Report on International Corporate Governance
April 2010 - March 2011

The financial crisis has provided an opportunity to regulators and governments around the world to focus on strengthening corporate governance codes and impose greater corporate disclosure, with the central focus on director compensation. The most pertinent of changes is the implementation by European countries of the EU shareholder directive.

The International equity team voted on 634 corporate meetings between April 2010 and March 2011. The attached tables are an illustration of the voting results.

This is the first year that BAPIML is reporting the international voting actions relative to ISS research, where previously these were relative to management recommendations. This brings it into line with the UK process. The majority of votes against management are consistent with ISS policy. BAPIML analyses each meeting proposal on a case by case basis, reflecting the high level of knowledge and relationship the portfolio manager has with the company. In total 20 proposals were voted contrary to ISS recommendations. Total votes against management on at least one proposal edged up further this year as BAPIML voted against at least one proposal at 49% of the meetings, versus 46% last year. North America has moved from seeing the largest percentage of votes against at 75% of meetings, to 48% this year. Japan has also seen a decrease from 53% of meetings to 41%. In all other areas there has been an increase in votes against, with the biggest increase in Europe from 40% to 58%.

There are many regional discussion points and global regulatory changes continue to advance greater corporate disclosure. The main areas of contention for BAPIML during the April 2010 to March 2011 proxy voting season are director elections/re-elections, share issuance without pre-emptive rights, stock option plans and director remuneration. This is consistent with the key issues of last year, but notably some of these issues have developed further. In particular the focus has moved to director pay for performance and the ability of the compensation committee. In Asia share issuance, re-issuance and director elections are the three areas of the greatest contention. In Japan director elections, appointment of statutory auditors and anti-takeover measures are the main focus. In Europe director elections stand out with by far the most votes against, along with a number of more company specific issues and, as expected, director compensation proposals. In North America director dissent dominated and a number of shareholder proposals were voted in favour of management. In Emerging markets, South Africa and Latin America also focussed on director elections and remuneration.

North America

For the 2010 proxy season the spotlight has moved slightly away from the main area of contention of the last few years, "say on pay". Following on from the Dodd- Frank Act, attention is on director pay for performance and peer group pay comparison. This is alongside attention on those responsible for setting the pay and performance criteria, the compensation committee members. BAPIML voted against 17 director elections up from 8 last year. The focus is on the board's failure to address underlying compensation issues. One Petroleum company in particular has been pro-active in its voluntary disclosure of director compensation since 2009. Shareholders have regularly voted against this due to the pay magnitude and lack of performance criteria for the CEO and pay disparity between the directors. This year the company finally failed to gain majority shareholder support. BAPIML also voted against the entire board, due to the ongoing compensation issues at the company, which highlights the lack of independence between the board and management. The CEO/Chairman has compensation of $31.4 million, excluding potential performance related pay. The peer median is $17.9million. Total compensation is potentially as high as $97.4 million. On pay disparity, the compensation difference between the CEO and CFO is 2.3 times. Performance hurdles, although in place, are not particularly challenging, as noted by the CEO receiving maximum compensation for the last three years.

Incumbent compensation committee members received a smaller majority overall this year according to ISS. This was true for one of the major entertainment companies. BAPIML voted against the compensation committee members due to the CEO receiving multiple equity linked grants in one year and pay not being strongly linked to performance, being somewhat discretionary. The meeting results showed a smaller percentage in favour, 70-80%, somewhat lower than the 90% plus received for the rest of the directors on the board.

The shareholder proposal to provide for cumulative voting (where a shareholder can amass their shares to vote for one or more directors on the ballot), exhibited the biggest disparity between BAPIML and ISS. On 7 proposals we voted with management, against the shareholder proposal and ISS. BAPIML believes that cumulative voting largely benefits short term investors over long term investors. Cumulative voting according to ISS received less shareholder support this year at 27% from 34%.

Looking forward to the 2011 season, a significant talking point will be how companies and investors deal with the timing on how often to hold advisory votes on compensation. The Dodd- Frank act sets a frequency of one to three years. Shareholders look likely to push companies for an annual vote.

Asia Pacific

The area that dominates voting in Asia and specifically Hong Kong is share issuance without pre-emptive rights. This is inter-linked with proposals for re-issuance of purchased shares which give the company the right to an aggregate issuance of 30%. Shares can also be issued at a steep discount. BAPIML voted against share issuance in 36 proposals up from 30 (and in line with ISS), and with respect to re-issuance, voted against 25 proposals up from 17. The concern is that directors have total discretion on issuance of the shares which can be at a discount to market prices of up to 20%, combined with the dilution of new shares being issued. As pointed out last year, some progress has been made on limiting the size of the issuance and some of the largest companies have not put forward the repeat proposal to issue shares. In a positive move, investor activity voting against these proposals has increased. Majority shareholders in a number of cases make the proposal difficult to defeat but in some cases minority shareholders' have the ability to defeat the issuance and re-issuance request.

A major mobile phone operator is an example of a company with the highlighted three main issues, share issuance, re-issuance requests and a vote against in the director election. Independent directors represent less than one-third of the board, combined with a poor attendance record of less than 75% of meetings, gives two reasons to vote against the re-election of the director.

Approval of the remuneration plan met resistance in Australia, as BAPIML looks for the appropriate performance and vesting criteria for director remuneration. An example of this is with a paper company that had their proposal to seek approval of the remuneration report for 2010. The CEO's fixed remuneration of $1.9 million is seen as being extremely high relative to the peer group of under $1million. The company also posted losses for the last two years, yet short term incentive bonuses were paid to the CEO of just under $1million and $604 thousand to the CFO. The current CEO announced prior to the meeting that he would step down in October, but due to the prior excessive remuneration at the company BAPIML voted against.

We are seeing increasing disclosure across Asia, notably in China where the Chinese securities regulator is placing more emphasis on information disclosure. There are still a number of areas such as board independence, that need to be disclosed but regulators are moving in the right direction. Pay for performance will continue to be scrutinised by BAPIML and in particular Australia has the most focus from investors. This follows on from Australian regulatory changes last year that requires any senior executive who is terminated and receives a payment greater than their annual salary, to be approved by shareholders.

Japan

Director elections, appointment of statutory auditors and anti-takeover measures were the most contentious issues in Japan. Statutory auditor and director elections both received the same amount of against votes as last year.

Regulatory developments have been taking small steps in addressing some of the key issues investors have with Japanese governance. The first steps have been taken towards more genuine board independence as companies are required to have at least one independent director or statutory auditor, as defined by the Tokyo Stock Exchange. Directors earning over $1.2mn are to be disclosed. Compensation policy regardless of the size of the company also has to be disclosed. Companies are required to disclose cross shareholdings and the reason for holding them. AGM results for individual proposals are also to be released. As a foreign investor the problem still remains that most of these reports are only published in Japanese.

The director election dissent is a familiar one, where BAPIML votes predominantly against management if there is a distinct lack of board independence. There remains a questionable definition by some companies over independence, where the appointment of a director from a group related company or close associate cannot be described as being truly independent. Keiretsu (the Japanese term for group companies) are the worst repeat offenders. Looking at one group subsidiary as an example, three of the directors are seen as non independent. One is an ex employee of the companies external auditor, one an advisor to and former chairman of the company's main bank and third biggest shareholder. The third candidate is the former president and chairman of the group trading company who also serves as a director of the group auto assembler, a customer of the company.

There are four examples of director election votes where BAPIML voted out of line with ISS recommendations, voting 'for' which was contrary to ISS recommendation to vote against. This is where ISS recommends voting against the president of the company due to a lack of board independence. BAPIML strongly believes in the need to increase board independence which can be seen in the 24 director elections voted against management due to the board not having an outside director elected. The issue is when the candidate is deemed by BAPIML to be operationally significant for the company and in many cases is the CEO. In this case BAPIML will vote with management contrary to ISS.

Anti-takeover measure proposals have increased this year to 12 from 1 last year. This could be down to the renewal timing of those poison pills introduced in 2007. BAPIML continues to vote against these proposals, often because of the lack of independence on the takeover panel. The takeover panel, or bid evaluation committee, must be independent. This should also be combined with a board that has at least 20% of directors deemed as independent.

In a reversal from recent years there is more pressure on improved governance domestically than from overseas investors. Somewhat of a surprise is that a major domestic pension fund has reduced its corporate governance activity due to their investment policies being overly restrictive (the fund had a minimum target for corporate governance standards and a set level for return on equity). In a positive move there has been an increase in Japanese institutions' voting activity, particularly regarding directors.

The Tohuko earthquake and following tsunami which hit Japan on March 11th 2011, caused huge problems for the Fukushima nuclear power plant operations. At the time of writing problems are still ongoing and concerns over radiation levels remain high. Utility companies and nuclear operations are very likely to be the main focus by shareholders' at the June 2011 voting season. BAPIML was, but is no longer, a shareholder of the company directly involved, due to concerns over sustainability of their business and the huge clear up and possible regulatory costs they will face. There were no director votes cast against management at the June 2010 AGM, in line with ISS recommendations. At their 2009 AGM, BAPIML voted against management over previously concealed incidents at their nuclear power plants. The director involved was not up for re-election in 2010.

Europe

Disclosure of meeting material prior to the meeting date has significantly improved due to the implementation of the EU shareholder directive. Share-blocking (a restriction imposed on dealing in shares between the vote deadline date and the meeting date), has also been reduced due to the directive. This has now made it easier to vote full share positions, where previously the portfolio manager may have only voted part of the position. BAPIML votes against management were significantly up year on year from 40% to 58%. This was across a number of areas but can mostly be grouped into two broad categories of board independence and executive compensation. Most of the votes were in line with ISS recommendations. Votes against director elections in line with ISS have increased this year from 17 to 34. Many of the director votes against were due to a lack of board independence. The level of independence varies by country.

One German steel producer is an example of contention between BAPIML and ISS. BAPIML abstained on the supervisory board election, where ISS recommended voting against. The proposal is to support the current CEO, to be nominated for the supervisory board. The company meets German law with respect to the supervisory board consisting of ten employee representatives and ten shareholder representatives and has an independent board structure above the peer group. The move by the CEO would put the company in line with the peer group. BAPIML has a positive view on the position as it is unlikely that the CEO would become the chairman of the supervisory board and the company is undergoing restructuring in which the CEO is expected to play a pivotal role.

Emerging Markets

In South Africa nearly 50% of the votes against were related to remuneration plans. A mixture of a lack of appropriate performance criteria, special grants and accelerated vesting are some of the main issues. The main point of contention is with the shares being placed in control of the directors for the share incentive scheme and the level of issued capital of 10% exceeding guidelines of 5% for a mature company.

Latin America suffered from a lack of disclosure of new director nominees. Board independence levels are quite often above the minimum levels of 25%, but the lack of disclosure is a big limitation when voting. In some markets such as Chile it is common practice not to disclose the nominee name prior to the meeting. The Brazilian securities regulator (CVM) implemented guidelines on remuneration and other basic governance disclosures. Unfortunately companies ignored the guidelines set out by CVM.

Outlook

For the 2011 season, we are likely to see a continued focus on director pay for performance and board independence across the globe, with the less developed markets still having some way to catch up. Disclosure is improving, which is a very positive factor. Board gender diversification looks to be a hot topic going forward as does the implementation of further regulatory changes, some of which had been delayed during the financial crisis.

BAPIML will continue to expand on engagement with companies on corporate governance issues. An in house log of interaction with companies has been set up, which is a key feature to monitoring the pro active stance of BAPIML in corporate governance areas.

Originator: International Corporate Governance Co-ordinator
Date: 18th May 2011

International Corporate Governance

1st April 10 - 31st March 11

Total number of meetings voted	Asia Pacific	Japan	Europe	America	Emerging	Total
Total number of meetings voted	**162**	**123**	**143**	**106**	**100**	**634**
Voted FOR on all proposals or voted in line with all management recommendations	67	73	60	55	68	**323**
% of votes For	41%	59%	42%	52%	68%	**51%**
Voted AGAINST on at least one proposal or voted against a management recommendation	95	50	83	51	32	**311**
% of votes Against	59%	41%	58%	48%	32%	**49%**
Voted ABSTAIN on at least one proposal	0	0	3	0	0	**3**
% of votes Abstained	0%	0%	2%	0%	0%	**0%**
Took NO ACTION	0	0	0	0	0	**0**
% of votes with no action	0%	0%	0%	0%	0%	**0%**

Breakdown of voting on individual proposals	Asia Pacific	Japan	Europe	America	Emerging	Total
Number of individual proposals where voted against management in line with ISS						
Director Election	24	13	34	17	16	**104**
Share Issuance without Pre-emptive rights	36		4			**40**
Stock Option Plan	9	2	11	4	6	**32**
Remuneration Plan	9	1	10	1	10	**31**
Re-issuance of repurchased shares	25					**25**
Appointment of statutory auditor		18				**18**
Anti takeover measure		12	2			**14**
Share Issuance	4		5		3	**12**
Audit Committee Election	1		10		1	**12**
Amend Articles of Association	2		7		1	**10**
Share Repurchase			9			**9**
Severance Payment		4	2			**6**
Other business	2		1		2	**5**
Auditors' special report			4		1	**5**
Against mgmt/ voting for shareholder proposal on environmnetal and social issues				5		**5**
Advisory vote approving executive compensation				4		**4**
Against mgmt/ voting for shareholder proposal-Ratify executive officers' compensation				4		**4**
Amend Bylaws			3			**3**
Against mgmt/ voting for shareholder proposal to on stock retention				3		**3**
Against mgmt/ voting for shareholder proposal to require majority voite for elections				3		**3**
Against mgmt/ voting for shareholder proposal amending bylaw to call special meetings				3		**3**
Against mgmt/ voting for shareholder proposal- Report on political contributions				3		**3**
Bond Issuance			2			**2**
Supervisory board member			2			**2**
Approve Related Party Transactions			2			**2**
Pledging of assets for debt	2					**2**
Against mgmt/ voting for shareholder proposal- Require independent board chairman				2		**2**
Approve renewal of liability insurabce for directors and senior managers	1					**1**
Place shares under control of directors					1	**1**
Board to ratify and execute approved resolution					1	**1**
Directors' report and financial statements	1					**1**
Increase in borrowing powers	1					**1**
Application of composite credit facility	1					**1**
Subscription agreement	1					**1**
Dividend approval		1				**1**
Against mgmt/ voting for shareholder proposal advisory vote on compensation		1				**1**
Against mgmt/ voting for shareholder proposal report on collateral derivatives trading				1		**1**
Against mgmt/ voting for shareholder proposal- Provide right to act by written consent				1		**1**
Against mgmt/ voting for shareholder proposal- Require advance notice for director nominations				1		**1**
Against mgmt/ voting for shareholder proposal to declasify board of directors				1		**1**
Against mgmt/ voting for shareholder proposal double trigger on equity plans				1		**1**
Against mgmt/ voting for shareholder proposal to prohibit executive stock based awards				1		**1**
Number of individual proposals where voted Against contrary to ISS recommendation to vote for						
Shareholder proposal on cumulative voting				7		**7**
Share Issuance without Pre-emptive rights				1		1
Number of individual proposals where voted For contrary to ISS recommendation to vote Against						
Director Election		4	1			5
Share Repurchase			2			**2**
Reduce authorised share capital			1			1
Approve Cancellation of Share Premium Account			1			**1**
Number of individual proposals where voted for contrary to ISS recommendation to abstain						
Director Election			1			1
Number of individual proposals where voted abstained contrary to ISS recommendation to vote against						
Supervisory board member			1			**1**
Director Election			1			1