

SURREY COUNTY COUNCIL

SURREY PENSION FUND BOARD

DATE: 22 MAY 2015

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 Q2 and Q3 2014/15.

RECOMMENDATIONS:

It is recommended that the Surrey Pension Fund Board note the report.

REASON FOR RECOMMENDATIONS:

The Surrey 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 were published at the start of October 2014 and reported to the Board meeting of 13 February 2015.

- 4 A report with the new Code and revised share voting policy was 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: Q4 2014/15

- 5 Table 1: Meetings Voted below shows that 45 meetings were voted in total, comprising 32 AGMs and 13 other meetings.

Table 1: Meetings Voted

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	6	-	7	-	-	13
Japan	4	-	-	-	-	4
Europe – Developed	10	1	-	1	-	12
Asia & Oceania – Developed	9	-	1	-	1	11
Asia & Oceania – Emerging	-	1	-	-	-	1
South & Central America	2	1	-	-	-	3
North America	-	-	-	-	-	-
Europe – Emerging	1	-	-	-	-	1
Africa	-	-	-	-	-	-
Total	32	3	8	1	1	45

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 4, 1,540 resolutions were voted, with the bulk of these in Europe (241) and the UK & Ireland (135).

Table 2: Resolutions Voted

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	123	12	-	-	-	135
Europe – Developed	232	-	8	-	1	241
Japan	39	-	-	-	-	39
Asia & Oceania – Developed	87	1	-	1	-	89
Asia & Oceania – Emerging	-	-	3	-	-	3
Europe – Emerging	15	-	-	-	-	15
North America	-	-	-	-	-	-
South & Central America	13	-	5	-	-	18
Africa	-	-	-	-	-	-
Total	509	13	16	1	1	540

- 7 There is a significant increase in voting at the end of Q4, heralding the start of peak proxy session in Europe.

Table 3: Resolutions Voted per Month (January to March)

Event	Jan	Feb	Mar	Total
AGM	3	4	25	32
EGM	-	2	-	2
GM	2	1	5	8
OGM	1	1	-	2
Total	6	8	30	44

Voting Patterns

- 8 This section examines some patterns of voting by resolution category and voting policy.

Votes Against Management

- 9 The data in Table 4 (Votes Against Management By Resolution Category) shows some important perspective on the type of voting decisions being made. As a part of the research analysis of meetings business, each resolution is categorised according to the governance considerations they relate to. Surrey voted against just over 12% of all resolutions for which votes were cast during Q1, which is consistent with the proportion of resolutions opposed in the previous two quarters.
- 10 Board resolutions account for just over half of all resolutions to be voted on but, in contrast to voting in recent periods, also represent around half of resolutions which were voted against. The increase in Q4 is attributable to the inclusion of votes against board discharge at the AGM for TUI AG which sought authority for discharge from liability for each of its 23 directors. TUI Travel (a UK PLC), merged with TUI AG a German company in the year and the discharge vote is a common feature of the German market.
- 11 Conversely, a high proportion of sustainability resolutions and shareholder rights resolutions were voted against. 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).
- 12 The resolution category where Surrey CC has voted against management most frequently is Remuneration. Of the remuneration resolutions voted against over half were related to quantum rather than design of pay policy. Seven of the 13 votes against were resolutions seeking approval of the aggregate limit on board remuneration.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	278	35	50.7%
Capital	70	10	14.7%
Audit & Reporting	74	1	1.5%
Remuneration	51	13	19.1%
Shareholder Rights	52	5	7.4%
Corporate Actions	5	-	-
Sustainability	9	4	5.9%
Total	540	68	100.0%

Shareholder Proposed Resolutions

- 13 Seventeen 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.
- 14 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 Q4, all of which were rejected. Of those for which detailed voting results are available, all received less than 0.5% support. Unlike in the UK there is no regulatory requirement for disclosure of proxy results in the Japanese or Norwegian markets.

Table 5: Shareholder Proposed Resolutions

Resolution Sub-category	Shareholder Proposals	Voted Against Management
Total	17	0

Remuneration

- 15 The specific aspects of Surrey's policy against which UK companies are most frequently coming up short on Remuneration Report votes are:
- Where the aggregate limit proposed for board remuneration is not accompanied by individual disclosure of remuneration for each director. This was the case at six Korean companies and the occurrence of the peak AGM season in Korea with its attendant disclosure problems. During Q4, this contributed heavily to votes against on remuneration issues.
 - Where the upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was the case at all of the UK companies where the report on implementation of remuneration policy was voted against.

Table 6: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration Report	14	5	35.7%
Remuneration Policy	6	-	-
Policy (Long-term Incentives)	3	-	-
Non-executive Remuneration	8	1	12.5%
Amount (Total, Collective)	12	6	50.0%
Policy (Short-term Incentives)	-	-	-
Policy (Other Component)	1	-	-
Other	7	1	14.3%
Total	51	13	25.5%

Monitoring and Review

16 The share voting policy is kept under constant review.

CONSULTATION:

17 The Chairman of the Surrey Pension Fund Board 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:

Surrey Pension Fund Board Chairman

Annexes:

Annex 1: List of abbreviations

Sources/background papers:

None
