

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 19 SEPTEMBER 2014

LEAD OFFICER: SHEILA LITTLE, DIRECTOR OF FINANCE

SUBJECT: CORPORATE GOVERNANCE SHARE VOTING



SUMMARY OF ISSUE:

This report provides a summary of the Fund's share voting process in Q1 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 and the current share voting policy is shown as Annex 2.

Meetings Voted: Q1 2014/15

- 5 Table 1 shows that 274 meetings were voted in total during Q1 2014/15, comprising 257 AGMs and 17 other meetings. The main peak AGM season is captured in this quarter, including the whole Japanese season. Due to the early peak seasons in some European markets (Scandinavia in particular), this explains the position of Japan above Europe (Developed) at the top of the list.

Table 1: Meetings Voted

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	92	-	7	1	-	100
Japan	58	-	-	-	-	58
Europe – Developed	52	-	-	-	-	52
Asia & Oceania – Developed	25	4	-	-	1	30
Asia & Oceania – Emerging	10	1	-	-	-	11
South & Central America	7	3	-	-	-	10
North America	6	-	-	-	-	6
Europe – Emerging	5	-	-	-	-	5
Africa	2	-	-	-	-	2
Total	257	8	7	1	1	274

Resolutions

- 6 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 meetings. In Table 1, AGMs comprise over 90% of the meetings while Table 2 shows AGMs account for over 99% of the resolutions. During the quarter, 4,298 resolutions were voted, with the bulk of these in the UK & Ireland (1,886), Europe (Developed) (916) and Japan (803).

Table 2: Resolutions Voted

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	1,870	15	-	-	1	1,886
Europe – Developed	916	-	-	-	-	916
Japan	803	-	-	-	-	803
Asia & Oceania – Developed	250	-	4	1	-	255
Asia & Oceania – Emerging	131	-	2	-	-	133
Europe – Emerging	110	-	-	-	-	110
North America	87	-	-	-	-	87
South & Central America	52	-	6	-	-	58
Africa	50	-	-	-	-	50
Total	4,269	15	12	1	1	4,298

- 7 Month by month during Q1 2014/15, the peak of annual voting activity becomes increasingly apparent as ever more numerous AGMs are held. The very high concentration of AGMs in this quarter, especially May 2014, highlights the logistical challenges faced by investors and analysts in processing the high volumes of very important information that are consumed at this time of year. Such concentration of workload volume places stresses on the whole process and therefore poses a valid question about the capacity required to ensure well considered voting decisions.
- 8 Manifest research therefore now identifies the lead audit partner for each UK company, outlining other companies for whom they also act as lead audit partner, and when the financial year ends are for each. This is to highlight the potential pitfalls of such high workloads concentrated into one quarter of the year.

Table 3: Resolutions Voted per Month (April to June)

Event	April	May	June	Total
AGM	1,311	1,755	1,203	4,269
GM	-	9	6	15
EGM	1	5	6	12
Class	-	-	1	1
SGM	1	-	-	1
Total	1,313	1,769	1,216	4,298

Voting Patterns

- 9 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. Firstly, over half of all of the resolutions voted during the quarter relate to the company board, which includes director election resolutions, the single most numerous resolution type at AGMs. However, of the main categories (i.e. those which occur most frequently), it is one of the two least contentious in terms of Surrey's voting policy (other than Audit & Reporting), with fewer than 10% of the resolutions placing a vote against management.
- 10 The data suggests that Surrey votes against management in a targeted way on specific issues, with much higher than average opposition levels on the more specific resolution types such as sustainability, shareholder rights, remuneration, and audit and reporting (including a large number of report and accounts resolutions). Secondly, the table shows the breakdown of resolutions on which Surrey's votes were cast in opposition to the recommendation of company management, and what proportion of the total this represents. One resolution category where Surrey has voted against management frequently is Remuneration, where 111 of the 441 votes have been cast against management.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	2,251	214	9.5%
Capital	698	115	16.5%
Audit & Reporting	530	12	2.3%
Remuneration	441	111	25.2%
Shareholder Rights	246	69	28.1%
Corporate Actions	48	0	0.00%
Sustainability	44	34	77.3%
Other	40	23	57.5%
Total	4,298	578	13.5%

Shareholder Proposed Resolutions

- 11 There were 53 resolutions proposed by shareholders, shown in Table 5. The largest number of those identifiable, i.e., not simply classified as “other” due to the vague nature of the proposal, related to shareholder rights (18), which is the main resolution category on which Surrey has most frequently opposed management. Telefon AB LM Ericsson (7) and Total SA (5) accounted for 12 of the 18 resolutions on shareholder rights. Ericsson shareholders had requests relating to representation rights (board representation and equal meeting voting rights). Total SA was subject to shareholder requests relating to board attendance fees, committee composition to include employee representatives, executive compensation links to safety, the introduction of a loyalty dividend, and request for a quarterly newsletter.
- 12 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. Included in Other are single instances of issues, including appropriation of profits, removal of directors, ethical business practices, meeting procedures, non-executive and other remuneration, share buybacks and return of capital and treasury shares. Surrey has consistently supported proposals which would have the effect of enhancing shareholder rights.

Table 5: Shareholder Proposed Resolutions

Resolution Sub-category	Shareholder Proposals	Voted Against Management	% Against Management
Other	20	19	95.0%
Directors – Elect	6	2	33.3%
Other Articles of Association	6	3	50.0%
Shareholder Rights	5	5	100.0%
Corporate Governance	3	1	33.3%
Meeting Formalities	3	3	100.0%
Dividends	2	2	100.0%
Other	8	8	100.0%
Total	53	43	81.1%

Remuneration

- 13 Table 6 sets out Surrey's voting record with regard to remuneration. The most common remuneration related resolution for Surrey to oppose is the Remuneration Report, comprising 88 of the 111 remuneration-related resolutions voted against management by Surrey during the period.
- 14 The specific aspects of Surrey's policy against which UK companies are most frequently coming up short with regard to remuneration resolutions are:
- where the upper limit on bonus is too high (60 UK companies, including BAE Systems, BP, Centrica, HSBC Holdings, Lloyds Banking Group, Rio Tinto, Legal and General Group, Standard Life, Tesco, WM Morrison, ITV, Glencore and International Consolidated Airlines);
 - where the Remuneration Committee contains a non-independent director (28 UK companies including BP, Centrica, Rio Tinto, International Consolidated Airlines (all of whom had bonus cap issues), GlaxoSmithKline, National Express and bwin.party digital entertainment);
 - absence of claw back on long and/or short term incentives (24 UK companies, including BP, Rio Tinto, International Consolidated Airlines, Legal and General group (all of whom were also flagged for bonus cap concerns), Merlin Entertainments and WPP;
 - where performance targets are not measured against a benchmark (11 UK companies, including Tesco (who will shortly be changing CEO), Merlin Entertainments and ITV who all were flagged for bonus cap concerns)
- 15 Reckitt Benckiser is notable as the only company who was flagged for all of the concerns above, and received a very low "C" grade for their Manifest Remuneration Assessment. The assessment correctly anticipated that shareholders would express significant concern at the meeting, where 42% of shareholders opposed the remuneration report and 21% opposed the remuneration policy, compared with average approval levels of 90% for remuneration reports and policy votes in the UK.

Table 6: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	141	88	62.4%
Remuneration Policy	93	2	2.2%
Policy (Long-term Incentives)	72	5	6.9%
Non-executive Remuneration	59	8	13.6%
Amount (Total, Collective)	28	1	3.6%
Other	22	2	9.1%
Policy (Short-term Incentives)	11	5	45.5%
Amount (Total, Individual)	5	0	0.0%
Policy (Contracts)	5	0	0.0%
Policy (Other Component)	5	0	0.0%
Total	441	111	25.2%

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 in October 2014.

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.

DIRECTOR OF FINANCE COMMENTARY

- 20 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

- 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
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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

Annex 2: Fund's current share voting policy

Sources/background papers:

None

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