Report on International Corporate Governance (April 2011- March 2012)

The International equity team voted on 672 corporate meetings between April 2011 and March 2012, an increase of 6% from last year. The table at the end of the report gives a detailed illustration of the voting results.

The percentage of meetings with a vote against management on at least one proposal is down 1 percent from last year to 48 percent. The number of individual proposals voted out of line with ISS recommendations is up from 19 to 22. All regions have at least one proposal voted contrary to ISS recommendations.

Japan, North America, and Emerging all recorded a percentage increase in the number of votes against management. The Region with the highest percentage of votes against management on at least one proposal is North America, 65% versus 48% last year. Asia Pacific has gone from having the largest percentage of votes against with 59%, to the joint lowest this year, with 33%.

The outlook from last year suggested a continued focus on director pay for performance, board independence and further discussions on board gender diversification. This proved accurate with the two top proposals voted against management being director elections and remuneration plans. Remuneration has moved from the fourth most contentious issue to second this year. The proposal regarding the appointment of statutory auditors is the third most contentious issue, from the sixth place last year. This is largely a Japanese specific issue.

Europe

In Europe the main focus is on remuneration and board structure. Individual countries are introducing regulations backed by governments and pushed by the EU directive to improve transparency over pay, a move BAPIML fully supports.

Russia had a dramatic change of events at the end of March, as president Medvedev called for the removal of senior state officials from government controlled companies. The move is to be implemented by the end of the year. This is positive, but still leaves Russia some way behind developed market governance standards. Russia had the highest number of director election proposals voted against management. Russian board elections are different to other countries in that Russian commercial law requires all companies to use cumulative voting. To further complicate the election process most firms have contested seats, offering more candidates than the size of the board. The Russian corporate governance code recommends at least 25 percent of the board, or no less than three directors per company, are independent. The codes definition of independence is not very stringent as it does not include family members and beneficial owners. An example of this can be seen at the annual meeting of a Russian steel pipe producer. The company states that directors are deemed independent if they have less than 10 percent of outstanding share capital. The funds voted against 6 of the 10 directors up for election due to independence concerns. One of the directors is the company's controlling shareholder and the remaining directors are also stakeholders.

Votes against remuneration plans are the second largest area of dissent in Europe. The annual meeting of one of Russia's largest oil and gas companies seeking the approval of directors' remuneration, highlighted concerns over disclosure in Russia. The company gave no rationale behind why its directors' pay is significantly higher than that of its western peers and gives no details on performance criteria. In some cases the non- executive directors are being paid several hundred percent more than the company's largest global peers. Directors' fees should be proportionate to the amount of work performed by the board members. Although information is given on the number of meetings held, there is no disclosure on the work undertaken or attendance levels. The funds agreed with ISS that due to these concerns a vote against management was appropriate.

Understandably investment banks were of particular focus regarding director compensation. The annual meeting of a Swiss investment bank is one case where BAPIML voted against the company's plan due to the failure of outlining safeguards against poor pay practices. The disclosure of variable pay parameters, performance criteria for short term awards and targets for long term awards are all crucial to aligning management incentives with stakeholders.

A French advertising agency had a number of proposals voted against by BAPIML. This is an interesting case as the chairman of the board is also the head of the AFEP (one of the associations involved with writing the French code of corporate governance). The company saw rejections of proposals on share capital increases, antitakeover measures, severance payments and supervisory board elections. The supervisory board dissent is due to lack of independence and concerns over two transactions entered into with the chairman of the board.

An example of engagement by the European team is with a Russian supermarket operator. ISS had voted against the slate of directors due to the proposal being bundled. On engagement with the company they explained that ISS had contacted them with very short notice and had already published the report recommending voting against. When assessing the independence and competency of each of the directors, the funds voted with management on 4 of the elections that ISS had recommended voting against. A separate proposal asking for the approval of a third party transaction was also recommended to vote against by ISS, based on the lack of information. The company provided details to the fund manager who deemed the transactions to be acceptable.

North America

This is the first year that advisory votes on executive compensation have been required to be submitted under the Dodd Frank Act. The proposal saw BAPIML vote 11 times against management. One investment bank in particular is a good example of the type of issues which would lead the funds to vote against management. Although several areas have improved in terms of overall pay levels, it is still unclear how the company is using incentives to promote long- term, sustainable growth in shareholder value that would justify the return to pre financial crisis pay levels. The company has resisted developing structured incentives for top executives that would require particular hurdle rates. The compensation committee determines cash and equity based awards for each year based on its assessment of company and executive performance.

The advisory vote on ‘say on pay’ frequency also mandated under the act enforced by the SEC has been by far the most contentious issue in North America, with 28 votes against. The frequency choice for the vote on a company's executive compensation program is either for every one, two or three years. Management proposes that the votes are every three years, where BAPIML along with ISS believes that an annual vote is in the best interests of shareholders, giving the highest level of accountability and communication with management.
Once again the shareholder proposal to provide cumulative voting had the highest amount of votes contrary to ISS, although the number of proposals has reduced from 7 last year to 4 this year.

Asia Pacific

The Asia portfolio manager has been particularly active in engagement with investee companies. An Australian technology company is an example of this, with several e-mails and conference calls taking place. The meeting also saw the funds vote contrary to ISS. ISS recommended a vote for the approval of the adoption of the remuneration report whereas the funds voted against. No rationale has been given for the 20 percent increase in the fixed remuneration for the CEO. The remuneration level is also considerably higher than Australian peer companies. There is limited disclosure of short term incentives and service agreements for the CEO are undisclosed.

Both non executive directors were also voted against, contrary to ISS, along with the proposal for an increase of the remuneration cap for non-executive directors to A$750,000 per annum, from A$350,000 currently. The vote against the remuneration plan was in line with ISS. The company's share price and earnings have significantly fallen over the past three years, during which time four of the five directors have served on the board, giving little justification to the substantial pay rise.

The last point of contention surrounded the stock option plan, which asked for the approval to issue 211,000 options to a non-executive director as consideration for consulting services provided to the company. A vote against this proposal in line with ISS's recommendation due to the issuance to a non-executive director under a plan used to provide long term incentives to executives is seen as inconsistent. BAPIML encourages equity participation independently but not from the mechanism set up for executives, who run the company on a daily basis.

Annual proposals on share issuance requests and re-issuance requests, mainly seen in Hong Kong, were again a big feature of the votes against management. Share issuance with or without pre-emptive rights did see a reduction from 40 proposals voted against last year, to 28 proposals this year. This is a positive move and one that was highlighted last year. Larger companies have now put forward smaller limits on new issuance or not requested the proposal.

Emerging

In Latin America director elections and remuneration plans had the greatest number of votes against management. Brazil accounts for the largest portion of votes against director remuneration. The Brazilian securities regulator (CVM) implemented a number of changes last year to company bylaws, including detailed compensation disclosure requirements. This has created a great deal of controversy over the level of disclosure. A Brazilian commercial aircraft manufacturer is a typical example of a company not disclosing the remuneration of its highest paid directors'. The company based its decision to not disclose key compensation data on a federal injunction filed in 2010 by the Brazilian Institute of Finance Executives (IBEF), claiming that the CVM regulations violate the privacy of corporate managers and exposes them to greater security risks, namely kidnapping. According to ISS nearly 47 percent of companies did not meet all of CVM's requirements. A further breakdown of the 47 percent showed roughly 21 percent cited the IBEF court challenge in their rationale for not disclosing minimum, average and maximum compensation figures, while the remaining 26 percent failed to include specific elements of compensation, such as short term bonuses. Other factors that caused votes against management included bundled proposals on director elections and remuneration plans and low levels of board independence.

The emergence of Mexican issuers voluntarily adopting international disclosure practices was seen as a step to pushing governance standards closer to Brazil. Unfortunately fewer than five Mexican companies in 2011 disclosed proposal documents outlining director qualifications and biographical data prior to the voting deadline. Often information is available, but only to shareholders attending the meeting. A large Mexican retailer is one investee company that did not disclose information prior to the vote deadline date. From the most recent report and accounts 27 percent of the company's 11 directors are independent, exceeding the 25 percent legal minimum in Mexico. However, independent directors and non-employee representatives of the parent company comprise 27.3 percent of the board, falling short of best practices. In addition, independent director representation is not proportional to the company's market free float of 31 percent.

In South Africa companies have continued to react to the introduction of the much delayed Companies Act of 2008. A majority of the larger companies now present shareholders with a non-binding vote on remuneration, as recommended by the King III code of best practices. The introduction of the Companies Act led to a larger number of EGM's, as companies looked to seek shareholder approval for particular authorities outlined by the new Act. Directors' remuneration is required to be approved by shareholders in advance, through a special resolution requiring a minimum of 75 percent support. BAPIML voted against 16 percent of companies' remuneration plans, due to often excessive awards based on limited or no set performance criteria. A major oil and gas company that is regarded with a very high level of disclosure saw a vote against due to a significant proportion of awards under the mid-term and long-term incentive plans, which vest regardless of whether or not performance conditions are achieved. Large discretionary awards for two directors are proposed under the company's share schemes. The number of shares available under the share incentive schemes represents approximately 11 percent of share capital, which exceeds the appropriate levels of 5 percent.

Japan

The number of votes against the appointment of statutory auditors saw a significant increase from last year, with a third of meetings seeing the proposal voted against management versus 15 percent last year. One of Japan's largest steel producers is an example of two of the main areas of contention, namely auditor appointment and anti-takeover measures. Japanese law requires that at least half of a company's statutory auditors are outsiders. The problem is that many companies look to appoint statutory auditors that are classified as affiliated, such as long time executives of the company's main bank or parent company. This is of particular concern as the statutory auditor to Japan acts as an advisory to the board and does not just play an accounting role. The company seeks to appoint an outside statutory auditor that is a former executive vice president of a major financial group associated with the company where the candidate is currently a special adviser and had previously worked as president of banking division.

In a concerning move, the number of proposals for the introduction and continuation of poison pills hit a new record in 2011 with 188 proposals out of a market of 2,537 companies. The total number of companies with a defence mechanism in place is 524. 10 percent of investee companies had a poison pill proposal that the Funds voted against. In the case of the steel producing company they were seeking approval of the poison pill which was originally introduced in 2007. The pill as often the case is an advance warning type. The company sets out in advance the information required by any would be acquirer and if deemed unacceptable the company will issue warrants to dilute the bidder's position. The pills plan does pass ISS levels of scrutiny but both BAPIML and ISS agree that the plan offers very little in the interest of creating shareholder value.

The Ministry of Justice (MOJ) set up a working party to revise the Japanese Commercial Code, a move that at the beginning looked very positive in improving the monitoring function of the board, setting up an audit and monitoring committee system and working on a clearer definition on the Independence of the outside director. The MOJ submitted a draft proposal for public comments, but unfortunately the public comments could only be made in Japanese. A member of the Japanese team engaged with IR Japan and the Tokyo Stock Exchange (TSE) to pass on comments to the MOJ. The revision of the commercial code is expected to be worked on further during 2012.

With several corporate governance scandals in Japan including one well publicised case (BAPIML had no exposure), the Tokyo Stock Exchange issued several statements requesting "all listed firms to firmly renew their awareness of the responsibility of a listed company's management to shareholder interests and improving corporate value." BAPIML would like to see the regulator going further and implementing more stringent and defining methodology when it comes to the role of the independent director and statutory auditor.

Outlook

The 2012 proxy season is likely to see ongoing developments surrounding director compensation and performance monitoring. The willingness of companies to increase disclosure on remuneration policies is promising. Board composition and oversight will be under the spotlight. In Europe the implementation of the shareholders rights act in 2012 will see the end of share blocking and open the way for larger shareholder support. With regard to gender on the board, bills are currently under discussion. The gap between developed regions and less developed does not appear to be closing, apart from a few areas of positive development driven by the regulator as seen in the case of South Africa.

International Corporate Governance

1st April 11 - 31st March 12

Total number of meetings voted	Asia Pacific	Japan	Europe	America	Emerging	Total
Total number of meetings voted	**167**	**93**	**164**	**117**	**131**	**672**
Voted FOR on all proposals or voted in line with all management recommendations	112	35	73	41	88	**349**
% of votes For	67%	38%	45%	35%	67%	**52%**
Voted AGAINST on at least one proposal or voted against a management recommendation	55	58	91	76	43	**323**
% of votes Against	33%	62%	55%	65%	33%	**48%**
Voted ABSTAIN on at least one proposal	0	0	0	0	0	**0**
% of votes Abstained	0%	0%	0%	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	10	9	42	7	16	**84**
Remuneration Plan	8	1	18		14	**41**
Appointment of statutory auditor		31	4			**35**
Share Issuance	25		6		1	**32**
Stock Option Plan	11	2	9	4	3	**29**
Advisory vote Say on pay frequency			1	28		**29**
Re-issuance of repurchased shares	19					**19**
Severance Payment		6	3		4	**13**
Against mgmt/ voting for shareholder proposal amending bylaws to call special meetings				13		**13**
Amend Articles of Association	4		4		3	**11**
Against mgmt/ voting for shareholder proposal on environmnetal and social issues				11		**11**
Advisory vote approving executive compensation				11		**11**
Anti takeover measure		9			1	**10**
Against mgmt/ voting for shareholder proposal- Report on political contributions				10		**10**
Share Repurchase	2	1	6			**9**
Audit committee election	1		5		3	**9**
Share Issuance without Pre-emptive rights	3		2			**5**
Auditor's special report				5		**5**
Other business	1		1		2	**4**
Against mgmt/ voting for shareholder proposal to increase disclosure of executive compensation				4		**4**
Supervisory board member				4		**4**
Against mgmt/ voting for shareholder proposal on stock retention				3		**3**
Against mgmt/ voting for shareholder proposal- Require independent board chairman				3		**3**
Approve Related Party Transactions	1		2			**3**
Amend Bylaws					3	**3**
Against mgmt/ voting for shareholder proposal to require audit committee review				3		**3**
Against mgmt/ voting for shareholder proposal to declasify board of directors				3		**3**
Amend Articles of Incorporation	2					**2**
Increase in borrowing powers	2					**2**
Against mgmt/ voting for shareholder proposal to amend articles of association		2				**2**
Against mgmt/ voting for shareholder proposal on performance based equity awards				2		**2**
Against mgmt/ voting for shareholder proposal to require majority vote for elections				1		**1**
Approve Transfer of business	1					**1**
Approve Assets for debt swap	1					**1**
Warrant issuance			1			**1**
Bond Issuance					1	**1**
Against mgmt/ voting for shareholder proposal to approve recapitalisation plan				1		**1**
Against mgmt/ voting for shareholder proposal to prohibit stock based equity awards				1		**1**
Against mgmt/ voting for shareholder proposal- Provide right to act by written consent				1		**1**
Against mgmt/ voting for shareholder proposal to submit shareholder rights plan (posion pill)				1		**1**
Against mgmt/ voting for shareholder proposal to reincorporate in another state				1		**1**
Number of individual proposals where voted Against contrary to ISS recommendation to vote for						
Shareholder proposal on cumulative voting				4		**4**
Increase maximum size of the board			1			**1**
Reduce board term to one year			1			**1**
Number of individual proposals where voted For contrary to ISS recommendation to vote Against						
Director Election		5	4		1	**10**
Aprrove large scale transaction loan and underwriting			2			**2**
Amend Articles of Association		1				**1**
Shareholder proposal on Marketing strategy			1			**1**
Appointment of statutory auditor		1				**1**
Remuneration plan	1					**1**