Methodology

This section outlines the methodology that we have used to select asset managers, and shareholder resolutions.

1. Selection of asset managers

The asset managers included in this study met the following criteria:

1. Used by members of the Charities Responsible Investment Network and,
2. had more than five voting decisions across our sample of controversial resolutions.

In total, 15 asset managers fulfilled the above criteria and are shown in Table 1 below.

Table 1: Asset managers included in this analysis

Asset Manager	Abbreviation
Aberdeen Standard Investments	ASI
Arrowstreet Capital	Arrowstreet
Aviva Investors	Aviva
AXA Investment Managers	AXA
Baillie Gifford & Co.	Baillie Gifford
BMO Global Asset Management	BMO
EdenTree Investment Management	EdenTree
HSBC Global Asset Management	HSBC
Investec Asset Management	Investec
Janus Henderson Investors (UK)	JHI (UK)
Jupiter Asset Management	Jupiter
Newton Investment Management	Newton
Royal London Asset Management	Royal London
Sarasin & Partners LLP	Sarasin
Schroders	Schroders

2. Selection of resolutions

The resolutions selected for this research fulfilled the following criteria:

1. Appears on Investment Association's Public Register of 2019 controversial resolutions;[i]
2. pertains to auditors, remuneration or board composition;
3. were voted on at the AGM of a FTSE 350 company.

The topics of remuneration and board composition were chosen as these are the most consistently controversial resolution types, and to provide continuity from the 2018 Charities Responsible Investment Network controversial votes report. Criteria 3 was applied to condense the sample of resolutions to those widely voted on by the selected asset managers.

The voting data were accessed from Proxy Insight's database on 28/11/2019. All asset managers included in this study were contacted by ShareAction as part of our data verification procedure for the report. We thank the 13 asset managers who kindly agreed to verify their data for us. The final sample includes 61 resolutions across 40 companies. A summary of these is provided in Table 2.

Across the 61 resolutions, there was only one case where the majority of shareholders rebelled against management. This was for a non-binding "advisory" vote on remuneration for Micro Focus International where 50.33% of shareholders voted against management.

Table 2: Controversial resolutions – 2019

Resolution Type	Number of Resolutions	Proportion of sample	Average votes against
Board	28	46%	30%
Remuneration	33	54%	34%

i. The investment association includes companies on the Public Register if:

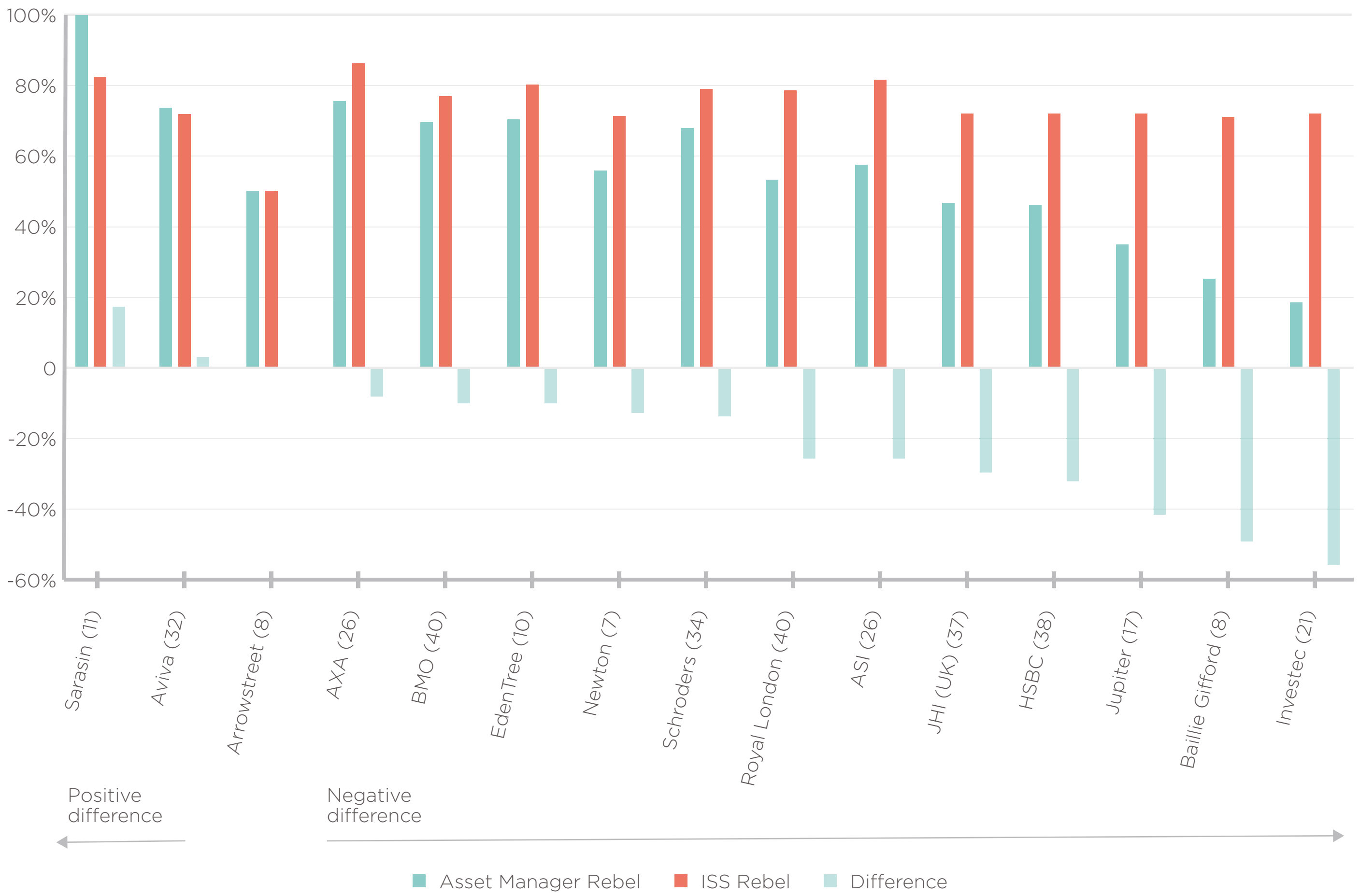
- They were a constituent of the FTSE All-Share Index when the company held an AGM or GM;
- a resolution at the meeting received 20% or more votes against, or;
- a resolution at that meeting was withdrawn between announcing the Notice of Meeting and the end of the meeting.

3. Largest proxy advisor more rebellious than most asset managers

We now turn to the role of proxy advisors in relation to the sample of controversial votes. Proxy advisors are third-party service providers who deliver recommendations to institutional investors on how to vote at shareholder meetings. Investors may use proxy advisors in a range of ways, and many use their recommendations as a resource, or receive bespoke recommendations based on their own voting policies.

As shown in Figure 4, only two managers – Sarasin and Aviva – in our sample of 15 managers voted against management more often than the benchmark recommendations of ISS, the largest proxy advisory firm.[iv]

Figure 4: Asset managers votes "Against" management, compared to ISS' recommendations "Against"



Number of resolutions included in this analysis for each asset manager is shown in brackets

iv. All asset managers included in this analysis except Royal London Asset Management receive services from ISS.

The majority of investors in our sample voted in support of management more often than ISS recommended (negative difference bar). This suggests these asset managers are either employing voting policies that are less progressive on board director votes and remuneration than their proxy advisor, or are overriding their proxy advisors' recommendations – and making special exemptions to their voting policy – in order to vote with management on these controversial resolutions.

Zooming in on proxy advisors

The pattern shown here in relation to proxy advisors echoes that of CRIN's 'Another Link in the Chain: Uncovering the role of proxy advisors in investor voting' report, which found that the majority of asset managers were less supportive of environmental and social issues than ISS, with the largest managers being the least supportive.

The report also found that there is little evidence to suggest asset managers over-rely on their proxy advisors' recommendations for shareholder resolutions. The data suggest that our sample of managers are not reliant on their proxy advisors' recommendations for governance resolutions either. Only Arrowstreet showed a 100% match with ISS' recommendations over 8 resolutions, a sample size too small to draw a strong conclusion.

The main findings from CRIN's 'Another Link in the Chain: Uncovering the role of proxy advisors in investor voting' are:

1. ISS is more supportive of environmental and social resolutions than the largest asset managers
2. There is little evidence to suggest a systematic overreliance on the recommendations of ISS for responsible investment resolutions
3. ISS, the largest proxy advisor, is more likely to recommend investors support environmental and social shareholder resolutions than the second largest firm, Glass Lewis

4. Asset managers' 'rebel genetics' have been hard-coded

How likely are asset managers to become more rebellious? We sourced data from asset managers' PRI Transparency Reports, to see how managers' votes against management had changed over the years, across all of their votes.[v,vi]

As shown in Figure 5, we found that the proportion of votes against management were relatively stable over time, indicating that asset managers' rebel genetics are slow to evolve.

Although there is significant variation between asset managers, their individual tendencies to rebel are quite stable between years. Notable exceptions to this trend include Schroders (who have become more and less rebellious), and both Aberdeen Standard Investments and Sarasin & Partners (who have become more rebellious).

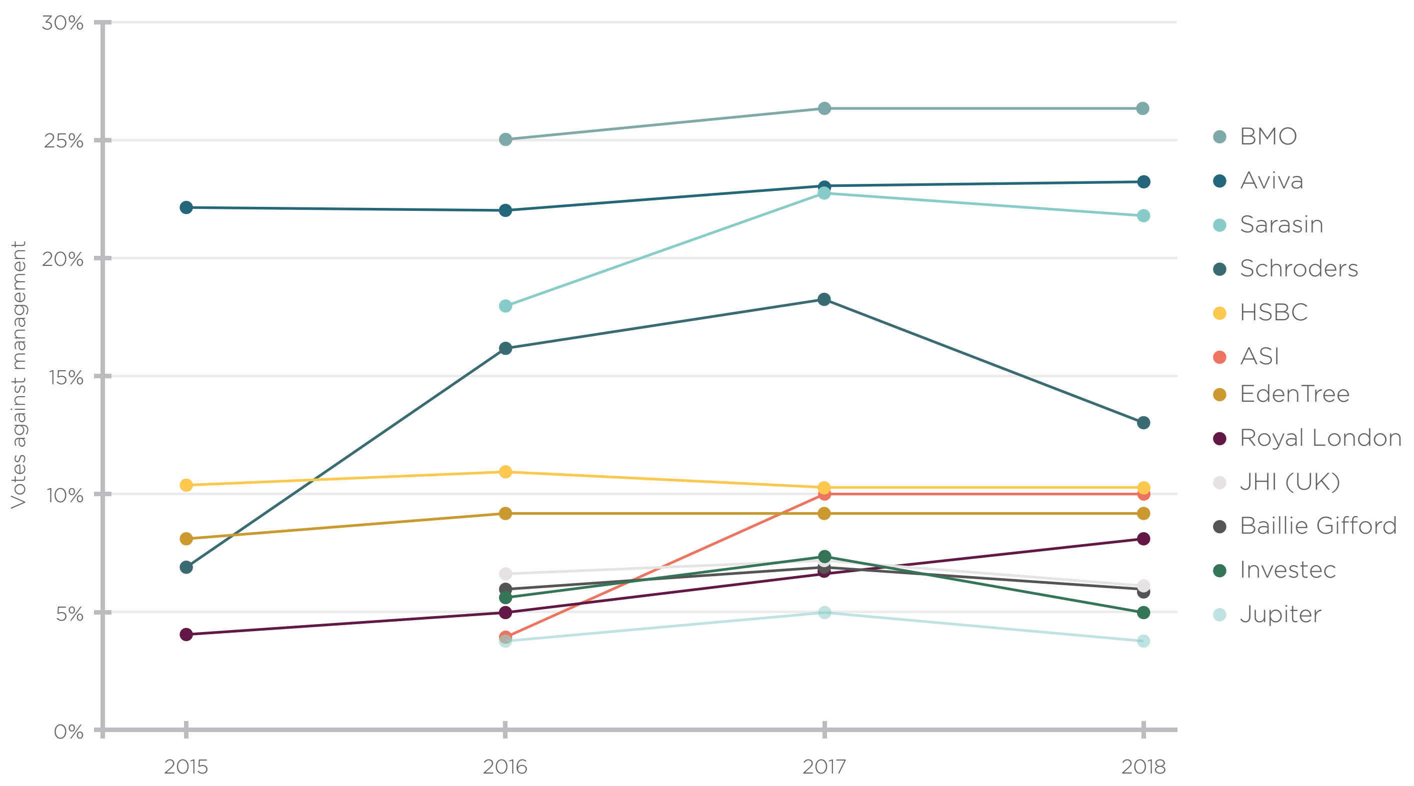
All managers included in the analysis for this finding disclosed to the PRI that they review objectives for their responsible investment activities at least annually. It is therefore striking to see that their policy reviews haven't affected their confidence to vote against management on matters of concern. This suggests that asset managers' 'rebel genetics' are hard-coded traits, and withstand multiple reviews of their responsible investment objectives and activities.

Asset owners, occupying one half of the symbiotic client/provider relationship, have an opportunity to propel the evolution of their asset managers' voting genetics. By pushing for improved voting practices, from policy to reporting, asset owners can drive an ESG 'survival of the fittest', which sees responsible investment thrive in the gene pool.

v. Before the 2017 PRI reporting period, votes against management were voluntary to report on. In 2017, the PRI made this section mandatory to report on (but not disclose). We therefore only have consistent PRI data for asset managers' votes against management from the 2016 voting period onwards.

vi. AXA and Newton are left out as we suspect they answered the PRI question with the figure that pertains to their percentage meetings with one or more vote against management, leading to much higher and incomparable figures. Arrowstreet have also been left out as they first reported to the PRI in 2017.

Figure 5: Asset managers' votes against management over time



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About ShareAction

ShareAction (Fairshare Educational Foundation) is a registered charity that promotes responsible investment practices by pension providers and fund managers. ShareAction believes that responsible investment helps to safeguard investments as well as securing environmental and social benefits.

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