

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

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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

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
