

Church Commissioners

Voting Report

Note by Emiliano Torracca, Voting & Screening Manager

Summary

1. In fulfilment of the obligations arising under the UK's Stewardship Code¹, this report provides a record and analysis of votes cast in respect of the shares owned by the Church Commissioners for England at meetings taking place during the first half of 2016 (1 January-30 June '16).

Detail

2. The report is split into two parts (A and B) covering respectively the *UK*² and *Rest of the World* (with the exclusion of shareblocking markets)³.
3. Advice was prepared and voting enacted by the specialist proxy voting firm ISS Europe Ltd ("ISS") in line with an agreed bespoke policy template. Whilst the majority of votes cast were as generated under the approach set out in the template, on occasion discretion was exercised to cast a different vote. Discretion is applied whenever the vote generated under the template does not align with the Church Commissioners' ethical investment objectives. In these instances, the explicit consent of investment staff is first obtained before votes are cast.
4. All voting activity was overseen by the Church Commissioners and Pensions Board Engagement Team, principally by the Voting & Screening Manager.

¹ The decision to abide by the code was announced by the Church Commissioners in December 2013.

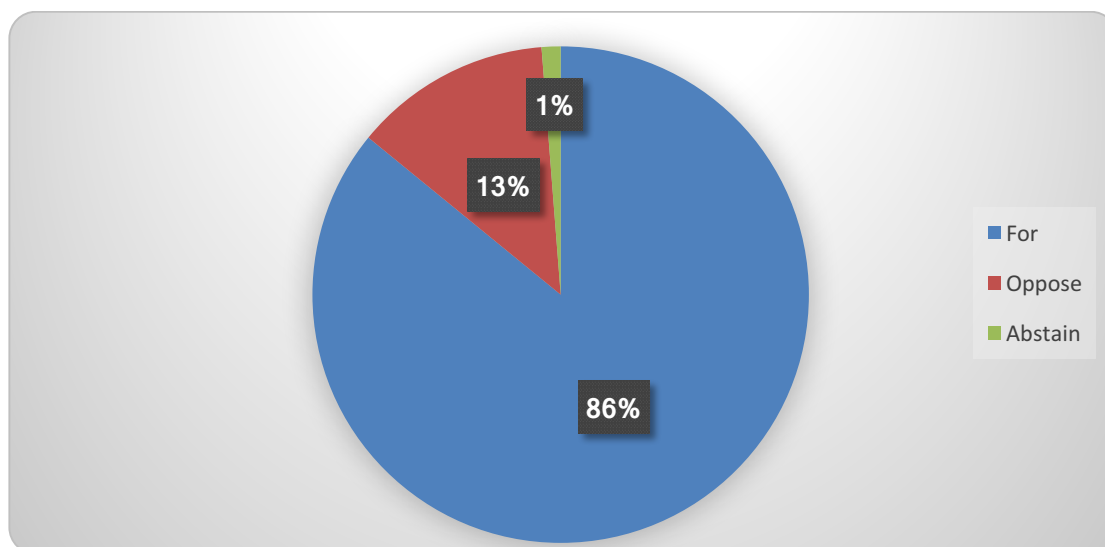
² Including companies domiciled in similar markets: these are Bermuda, Guernsey, Jersey and the Isle of Man.

³ Shareblocking (and equivalent provisions) can either arise as part of established market practice or through requirements introduced by custodians operating within particular markets, meaning that voted shares must be held until after a particular future date. Markets in which the Commissioners' voting practice has been affected by this or similar provisions in the period include Italy, Norway, Switzerland and Germany.

A1. VOTING OVERVIEW⁴

5. Management Resolutions

Resolution type:	For	Oppose	Abstain	Total
All	3905	581	56	4546



6. Alignment with ISS Policy and Church Investors Group (CIG) Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	3864	124	14	88.0
Template instructions differed from ISS	0	448	42	10.8
Template overridden / ISS advice overruled	41	13	0	1.2

Number of meetings voted during the period	288
Number of companies holding meetings (including investment trusts)	257

⁴ For resolutions raised by management, the classifications 'For' and 'Oppose' distinguish votes cast to indicate satisfaction with/disapproval of the company's management. For resolutions raised by shareholders, the classifications 'For' and 'Oppose' indicate situations in which adoption of the shareholder resolution is believed to be / not to be in the best interests of shareholders.

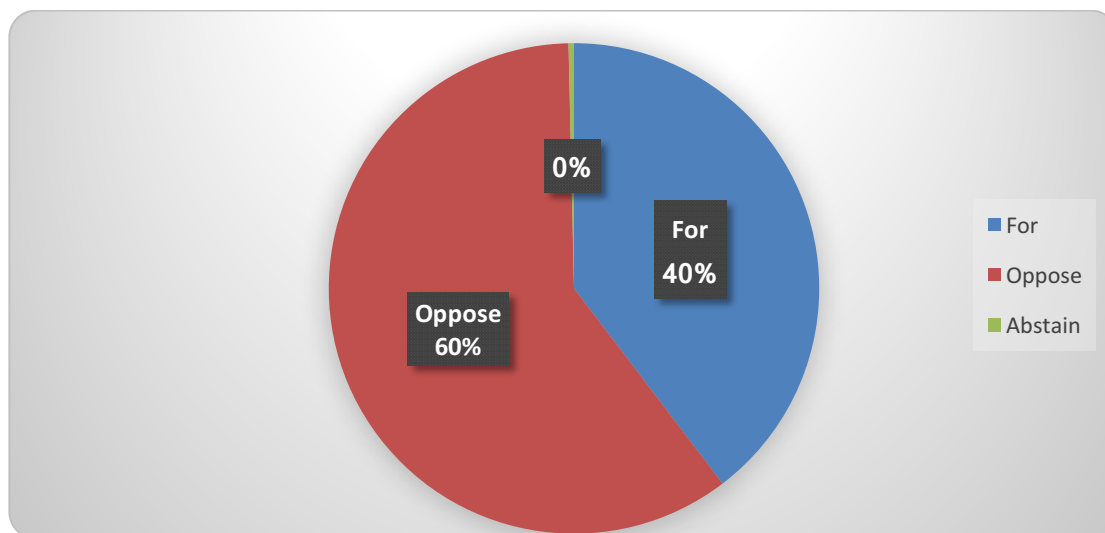
7. Shareholder Resolutions

Resolution type:	For	Oppose	Abstain	Total
Shareholder	3	1	1	5

A2. VOTING ON REMUNERATION-RELATED RESOLUTIONS⁵

8. Remuneration-related resolutions

Resolution type:	For	Oppose	Abstain	Total
Remuneration Report/Policy	111	168	1	280



9. Alignment with ISS Policy and CIG Voting Template⁶

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	96	43	1	50.0
Template instructions differed from ISS	0	122	0	43.6
Template overridden / ISS advice overruled	15	3	0	6.4

10. Compared with HI 2015 there has been an increase in our support for UK remuneration in the past year from just below 30% to 40% votes in favour.

11. There was also a higher percentage of votes under the CIG Template in line with ISS standard research, increasing from 37.8% to 50.0%. We interpret this change as a combination of additional emphasis on executive remuneration within the ISS standard advice as well as a modest increase in uptake of best practice in executive remuneration.

12. In terms of overrules (i.e. when a different vote is logged in deviation from the standard vote outcome under the CIG Template) these increased slightly from 3.9% to 6.4%. These were mainly

⁵ The data therefore aggregates voting with respect to proposals on remuneration reports and remuneration policies (and any equivalents e.g. "Say on Pay" votes). Votes cast with respect to the introduction or amendment of specific remuneration plans are not reported here.

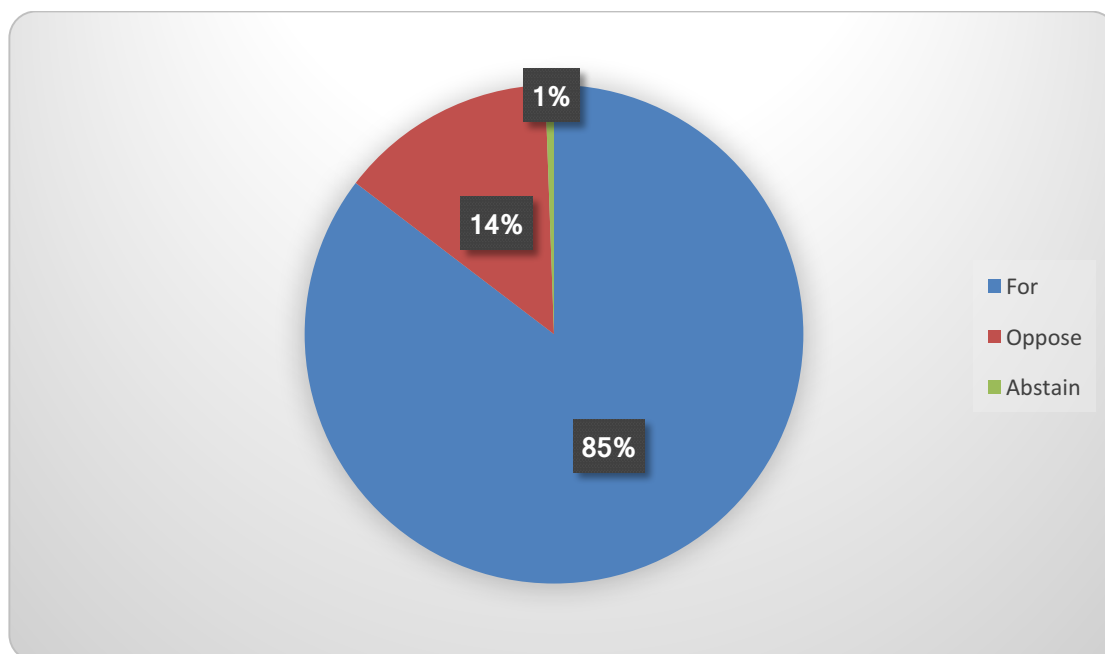
⁶ Votes reflect the voting policy laid out in our policy on executive remuneration, available at: <https://www.churchofengland.org/media/1717796/executive%20remuneration%20policy%20april%20202013.pdf>

in detailed cases relating to a lack of disclosure, specifically under annual bonus schemes. During the period under review we identified a significant number of companies where opaque incentive arrangements, often related to non-financial criteria, resulted in the payment of sizeable annual bonuses despite poor financial results. Whilst the CIG template encourages companies to include non-financial criteria in their remuneration frameworks, we expect reasonable disclosure of specific targets which have to be objectively measurable and not left to the absolute discretion of remuneration committees and we were able to pick these up above and beyond the template recommendations. As with all overrules we feed these back to ISS to further refine our template and implementation.

A3. VOTING ON DIRECTOR-RELATED RESOLUTIONS

13. Director Related Resolutions

Resolution type:	For	Oppose	Abstain	Total
Election of Directors	1803	297	12	2112



14. Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	1786	46	12	87.3
Template instructions differed from ISS	0	246	0	11.7
Template overridden / ISS advice overruled	17	5	0	1

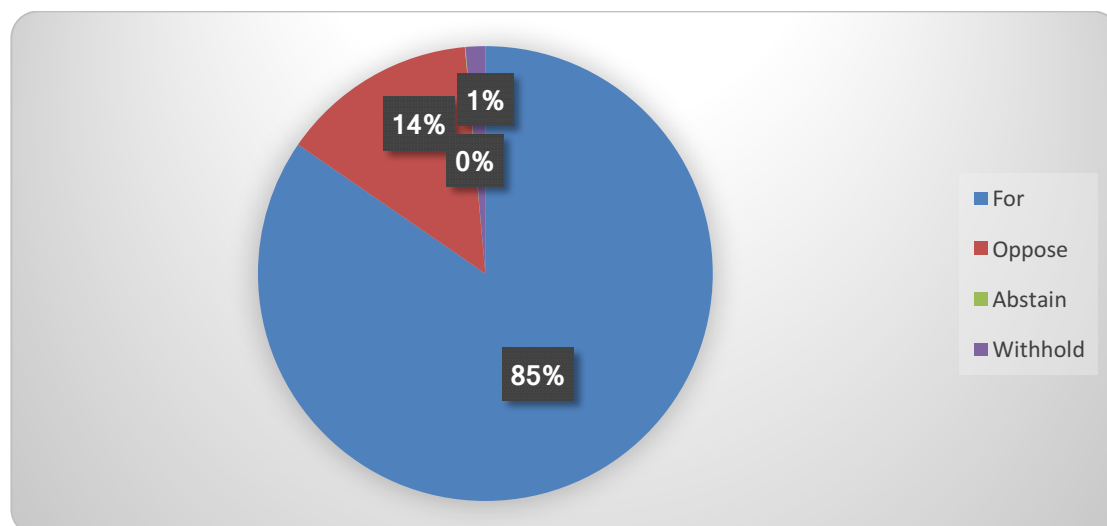
15. Last year's significant decrease in votes in support of Directors elections due to the changes introduced to the CIG Template in 2015 concerning gender diversity at Board level. This year the figure is in line with H1 2015 figures.

Part B - Global (ex UK, Switzerland, Luxembourg, Norway)

BI. VOTING OVERVIEW

16. Management Resolutions⁷

Resolution type:	For	Oppose	Abstain	Withhold	Total
All*	15571	2570	8	257	18406⁸



17. Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	Withhold	% of Total
Template instructions same as ISS	15519	1195	5	100	92.2
Template instructions differed from ISS	0	1195	2	152	7.3
Template overridden / ISS advice overruled	52	29	1	5	0.5

Number of meetings voted during the period	1492
Number of companies holding meetings	1424

18. The figures for HI 2016 do not significantly diverge from the previous year.

⁷ The classifications 'For' and 'Oppose' again distinguish votes either in support of or against the wishes of the company's management. 'Withhold' votes can only be registered in the USA/Canada and can only be registered against certain classes of resolutions such as the election of directors or the election of corporate auditor.

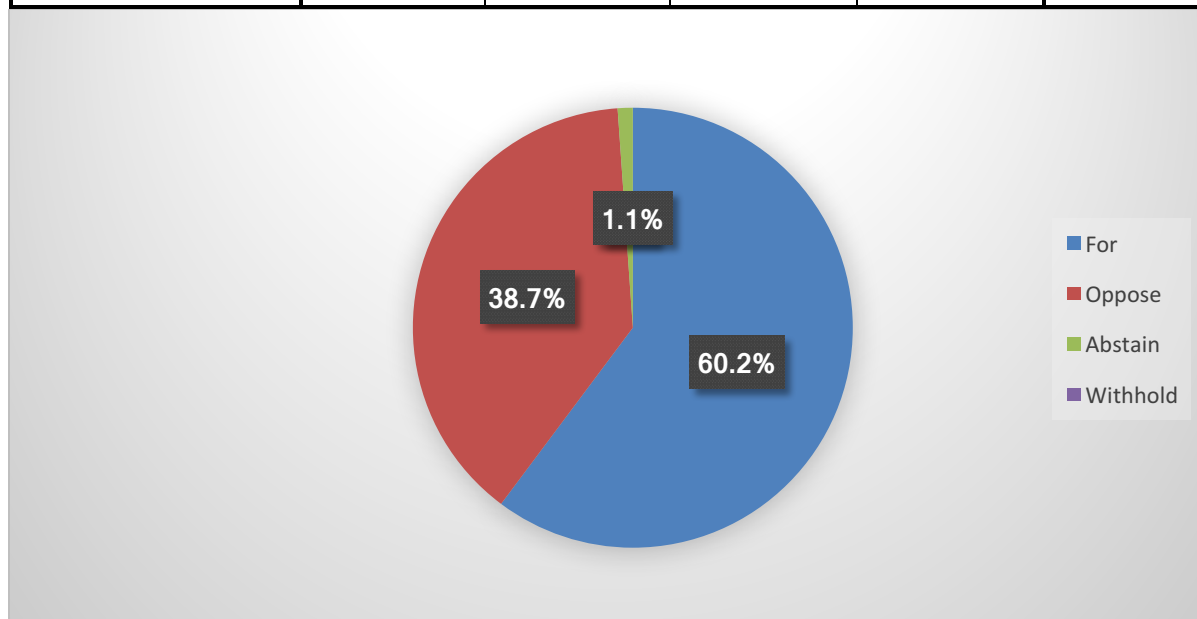
⁸ The share decrease in number of items voted, meetings voted and companies holding meetings is significantly lower compared with HI 2015. This is based on a reduced exposure to US smallcaps.

19. Management Proposals. Breakdown by Country: (top 10 countries by number of meetings covered)

Country	Vote Instruction	Total	
Brazil	Abstain	1	0.68%
	Against	25	17.12%
	For	120	82.19%
Canada	Abstain	1	0.10%
	Against	46	4.68%
	For	866	88.19%
	Withhold	69	7.03%
France	Against	393	26.29%
	For	1102	73.71%
Germany	Against	83	14.31%
	For	497	85.69%
Hong Kong	Against	92	33.70%
	For	181	66.30%
Japan	Against	210	5.52%
	For	3593	94.48%
Netherlands	Against	55	11.96%
	For	404	87.83%
	Withhold	1	0.22%
Sweden	Against	114	17.46%
	For	539	82.54%
Taiwan	Against	17	6.25%
	For	255	93.75%
USA	Against	950	16.63%
	For	4579	80.14%
	Withhold	185	3.24%

20. Shareholder Resolutions⁹

Resolution type:	For	Oppose	Abstain	Withhold	Total
Shareholder	436	280	8	0	724



21. Breakdown by Country: (most representative markets)

Country	Vote Instruction	Total	
Brazil	Abstain	6	75.00%
	For	2	25.00%
Canada	Against	14	56.00%
	For	11	44.00%
China	For	22	100.00%
France	Against	10	100.00%
Germany	Against	3	37.50%
	For	5	62.50%
Japan	Abstain	1	1.25%
	Against	52	65.00%
	For	27	33.75%
USA	Abstain	1	0.26%
	Against	43	11.29%
	For	337	88.45%

⁹ For shareholder resolutions, the vote applied represents the position taken in response to the specific resolution. Oppose votes indicate situations where we do not believe that adoption of the shareholder resolution is clearly in the best interests of shareholders.

*So-called "Say When on Pay" resolutions have not been included.

Shareholder Proposals for HI 2016

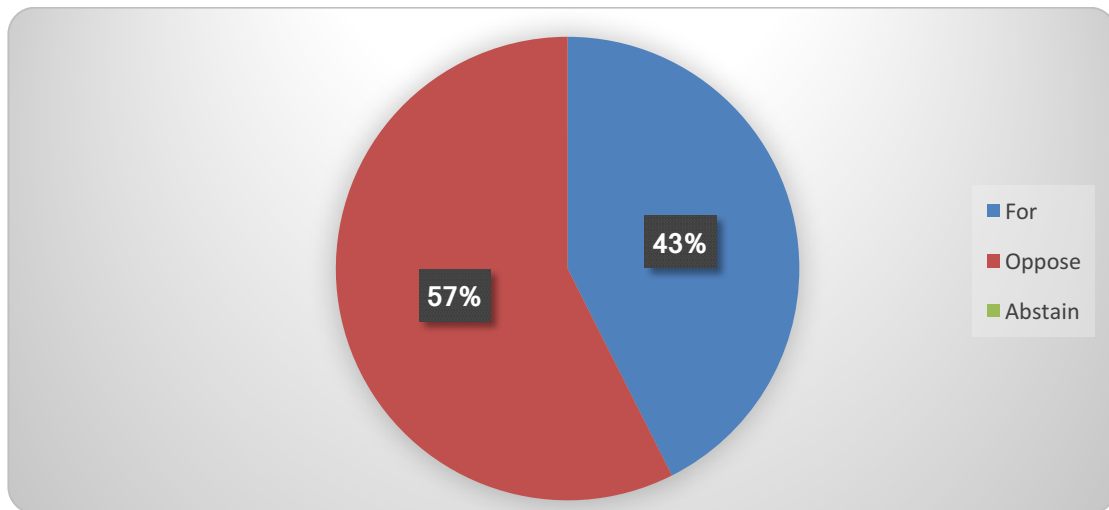
22. **Climate Change Proposals:** During the year under review the Church Commissioners, as part of the 'Aiming for A' shareholder coalition co-filed a shareholder proposal on climate change portfolio resilience at four major mining and oil and gas companies. The proposals at the three UK listed diversified miners received the support of the boards and were approved with overwhelming shareholder support at the AGMs (Anglo American, Glencore and Rio Tinto). The three companies are now legally obliged to implement the shareholder proposal.
23. A fourth shareholder proposal on climate change portfolio resilience was filed at Exxon (USA). Despite strong management opposition the proposal received significant support from more than 60 institutional investors with over \$10trn of assets under management, including asset owners such as Norway's Government Pension Fund Global, CalPERS and fund managers Amundi, AXA Investment Management, BNP Paribas, Legal & General Investment Management, Natixis Asset Management, and Schroders. The proposal was not approved with 38% of the votes in favour of the resolution. The lack of support for the resolution from large US asset managers was particularly disappointing. This does underline a need for a significant shift in culture for those major US asset managers which are still too reluctant to challenge management¹⁰.

¹⁰ <https://www.ipe.com/news/esg/exxon-climate-vote-failure-underscores-need-for-cultural-shift-by-investors/10013754.article>

B2. VOTING ON COMPENSATION ISSUES

24. The figures provided below represent a holistic view of voting on a range of compensation issues and reflect proposals such as: remuneration policies; remuneration reports; long and short-term incentive plans for executives and/or employees; remuneration for directors and certain other specified individuals; retirement benefits and severance packages; advisory votes on executive compensation (also known as “Say on Pay”); and requests for authority to issue stock to employees.

Resolution type:	For	Oppose	Abstain	Total
Compensation Issues	756	989	0	1745



25. Remuneration Proposals-Breakdown by Country (top 10 countries by number of meetings covered)

Country	Vote Instruction	Total	
Brazil	Against	12	50.00%
	For	12	50.00%
Canada	Against	45	59.21%
	For	31	40.79%
France	Against	181	53.87%
	For	155	46.13%
Germany	Against	8	57.14%
	For	6	42.86%
Hong Kong	Against	1	50.00%
	For	1	50.00%
Japan	Against	11	6.71%
	For	153	93.29%
Netherlands	Against	17	65.38%
	For	9	34.62%
Sweden	Against	64	82.05%
	For	14	17.95%
Taiwan	Against	3	100.00%
USA	Against	477	70.15%
	For	203	29.85%

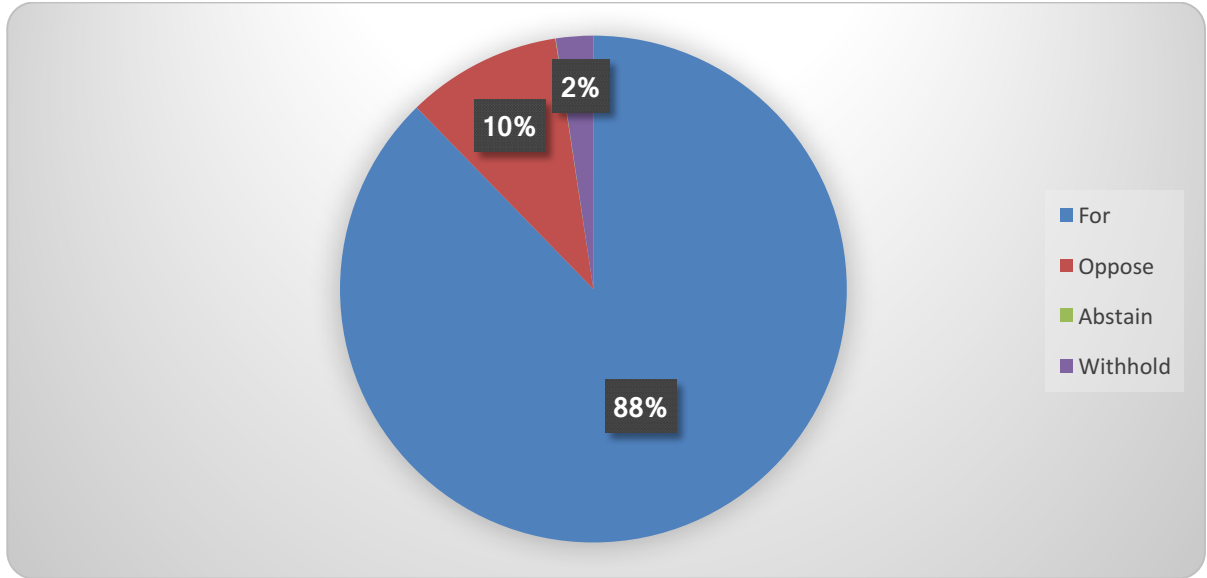
26. Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	% of Total
Template instructions same as ISS	712	326	0	59.7
Template instructions differed from ISS	0	652	0	37.2
Template overridden / ISS advice overruled	44	11	0	3.1

B3. VOTING ON DIRECTORS

27. Election of Directors

Resolution type:	For	Oppose	Abstain	Withhold	Total
Election of Directors	9498	1071	3	257	10829



28. Remuneration Proposals-Breakdown by Country (top 10 countries by number of meetings covered)

Country	Vote Instruction	Total	
Brazil	Against	13	37.14%
	For	22	62.86%
Canada	For	737	91.44%
	Withhold	69	8.56%
France	Against	91	30.03%
	For	212	69.97%
Germany	Against	28	23.93%
	For	89	76.07%
Hong Kong	Against	38	29.92%
	For	89	70.08%
Japan	Against	178	5.37%
	For	3136	94.63%
Netherlands	Against	23	12.43%
	For	161	87.03%
	Withhold	1	0.54%

Sweden	Against	38	19.49%
	For	157	80.51%
Taiwan	For	63	100.00%
USA	Against	446	10.10%
	For	3786	85.71%
	Withhold	185	4.19%

29. Alignment with ISS Policy and CIG Voting Template

	For	Oppose	Abstain	Withhold	% of Total
Template instructions same as ISS	9490	574	0	100	93.9
Template instructions differed from ISS	0	484	2	152	5.9
Template overridden / ISS advice overruled	8	13	1	5	0.2

2017 Voting Season

30. Following the establishment of the Commissioners and Pensions Board Engagement Team and recruitment of an Engagement Manager, the Head of Engagement has been undertaking a review of our voting strategy for the 2017 voting season. The Team are also considering how voting may integrate further ethical policy issues into specific voting recommendations. In particular, as part of the Transition Pathway Initiative we are considering ways to include a bespoke set of voting recommendations on climate change.

Recommendation

The Committee are invited to:

- note the report.

Emiliano Torracca
Voting and Screening Manager
Commissioners & Pensions Board Engagement Team

Church House
Great Smith Street
Westminster