

2013

Annual voting and
engagement report
Mineworkers Pension Scheme

Within the following pages, we are pleased to report on the engagement and voting work carried out on behalf of the Mineworkers Pension Scheme during 2013. This covered a wide range of strategic, environmental, social and governance matters and we worked with companies to address the key risks and challenges that they faced including issues on the environment, human rights and ethics, corporate governance, strategy and risk. The report highlights an engagement case study relevant to each theme¹. We have also provided systematic information on our progress in engagements against objectives.

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¹ EOS' usual policy is to keep engagements confidential while they are in progress. When the case studies included in this report feature private actions by EOS (such as private dialogues with senior directors), we have notified the company of our intention to publish them.

Engagement activity by region 2013

In the last year EOS engaged with 107 companies in MPS portfolios on a range of 294 environmental, social and ethical, governance, strategy and risk issues. EOS’ holistic approach to engagement means that we will typically engage with companies on more than one issue simultaneously. The engagements included in these figures are in addition to our discussions with companies around voting matters.

Global

We engaged with 107 companies over the last year.



- Environmental 14.6%
- Social and ethical 25.9%
- Governance 38.8%
- Strategy and risk 20.7%

Australia and New Zealand

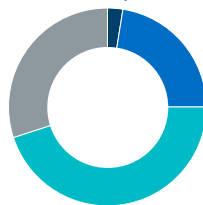
We engaged with two companies over the last year.



- Environmental 12.5%
- Social and ethical 50.0%
- Governance 25.0%
- Strategy and risk 12.5%

Developed Asia

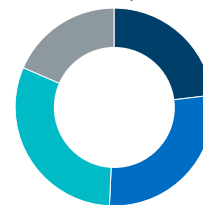
We engaged with 15 companies over the last year.



- Environmental 2.5%
- Social and ethical 22.5%
- Governance 45.0%
- Strategy and risk 30.0%

Emerging and Frontier Markets

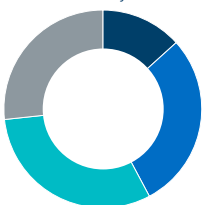
We engaged with 28 companies over the last year.



- Environmental 23.1%
- Social and ethical 27.7%
- Governance 30.8%
- Strategy and risk 18.5%

Europe

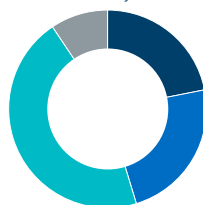
We engaged with 19 companies over the last year.



- Environmental 13.3%
- Social and ethical 28.9%
- Governance 31.1%
- Strategy and risk 26.7%

North America

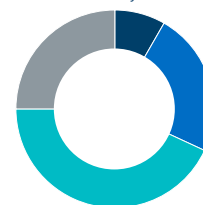
We engaged with 25 companies over the last year.



- Environmental 21.9%
- Social and ethical 23.4%
- Governance 45.3%
- Strategy and risk 9.4%

UK

We engaged with 18 companies over the last year.



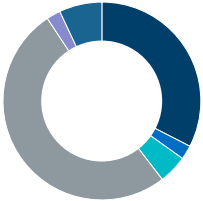
- Environmental 8.3%
- Social and ethical 23.6%
- Governance 43.1%
- Strategy and risk 25.0%

Engagement activity by issue

A summary of the 294 issues on which we engaged with companies in MPS portfolios over the last year is shown below.

Environmental

Environmental issues featured in 14.6% of our engagements over the last year.



- Climate change/carbon intensity **32.6%**
- Forestry **2.3%**
- Oil sands **4.7%**
- Other environmental **51.2%**
- Waste **2.3%**
- Water stress **7.0%**

Social and ethical

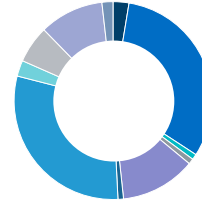
Social and ethical issues featured in 25.9% of our engagements over the last year.



- Access to medicine **5.3%**
- Bribery and corruption **17.1%**
- Community relations **10.5%**
- Corporate culture **6.6%**
- Employee relations **6.6%**
- Health and safety **14.5%**
- Licencing to operate **6.6%**
- Operations in troubled regions **7.9%**
- Other social and ethical **13.2%**
- Political risk management **5.3%**
- Supply chain (inc child/other labour issues) **6.6%**

Governance

Governance issues featured in 38.8% of our engagements over the last year.



- Accounting or auditing issues **2.6%**
- Board structure **31.6%**
- Committee structure **0.9%**
- Conflicts of interest **0.9%**
- Other governance **12.3%**
- Poison pill **0.9%**
- Remuneration **29.8%**
- Separation of chair/CEO **2.6%**
- Shareholder communications **6.1%**
- Succession planning **10.5%**
- Voting rights – not 1 share 1 vote **1.8%**

Strategy and risk

Strategy and risk issues featured in 20.7% of our engagements over the last year.



- Business strategy **54.1%**
- Reputational risk **1.6%**
- Returns to shareholders **1.6%**
- Risk management **42.6%**

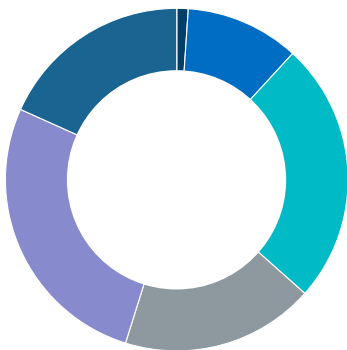
Engagement progress in 2013

Using our proprietary milestone system, we had ongoing engagements with 93 companies regarding 239 separate engagement objectives on behalf of MPS.

In this section we provide an overview of our global engagement activities.

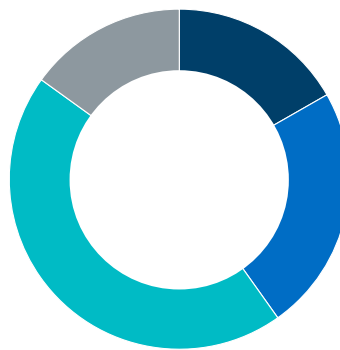
Global engagement activity

Ongoing company engagement by region (93)



- Australia and New Zealand 1
- Developed Asia 10
- Emerging and Frontier Markets 23
- Europe 17
- North America 25
- UK 17

Engagement objectives by theme (239)



- Environmental 40
- Social and ethical 56
- Governance 107
- Strategy and risk 36

Approximately 45% of the engagement objectives focused on governance issues. In many cases, achieving success in board change is necessary to deliver beneficial change in ethical, environmental and strategic issues.

Engagement progress in 2013

Our proprietary milestone system allows us to track progress in our engagements relative to objectives set at the beginning of our interactions with companies. The specific milestones used to measure progress in an engagement vary depending on each concern and its related objective. They can broadly be defined as follows:

- Milestone 1 Concern raised with company at appropriate level
- Milestone 2 Acknowledgement of the issue
- Milestone 3 Development of a credible strategy or plan to address the concern
- Milestone 4 Implementation of a strategy or measures to address the concern

The information below sets out the current status of these engagements relative to our engagement objectives and our progress in the past year.

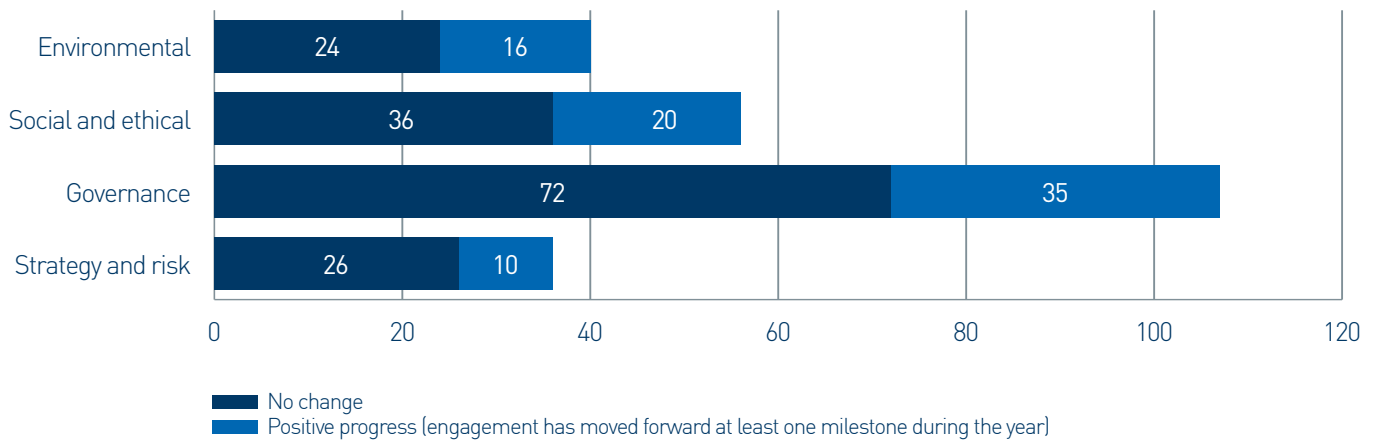
Milestone status of engagement

The chart below shows the current milestone status of the EOS' engagement objectives by theme.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Environmental	40	5	10	14	10	1	0
Social and ethical	56	9	13	15	17	2	0
Governance	107	3	32	43	26	3	0
Strategy and risk	36	3	9	12	11	0	1
Total engagements	239	20	64	84	64	6	1

Engagement progress in 2013

We made solid progress in delivering engagement objectives across regions and themes for MPS. The following chart describes how much progress has been made in achieving the milestones set for each engagement.



Environmental: Engagement progress

In 2013, 17% of our engagements on behalf of MPS included an environmental objective. In this section we summarise some of the major environmental themes on which we engaged in 2013 and a case study illustrating a successful outcome to an engagement on environmental concerns.

Status of environmental engagement objectives

The table below shows which milestones have been achieved in the course of related engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Environmental	40	5	10	14	10	1	0

Corporate engagement

We seek disclosure of relevant environmental indicators and encourage companies to develop plans for managing their environmental footprint, set appropriate targets, monitor and disclose progress. In addition, we encourage companies to disclose explicit and practical examples of how they manage environmental risks and press for board involvement in overseeing progress.

This year, as part of an international group of investors, we co-signed letters to the world's top 40 oil and gas, coal and electric power companies, requesting that they assess the financial risks that climate change poses to their businesses. This involves the assessments themselves, disclosure of the outcomes and the governance structures in place to oversee this key risk.

While many of our environmental engagements focused on carbon emissions, we also challenged companies on the efficient use of water. Where companies operate in water-stressed areas we encouraged them to map local sensitivities and plan for the management of these risks with a view to ensuring the sustainability of their business model. We also continued our conversations with companies in relation to their land use and the environmental impact of sourcing materials from forested or formerly forested land.

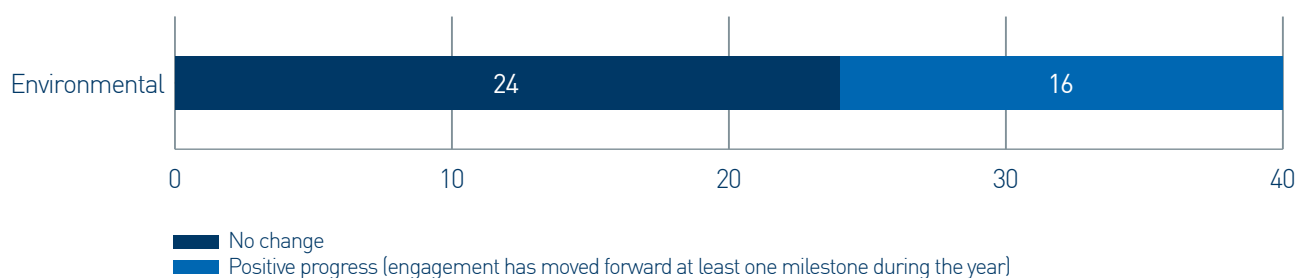
To support our engagement work, we undertake site visits to understand more about company operations. In 2013, these visits included hydraulic fracturing (fracking) operations and alternative energy sources, such as hydro-electric power and biomass. We understand that we are often the only investor with whom they are having such an in-depth discussion – we have raised the importance of the board's role in environmental oversight and linking executive and employee remuneration to the achievement of environmental and sustainability targets.

Public policy and best practice

In Europe, we intensively engaged at a policy level to push for clear carbon reduction targets to enable companies to properly plan for the future regulatory environment. This work included a number of meetings with EU representatives, related working groups, the European Environmental Agency and the Institutional Investors Group on Climate Change (IIGCC). We also responded to an EU consultation on energy policy post-2030, pointing out the importance of appropriate incentives for long-term investment as a supporting instrument for future energy policy.

We also engaged with the UK government in support of changes to the Companies Act to mandate the disclosure of greenhouse gas emissions for UK-listed companies. In particular, we pressed for this information to be reported in a way that helps both reporters and users get a clearer sense of the strategic imperative of the issue.

Progress against environmental objectives



Case Study: Drax

In 2013, EOS intensified its engagement with Drax regarding its strategy, supply chain risk and sustainability challenges through meetings with the chairman and senior executives and a site visit to its Yorkshire-based plant. As the last coal-fired power station built in the UK, the power generator is in the process of transforming itself from a pure coal-fired power station to a predominantly biomass-fuelled generator, through converting at least three of its six generating units to solely sustainable biomass in place of coal. The strategic move, however, has meant the company is highly exposed to UK energy policy movements and pricing mechanisms under the UK's Electricity Market Reform (EMR), an initiative focused on replacing and upgrading the UK's energy infrastructure to meet the projected future increases in electricity demand, while at the same time making sure the UK remains a leading destination for investment in low-carbon electricity. Through our conversations with the company, we have been assured and impressed by the level of engagement it maintains with all relevant UK government departments, in particular the details of the CEO's interactions with UK policy-makers, as well as the board's rigour in challenging management on the full range of policy and energy scenarios. At the site visit, executives provided some particularly useful insights into how Drax sees the economics behind the future UK support regime for low carbon generation.

The company converted its first generating unit from coal to biomass in April 2013. It is the largest converted unit in the world, and as such the company is exposed to high-profile sustainability

concerns. We continued to question the company's biomass sourcing policy and pushed to understand how the board challenges supply chain integrity. The chairman spoke convincingly about the company's commitment to sustainability, with Drax imposing its own sustainability testing and auditing across all its suppliers. We were able to explore this commitment in more detail with the head of environment during the site visit. Also during the site visit in Yorkshire, we welcomed the opportunity to visit the company's cutting edge biomass storage facilities and gained insight into the complex science and logistics that enable the production of large-scale biomass fired energy. A further key area of focus for Drax in the future will be its ability to secure a reliable biomass pellet supply. Throughout conversations with the company, we pressed to understand how it ensures the complex, international delivery of wood pellets and discussed the basis of its US supply chain investments to facilitate the international exportation. We have also been impressed by Drax's approach to health and safety innovation in the UK and encouraged the company to continue its efforts to ensure its US operations adhere to the same high standards it expects of those in the UK.

As historically the UK's largest producer of CO₂, Drax's operational and strategic changes are impressive, and we are pleased to note its continued progress against our strategy, supply chain and sustainability engagements with the company. We look forward to continuing our ongoing dialogue with the company on these and other important topics over the course of 2014.

Social and ethical: Engagement progress

In 2013, 23% of our engagements on behalf of MPS included a social and ethical objective. In this section we summarise some of the major social and ethical themes on which we engaged in 2013 and a case study illustrating a successful outcome to an engagement on social and ethical matters.

Status of social and ethical engagement objectives

The table below describes which milestones have been achieved during their respective engagements.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Social and ethical	56	9	13	15	17	2	0

Corporate engagement

In Asia, we engaged with a group of companies to seek improvements in their management of employee relations with the aim of preventing disruptive industrial action. We challenged companies to provide contract workers with similar rights to permanent staff and adhere to minimum health and safety, working hours and remuneration standards. We also had extensive discussions with companies around the world on fostering positive community relations as a key part of their licence to operate. This focussed in particular on ensuring that the rights of indigenous groups are upheld and that proper consultation takes place ahead of starting work, in line with international guidance. Overall, we are pleased to see that standards are improving, with companies increasingly understanding the commercial importance of assessing and addressing these issues.

Following the discovery of horse DNA in several processed beef products by Irish food inspectors at the beginning of the year, we engaged with a number of food retailers on the oversight of their supply chains. While we were encouraged by much of the detail we heard and some of the affected companies' immediate responses, it is clear that there is much work to be done to increase assurance over the provenance and quality of some products. More broadly, we engaged with companies on various industry-specific supply chain issues, for example in the clothing retail sector and cocoa production. Decentralised organisations and reliance on key suppliers can prove a challenge to even the best processes and controls in this area.

We spoke at the Wal-Mart AGM, highlighting that the serious bribery allegations about the company required appropriate oversight by the board and the promulgation of the correct tone from the top, as part of our call for an independent chair at the company.

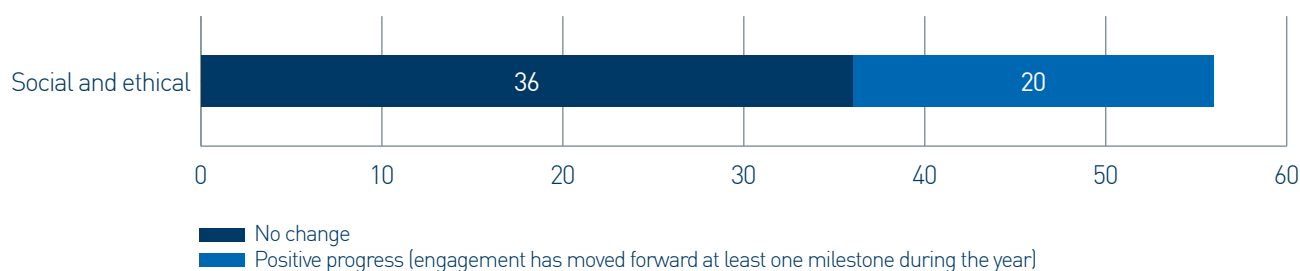
Public policy and best practice

We continued to work with the UN Global Compact initiative and this year addressed its forum in China. We viewed it as a major step forward that this event, focusing uniquely on respect for human rights, was held in China. We made specific recommendations for companies to report on their activities in troubled regions, including the nature and extent of operations, the rationale for investment within the overall business strategy given the considerable risks involved, the nature of the relationship with local governments and security arrangements for their personnel. Our honesty and insights were remarked on by several participants as helpful to encourage more accountability among companies.

Also this year, we wrote to the US Securities and Exchange Commission (SEC) to encourage it to enhance its disclosure requirements for issuers on political and lobbying expenditure as the topic remains a contentious one in the US.

As part of our efforts to improve board diversity, we continued to support the activities of the 30% Club and raised the issue of board composition in our engagements with companies where applicable.

Progress against social and ethical objectives



Case Study: Microsoft

At a meeting in early 2013, EOS and Microsoft's senior director of corporate citizenship began discussing a collaboration effort to enhance awareness and understanding of the UN Guiding Principles on Business and Human Rights, also known as the Ruggie Principles due to their authorship by Harvard professor John Ruggie. The discussion evolved into an agreement to co-host a meeting on human rights at the spring conference of the Council of Institutional Investors (CII) in Washington DC, which Microsoft kindly offered to host at its local Innovation and Policy Center.

CII is the largest and most influential investor organisation in the US. Its members include most of the largest pension funds and asset managers in the US, as well as a number of honorary overseas participants. An EOS representative is a member of CII's advisory board.

We chose human rights as an important and timely topic for the meeting because companies have been grappling with how to meaningfully apply the UN Guiding Principles for Business and Human Rights, which were published in 2011. An event on the Guiding Principles would provide both companies and investors with an opportunity to learn from each other about the challenges they have faced in implementing the principles and about how they could ensure that they were embedded in their business.

The meeting was a great success, with senior management from a number of the largest companies in the US participating in the discussion along with representatives from international asset owners and asset managers. Attendance exceeded expectations, with the meeting room at full capacity.

We were honoured to have one of the members of the working group that developed the Guiding Principles address the meeting. The speaker was able to provide the attendees with a great insight into the thinking behind the overarching UN Protect, Respect and Remedy framework as well as the Guiding Principles and explained how companies should be thinking when developing and maintaining policies and practice to meet their obligations.

The second half of the meeting consisted of a moderated question and answer session with a panel comprising Microsoft's senior director of corporate citizenship and a senior vice president from a US asset manager, who were able to provide in-depth views on the issues that companies need to confront when implementing the Guiding Principles and on how to ensure that they continue to influence corporate behaviour by integrating them into business practice. The audience was greatly engaged and a lively question and answer session ensued, causing the meeting to overrun. John Ruggie's book *Just Business: Multinational Corporations and Human Rights* was available to attendees as they departed.

In the US, relationships between companies and investors can often be cautious, legalistic and defensive. This event demonstrated that open, honest debate, trust and collaboration can help create mutual understanding and an environment in which companies are able to manage their business better to develop and protect long-term value for their shareholders. Since the meeting, we have been able to strengthen our relationships with the participants, in particular those representing US companies. We sense a greater willingness to engage and collaborate with investors on issues affecting long-term value and believe that we are seeing a welcome change in the US governance landscape.

Governance: Engagement progress

In 2013, 45% of our engagements on behalf of MPS included a governance objective. In this section we summarise some of the major governance themes on which we engaged in 2013 and a case study illustrating a successful outcome to an engagement on governance themes.

Status of governance engagement objectives

The table below describes the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Governance	107	3	32	43	26	3	0

Corporate engagement

Through our engagement work we continue to seek reassurance that companies have clear and robust succession plans in place for all board members and in particular to ensure that an independent chair is in place. This is a key objective of our corporate engagement in parts of Europe and the US. In the latter market it led to us filing a number of shareholder proposals, which in turn often leads to a company agreeing to have a dialogue with us for the first time. As a result of our efforts, we have seen a strengthening of independence and accountability at the top of many companies. We also pushed for improvements in the quality of certain boards and their oversight of executives.

Remuneration continues to be a key issue for investors in many markets. In the UK, we published *Remuneration principles for building and reinforcing long-term business success* in collaboration with a group of major pension funds. This formed the basis of many discussions with individual companies and we have seen some significant changes in remuneration structures at some companies since, as well as a major shift in the way in which they approach pay discussions.

We also participated in a joint engagement with a number of US pension funds this year that had significant success in introducing clawback of executive compensation at pharmaceutical companies in cases of inappropriate behaviour. This follows the widespread problems of mis-selling within the industry.

Public policy and best practice

Say-on-pay is now a reality in all major European markets. We have undertaken extensive public policy activity around this development via panels, working groups and responding to consultations. Intensive work on remuneration continued in the UK and we actively contributed to policy discussions, which influenced the country's pay regulations introduced in 2013.

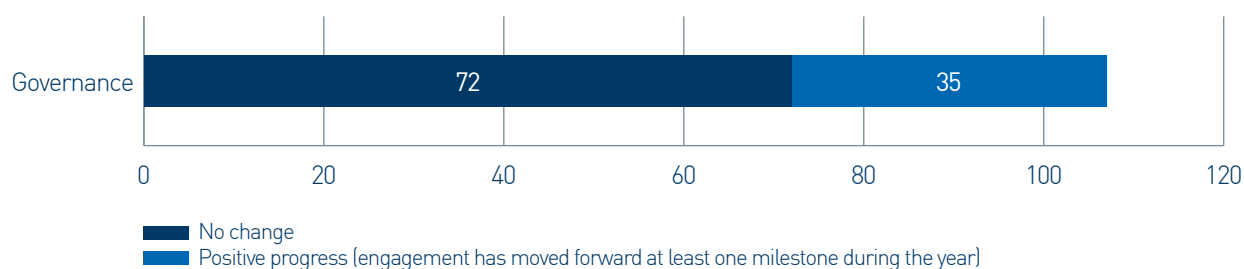
We welcomed the announcement by the Japanese Financial Services Agency (FSA) in 2013 that it will introduce a Stewardship Code. We worked closely with the FSA on the draft of the code and shared our experience in other markets. We believe this development represents a significant step forward in responsible investment and ownership activities in Japan. In a similar development, we responded to a consultation by the Securities and Exchange Board of India on a review of corporate governance norms and recommendation to adopt a stewardship code.

We continued to promote better stewardship by investors in the Middle East, particularly encouraging the participation of local shareholders. We recommended and were encouraged to see the formation of an OECD investor council in that area, which will promote the benefits of behaving as a responsible owner.

For the fifth year running, we hosted and provided analysis and judgement for the ICSA/Hermes transparency in governance awards. These awards recognise best-in-class narrative reporting in the UK and support a public policy agenda to improve the communication between companies and their owners. We are glad to note the ever-increasing quality of both the winning reports but also the standard of reporting in general in the UK.

We also wrote to many stock exchanges setting out the importance of companies providing enhanced disclosure around the director nominations process. In particular we wrote to the NYSE and NASDAQ to encourage them to make the majority voting of directors a listing requirement.

Progress towards governance objectives



Case Study: Deutsche Bank

EOS continued its intensive dialogue with Deutsche Bank in 2013. Because of our long-standing relationship with the company, we have been able to discuss our concerns with key decision-makers in the bank, specifically the chair of the supervisory board and several members of the management board, such as the head of risk and the global head of HR. One of the main tasks for the company is the overhaul of its corporate culture, which was deemed necessary following the emergence of several controversies and increased regulatory scrutiny of banks in the wake of the financial crisis. Although Deutsche Bank weathered the crisis better than many other universal banks, the number of controversies relating to its business practices and the scale of the litigation costs raised significant questions about the sustainability of its practices. A number of stakeholders including the German government and several NGOs questioned the way the bank manages the indirect impact of its business practices on society, in activities such as lending or commodity derivatives. In a speech and a counter-proposal against the ratification of the acts of the supervisory board at Deutsche Bank's 2012 AGM, we brought up the apparent lack of an integrated approach towards sustainability. We also questioned the extent of the involvement of the supervisory board in the integration of sustainability.

In a series of meetings with Deutsche Bank's head of sustainability, we tested the organisational framework in place to deal with the integration of sustainability and the implementation of new initiatives. As a part of its cultural change programme, which was announced in late 2012, the bank took a number of measures to strengthen its policies and strove to achieve a more structured approach towards sustainability. It also published a much improved sustainability report in 2013. Prior reporting on the topic included too few specific examples of measurable objectives and targets

and tended to concentrate on philanthropic aspects of corporate responsibility. The 2013 report began to embed sustainability into day-to-day activities of the bank. It discloses some clear key performance indicators (KPIs), such as the percentage of transactions reviewed under the bank's environmental, social and governance (ESG) risk framework, and gives examples of the application of sustainability standards in business decisions. The number of screened and ultimately rejected transactions, for instance, is clearly disclosed. While the framework is still in the process of being rolled out, we welcomed these developments and encouraged the adoption of additional specific KPIs and stretch targets. A project to develop these tools has been underway since 2013, and we hope it will lead to even more meaningful reporting and systematic integration of the key issues into the investment process. Our discussion on sustainability needs to be seen within the broader context of the cultural change programme. We believe it is necessary to respond to the significant sustainability challenges faced by Deutsche Bank and the wider banking industry. As such, we welcomed the creation of an integrity committee of the supervisory board and the position of chief governance officer, which we view as key to regaining stakeholders' trust.

Aside from sustainability, we have also engaged with the company on supervisory board refreshment, remuneration and overall risk management. We were particularly pleased with the improvements made to the remuneration scheme, which now includes a range of metrics linked to the bank's strategic goals. In 2012 and 2013, Deutsche Bank significantly refreshed its supervisory board and strengthened the experience and skill sets of its membership. In 2014, we will continue our dialogue with the company, as we aim to gain further assurance about the effectiveness of the cultural change programme.

Strategy and risk: Engagement progress

In 2013, 15% of our engagements on behalf of MPS included a strategy and risk objective. In this section we summarise some of the major strategy and risk themes on which we engaged in 2013 and a case study illustrating a successful outcome to an engagement on strategy and risk issues.

Status of strategy and risk engagement objectives

The table below describes the objectives of each engagement and the milestones reached in pursuing them.

Theme	Total engagement objectives	Engagement objective status				Completed engagement objectives	
		Objective set	Concern raised	Concern acknowledged	Plan established	Completed	Discontinued
Strategy and risk	36	3	9	12	11	0	1

Corporate engagement

In Japan, we engaged with a number of companies to question the relevance of parts of their businesses which did not appear to fit within a conglomerate structure and encouraged them to streamline their overall portfolios. Elsewhere in Asia, we discussed with companies the risks of diversification and challenges to their core business and urged those concerned to explain their strategy more fully and convincingly to investors, including the setting of public objectives and milestones.

Following a number of high-profile public sector contract issues at several UK-listed companies, we engaged with a number of companies with significant revenue reliance on the UK Government. We sought to understand the organisational changes the affected companies were making and pressed the importance, particularly given the size and complexity of some of these businesses, of cultural alignment throughout the firm as a key part of risk management.

We continued to engage with companies involved in transactions, challenging prospective acquires to demonstrate material and sustainable synergies and a credible way of limiting execution risk, which includes integrating different business cultures. We also challenged companies on their management of commercial and reputational risk in joint ventures.

Our intensive engagements with the banking sector around the world continue. In particular we are challenging banks that are not making returns to shareholders to adapt their business structures to ensure that this situation does not persist.

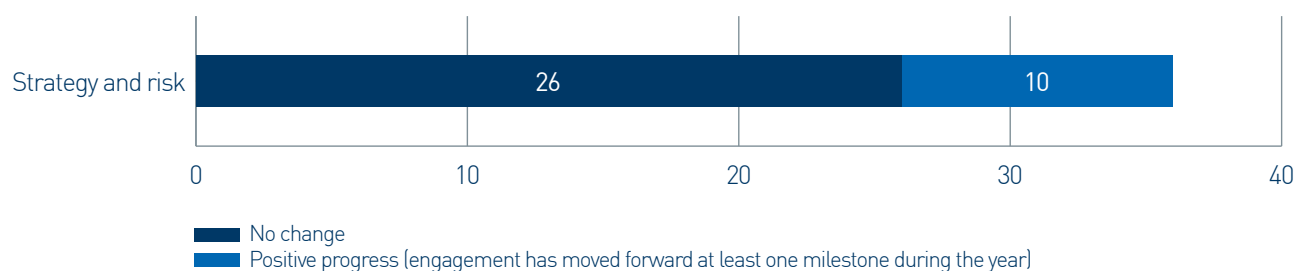
In 2013, we also had detailed discussions at board level with multiple companies on the difficult issue of stranded assets. The extent to which companies acknowledge carbon risk and are embedding these issues into their strategy varies significantly and we will continue these conversations with extractives companies in your portfolios over the coming year.

Public policy and best practice

We continued to actively pursue improvements to auditing and accounting standards and oversight, both globally and in individual markets.

We also had ongoing discussions with banks following our work with the Financial Stability Board's initiative to develop best practice standards in risk reporting by banks and financial institutions, called the Enhanced Disclosure Task Force. We are pleased to note significant improvements in risk disclosures at banks and particularly Canadian banks.

Progress against strategy and risk objectives



Case Study: Panasonic

Following an engagement spanning several years, we are pleased with the progress the company made in 2013, particularly with regard to its business strategy and governance structure.

Our intensive engagement was a result of the significant concerns we had about continued poor performance in some of Panasonic's business segments, including television and mobile phones. The company acquired SANYO Electric and merged with Panasonic Electric Works in 2011 to form one large conglomerate.

We held a number of meetings and calls with the company, including with the CFO.

During our engagement, the company acknowledged the increasingly competitive nature of consumer electronics markets and consequently decided to carry out some structural reforms, including a reorganisation of several divisions and a major reduction of employees at its headquarters. However, we argued that more needed to be done to improve its financial performance and discussed the possibility of disposing of some of the businesses if they did not become profitable in the near future.

That is why we were delighted when in 2013 Panasonic announced a series of major business realignments, which had contributed to losses over the previous two years, in order to focus resources toward more profitable products. This included the discontinuation of the production of plasma display panels and the development of smart phones for consumer use. In addition, it rolled out plans to reduce the production capacity for circuit boards and semiconductors and explained the key business areas in which Panasonic has strengths and enjoys large market shares.

We continued to test its growth strategy after completion of the restructuring process.

In parallel with our discussions on strategy, we expressed concerns about a lack of independence on the board and challenged how effective it is.

At the start of our engagement, Panasonic had a large board of 20 directors, of whom 18 were executive directors. The other two represented significant shareholders. We questioned how effectively the board could function given its size, while pointing out that the two affiliated directors were deemed to have business interests in the company. Welcoming the board's reduction to 16 in 2012, we continued to encourage the company to seek genuine independence on the board.

Panasonic's board previously consisted solely of executives and affiliated directors, which is why we had continuously been pushing for the inclusion of an independent non-executive director. The appointment of such individual to the board in early 2013 therefore represented a significant milestone in our engagement with the company.

We also suggested that Panasonic consider increasing the diversity of its board to reflect its diversified business model. We therefore firmly welcomed the appointment of the female, independent non-executive director and continue to encourage the company to consider further increasing diversity in terms of nationality, experience and skill sets, as well as gender.

We are delighted to see these positive steps and continue to engage with the company to gain further confidence about its long-term business strategy and competitive advantage.

Public policy work

During 2013 on behalf of MPS we formally responded to 55 consultations (or a more proactive equivalent to this) and held 99 discussions to press our views with relevant regulators. The breakdown of these was:

Region	Consultations or proactive equivalent	Meetings and discussions
Global	14	20
Developed Asia	1	14
Australia and New Zealand	3	1
Emerging and Frontier Markets	7	21
Europe	8	12
North America	9	8
UK	13	23
Total	55	99

Our key activities and achievements in the year were:

- Success: We are delighted that our work leading the **International Corporate Governance Network's (ICGN) revision of its shareholder responsibility principles** has come to fruition, with the ICGN's AGM approving the – renamed – **Statement of Principles for Institutional Investor Responsibilities**. Including 12 high-level principles for the first time, this document should become the global benchmark on internal governance standards for investment institutions and on their external stewardship responsibilities. We are already using it as a basis for discussion with those various bodies around the world seeking to develop local stewardship codes.
- Success: **Japan's prime minister** publicly announced that the country will introduce both **corporate governance and stewardship codes**. These are both steps we have long been seeking and we are active in dialogue with those leading the drafting efforts, not least those considering how a comply-or-explain model would work within that culture.
- Success: We were pleased to note the **FRC's final standard for enhanced auditor reporting**, requiring the auditor to disclose key audit judgements alongside the audit committee's disclosure of key accounting judgements. This in our view reflects the ideal model of reporting to provide full insights and avoid boilerplate. We were closely involved in the creation of this model over the past several years and have seen it already beginning to be significantly influential internationally.
- Success: The **Financial Supervisory Council in Taiwan** has agreed to extend the requirement to have **independent directors** to mid-sized public companies, a significant step forward in governance standards for the market. This reflects calls we have long made in our dialogue with the regulators.
- Success: The ICGN **guidance on board gender diversity**, which we co-authored, was approved at the organisation's AGM. This sets out for the first time a global investor viewpoint on the issue and is a first step to more general work by the ICGN on boardroom diversity.
- Success: The **German Corporate Governance Commission** has adopted new recommendations covering **remuneration matters** as part of the local governance code. These reflect specific representations that we have been making, both formally and through more informal channels.
- Progress: We welcomed the publication of a **PRI guide for asset owners** on how to enhance the **accountability of their fund managers**, and to encourage a more long-term approach from them. The document builds on and quotes extensively from the ICGN's Model Mandate Initiative, whose creation we led, and we have worked actively with the PRI on the development of the document. The documents were both promoted during the quarter at meetings of leading pension funds in both Canada and the UK.
- Progress: The **Law Commission** undertook a project on the application of **fiduciary duty** throughout the investment chain. This responds to the discussion in the Kay Review of the issue, which we believe was sparked by our evidence about fund managers in effect contracting out of fiduciary duty.
- Progress: The Financial Stability Board has published the **Enhanced Disclosure Task Force's (EDTF) report**, summarising progress in banks delivering on its recommendations for better risk reporting. We have been one of the handful of investors members of the EDTF and took a leading role in developing the investor portion of this report. The report marks a first step in pressing banks to improve their responses to the recommendations, and we look forward to reflecting this perspective in our individual dialogues with the key banks.
- Progress: We were pleased to note that the **European Securities and Markets Authority (ESMA)** published a statement on practices governed by the **Takeover Bid Directive (TBD)**, focusing on shareholder cooperation relating to acting in concert and the appointment of board members.

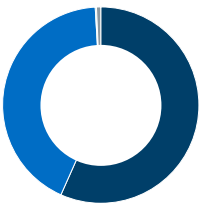
- Progress: We were delighted that our **stretching proposal** that **bank compensation ratios** be limited to no more than 25% is already gaining traction. It was referenced in a presentation to investors by a pay consultant and seems to be being adopted by our peers.
- Progress: We were invited to join a focus group made up of selected international investors and institutions to pre-empt possible changes to the **Spanish corporate governance code**. We will provide ongoing support to this initiative in order to encourage the implementation of our collective recommendations.
- Progress: **The Brazilian market regulator** seems to be taking steps to ensure that only genuinely independent shareholders can vote on **minority shareholder proposals**. This responds to comments we have been making regarding a particularly egregious case and should unlock much greater influence for the bulk of shareholders.
- Progress: We participated in a lengthy roundtable discussion with the **European Commission on its company law and corporate governance action plan**. We were one of only two asset owner representatives to play a genuinely active role in the meeting, allowing us further to advance our agenda which already seems to be understood and largely adopted by the Commission.
- Progress: We were one of only three investor representatives to present to the **International Forum of Independent Audit Regulators**, the global body bringing together the inspectors of auditors and the auditing process, at its huge annual plenary meeting. We were able to use the opportunity to press for a greater global focus on the issue of scepticism in the audit and to press for audit inspections, which reinforce an intelligent and sceptical approach rather than a focus on box-ticking.
- Progress: We welcome the broad-ranging regulatory attention currently being given to the issue of encouraging greater **long-termism among institutional investors**, in Europe and globally. As well as arising from the financial crisis, we believe that these efforts reflect our work to raise this issue up regulatory agendas worldwide. We have been actively involved in the dialogues and the further development of this thinking, not least through direct conversations and/or participation in formal roundtable discussions with those leading the work variously at the European Commission, the G20, the Organisation for Economic Cooperation and Development (OECD) and the Financial Stability Board.
- Progress: We responded to the **public consultation** on the Integrated Reporting draft framework by **the International Integrated Reporting Council (IIRC)**. We had also worked with a number of International Corporate Governance Network members to contribute to the development of a joint ICGN response, which therefore reflected a number of our key issues, as well as supporting the development of other responses. We have begun to discuss investors' strategy for the final negotiations and are working closely with others on this, marking a continuation of our active participation in this process for over two years and our current role chairing the IIRC's Investors' Network.
- Progress: We met with the **Brazilian securities commissioner** to discuss our recent letter to the securities commission's chair regarding the **nomination and election of directors**. The commissioner was very grateful for our recommendations and our offer of help, and indicated the commission appreciated our ongoing contributions and recommendations.
- Activity: We responded to a consultation on the draft ordinance implementing the **Swiss Minder initiative**, suggesting amendments to the proposed legislation to strengthen appropriate controls of shareholders over the governance of Swiss corporations in order to foster long-term value creation for the benefit of shareholders as well as wider society.
- Activity: We wrote to the recently appointed chair of the **US Securities and Exchange Commission (SEC)** to provide our input on the regulatory reform agenda on areas, including proxy access, majority voting, independent chairs, multiple-class share structures, executive compensation, political donations and lobbying and bank risk reporting. In doing so we highlighted the likely benefits, such as improved overall market confidence, efficiency and positive investment flows into US businesses.
- Activity: We took part in investor gatherings and commentary supporting the introduction in the **EU of reporting requirements on non-financial matters**. These European Commission proposals are facing stiff opposition from the corporate community, making investor support of particular importance.
- Activity: We responded to an **EU consultation on energy policy post-2030**, pointing out the importance of appropriate incentive frameworks to the issue. In that regard, we called for the **emissions trading scheme** to be appropriately modified and strengthened so that it can fulfil its purpose as a significant driver of decarbonisation.
- Activity: We responded to the consultation by the **Financial Reporting Council (FRC)** on its **proposed guidance on strategic reports** as part of the new reporting framework in the UK. Our response encouraged greater cohesion across whole annual reports and drew connections between material, non-financial issues and the strategic success of companies.
- Activity: We spoke at the **Peruvian Mining and Investment Conference** as part of a panel focusing on how mining companies in Latin America can maintain positive relations with local communities and reduce their environmental impact while continuing to grow. We were satisfied with the active debate that our speech generated among the predominantly mining company audience.

Overview

In the last year, we voted at a total of 549 meetings around the world on behalf of MPS, analysing 5,780 resolutions in accordance with MPS’s voting policy. At 233 of those meetings we opposed one or more resolutions and we abstained at one meeting. We voted with management by exception at four meetings and supported management on all resolutions at 311 meetings.

Global

We voted at 549 meetings (5,780 resolutions) over the last year.



- Total meetings voted in favour **56.6%**
- Meetings where voted against (or voted against AND abstained) **42.4%**
- Meetings where abstained **0.2%**
- Meetings where voted with management by exception **0.7%**

Australia and New Zealand

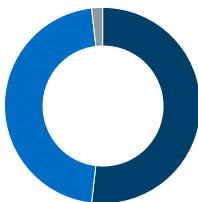
We voted at two meetings (ten resolutions) over the last year.



- Total meetings voted in favour **100.0%**

Developed Asia

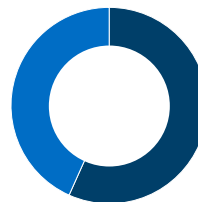
We voted at 110 meetings (1,038 resolutions) over the last year.



- Total meetings voted in favour **51.8%**
- Meetings where voted against (or voted against AND abstained) **46.4%**
- Meetings where voted with management by exception **1.8%**

Emerging and Frontier Markets

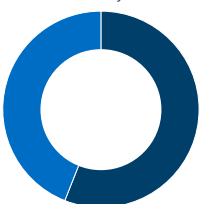
We voted at 261 meetings (2,300 resolutions) over the last year.



- Total meetings voted in favour **56.7%**
- Meetings where voted against (or voted against AND abstained) **43.3%**

Europe

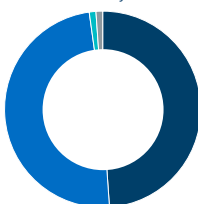
We voted at 50 meetings (602 resolutions) over the last year.



- Total meetings voted in favour **56.0%**
- Meetings where voted against (or voted against AND abstained) **44.0%**

North America

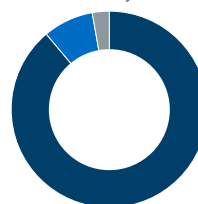
We voted at 90 meetings (1,119 resolutions) over the last year.



- Total meetings voted in favour **48.9%**
- Meetings where voted against (or voted against AND abstained) **48.9%**
- Meetings where abstained **1.1%**
- Meetings where voted with management by exception **1.1%**

UK

We voted at 36 meetings (711 resolutions) over the last year.



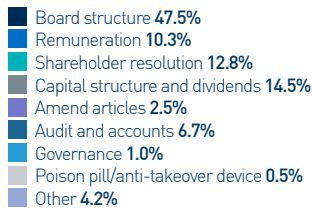
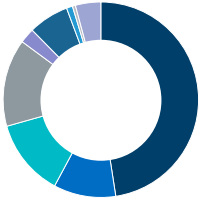
- Total meetings voted in favour **88.9%**
- Meetings where voted against (or voted against AND abstained) **8.3%**
- Meetings where voted with management by exception **2.8%**

Voting by issue

The issues on which we voted against management or abstained on resolutions on behalf of MPS are shown below.

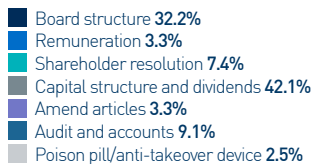
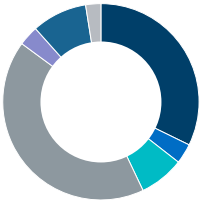
Global

We voted against or abstained on 595 resolutions over the last year.



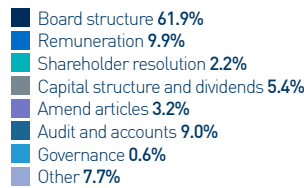
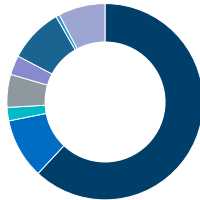
Developed Asia

We voted against or abstained on 121 resolutions over the last year.



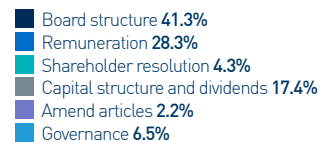
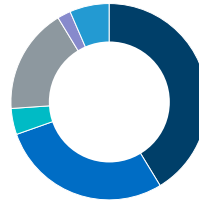
Emerging and Frontier Markets

We voted against or abstained on 312 resolutions over the last year.



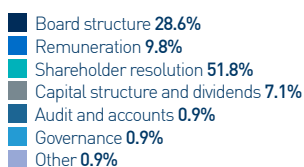
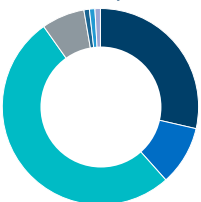
Europe

We voted against or abstained on 46 resolutions over the last year.



North America

We voted against or abstained on 112 resolutions over the last year.



UK

We voted against or abstained on four resolutions over the last year.



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