

## Notice of Meeting – Updated Papers

# Surrey Pension Fund Board

**Date & time**

Friday, 13 February  
2015 at 9.30 am

**Place**

Ashcombe Suite,  
County Hall, Kingston  
upon Thames, Surrey  
KT1 2DN

**Contact**

Cheryl Hardman  
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Tel 020 8541 9075

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**Chief Executive**

David McNulty

**If you would like a copy of this agenda or the attached papers in another format, eg large print or braille, or another language please either call 020 8541 9122, write to Democratic Services, Room 122, County Hall, Penrhyn Road, Kingston upon Thames, Surrey KT1 2DN, Minicom 020 8541 8914, fax 020 8541 9009, or email [cherylh@surreycc.gov.uk](mailto:cherylh@surreycc.gov.uk).**

**This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.**

**Elected Members**

Ms Denise Le Gal (Chairman), Mr Nick Skellett CBE (Vice-Chairman), Mr W D Barker OBE, Mr Tim Evans, Mr John Orrick and Mr Stuart Selleck

**Co-opted Members:**

Mr Tony Elias (District Representative), Judith Glover (Borough/District Councils), Ian Perkin (Office of the Surrey Police and Crime Commissioner) and Philip Walker (Employees)

## AGENDA

### 9 RESPONSIBLE INVESTMENT AND STEWARDSHIP POLICY

(Pages 1  
- 6)

Shareholders have a clear interest in promoting the long term success of the companies in which they invest. As the ultimate owners of those companies, there is a clear incentive to vote the shares in a constructive way with the companies' long-term sustainability the ultimate objective. This paper will recommend that the Pension Fund take responsibility for the voting of its shares according to its own Responsible Investment and Stewardship Policy, a draft of which is attached to the paper.

Annex 2 is replaced.

### 10 CORPORATE GOVERNANCE SHARE VOTING

(Pages 7  
- 14)

This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.

An amended report and annex is attached.

**David McNulty**  
**Chief Executive**

Published: 12 February 2015

#### **MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE**

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*Thank you for your co-operation*

## **Responsible Investment and Stewardship Policy**

### **1 Introduction**

- 1.1 Surrey Pension Fund (the Fund) aims to be an informed and responsible long term shareholder of the companies in which it invests. The Fund has a commitment to encourage responsible corporate behaviour, which is based upon the belief that active oversight and stewardship of companies encourages good long term value and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries.
- 1.2 The Fund takes seriously its responsibility to ensure that its voting rights are exercised in an informed, constructive and considered manner.
- 1.3 The fund complies with the Myners Principles of investment management and the UK Stewardship Code, the seven principles of which are shown below at section 5.
- 1.4 The Fund will review its Responsible Investment and Stewardship Policy annually. The Fund's officers will carry out this review and propose any changes to the Pension Fund Board for consideration.

### **2 Scope**

- 2.1 The Fund aims to vote its shares in all markets wherever practicable. However, due to the relative size of its holdings, we will focus our attention on the quality of our major asset holdings, i.e., UK, EU, US, Far East and emerging markets assets.
- 2.2 The Fund supports the 'comply or explain' principles of The United Kingdom Corporate Governance Code (the Code), and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.
- 2.3 Corporate governance principles and standards vary from market to market, and so the Fund's voting policy allows for some flexibility and discretion with due consideration to local circumstances.

### **3 General Principles**

- 3.1 In general, the Fund aims to support corporate management in their stewardship role. This document sets out the Fund's high level voting principles and the circumstances where the Fund may override support for company management proposals. In general, where the Fund cannot support management, it will positively abstain or withhold a vote but, in certain cases, reserves the right to vote against company management.
- 3.2 In ordinary circumstances, the Fund delegates individual corporate engagement activity to its investment managers. The Fund will, however, consider engaging on a collective basis with other investors on issues of mutual interest.

## 4 Voting Policy

### 4.1 Audit & Accountability

The audit and financial reporting process affords investors significant protections by ensuring that management has effective internal controls and financial reporting systems.

Auditor independence may be compromised if the same firm has audited the company for a long time, or where the firm earns significant fees from non audit services. In order to help maintain auditor objectivity, we would expect companies to consider submitting the audit function to periodic tender, and to disclose their policy on tendering, including when the audit was last put to tender and when the incumbent audit firm was appointed.

- **Approval of Financial Statements**

Where there is a qualified audit statement; where there is uncertainty about the future viability of the business; where there is a restatement of annual results made in the previous year (apart from where adapting to new regulations); or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

- **Removal of Auditors**

Surrey Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

- **Extra Financial Reporting**

Companies should have regard to the environmental and societal risks and impacts of their operations as these can have a material impact on shareholder returns over a variety of time horizons. We believe that it is good management practice to assess and report on material “Extra Financial” risks associated with the governance of environmental and sustainability issues. Where we consider that disclosure on these risks is inadequate, the Fund will withhold its vote on the annual report or a suitable alternative resolution, where available, such as the sustainability report.

### 4.2 The Board & Committees

- **Nomination & Succession Planning**

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board. The board should have plans in place for orderly succession and the policies relating to this should be disclosed in the Company’s annual report.

- **Committee Independence**

Audit, Remuneration and Nomination committees are key components of effective governance for companies. These committees should be composed entirely of independent non-executive directors; the Fund may therefore abstain from a director’s election if they are an executive or non-independent director on the Remuneration Committee.

Committees should be composed of individuals with adequate professional understanding of the matters to be resolved. This is particularly the case for the audit and risk committee. The fund may choose to abstain where there is insufficient evidence of appropriate competencies.

- **Separation of Chairman & Chief Executive Officer (CEO)**

The Fund believes the roles of Chairman and CEO should be separate. There may be individual circumstances where it is necessary to combine the roles for a specified purpose or over a period of time, in which case we will take account of the explanations provided. In all other circumstances, the Fund will abstain on the election of the Chairman.

- **Board Balance and Diversity**

Companies should seek to ensure that their boards are balanced for appropriate skills, competence and experience. Diversity of gender and experience are equally important and we expect to see clear disclosure from companies about their efforts to address gender imbalance and, in particular, how they aim to reach at least 30% female representation.

- **Notice Periods**

Evidence of reward for failure has led to shareholder concerns over the length of notice periods for directors which have been used in the past to inform severance pay levels. Where the terms of executive pay policy allow overly generous severance pay on early termination of an executive contract, the fund may choose to register concern via an abstention vote.

Director notice periods are significantly important. Where an executive director's notice period exceeds twelve months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain from voting.

- **Removal of Directors**

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has Board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

### 4.3 Executive Remuneration

Executive remuneration should be determined by a formal procedure which is independent of the executives in question. The remuneration committee, in addition to demonstrating independent membership, should have written terms of reference and receive independent advice which is wholly separate from other corporate activities, for example, audit or HR.

There should be comprehensive, transparent and comprehensible disclosure of directors pay and policy. Policy in particular should fully explain the aims and objectives of reward strategies in the context of corporate objectives.

- **Approval of Long Term Incentive Schemes**

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long term shareholder value, avoiding reward for results over the short term. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions, and to introduce objective performance conditions related to the company's long-term strategy. Discretionary share options and other long term incentive plans can, subject to appropriate safeguards, be acceptable elements of a director's remuneration.

The Fund will vote in favour of executive reward plans when:

- The company has a remuneration structure that encourages participation across the workforce.
- There is a capital commitment on the part of executive participants at the inception of the scheme.
- Where the exercise of options or the vesting of shares for executive participants is based on performance targets which reflect outstanding and sustainable performance and which are insulated from a particular treatment in the accounts or general market factors.
- Where disclosure is adequate to enable the assessment of rewards under the scheme and the cost to the company.
- Where the performance period for any long term scheme is five years or more.
- Where the participants are not eligible for multiple share-based incentives.
- Where the scheme does not have the potential to involve the issuing of shares which will unduly dilute existing holdings or involve a change in control of the company.

The Fund will abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

#### **4.4 Shareholders' Rights and Capital Structures**

Surrey will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

- **Pre-emption right for issues of new capital**

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group.

- **“One Share One Vote”**

The Fund does not support issues of shares with restricted or differential voting rights, nor any action which effectively restricts the voting rights of shares held by it.

- **Share Repurchases**

The Fund will normally vote in favour of an authority for share repurchases, provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equitable financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher than market prices.

- **Controlling Shareholder**

Where a controlling shareholder is present on the share register, it is important that minority investors understand fully the nature of the rights held by that shareholder. Minority investors expect a formal relationship agreement to be in place and for this agreement to be fully disclosed to all shareholders.

#### **4.5 Mergers and Acquisitions (M&A)**

Support will be given to mergers and acquisitions that enhance shareholder returns in the longer term and encourage companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual Board members.

Due to the investment implications of M&A activity, the fund will liaise with its portfolio managers prior to making a final voting decision in support of takeovers.

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the Board. This includes anti-takeover measures.

#### **4.6 Article Changes**

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights, or do not reflect generally accepted good governance practices.

#### **4.7 Political & Charitable Donations**

The fund recognises that some legitimate business related expenditure, such as marketing or sponsorship, may be construed as political under the terms of current legislation in some markets. Where authority for political expenditure fails to distinguish the amounts involved, or the period covered, or the amounts or period are considered excessive, the fund will not support the authority.

In addition the Fund considers that making of donations to political parties is not an appropriate use of shareholders' fund and so will vote against any authority to make such donations.

Charitable donations are acceptable if they are reasonable and further the company's wider corporate social responsibilities. The Fund encourages the issue of a policy statement by companies relating to such donations and full disclosure of the amounts given to the main beneficiaries.

#### **4.8 Shareholder Resolutions**

All such proposals will be reviewed on a case by case basis. We will generally support requests for improved corporate disclosure, notably relating to sustainability reporting. In other circumstances the fund will generally vote against shareholder resolutions not supported by management.

#### **4.9 Other Business**

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed to allow for any other business to be conducted at the meeting without prior shareholder notification, the Fund will not support such resolutions.

### **5 The Principles of the UK Stewardship Code**

In order to conform with the principles of the UK Stewardship Code, institutional investors, such as the Surrey County Council Pension Fund, should:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.

5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

The Board will provide an annual report on how the Surrey Pension Fund satisfies its UK Stewardship Code obligations requirements.



**SURREY COUNTY COUNCIL****PENSION FUND BOARD****DATE: 13 FEBRUARY 2015****LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE****SUBJECT: CORPORATE GOVERNANCE SHARE VOTING**

10

**SUMMARY OF ISSUE:**

This report provides a summary of the Fund's share voting process in Q2 and Q3 2014/15.

**RECOMMENDATIONS:**

It is recommended that the Pension Fund Board:

- 1 Note the report.

**REASON FOR RECOMMENDATIONS:**

The Pension Fund Board must approve all pension fund working documents.

**DETAILS:****Background**

- 1 The informed use of shareholder votes, whilst not a legal duty, is a responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process requires the adherence to an approved share voting policy and the advice of a consultant skilled in this particular field.
- 2 The Surrey Pension Fund appointed Manifest in 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Manifest has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Fund's share voting policy and the Statement of Investment Principles (SIP).

**Responsible Investment and Stewardship Policy**

- 3 The Financial Reporting Council (FRC) is currently consulting on its two-yearly review of changes to the UK Corporate Governance Code. This review follows earlier consultations on directors' remuneration, risk management, internal control and the going concern basis of accounting. The proposed changes to the UK Corporate Governance Code are due to be published at the start of October 2014.

- 4 A report with the new Code and revised share voting policy will be presented to the 14 November 2014 Board meeting. A schedule of the abbreviations used in the report is shown as Annex 1. The proposed share voting policy is included within the Responsible Investment and Stewardship report in this meeting's agenda.

#### Meetings Voted: Q2 and Q3 2014/15

- 5 Table 1: Meetings Voted below shows that 86 meetings were voted in total, comprising 63 AGMs and 23 other meetings.

**Table 1: Meetings Voted**

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	39	1	10	-	-	50
Japan	1	-	-	-	-	1
Europe – Developed	2	2	-	-	-	4
Asia & Oceania – Developed	21	4	-	-	-	25
Asia & Oceania – Emerging	-	1	-	-	-	1
South & Central America	-	4	-	-	-	4
North America	-	-	-	-	-	-
Europe – Emerging	-	1	-	-	-	1
Africa	-	-	-	-	-	-
Total	63	13	10	-	-	86

#### Resolutions

- 6 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This clearly shows the high volume of voting decisions that AGMs bring compared with other meetings. In Table 1, even though AGMs comprise less than 75% of the meetings Table 2 shows AGMs account for over 90% of the resolutions. During Quarter 1, 072 resolutions were voted, with the bulk of these in the UK & Ireland (816) and Asia & Oceania (Developed) incorporating the Australian AGM season (169).

**Table 2: Resolutions Voted**

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	796	19	1	-	-	816
Europe – Developed	35	-	13	-	-	48
Japan	11	-	-	-	-	11
Asia & Oceania – Developed	163	-	6	-	-	169
Asia & Oceania – Emerging	-	-	6	-	-	6
Europe – Emerging	-	-	1	-	-	1
North America	-	-	-	-	-	-
South & Central America	-	-	21	-	-	21
Africa	-	-	-	-	-	-
Total	1,005	19	48	-	1	1,072

- 7 Month by month during Q2 and Q3, the volume falls away from the tail end of peak annual voting activity in July with an uptick in November reflecting the Australian AGM season. Whilst the number of AGMs declines over this period the number of EGM and GMs increase although the numbers are relatively small.

**Table 3: Resolutions Voted per Month (July to December)**

Event	Jul	Aug	Sep	Oct	Nov	Dec	Total
AGM	458	51	172	82	156	86	1,005
EGM	1	6	12	8	2	19	48
GM	0	0	1	5	2	11	19
OGM	0	0	0	0	0	0	0
Total	459	57	185	95	160	116	1,072

### Voting Patterns

- 8 This section examines some patterns of voting by resolution category and voting policy. Table 4 shows some important perspective on the type of voting decisions being made. As part of the research analysis, Manifest categorises each resolution according to the governance considerations to which they relate. Surrey voted against just over 12% of all resolutions for which votes were cast during Q2 and Q3. Although director election resolutions comprise the largest category of resolutions to be voted on (around 45%), they represent just 4% of resolutions which were voted against. Conversely a high proportion of sustainability resolutions and shareholder rights resolutions were voted against.
- 9 Sustainability is broadly defined and includes authorities to allow political donations. Political donation authorities account for all of the 20 sustainability resolutions which were voted against. All of the 36 Shareholder Rights resolutions voted against were resolutions seeking to approve 14-day notice periods for ordinary general meetings (other than AGMs). The resolution category where Surrey CC has voted against management most frequently (other than shareholder rights and sustainability) is remuneration, where 39 of the 162 votes have been cast against management. Of the 39 remuneration resolutions voted against 32 were remuneration report votes.
- 10 The new UK pay regulations force companies to put forward separate votes on forward looking remuneration policy and backward looking remuneration paid for the year under review. Surrey is raising concerns with regard to remuneration via the backward looking vote, which is advisory only, rather than the future policy vote which is binding on companies.

**Table 4: Votes Against Management By Resolution Category**

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	477	6	44.5%
Capital	193	36	18.0%
Audit & Reporting	139	0	13.0%
Remuneration	162	39	15.1%
Shareholder Rights	50	36	4.7%
Corporate Actions	28	0	2.6%
Sustainability	23	20	2.1%
Total	1,072	137	100.0%

### Shareholder Proposed Resolutions

- 11 Just three of the resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions often attract relatively high levels of votes against management, especially where the matter at hand is one on which investors have strong views. The tabling of a shareholder proposal is one way in which shareholders can put pressure on a company, by highlighting an issue and potentially garnering public support for their cause. The flipside danger is of course the possibility of a very public rejection of the question by other shareholders. This was the case with the resolutions proposed during Q2 and Q3 all of which received less than 1% support.

**Table 5: Shareholder Proposed Resolutions**

Resolution Sub-category	Shareholder Proposals	Voted Against Management	% Against Management
Directors – Elect	2	0	0.9%
Constitution	1	0	0.9%
Total	3	0	

### Remuneration

- 12 The specific aspects of Surrey's policy against which UK companies are most frequently coming up short on Remuneration Report votes are:
- where the upper limit on bonus is too high (25 UK companies, including the following companies at which the upper limit on bonus was the sole concern with regard to the remuneration report vote: BT Group PLC, United Utilities Group PLC; Betfair Group PLC; DS Smith PLC; Diageo PLC; IG Group Holdings PLC; Barratt Developments PLC).
  - where performance targets are not measured against a peer group or other benchmark (nine UK companies including the following companies at which this was the sole concern with regard to the remuneration report vote: AVEVA Group PLC; Mothercare PLC; WS Atkins PLC).
  - where the percentage of remuneration committee members (excluding the board chairman) considered to be independent is less than the

threshold established by Surrey's voting template (nine UK companies); however, this issue arose alongside other issues at each of the companies concerned and was never the sole concern.

- 13 Ryanair Holdings is notable as the company with the greatest number of distinct concerns with regard to remuneration. These comprised of performance targets not measured against a peer group, remuneration committee independence threshold, poor disclosure of bonus scheme targets, no evidence of clawback arrangements in respect of annual bonus or long term schemes and payments to non-executives other than directors fees and expenses.

**Table 6: Remuneration**

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	57	32	56.1%
Remuneration Policy	40	0	0.0%
Policy (Long-term Incentives)	26	1	3.8%
Non-executive Remuneration	13	6	46.2%
Amount (Total, Collective)	13	0	0.0%
Policy (Short-term Incentives)	5	0	0.0%
Policy (Other Component)	1	0	0.0%
Other	7	0	0.0%
Total	162	39	24.1%

### Monitoring and Review

- 14 The share voting policy is kept under constant review and will be submitted for approval to a future Board meeting when the current proposed revisions to the Corporate Governance Code have been published in October 2014.

### **CONSULTATION:**

- 15 The Chairman of the Pension Fund has been consulted on the current position and has offered full support for the proposals.

### **RISK MANAGEMENT AND IMPLICATIONS:**

- 16 There are no risk related issues contained within the report's proposals.

### **FINANCIAL AND VALUE FOR MONEY IMPLICATIONS**

- 17 There are no financial and value for money implications.

### **DIRECTOR OF FINANCE COMMENTARY**

- 18 The Director of Finance is satisfied that the share voting policy offers an effective framework for the sound share voting of the pension fund, subject to the proposed revision to be presented to the Board when possible.

## **LEGAL IMPLICATIONS – MONITORING OFFICER**

- 19 There are no legal implications or legislative requirements associated with this report.

## **EQUALITIES AND DIVERSITY**

- 20 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

## **OTHER IMPLICATIONS**

- 21 There are no potential implications for council priorities and policy areas.

## **WHAT HAPPENS NEXT**

- 22 The following next steps are planned:
- Adoption and implementation of the share voting policy
  - Policy is kept under review

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### **Contact Officer:**

Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

### **Consulted:**

Pension Fund Board Chairman

### **Annexes:**

Annex 1: List of abbreviations

### **Sources/background papers:**

None

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**AGM**

An Annual General Meeting of shareholders, normally required by law.

**EGM**

An Extraordinary General Meeting of shareholders, where a meeting is required to conduct business of an urgent or extraordinary nature. Such business may require a special quorum or approval level.

**GM**

A General Meeting of shareholders, often used interchangeably with the term EGM or OGM, depending on the term used by the issuer in question.

**OGM**

An Ordinary General Meeting of shareholders, which is a meeting at which ordinary business is to be conducted (i.e. business which does not require a special quorum or approval level).

**Court**

A meeting of shareholders which is convened by a Court as opposed to by management. This is often used in the UK in order to effect a scheme of arrangement during a corporate transaction.

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