

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: 15 MAY 2014

LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER

SUBJECT: CORPORATE GOVERNANCE SHARE VOTING



14

SUMMARY OF ISSUE:

With the adoption of a share voting policy by the Pension Fund Board, this report provides an assessment of the need for change of the existing Responsible Investment and Stewardship policy and a summary of the Fund's share voting process in Q4 2013/14.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

- 1 Note the report.
- 2 Approve the existing Responsible Investment and Stewardship Policy for 2014/15 shown as Annex 2.

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 responsibility requires the adoption of 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

- 14
- 3 Officers would normally submit a revised policy for 2014/15 (reflecting the latest corporate developments) to the Board for approval. However, 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.
 - 4 The proposed changes to the UK Corporate Governance Code, due to be published later in 2014, are that:
 - greater emphasis be placed on ensuring that remuneration policies are designed with the long-term success of the company in mind, and that the lead responsibility for doing so rests with the remuneration committee;
 - companies should put in place arrangements that will enable them to recover or withhold variable pay when appropriate to do so, and should consider appropriate vesting and holding periods for deferred remuneration;
 - companies should explain when publishing AGM results how they intend to engage with shareholders when a significant percentage of them have voted against any resolution;
 - companies should state in their financial statements whether they consider it appropriate to adopt the going concern basis of accounting and identify any material uncertainties to their ability to continue to do so;
 - companies should robustly assess their principal risks and explain how they are being managed and mitigated;
 - companies should state whether they believe they will be able to continue in operation and meet their liabilities taking account of their current position and principal risks, and specify the period covered by this statement and why they consider it appropriate. It is expected that the period assessed will be significantly longer than 12 months; and
 - companies should monitor their risk management and internal control systems and, at least annually, carry out a review of their effectiveness, and report on that review in the annual report.
 - 5 The FRC view the role of the company board as being to ensure the sustained success of their company and exercise responsible stewardship on behalf of their shareholders. To do this effectively, they need to understand and manage the risks to the future health of the company. The remuneration of executives on the Board must also incentivise them to put the company's wellbeing before their own. The proposals above, which reflect the views of investors and others on earlier consultations, are intended to encourage boards to focus on the longer term, and increase their accountability to shareholders.
 - 6 Subject to the outcome of the consultation, which closes on 27 June 2014, the proposed changes will apply to financial years beginning on or after 1 October 2014. It is recommended that the Board approve a revised policy (probably at the November 2014 meeting) when these changes have been published.

Meetings Voted: Q4 2013/14

- 7 Table 1 shows that 51 meetings were voted in total, comprising 41 annual general meetings (AGMs) and ten other meetings. The European peak AGM season (Scandinavia in particular) starts earlier than in most other markets, as does that of South Korea, which explains the position of Europe (Developed) and Asia & Oceania (Developed) at the top of the list. A list of the abbreviations used in Table 1 is shown as Annex 1.

Table 1: Meetings Voted Q4 2013/14

Region	Meeting Type					Total
	AGM	EGM	GM	OGM	Court	
Europe (Developed)	13	1	-	-	-	14
Asia & Oceania (Developed)	11	1	-	-	-	12
UK & Ireland	6	1	2	-	1	10
North America	7	-	-	-	-	7
Europe (Emerging)	2	1	-	-	-	3
Japan	2	-	-	-	-	2
Africa	-	-	-	1	-	1
South & Central America	-	1	-	-	-	1
Asia & Oceania (Emerging)	-	1	-	-	-	1
Total	41	6	2	1	1	51

Resolutions

- 8 Table 2 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 meeting types. In Table 1, AGMs comprise around 80% of the meetings, but Table 2 shows AGMs account for 97% of the resolutions. During Quarter 1, 692 resolutions were voted, with the bulk of these in Europe (Developed) and the UK & Ireland regions (440).

Table 2: Resolutions Voted Q4 2013/14

Region	Meeting Type					Total
	AGM	EGM	GM	OGM	Court	
Europe (Developed)	322	2	-	-	-	324
UK & Ireland	109	1	5	-	1	116
Asia & Oceania (Developed)	110	1	-	-	-	111
North America	84	-	-	-	-	84
Europe (Emerging)	32	1	-	-	-	33
Japan	19	-	-	-	-	19
Africa	-	-	-	2	-	2
South & Central America	-	2	-	-	-	2
Asia & Oceania (Emerging)	-	1	-	-	-	1
Total	676	8	5	2	1	692

- 9 Month by month during Quarter 4 2013/14 and especially during Quarter 1 of 2014/15, the peak of annual voting activity becomes increasingly apparent as an increasing number of AGMs are held. Whilst the number of meetings is significant, the number of resolutions (i.e., actual voting decisions) is even more marked. Table 3 evidences the effect of the European (Developed) and South Korean peak season starting in March, with nearly 74% of all the voting decisions falling in March.

Table 3: Resolutions Voted Per Month Q4 2013/14

Event	January	February	March	Total
AGM	46	121	509	676
EGM	3	4	1	8
GM	4	1	-	5
OGM	-	-	2	2
Court	1	-	-	1
Total	54	126	512	692

Voting Patterns

- 10 This section examines some patterns of voting by resolution category and voting policy. Table 4 categorises each resolution according to the governance considerations to which they relate. Nearly half the resolutions relate to the company Board, which includes director election resolutions, the single most numerous resolution type at AGMs and the least contentious in terms of Surrey's voting policy.
- 11 The table shows how many resolutions in which Surrey's votes were cast were in opposition to the recommendation of company management, and what proportion of the total this represents. The resolution category where Surrey has voted against management most frequently is Remuneration, where 29 of the 70 votes have been cast against management.

Table 4: Votes Against Management By Resolution Category Q4 2013/14

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Board	340	32	9.4%
Shareholder Rights	96	16	16.7%
Audit & Reporting	84	10	11.9%
Capital	75	10	13.3%
Remuneration	70	29	41.4%
Sustainability	14	3	21.4%
Other	9	3	33.3%
Corporate Actions	4	0	0.0%
Grand Total	692	103	14.9%

Shareholder Proposed Resolutions

- 12 There were 43 resolutions proposed by shareholders. The majority of these (31) related to shareholder rights in some way. Of these, 17 were at the meeting of Danske Bank, which serves as a very good case study in the variety in topic and importance that shareholder proposed resolutions can bring. At one end of the scale, there was a proposal to remove Ole Anderson (Chairman) as director of the company, citing poor financial performance of the company and poor appointment decisions. At the other, a proposal requesting refreshments provided at the AGM should match the potential financial outlook for the coming year.

- 13 Many of the shareholder proposals related to issues (especially those relating to information and transaction transparency) which the board had already addressed. One interesting issue was the request that Danish language reporting be guaranteed for at least five years, this in response to the fact that Danske Bank had proposed only reporting in English, due to the fact that it carries out virtually all of its main business in English despite being a Danish bank.
- 14 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. Surrey has consistently supported proposals which would have the effect of enhancing shareholder rights.

Table 5: Shareholder Proposed Resolutions Q4 2013/14

Resolution Sub-category	Shareholder Proposals	Voted Against Management	% Against Management
Other Articles of Association	16	1	6.3%
Other	7	3	42.9%
Shareholder Rights	6	6	100.0%
General Meeting Procedures	5	0	0.0%
Meeting Formalities	4	1	25.0%
Directors – Elect	1	0	0.0%
Directors – Remove	1	0	0.0%
Ethical Business Practices	1	0	0.0%
Share Buybacks & Return of Capital	1	1	100.0%
Sustainability Reporting	1	1	100.0%
Grand Total	43	13	30.2%

Remuneration

- 15 Table 6 sets out Surrey’s voting record with regard to remuneration. Clearly, the most common remuneration related resolution for Surrey to oppose is the Remuneration Report. The relevant aspects of Surrey’s share voting policy against which companies are most frequently coming up short on Remuneration Report votes are:
- where the upper limit on bonus is too high: (Thomas Cook, Compass Group and TUI Travel);
 - where the Manifest Executive Remuneration Assessment grade is unacceptably low (Intuit Inc, Franklin Resources Inc, Analog Devices Inc, Varian Medical Systems, Emerson Electric and Accenture);
 - long term incentives not being sufficiently long term in time horizon (Intuit Inc, Varian Medical Systems, Emerson Electric, Costco Wholesale Corporation and Accenture); and

- where bonuses have been paid despite a loss being recorded by the company (Chemring Group, Thomas Cook and Enterprise Inns).

Table 6: Remuneration Q4 2013/14

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	31	17	54.8%
Remuneration (Other)	14	3	21.4%
Remuneration Amount (Total, Collective)	13	7	53.9%
Policy (Long-term Incentives)	6	2	33.3%
Non-executive Remuneration	4	0	0.0%
Policy (Other Component)	1	0	0.0%
Policy (Short-term Incentives)	1	0	0.0%
Total	70	29	41.4%

Monitoring and Review

- 16 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.

CONSULTATION:

- 17 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:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

CHIEF FINANCE OFFICER COMMENTARY

- 20 The Chief Finance Officer 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

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

EQUALITIES AND DIVERSITY

- 22 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

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

WHAT HAPPENS NEXT

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

Contact Officer:

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

Consulted:

Pension Fund Board Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Responsible Investment and Stewardship Policy

Sources/background papers:

None

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