partner recommendation	Support
Rationale	This proposal asked TransAlta to report on the risks the company faces as a result of using coal to fuel seven power-generating plants, and on its plans to change to more sustainable energy sources for those facilities. Coal-fired power plants pose certain risks to TransAlta's shareholders that plants using environmentally responsible fuel sources do not. Burning coal releases large amounts of greenhouse gases into the atmosphere, as well as sulphur compounds that cause acid rain. Thus, TransAlta's coal-fired power plants could become a significant liability for its shareholders. Although TransAlta's response to this proposal was quite detailed, the response did not acknowledge the risks of using coal as fuel or mention plans for changing to a more sustainable fuel for these power plants. SHARE voted for the proposal for this reason.
Vote results	The proposal was withdrawn.

EXTORRE GOLD MINES LTD

Company profile[35]	
Sector	Extractive
Headquarters	Vancouver, British Columbia, Canada
Number of employees	N/A
Net income in 2010	(loss) -$33.2 million (CDN)
Annual revenue in 2010	$211,000 (CDN)
Earnings per share	(loss) -$0.42/per basic share (CDN)

Proposal	Continuance of the company under British Columbia Business Corporations Act (BCBCA) and adoption of new articles
Partner recommendation	Oppose
Rationale	Extorre proposed to change its incorporation from the Canadian Business Corporations Act (CBCA) to the British Columbia Business Corporations Act in order to avoid the CBCA's requirement that at least 25% of its directors be Canadian. However, Extorre's proposed change of incorporation would diminish shareholders' rights in some significant ways. In particular, the BCBCA allows companies to split or consolidate their shares without shareholder approval. It also allows companies to sell or lease their business without shareholder approval. Any action that alters the relationship between shareholders and the board, or that results in major changes in the share structure, business, or control of the corporation should be submitted to the shareholders for a vote. These provisions of the BCBCA are not in the best interests of shareholders.
Vote results	56.19% of shareholders voted against this proposal

4.3 SPAIN

About CCOO

The Confederación Sindical de Comisiones Obreras (CCOO) is the largest trade union in Spain. It is a democratic, working-class organization that works through voluntary participation and solidarity to defend the collective interests of its members and to achieve a more just, democratic and participatory society.

The CCOO is a demanding and participatory union intended to represent and defend adequately the interests of workers, pensioners, the unemployed, migrants, immigrants and youth.

About EURESA

The Euresa Institute is a unique example of collaboration between the European cooperative and mutual insurance companies (DEVK Versicherungen, Macif, Maif, Matmut, P&V, UGF) and the trade union movement, represented by the European Trade Union Confederation.

The Institute, an association under French law, was created in 2005. It organises and promotes relations with the ETUC in the societal area.

Since 2006, the Euresa Institute has worked to develop Euresactiv - an international network of socially responsible investors that share information on proxy voting.

Key votes for Spain were selected by the CCOO (The Workers' Commissions), in cooperation with the EURESA Institute's EURESACTIV Proxy Voting Network.

The CCOO submitted 7 key votes occurring at the 2010 Annual General Meetings of Spanish companies.

The votes occurred at the following Spanish companies

- Telefonica
- Banco Santander
- Banco Bilbao Vizcaya Argentaria

Key issues from a Spanish perspective

Executive remuneration and incentive plans

"Say on Pay" is an advisory shareholder vote currently mandated for public companies in Spain. The provisions of this shareholder right are outlined in the Unified Code on Corporate Governance (2006), and are broadly in line with the European Commission's recommendations on fostering an appropriate regime for the remuneration of directors of listed companies.[36]

As with countries like the U.S, U.K, Australia and Canada, Spanish 'Say on Pay' votes are non-binding on directors, in contrast to the policies adopted in the Netherlands and Sweden.

For CCOO, recommendations on remuneration consider whether the relevant company policies and plans are appropriate, based on performance and wage-equity principles. In addition, recommendations consider whether the company has provided sufficient disclosure about its remuneration policy, structure and performance criteria and whether details about individual directors' remuneration packages are explained.

TELEFONICA

Company profile[37]	
Sector	Telecommunications
Headquarters	Madrid, Spain
Number of employees	285,089
Net income in 2010	€10.072 billion (EUR)
Annual revenue in 2010	€10.072 billion (EUR)
Earnings per share	€2.25/per basic share (EUR)

Proposal	Approval of long-term restricted shares plan
Partner recommendation	Oppose
Rationale	Numerous grounds for objecting to the company's long-term restricted shares plan were raised. These included: 1. The lack of disclosure about the exact number of beneficiaries of the plan, the number of shares to be allocated to each beneficiary and the frequency of share allocation; 2. The plan's restricted coverage only to those employees met eligibility requirements set by the council; 3. The requirements to remain in the plan were not made clear. In the absence of the aforementioned points, the plan's total value of EUR 50 million (till December 2015) is not a clear guideline, as the amount could be excessive depending of the number of beneficiaries. Furthermore, the CCOO objects to the lack of disclosure around many clauses that are not defined in the plan. The Board of Directors will determine them after the approval of the proposal (amounts of shares to be allocated in each cycle, the co-investment, etc.).
Vote results	91% of shareholders voted for the proposal, and 6% abstained.

TELEFONICA

Company profile[38]	
Sector	Telecommunications
Headquarters	Madrid, Spain
Number of employees	285,089
Net income in 2010	€10.072 billion (EUR)
Annual revenue in 2010	€10.072 billion (EUR)
Earnings per share	€2.25/per basic share (EUR)

Proposal	Approval of long-term incentive plan
Partner recommendation	Oppose
Rationale	This vote pertained to the approval of a long-term incentive plan that provided shares of Telefónica, S.A. for members of the executive team of the Telefónica Group (including executive directors). The CCOO's recommendation to oppose this vote was based on a discrepancy in the time-horizon for the incentive plan and level of compensation to be awarded. Unlike the suggested title of the plan, it actually covers the medium-term and includes overlapping periods (2011-2014, 2012-2015, 2013-2016). In addition, the value of the compensation is clearly excessive: EUR 450 million is to be allocated between 1,900 people. Furthermore, the CCOO objects to the lack of disclosure around share allocation. There are many clauses that are not defined in the plan. It was noted that the Board of Directors would determine these clauses (such as the amount of shares to be allocated in each cycle and co-investment provisions) after the approval of the proposal. The CCOO was also concerned about the lack of constraints around the length of share ownership. The plan did not require directors to hold shares for a determined period (at minimum for more than one year).
Vote results	92% of shareholders voted for the proposal, and 7% abstained.

BANCO SANTANDER

Company profile[39]	
Sector	Financial
Headquarters	Santander, Cantabria, Spain
Number of employees	178,869
Net income in 2010	€8.181 billion (EUR)
Annual revenue in 2010	€42.0249 billion (EUR)
Earnings per share	€0.94/per basic share (EUR)

Proposal	Approval of the sixth-cycle of the performance shares plan
Partner recommendation	Oppose
Rationale	CCOO has four main objections to the plan. First, the plan ignores long-term performance and incentivizes short-term risk, as its time horizon covers less than 5 years. Second, shares are to be delivered at the end of the scheme. Third, the plan did not require directors to hold shares for a determined period, and there is a lack of opacity in the selection of beneficiaries (which number 6,500). Finally, the number of shares allocated through the plan is excessive (EUR 151 million at today´s share value).
Vote results	Approximately 92% of shareholders voted for the proposal, and 7% abstained.

BANCO SANTANDER

Company profile[40]	
Sector	Financial
Headquarters	Santander, Cantabria, Spain
Number of employees	178,869
Net income in 2010	€8.181 billion (EUR)
Annual revenue in 2010	€42.0249 billion (EUR)
Earnings per share	€0.94/per basic share (EUR)

Proposal	Approval of the second-cycle of the deferred and conditional share plan
Partner recommendation	Oppose
Rationale	The beneficiaries of this plan are managers or employees of the Santander Group. Beneficiaries are awarded variable pay or annual bonus for 2011 in excess of EUR 300,000. While the plan's allowance for deferring a portion of the variable pay or bonus for a period of three years is positive, there are nonetheless a number of problems with the plan. The number of beneficiaries is not disclosed and the level of deferral (20%-30%) is insufficient. Moreover, the maximum compensation amount of EUR 40 million is clearly excessive.
Vote results	Approximately 97% of shareholders voted for the proposal, and 2% abstained.

BANCO SANTANDER

Company profile[41]	
Sector	Financial
Headquarters	Santander, Cantabria, Spain
Number of employees	178,869
Net income in 2010	€8.181 billion (EUR)
Annual revenue in 2010	€42.0249 billion (EUR)
Earnings per share	€0.94/per basic share (EUR)

Proposal	Approval of the first-cycle of the deferred and conditional variable remuneration plan.
Partner recommendation	Oppose
Rationale	CCOO objects to this plan because it not only appears to incentivize the short-term, but also provides an inadequate maintenance clause and contains relative deferral provisions. According to the compensation plan, the majority of shares are to be delivered in 2012. In the following two years, any outstanding shares (2/3) will be provided to beneficiaries. In 2015, the share allocation is disbursed as follows: 20% of shares for executive directors, 16.67% for managers and group division managers, and 13.33% for other directors subject to supervision. In practice, this amounts to relative deferral provisions. The time period for the plan's maintenance clause is one year. However, in CCOO's view, this period should be at least 2 years. On a positive note, Santander has shown leadership compared it its peers in the IBEX 35 by disclosing the estimated value the plan. However, the disclosed amount is clearly excessive (EUR 165 million).
Vote results	Approximately 97% of shareholders voted for the proposal, and 2% abstained.

BANCO SANTANDER

Company profile[42]	
Sector	Financial
Headquarters	Santander, Cantabria, Spain
Number of employees	178,869
Net income in 2010	€8.181 billion (EUR)
Annual revenue in 2010	€42.0249 billion (EUR)
Earnings per share	€0.9418/per basic share (EUR)

Proposal	Report on directors remuneration policy
Partner recommendation	Oppose
Rationale	CCOO asserts that the remuneration of directors at Banco Santander is egregiously excessive. Six executive directors received EUR 29.4 million. In addition accrued pension rights for these six directors is EUR 255.1 million Especially outrageous is the compensation package for Alfredo Sáenz Abad (3.7 EUR million fixed remuneration, 5.7 EUR million variable remuneration, and 2.3 EUR million in deferred remuneration). Saenz's accrued pension is 86.6 million (34% of the total amount for all directors). Sáenz has accrued more pension rights than all the wealth accumulated by the occupational pension scheme of the bank, which covers 23,660 employees and has EUR 72.776 million in assets.[43]
Vote results	Approximately 95% of shareholders voted for the remuneration policy, and 3% abstained.

BANCO BILBAO VIZCAYA ARGENTARIA (BBVA)

Company profile[44]	
Sector	Financial
Headquarters	Bilbao, Spain
Number of employees	106,980
Net income in 2010	€4.995 billion (EUR)
Annual revenue in 2010	€20.910 billion (EUR)
Earnings per share	€1.17/per basic share (EUR)

Proposal	Consultative vote on remuneration
Partner recommendation	Oppose
Rationale	1. Excessive remuneration for executive directors (fixed - EUR 1.9 and 1.7 million, and variable - EUR 3 and 1.8 million); 2. The lack of long-term plans (the compensation package covers 2 year periods) which may incentivize short-term performance and risk-taking; 3. The excessive contributions to the CEO's pension scheme (EUR 14.5 million); 4. The lack of transparency in regarding compensation items such as the leasing of vehicles and insurance.
Vote results	Approximately 98% of shareholders voted for the proposal, and less than 1% abstained.

4.4 SWITZERLAND

About Ethos

Ethos, Swiss Foundation for Sustainable Development, was created in February 1997 by two Geneva-based pension funds, and is currently composed of 115 institutional investors.

Its purpose is to promote the consideration of sustainable development principles and corporate governance best practice in investment activities, and a stable and prosperous socio-economic environment that serves society as a whole and that preserves the interests of future generations.

The Foundation owns Ethos Services which conducts all investment and consulting activities. Ethos Services is specialised in the field of socially responsible investment (SRI). Ethos Services advises investment funds and discretionary asset management mandates according to a SRI approach for an equivalent of CHF 1.9 billion.

The Ethos Foundation is signatory of the Principles for Responsible Investment of the United Nations (UNPRI) and the Charter of the Swiss Association of Pension Funds (ASIP). Ethos also adheres to the UK Stewardship Code. In 2009, Ethos received the International Corporate Governance Network's annual award for excellence in the field.

Key votes for Switzerland were selected by ETHOS.

ETHOS submitted 10 key votes occurring at the 2011 Annual General Meetings of Swiss companies.

The votes occurred at the following Swiss companies

- Nestlé
- Swiss Re
- Weatherford
- Credit Suisse
- Novartis
- UBS
- GAM Holding
- Syngenta
- Transocean

Key issues from a Swiss perspective

Figure 1: Ethos' 2011 voting recommendations for key issue areas (100 largest companies)

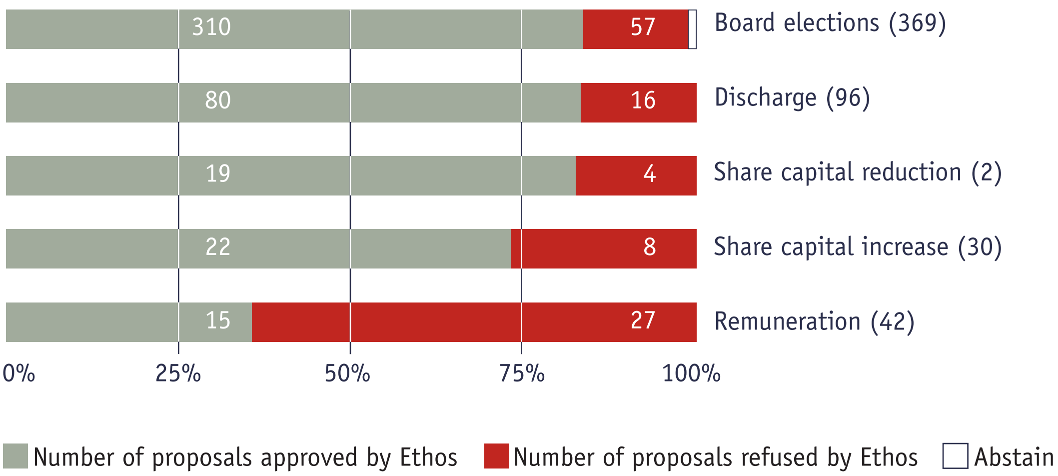


Table 1: Average approval rate for key issue areas (100 largest Swiss companies)

Type of board proposals	Average approval rate: 2011 AGM	Average approval rate: 2010 AGM
Board elections (237 results available out of 369 proposals)	96.1%	97.3%
Discharge (54 results available out of 96 proposals)	95.9%	96.6%
Share capital reduction (17 results available out of 23 proposals)	94.6%	98.9%
Share capital increase (16 results available out of 30 proposals)	84.8%	88.8%
Remuneration (30 results available out of 42 proposals)	84.7%	90.2%

Board elections

Ethos' recommendations on director elections at Nestlé, Swiss Re and Weatherford draw on their concerns with the level of board independence, succession planning, diversity and performance. For instance, in order to ensure adequate succession planning and board renewal, Ethos recommends a maximum board tenure of twenty years, unless adequately justified otherwise. Similarly, Ethos believes that excessive commitments to other organisations can inhibit a directors' ability to adequately commit to the company's best interests, and creates conditions that are conducive to conflicts of interest. Ethos supports vibrant and functional boards, and argues that in cases where the functions of chairman and CEO have been inappropriately combined and directors serve excessively long terms, the board risks entrenchment.

Say on pay

In Switzerland, as opposed to most European countries, shareholders have no mandated say on the pay packages of directors and senior executives. When serious concerns over board and executive remuneration arise, the way for shareholders to express dissent is to sanction the board's remuneration committee members and chairman by opposing their re-election.

In 2007, the Swiss Code of Best Practice for Corporate Governance[45] (Appendix 1) provided companies with two possibilities with regard to board and executive remuneration:

- The board can comment on the remuneration report under the item "approval of the accounts" or "discharge of the board" at the annual general meeting
- The board can submit the remuneration report to an advisory vote of the shareholders.

Ethos favours the second option to give shareholders a "Say-on-Pay". After many years of engagement led by Ethos on behalf of Swiss pension funds, 45 out of the 100 largest companies have put their remuneration report to the shareholder vote at their 2011 general meetings (compared to only 20 in 2010).

When issuing a voting recommendation, Ethos carefully analyses the transparency, structure and values of the remuneration package. In 2011, Ethos voted in favour of the remuneration report in only 35.7% of cases. In fact, in most of the analysed companies, the level of transparency was insufficient to assess the remuneration system and its link with the company's performance. In terms of structure, most remuneration systems allow for excessive payouts, with the major part of remuneration depending on a one-year performance only which does not enhance long-term value creation. In 2011, the general approval rate by all shareholders who voted decreased to 85% from 90% in 2010. According to Ethos, most Swiss companies do not meet best practice with regard to executive remuneration, as shown by the examples of Credit Suisse, Novartis and UBS.

Share capital increases

In Switzerland, in addition to their ordinary capital, companies can create pools of authorized* and/or conditional capital.** The amount requested under authorized and/or conditional capital cannot exceed the legal maximum of 50% of ordinary capital for each. This means that the potential capital increase without pre-emptive rights is capped at 100% of the issued share capital.

However, given that capital increases without pre-emptive rights entail dilution of shareholders' rights (right to a dividend and voting rights), Ethos believes that a conditional or authorized share capital of 50% each is excessive. Moreover, as the authorized capital may be used for general purposes (unspecified reasons at the time of requesting authority), it corresponds to a blank check given to the board of directors. According to Ethos, all authorizations without pre-emptive rights should be limited in aggregate to one-third of the share capital. The recommendation on the relevant vote at Credit Suisse is based on this view.

Share capital reduction

In Switzerland, company law provides that a company may hold at most 10% of its own shares.[46] Beyond this limit and up to an additional 10%, the company must cancel shares and reduce its capital accordingly. The cancellation of shares requires prior approval of the shareholders. Therefore, if a company wants to repurchase more than 10% of its capital it should ask authority from its shareholders to repurchase and subsequently cancel the shares exceeding this threshold.

Any proposal by a company with a significant cash flow to buy back its shares in order to reduce its capital must be justified by the board of directors. The board must explain clearly to the shareholders why, for example, the surplus cash is not used for new investments or acquisitions that could contribute to the company's growth. Ethos argues that the excess cash should be returned to shareholders via a dividend payment that benefits all shareholders, not only those that sell their shares. Failures to adhere to such standards are the primary rationale behind Ethos' vote recommendation at GAM Holding.

Discharge

Discharge is considered to be an inalienable shareholder right at a company's annual general meeting, and it is conventionally included as an agenda item, unless, for exceptional reasons, the board refrains from asking to be discharged. It constitutes a declaration that no legal proceedings shall be instituted against the discharged body for its conduct of business during the period under review. While discharge is closely connected to the approval of the annual report and accounts, such approval however, does not automatically entail discharge.

Discharge is valid only for the facts revealed, and exempts the discharged members of the board from prosecution by the company for gross negligence. Shareholders who grant a discharge lose their right to obtain reparation for indirect prejudice. In Switzerland, any shareholders who withhold their vote on the discharge retain their right to file lawsuits against the directors for damages within a period of six months. However, Ethos considers that serious governance failures which constitute a risk for the company and its stakeholders also justify an oppose vote on the discharge, as noted in its recommendations for Syngenta and Transocean.

* Authorized capital: According to Swiss law (CO Art. 651), to avoid convening an extraordinary general meeting every time that an increase in the company's capital is needed, the board of directors can ask the general meeting for the right to create a pool of authorized capital. The authorized capital may be used for general financing requirements or for specific reasons, such as to purchase a company or a stake in a company in which case pre-emptive rights can be waived. By approving the creation of authorized capital, the annual general meeting gives the board of directors the right to proceed to successive capital issuances, on its own initiative, up to the authorized amount during a period of no more than two years.

**Conditional capital: According to Swiss law (CO Art. 653), the board of directors can request the general meeting for the right to create a pool of conditional capital that can exclusively serve for the conversion of convertible bonds held by bondholders or options held by company directors, employees or other people. Pre-emptive rights are always waived.

NESTLÉ

Company profile[47]	
Sector	Retail - Food
Headquarters	Vevey, Switzerland
Number of employees	281,000
Net Income attributable to shareholders (without minority interests) in 2010	8.78 billion (CHF)
Annual revenue in 2010	104.61 billion (CHF)
Earnings per share	2.6/per basic share (CHF)

Proposal	Director election: re-elect Mr. Jean-Pierre Meyers
Partner recommendation	Oppose
Rationale	Mr. Meyers has been board member of Nestlé since 1991 and is the son in law of Mrs. Liliane Bettencourt, major shareholder of L'Oréal and important shareholder of Nestlé (but holding less than 3% of the share capital). In order to ensure an adequate succession planning and board renewal, Ethos has set in its guidelines maximum board tenure of 20 years unless adequately justified. Given that there is not sufficient justification to make an exception to the 20-year limit, in particular in light of the excessively large board size of 15 directors, Ethos voted against the re-election of Mr. Meyers.
Vote results	95% of shareholders voted for the proposal.

SWISS RE

Company profile[48]	
Sector	Financial
Headquarters	Zurich, Switzerland
Number of employees	10,362
Net Income in 2010	$863 million (USD)
Annual revenue in 2010	$28,835 million (USD)
Earnings per share	$2.52/per basic share (USD)

Proposal	Director election: re-elect Dr. Raymond Ch'ien
Partner recommendation	Oppose
Rationale	The proposed nominee is independent. However, Ethos opposed his re-election due to serious concerns over his aggregate time commitments. Indeed, in addition to being chairman of three important listed companies based in Hong Kong (two of which included in the MSCI World Index), he is board member of four large companies with worldwide activities (including Swiss Re).
Vote results	94% of shareholders voted for the proposal.

WEATHERFORD

Company profile[49]	
Sector	Oil and Gas
Headquarters	Zug, Switzerland
Number of employees	55,000
Net Income attributable to shareholders (without minority interests) in 2010	(loss) -$107.93 million (USD)
Annual revenue in 2010	$10,220.8 million (USD)
Earnings per share	(loss) -$0.15/per basic share (USD)

Proposal	Vote on re-election of board
Partner recommendation	Oppose
Rationale	The functions of chairman and CEO have been combined since 1997 without adequate justification and accompanying oversight measures. In addition, three directors have been sitting on the board for more than 20 years and three for more than 12 years. The board is therefore not sufficiently independent. Ethos also has concerns regarding the diligence of the long-time serving members of the audit committee in light of the material weaknesses in internal controls discovered in 2010, leading to a restatement of the financial results 2008-2010. In light of all these concerns, Ethos opposed the re-election of Messrs. Bernard Duroc-Danner (Chairman and CEO), Nicholas Brady, Mr. David Butters (board member for 27 years), Mr. Robert Millard (board member for 22 years), Mr. Robert Moses (board member for 23 years) and Mr. Robert Rayne (board member for 24 years and chairman of the audit committee).
Vote results	69-99% of shareholders voted for the proposal.

CREDIT SUISSE

Company profile[50]	
Sector	Financial
Headquarters	Zurich, Switzerland
Number of employees	50,100
Net Income attributable to shareholders (without minority interests) in 2010	5.1 billion (CHF)
Annual revenue in 2010	31.39 billion (CHF)
Earnings per share	3.91/per basic share (CHF)

Proposal	Advisory vote on remuneration report
Partner recommendation	Oppose
Rationale	The variable remuneration at Credit Suisse is too high and not capped. More than 80% of the remuneration of the executive management is variable, despite that the net income target was not achieved. Excessive variable remuneration can lead to behaviour that is not in the long-term interests of the shareholders. In addition, the strong increase of the base salaries of executive management and many other employees is not justified. For example, the base salary of Credit Suisse's CEO was doubled in 2010. While Ethos and other shareholders called for a reduction in variable pay, they did not propose to replace this reduction with an increase of the fixed remuneration. Finally, non-executive board member fees are among the highest in Switzerland. Excluding the chairman and vice chairman, the non-executive board members received on average CHF 596'000 in 2010. Ethos opposed the remuneration report at Credit Suisse, despite several amendments introduced to the remuneration system, following serious concerns raised by shareholders the previous year.
Vote results	74% of shareholders voted for the remuneration report.

NOVARTIS

Company profile[51]	
Sector	Pharmaceuticals
Headquarters	Basel, Switzerland
Number of employees	119,418
Net Income attributable to shareholders (without minority interests) in 2010	$9,794 million (USD)
Annual revenue in 2010	$50,624 million (USD)
Earnings per share	$4.28/per basic share (USD)

Proposal	Advisory vote on remuneration report
Partner recommendation	Oppose
Rationale	The firm displayed insufficient disclosure of the various remuneration plans and an excessive aggregate level of remuneration. The chairman's remuneration package is of particular concern. The chairman received CHF 25.3 million in 2010, which included an additional one-off payment of CHF 12 million in the form of an insurance policy. This appears excessive and discretionary. Ethos opposed the remuneration report due to these concerns.
Vote results	61% of shareholders voted for the remuneration report.

UBS

Company profile[52]	
Sector	Financial
Headquarters	Basel and Zurich, Switzerland
Number of employees	64,617
Net Income attributable to shareholders (without minority interests) in 2010	7.53 billion (CHF)
Annual revenue in 2010	31.99 billion (CHF)
Earnings per share	1.99/per basic share (CHF)

Proposal	Advisory vote on remuneration report
Partner recommendation	Oppose
Rationale	Ethos opposed the remuneration report at UBS, despite several amendments introduced to the remuneration system, following serious concerns raised by shareholders the previous year. The variable remuneration remains too high and the bank has still not fully recovered from the massive losses incurred during the financial crisis (in total more than USD 50 billion). Also, the increase of the base salaries of the executive management and many other employees is not justified. While Ethos and other shareholders called for a reduction in variable pay, they did not propose to replace it with an increase in fixed remuneration. Finally, board member fees are among the highest in Switzerland and among the most generous worldwide. Excluding the chairman and vice chairman, the non-executive board members received on average CHF 707'000 at UBS in 2010.
Vote results	64% of shareholders voted for the report.

CREDIT SUISSE

Company profile[53]	
Sector	Financial
Headquarters	Zurich, Switzerland
Number of employees	50,100
Net Income attributable to shareholders (without minority interests) in 2010	5.1 billion (CHF)
Annual revenue in 2010	31.39 billion (CHF)
Earnings per share	3.91/per basic share (CHF)

Proposal	Vote on creation of a pool of conditional capital for the conversion of convertible bonds
Partner recommendation	Oppose
Rationale	At Credit Suisse, Ethos opposed the creation of a pool of conditional capital without pre-emptive rights corresponding to 42% of the issued capital. This conditional capital intends to cover the Contingent Convertible Bonds (CoCos) that will be issued to reinforce its core equity base, two thirds of which is currently used to back Credit Suisse investment bank's trading activities. Given that the outcome of these activities is extremely volatile and has resulted in a 5-year economic loss, Ethos considers that Credit Suisse should give up some of the capital-intensive and risky trading activities of the Investment Bank rather than issuing CoCos. Moreover, the requested conditional capital carries no pre-emptive rights, as 60% of it will be exclusively reserved for the perpetual CoCos placed with the two largest investors of Credit Suisse (Olayan Group of Saudi Arabia and the Qatar Investment Authority), with a 9% and 9.5% coupon.
Vote results	93% of shareholders voted for the proposal.

GAM HOLDING

Company profile[54]	
Sector	Financial
Headquarters	Zurich, Switzerland
Number of employees	1,052
Net Income attributable to shareholders (without minority interests) in 2010	10.2 million (CHF)
Annual revenue in 2010	712.5 million (CHF)
Earnings per share	0.05/per basic share (CHF)

Proposal	Vote to approve share buyback programme
Partner recommendation	Oppose
Rationale	Ethos opposed the proposal as it considers that such repayments should be made via a special dividend out of the capital contribution reserves (also tax free) that will benefit all shareholders and not only those who sell their shares. Moreover, the buyback also might support the share price in the short-term thereby facilitating the exercise of options under the company's remuneration plans (the company has 15% of the share capital outstanding in options granted in 2009, which exceeds Ethos' guidelines).
Vote results	69% of shareholders voted for the proposal.

SYNGENTA

Company profile[55]	
Sector	Agro-chemical
Headquarters	Basel, Switzerland
Number of employees	26,179
Net Income attributable to shareholders (without minority interests) in 2010	$1,397 million (USD)
Annual revenue in 2010	$11,641 million (USD)
Earnings per share	$15.07/per basic share (USD)

Proposal	Vote to discharge non-executive board members
Partner recommendation	Oppose
Rationale	Syngenta is specialized in the production of crop protection solutions and seeds. The Company is in the centre of a serious controversy regarding the use of its non-selective herbicide Gramoxone, which contains a highly toxic chemical substance called Paraquat. Syngenta has systematically denied the toxicity of Paraquat, despite a considerable body of evidence that demonstrates the chemical poses a threat to human health when it is not properly handled. The product is banned in Europe and needs special licence in the US for this reason. Paraquat is, however, sold in economically developing countries, where the health risks remain high for workers or small farmers using this type of herbicide on a regular basis. Scientific literature and research have revealed that stewardship rules regarding the personal protective equipment needed to spray Gramoxone are not fully and systematically applied in these countries. In light of the serious risks posed to human health by the use of Paraquat, and the recent scientific evidence available against its use (which the company systematically denies), Ethos opposed the discharge.
Vote results	92% of shareholders voted for the proposal.

TRANSOCEAN

Company profile[56]	
Sector	Oil and Gas
Headquarters	Zug, Switzerland
Number of employees	18,050
Net Income attributable to shareholders (without minority interests) in 2010	$961 million (USD)
Annual revenue in 2010	$9,576 million (USD)
Earnings per share	$2.99/per basic share (USD)

Proposal	Vote to discharge non-executive board members
Partner recommendation	Oppose
Rationale	In April 2010, one of Transocean's rigs rented by BP to drill the Macondo well in the US Gulf of Mexico exploded and caused an unprecedented oil spill into the Gulf of Mexico. 11 workers were killed, of whom 9 employees of Transocean. This is one of the worst marine oil spill incidents in the industry's history and has led to numerous claims that are not yet settled and more are likely to follow. The final financial outcomes relating to the Macondo disaster are not yet determined. BP has filed legal action against Transocean and there are many investigations ongoing. Ethos considers that serious governance failures which constitute a risk for the company and its stakeholders also justify an oppose vote on the discharge. All of the events surrounding the BP spill could result in a material adverse effect on Transocean. In light of all these uncertainties, Ethos opposed the discharge.
Vote results	44% of shareholders voted for the proposal and it was rejected as a result.

4.5 UNITED KINGDOM

About TUC

Trades Union Congress (TUC) is the UK's national trade union centre, representing more than 6 million workers in 55 unions. Its members work in all sectors of the economy, and include factory workers and computer programmers; office staff and shop workers; bus drivers and airline pilots; teachers, soap stars and fashion models. The TUC's mission is to raise the quality of working life and promote equality for all by campaigning for trade union aims and values, helping unions to increase membership and effectiveness, cutting out wasteful rivalry and promoting trade union solidarity.

About PIRC

PIRC is the UK's leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility.

Key votes for the UK were selected by the TUC and PIRC.

The TUC and PIRC submitted 5 key votes occurring at the 2011 Annual General Meetings of British companies.

The votes occurred at the following British companies

- EasyJet PLC
- Afren PLC
- WPP PLC
- TUI Travel PLC
- BP PLC

Key issues from a UK perspective

Executive remuneration

Most of the votes selected are on remuneration reports, which in the UK are required by law to be put to an advisory vote each year at company AGMs. The TUC and PIRC share concerns about excessive executive pay, and performance targets that are insufficiently stretching for the designated level of rewards. The TUC also believes that performance-related rewards should not dominate the total remuneration package. The TUC has a particular concern about the growing gap between levels of executive pay and the pay of ordinary employees, both within companies and in the wider economy.

Oversight of auditors as a component of good corporate governance

It is important that auditors have sufficient independence from their clients to ensure that audits are as objective as possible. Conflicts of interests arise when audit companies provide other services to the companies whose accounts they are auditing. The appointment of auditors should be carried out using a transparent and objective process based on merit.

EASYJET PLC

Company profile[57]	
Sector	Travel and Tourism
Headquarters	Luton, UK
Number of employees	7,359
Net Income in 2010	£121.3 million
Annual revenue in 2010	£2.9731 billion
Earnings per share	28.4/share (pence) 8.6% return on equity

Proposal	Approval of remuneration report
Partner recommendation	Oppose
Rationale	Performance targets are insufficiently stretching and remuneration packages are excessive, with salaries ranking at the top of the FTSE mid-cap Travel and Tourism sector.
Vote results	47.9% of votes casts were against the proposal and 7.0% withheld their vote.

AFREN PLC

Company profile[58]	
Sector	Oil and Gas
Headquarters	London, UK
Number of employees	233
Net Income in 2010	$46 million USD
Annual revenue in 2010	$319 million USD
Earnings per share	$.05/share USD

Proposal	Approval of the remuneration report
Partner recommendation	Oppose
Rationale	Combined directors' remuneration is excessive. D Comyn was awarded shares worth 426% of salary on his appointment as Director. TUC and PIRC believe such 'golden hellos' are bad practice. Performance conditions for the company's Share Options Scheme include an increase in the share price. However, share appreciation is not an appropriate performance measure as it can be affected by factors beyond the control of directors.
Vote results	42.8% of votes cast were against the proposal and 17.0% withheld their vote.

WPP PLC

Company profile[59]	
Sector	Communications Services
Headquarters	London, UK
Number of employees	Over 146,000
Net Income in 2010	£973 million
Annual revenue in 2010	£9,331 million.
Earnings per share	17.19 pence/per share

Proposal	Approval of the remuneration report
Partner recommendation	Oppose
Rationale	The CEO received conditional matching shares equivalent to 1,500% of his base salary during the year. Based on short-term targets, executives are entitled to 300% salary (in cash and shares deferred for two years). The TUC and PIRC believe that remuneration awards are excessive and that performance targets are insufficiently stretching, especially for this level of rewards. The TUC believes that performance related pay should not dominate the total remuneration package and should be based on long-term performance targets only.
Vote results	41.8% of votes cast were against this proposal, and none withheld their vote.

TUI TRAVEL PLC

Company profile[60]	
Sector	Travel and Tourism
Headquarters	Hanover, Germany
Number of employees	71,398
Net Income in 2010	€1,183 million
Annual revenue in 2010	€13,400 million
Earnings per share	(loss) -€0.078 per basic share

Proposal	Appoint the auditors
Partner recommendation	Oppose
Rationale	PricewaterhouseCoopers LLP (PWC) were proposed as group auditor, replacing KPMG Audit which in 2010 had discovered a basic error in book-keeping processes at the company's British subsidiary Tui UK Ltd. The reporting inaccuracies led to the company having to restate its 2009 results. However, PWC was the incumbent auditor at the predecessor company where flaws in internal controls led to the reporting inaccuracies that led to the results restatement. Despite this, TUI Travel was seeking to reinstate PWC as auditor.
Vote results	6.3% of votes cast were against this proposal and 6.0% withheld their vote.

BP PLC

Company profile[61]	
Sector	Extractive
Headquarters	London, UK
Number of employees	79,700
Net Income in 2010	-$3,324 million (USD)
Annual revenue in 2010	$308,928 million (USD)
Earnings per share	-$0.1981 /per basic share (USD)

Proposal	Approval of the remuneration report
Partner recommendation	Oppose
Rationale	Bob Dudley was promoted to the role of Chief Executive in October 2010 and saw his base salary increase from US$ 750,000 to US$ 1,175,000. He received no annual bonus award but will receive an award under the Executive Directors' Incentive Plan (EDIP) of 550% of base salary. The two other remaining executive directors, Iain Conn and Byron Grote received annual bonus awards of 45% of base salary and awards under the EDIP of 400% of base salary. Tony Hayward, the outgoing chief executive, received salary and benefits, but no bonus, of GBP 1.053m. In addition he was awarded compensation of GBP 1.045m and a further GBP 30,000 compensation in respect of UK statutory employment rights and has retained the potential to gain in excess of 1.8m performance shares. He is currently acting as a non-executive director with TNK-BP earning US$ 150,000 pa. Andy Inglis, the outgoing chief executive of BP's exploration and production business, received salary and benefits, but no bonus, of GBP 753,000. In addition, he was awarded compensation of GBP 690,000 and a further GBP 200,000 to cover various repatriation and relocation costs. Under a tax equalization arrangement, BP also discharged a US tax liability arising from the participation by Mr. Inglis in the UK pension scheme amounting to US$ 1.26m. He has retained the potential to gain in excess of 1.3m performance shares. Mr. Inglis was appointed an executive director at Petrofac Limited in January 2011, but both in his case, and to a lesser extent in the case of Dr. Hayward, there is no mention of BP enforcing the principle of mitigation as outlined in the annual report. They are being treated as good leavers for the purposes of the share scheme. The TUC believes that performance-related pay should not dominate the total remuneration package and should be based on long-term performance targets only. In the view of the TUC and PIRC, these remuneration packages are excessive. We are very concerned that departing directors are retaining an interest in performance shares, which, should they fully vest, would be worth over GBP 8m to Dr Hayward and over GBP 6m to Mr Inglis. In addition, there has been no indication that the principle of mitigation, particularly in Mr Inglis' case, will be enforced.
Vote results	9.7% of votes cast were against this proposal and 16.7% withheld their vote.

4.6 USA

About AFL-CIO

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) is a voluntary federation of 55 national and international labor unions.

The AFL-CIO union movement represents 12.2 million members, including 3.2 million members in Working America, its community affiliate.

The AFL-CIO's Office of Investment gives workers a voice in the capital markets by leading corporate governance shareholder initiatives and advocating for legislative and regulatory reform.

Key votes for the USA were selected by the AFL-CIO Office of Investment.

The AFL-CIO submitted 10 key votes occurring at the 2010 Annual General Meetings of American companies.

The votes occurred at the following American companies

- Hewlett Packard
- Apple
- Chevron
- Reynolds American
- Bank of America
- United Technologies
- JP Morgan Chase
- Valero Energy
- Lowe's
- PulteGroup

Key issues from an U.S. perspective

Executive compensation ("say on pay")

Starting in 2011, shareholders in the United States have the right to cast an advisory vote on executive compensation. By voting against excessive executive compensation packages, shareholders can provide feedback to boards of directors that excessive pay is not in the best interests of shareholders.

CEO succession planning

Planning for the succession of the CEO is one of the most important jobs of the board of directors. This proposal urges companies to disclose their succession planning policies. Such disclosure is especially important at companies that have come to rely on the leadership of their longtime CEOs.

Country selection process

Companies risk damaging their reputation and brand name when they do business in countries that do not respect fundamental human rights. This type of proposal requests that board of directors review and develop guidelines for country selection and report these guidelines to shareholders.

Human rights standards

Companies with global supply chains have a responsibility to ensure that their supply chains are uncorrupted by practices that deny basic human rights to workers. This proposal recommends the adoption of policies to ensure that company suppliers comply with international human rights conventions.

Lobbying contributions

This proposal requests a report disclosing company policies and procedures for expenditures used for direct lobbying and grassroots lobbying communications. Such disclosure is necessary for a shareholder assessment of financial and reputational risks that may result from a company's lobbying activities.

Equity holding requirements

Stock ownership is the best way to align the interests of executives with shareholders. However, many companies' stockholding requirements for their senior executives are too low. This proposal requests a policy requiring a holding period for senior executives' equity incentive awards.

Mortgage servicing compliance

There is widespread concern that U.S. banks have not provided homeowners with consistent and fair options to prevent foreclosure. This proposal urges that the board of directors oversee the development and enforcement of policies to ensure that mortgage modifications are applied uniformly and properly.

Safety management

As a result of the BP's Deepwater Horizon oil spill, investors have been concerned about safety management in the petroleum industry. This proposal requests a report on board oversight of safety management, staffing levels, inspection and maintenance of refineries and other equipment.

Link pay to sustainability

Shareholder interests are best served when companies operate in a sustainable manner by integrating environmental, social and financial considerations into corporate strategy. This proposal requests that sustainability be used as one of the performance measures to determine senior executive compensation.

Independent board chair

The primary purpose of the board of directors is to oversee management on behalf of shareholders. For this reason, an independent director who has not served as an executive of the company can best provide the necessary leadership and objectivity as board chair.

HEWLETT PACKARD

Company profile[62]	
Sector	Information Technology
Headquarters	Palo Alto, California, USA
Number of employees	Over 300,000
Net Income in 2010	$.8.761 billion (USD)
Annual revenue in 2010	$126.033 billion (USD)
Earnings per share	$3.78/per basic share (USD)

Proposal	Advisory vote on executive compensation ("say on pay")
Partner recommendation	Oppose
Rationale	The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires public companies to provide their shareholders an advisory vote on executive compensation. The vote results serve as an advisory recommendation to the board of directors and are not binding. This requirement resulted from widespread concern that the exponential growth in executive pay in the United States over the last three decades has not been in the interest of shareholders. Shareholders became especially focused on these policies at and procedures at Hewlett-Packard, when exiting CEO Mark Hurd received a $12.2 million severance package following sexual harassment allegations by a former Hewlett-Packard contractor. Compared to its peer group, Hewlett-Packard has over-compensated its executive officers. When other elements of its compensation practices are factored in (dilution in stock plans, restricted stock grants, golden parachutes, tax gross ups), the executive compensation policies and procedures at Hewlett-Packard are excessive and are not in the best interests of shareholders.
Vote results	51.8% of shareholders voted against approving Hewlett-Packard's executive compensation practices.

APPLE

Company profile[63]	
Sector	Information Technology
Headquarters	Cupertino, California, USA
Number of employees	49,400
Net Income in 2010	$14.013 billion (USD)
Annual revenue in 2010	$65.225 billion (USD)
Earnings per share	$15.41/per basic share (USD)

Proposal	CEO succession planning
Partner recommendation	Support
Rationale	This shareholder proposal asked Apple's board of directors to amend its corporate governance guidelines to adopt and disclose a written and detailed succession planning policy, including specific features such as a formal assessment process to evaluate candidates and an emergency succession plan. The proposal calls on the company to disclose the succession planning policy, not the actual succession plan or potential successors. CEO succession is one of the primary responsibilities of the board. Failure to develop internal candidates and prepare for an emergency or non-emergency CEO transition could have serious consequences for investors. Succession planning is especially important at companies, such as Apple, that have come to rely on the leadership of their long-time CEOs. The well-publicized health issues of Apple's CEO Steve Jobs underscored the importance of this proposal at Apple. It is then in the best interest of shareholders that Apple has a well-developed succession plan. Therefore, the AFL-CIO Proxy Voting Guidelines support a vote for this proposal.
Vote results	The proposal received 25.6% support from shares present and voting on it.

CHEVRON

Company profile[64]	
Sector	Energy/Oil and Gas
Headquarters	San Ramon, California, USA
Number of employees	58,267
Net Income in 2010	$19.024 billion (USD)
Annual revenue in 2010	$198.198 billion (USD)
Earnings per share	$9.48/per basic share (USD)

Proposal	Country selection process
Partner recommendation	Support
Rationale	This shareholder proposal requested that the board produce a report on Chevron's criteria for investment in, continued operations in, and withdrawal from specific high-risk countries, including Burma (Myanmar). Chevron holds equity in one of Burma's largest investment projects and has faced government criticism, negative publicity and a consumer boycott concerning its role in Burma. Its current country selection process is opaque, leaving it unclear how it determines whether to invest in or withdraw from countries like Burma where the government has engaged in ongoing, systematic human rights violations, where there is a call for economic sanctions by human rights and democracy advocates, and where its presence may expose it to government sanctions, negative publicity and consumer boycotts. The requested report would provide shareholders with useful information on how Chevron evaluates and manages the significant risks involved with operations and investments in such high-risk countries.
Vote results	The proposal received 22% support from shares present and voting on it.

REYNOLDS AMERICAN

Company profile[65]	
Sector	Tobacco Industry
Headquarters	Winston-Salem, North Carolina, USA
Number of employees	5,750
Net Income in 2010	$1.113 billion (USD)
Annual revenue in 2010	$8.551 billion (USD)
Earnings per share	$1.91/per basic share (USD)

Proposal	Human rights standards
Partner recommendation	Support
Rationale	This shareholder proposal requested that Reynolds American's board of directors create/adopt protocols to protect workers' rights consistent with internationally agreed-upon human rights conventions in the countries from which it procures its tobacco and to find ways, through truly independent monitoring, to ensure that its suppliers are enforcing these protocols. Firms with global sourcing, such as Reynolds American, have a responsibility to ensure that their supply chains are uncorrupted by practices that deny basic human rights to workers. Moreover, companies incur significant reputational risk when their undermine workers' human rights. The suppliers' proposal is especially relevant to Reynolds American in light of the ongoing efforts of the Farm Labor Organizing Committee and other worker rights advocates to protect the human rights of tobacco workers at farms that supply the company with the tobacco used in its cigarettes.
Vote results	The proposal received 9.2% support from shares present and voting on it.

BANK OF AMERICA

Company profile[66]	
Sector	Financial
Headquarters	Charlotte, North Carolina, USA
Number of employees	288,000
Net Income in 2010	(loss) -$2.238 billion (USD)
Annual revenue in 2010	$111,390 million (USD)
Earnings per share	(loss) -$0.87/per basic share (USD)

Proposal	Lobbying contributions
Partner recommendation	Support
Rationale	This shareholder proposal sought a report from Bank of America's board of directors disclosing the company's policies and procedures for lobbying contributions and expenditures, both direct and indirect, made with corporate funds as well as payments to trade associations used for lobbying communications. Publicly available data does not provide a complete picture of Bank of America's lobbying expenditures as not all states require disclosure of lobbying expenditures. Financial institutions, including Bank of America, have lobbied lawmakers to influence important legislation such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. As long as these lobbying activities are not fully disclosed, shareholders have no way of knowing whether these expenditures support policy objectives that pose risks to Bank of America's and its shareholders' long-term interests.
Vote results	The proposal received 27.4% support from shares present and voting on it.

UNITED TECHNOLOGIES

Company profile[67]	
Sector	Aerospace Technology
Headquarters	Hartford, Connecticut, USA
Number of employees	208,200
Net Income in 2010	$4.711 billion (USD)
Annual revenue in 2010	$54.3 billion (USD)
Earnings per share	$4.82/per basic share (USD)

Proposal	Equity holding requirements
Partner recommendation	Support
Rationale	This shareholder proposal requested that the board of directors adopt a policy requiring that senior executives retain shares acquired through equity compensation plans for a lockup period of five years. Executives would have the ability to gradually redeem or sell one-fifth of their shares after each of the five years. The lockup period would begin after all vesting requirements have been met and would continue to be in effect even if a senior executive is no longer employed by the company. This approach to share retention is far more effective in aligning the interests of executives with shareholders than United Technologies' current share ownership requirement. It addresses the concern that the ability for executives to cash-out of equity awards quickly may create incentives for them to assume excessive risk for short-term illusory gains.
Vote results	The proposal received 29.9% support from shares present and voting on it.

JP MORGAN CHASE

Company profile[68]	
Sector	Financial
Headquarters	Manhattan, New York City, New York, USA
Number of employees	239,831
Net Income in 2010	$17.370 billion (USD)
Annual revenue in 2010	$102.694 billion (USD)
Earnings per share	$3.98/per basic share (USD)

Proposal	Mortgage servicing compliance
Partner recommendation	Support
Rationale	This shareholder proposal requested that the board of directors oversee the development and enforcement of policies to ensure that the loan modification methods are applied uniformly to similar loans irrespective of whether the loans are owned by JP Morgan Chase or are loans that are serviced for other owners. It thereby sought to address a widespread concern that financial institutions have not provided homeowners with consistent and fair options to -prevent foreclosure. JP Morgan Chase serviced $1.35 trillion of single family housing loans as of June 30, 2010. It owned less than 20% of loans it serviced as it securitized the remaining loans that it originated. By comparing its performance on loans serviced for others to loans held in portfolio, JP Morgan Chase would be able to ensure fair and consistent treatment for all loans, including those extended to low-income and minority borrowers. This practice would serve to reduce possible reputational, litigation and financial risks to the company. Therefore, the AFL-CIO Proxy Voting Guidelines support a vote for this proposal.
Vote results	The proposal received 6.4% support from shares present and voting on it

VALERO ENERGY

Company profile[69]	
Sector	Energy
Headquarters	San Antonio, Texas, USA
Number of employees	20,700
Net Income in 2010	$1,876 million (USD)
Annual revenue in 2010	$82,233 million (USD)
Earnings per share	$1.62/per basic share (USD)

Proposal	Report on safety management
Partner recommendation	Support
Rationale	This shareholder proposal urged the Valero Energy's board of directors to prepare a report on the steps it has taken to reduce the risk of workplace accidents. The report would also describe board oversight of safety management, staffing levels, inspection and maintenance of refineries and other equipment. The report would exclude proprietary and personal information and be prepared at a reasonable cost. In the wake of the oil spill disaster at BP's Deepwater Horizon oil rig in the Gulf of Mexico in April 2010, there has been heightened concern about safety management at all oil companies. The report sought by this proposal would enable shareholders to better estimate the risks Valero faces.
Vote results	The proposal received 33.4% support from shares present and voting on it

LOWE'S

Company profile[70]	
Sector	Retail
Headquarters	Mooresville, North Carolina, USA
Number of employees	234,000
Net Income in 2010	$2,010 million (USD)
Annual revenue in 2010	$48,815 million (USD)
Earnings per share	$1.42/per basic share (USD)

Proposal	Link pay to sustainability
Partner recommendation	Support
Rationale	This shareholder proposal requested that the compensation committee of Lowe's board of directors include sustainability as one of the performance measures that is used in determining senior executive compensation. Sustainability is defined as how environmental, social and financial considerations are integrated into corporate strategy over the long-term. Long-term shareholder interests are best served by companies that operate in a sustainable manner and are focused on long-term value creation. Incorporating sustainability goals into executive compensation would give Lowe's' existing sustainability values real impact, helping to build long-term shareholder value.
Vote results	The proposal received 4.2% support from shares present and voting on it.

PULTEGROUP

Company profile[71]	
Sector	Homebuilding and Financial
Headquarters	Bloomfield Hills, Michigan, USA
Number of employees	4,363
Net Income in 2010	(loss) -$1.096 billion (USD)
Annual revenue in 2010	$4.569 billion (USD)
Earnings per share	(loss) -$2.90 per basic share (USD)

Proposal	Independent board chair
Partner recommendation	Support
Rationale	This proposal requested that PulteGroup's board of directors take the necessary steps to require that an independent director who has not previously served the company as an executive officer serve as Chairman. This requirement represents a key corporate governance best practice as it gives the board of directors the independent leadership it needs to adequately oversee and monitor the company's management, including the performance of the Chief Executive Officer. When the CEO serves as Chairman, the board's ability to fulfill its duties may be hindered. Richard Dugas, Jr. has been CEO of PulteGroup since 2003 and therefore is not an independent Chairman. He has held both CEO and Chairman positions at PulteGroup since 2009. During the first twelve months after his appointment as Chairman, PulteGroup's stock price fell approximately by a third suggesting that PulteGroup may have benefited from having an independent Chairman.
Vote results	The proposal received 33.5% support from shares present and voting on it.

5.0 Trustee checklist

We recommend trustees follow these steps in using the trustee checklist as a proxy oversight tool:

Step 1: Obtain a holdings list for companies in your pension fund's investment portfolio.

Step 2: Cross-reference your fund's holding list with the companies included in the checklist below.

Step 3: If the checklist includes companies held in your portfolio, review how key votes were cast on behalf of your fund. You can request this information from your fund manager.

Step 4: Engage your fund manager on their voting decisions, particularly in instances where votes were cast consistently in line with management recommendations.

Step 5: Communicate with your plan's beneficiaries about your efforts to take an active role in proxy voting oversight.

Step 6: Connect with the CWC! Tell us how you used this report, whether it was useful and how we can improve the information we provide trustees. Our contact details are available at www.workerscapital.org

Jurisdiction: **AUSTRALIA**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
Toll Holdings approval of new constitution	Support	Oppose		
Challenger Limited approval of the remuneration report	Support	Oppose		
Paperlinx approval of the remuneration report	Support	Oppose		
Rio Tinto Limited approval of the remuneration report	Support	Oppose		
Billabong Group Limited approval of the remuneration report	Support	Oppose		
Transpacific Industries Limited election of director – Graham Mulligan	Support	Oppose		
Transpacific Industries Limited election of director – Bruce Allan	Support	Oppose		
APN News and Media Limited election of director – Cameron O'Reilly	Support	Oppose		

Jurisdiction: **CANADA**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
Barrick Gold vote on (absentee) director	Support	Oppose/ withhold		
Shoppers Drug Mart vote on independent auditor	Support	Oppose/ withhold		
Baytex Energy Corp vote on independence of directors	Support	Oppose/ withhold		
Jean Coutu Group – election of directors (slate)	Support	Oppose/ withhold		
Crew Energy Inc. vote on approval of unallocated stock options	Support	Oppose		
Savanna Energy Services Corp vote on approval of unallocated stock options	Support	Oppose		
Bank of Nova Scotia vote on improved linkages between performance and compensation	Oppose	Support		
CIBC vote on shareholder abstention in proxy voting	Oppose	Support		
Transalta vote on report on risk of coal fired power generation	Oppose	Support		
Extorre Gold Mines ltd vote on continuance of company under provincial legislation and adoption of new articles	Support	Oppose		

Jurisdiction: **SPAIN**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
Telefonica Approval of Long-Term Restricted Shares Plan	Support	Oppose		
Telefonica Approval of Long-Term Incentive Plan	Support	Oppose		
Banco Santande Approval of the Sixth Cycle of the Performance Shares Plan	Support	Oppose		
Banco Santander Approval of the Second Cycle of the Deferred and Conditional Share Plan.	Support	Oppose		
Banco Santander Approval of the first cycle of the Deferred and Conditional Variable Remuneration Plan.	Support	Oppose		
Banco Santander Report on Directors Remuneration Policy	Support	Oppose		
BBVA Consultative Vote on Remuneration	Support	Oppose		

Jurisdiction: **SWITZERLAND**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
Nestlé vote on board member in excess of tenure limits	Support	Oppose		
Swiss Re vote on independence of director	Support	Oppose		
Weatherford vote on independence of board	Support	Oppose		
Credit Suisse vote on remuneration	Support	Oppose		
Novartis vote on remuneration	Support	Oppose		
UBS vote on remuneration	Support	Oppose		
Credit Suisse vote on share capital increases	Support	Oppose		
Gam Holding vote on share capital reduction	Support	Oppose		
Syngenta vote on discharge	Support	Oppose		
Transocean vote on discharge	Support	Oppose		

Jurisdiction: **UK**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
EasyJet approval of the remuneration report	Support	Oppose		
AFREN approval of the remuneration report	Support	Oppose		
WPP vote on remuneration report	Support	Oppose		
TUI Travel approval of auditor appointments	Support	Oppose		
BP approval of the remuneration report	Support	Oppose		

Jurisdiction: **USA**

Vote	Management recommendation	Partner recommendation	How did your fund manager vote?	Notes
Hewlett-Packard vote on Executive Compensation	Support	Oppose		
Apple vote on CEO succession planning	Oppose	Support		
Chevron vote on country selection process	Oppose	Support		
United Technologies vote on equity holdings requirements	Oppose	Support		
Reynolds American vote on Human Rights standards	Oppose	Support		
Bank of America vote on lobbying contributions	Oppose	Support		
Lowe's vote on linking pay to sustainability	Oppose	Support		
JP Morgan-Chase vote on mortgage servicing operation	Oppose	Support		
Valero Energy vote on report on safety management	Oppose	Support		
PulteGroupe vote on independent board chair	Oppose	Support		

Reviewing your fund manager's voting

Total number of votes cast	
Total number of votes cast in line with partner recommendations	

6.0 Methodology

This section of report explains the process used by the CWC to generate our list of key proxy votes.

The methodology was informed by existing proxy voting surveys conducted by the AFL-CIO Office of Investment, the Trades Union Congress and the Shareholder Association for Research and Education. Vote alerts through the EuresActiv Proxy Voting Network and responsible investment forums such as the United Nations Principles for Responsible Investment provided additional context for the project methodology, which was developed and implemented in three steps:

Step 1: Developing vote selection criteria

We adopted a qualitative case-study approach, whereby general vote selection criteria were proposed by the CWC Secretariat and peer-reviewed by the project partners. Key criteria include:

Type of issue

- High relevance to the international labour movement (global in scope where possible)
- High relevance for pension trustees
- Strong resonance with broader responsible investment trends and concerns

Type and number of votes

- Generally propose a vote against management recommendations
- Project partners were asked to submit between 5-10 key votes

Vote recommendations

- Vote recommendations should be supported by a clear, evidence-based rationale and sound investment practices consistent with a long-term view and sustainability principles.

Type of company

- Large cap companies, likely to be held in a broad spectrum of pension fund investment portfolios

Step 2: Application of criteria to national key votes

Each partner applied the criteria systematically to select key proxy votes from their respective jurisdictions.

Step 3: Peer-review of selected votes

Once vote recommendations were submitted, all votes were reviewed by the project partners and CWC Secretariat to ensure consistency with the vote selection criteria. Selected votes reflect a broad consensus on the recommendations made by the relevant project partners at the national level.

7.0 Endnotes

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