

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 18 SEPTEMBER 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 Q1 2015/16.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee note the report.

REASON FOR RECOMMENDATIONS:

The Surrey Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares within the pension fund.

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).
- 3 Annex 1 contains a list of terms and abbreviations used in the report. Annex 2 shows the Fund's latest approved responsible investment and stewardship (and share voting) policy

Meetings Voted: Q1 2015/16

- 4 Table 1: Meetings Voted below shows that 298 meetings were voted in total, comprising 282 AGMs and 16 other meetings.

Table 1: Meetings Voted

Region	Meeting Type					Total
	AGM	EGM	GM	SGM	Class	
UK & Ireland	102	1	4	-	1	108
Japan	58	-	-	-	-	58
Europe – Developed	62	-	-	-	-	62
Asia & Oceania – Developed	29	1	2	-	3	35
Asia & Oceania – Emerging	9	1	-	-	-	10
South & Central America	7	3	-	-	-	10
North America	7	-	-	-	-	7
Europe – Emerging	6	-	-	-	-	6
Africa	2	-	-	-	-	2
Total	282	6	6	-	4	298

Resolutions

- 5 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. During Quarter 1, 4,600 resolutions were voted, with the bulk of these in Europe (1,260) and the UK & Ireland (1,955).

Table 2: Resolutions Voted

Region	Meeting Type					Total
	AGM	GM	EGM	Class	SGM	
UK & Ireland	1,945	8	2	-	-	1,955
Europe – Developed	1,116	-	-	-	-	1,166
Japan	750	-	-	-	-	750
Asia & Oceania – Developed	306	1	1	2	-	310
Asia & Oceania – Emerging	111	-	2	-	-	113
Europe – Emerging	144	-	-	-	-	144
North America	107	-	-	-	-	107
South & Central America	51	-	6	-	-	57
Africa	48	-	-	-	-	48
Total	4,578	9	11	2	-	4,600

- 6 The clustering of UK AGMs in May accounts for the May peak in these figures.

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

Event	Apr	May	Jun	Total
AGM	94	100	88	282
EGM	4	0	2	6
GM	3	2	1	6
OGM	1	1	2	4
Total	102	103	93	298

Votes Against Management

- 7 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, each resolution is categorised according to the governance considerations they relate to. Surrey voted against just over 13% of all resolutions for which votes were cast during Q1, which is consistent with the proportion of resolutions opposed in the previous three quarters.
- 8 Board resolutions account for just over half of all resolutions to be voted on but represent around one third of resolutions which were voted against. A high proportion of sustainability resolutions were voted against. Sustainability is broadly defined and includes authorities to allow political donations. Political donation authorities account for all of the sustainability resolutions which were voted against. All of the Shareholder Rights resolutions voted against were resolutions seeking to approve 14-day notice periods for ordinary general meetings (other than AGMs).
- 9 Of the 115 remuneration resolutions voted against, 87 were resolutions by UK companies seeking an advisory authority to accept the report on how pay policy had been implemented during the year. A further eight remuneration resolutions which were voted against were put forward by Japanese companies seeking authority to pay short-term bonuses.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	2,360	215	37.1%
Capital	806	132	22.8%
Audit & Reporting	597	5	0.9%
Remuneration	418	115	19.8%
Shareholder Rights	331	60	10.3%
Corporate Actions	44	-	-
Sustainability	60	53	9.1%
Total	4,616	580	100.0%

Shareholder Proposed Resolutions

- 10 46 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.

- 11 The resolutions which passed were resolutions demanding better annual disclosure on management of climate change risks at UK oil giants BP PLC and Royal Dutch Shell. It is notable that the resolutions were supported by management in both cases. Amongst the resolutions which were defeated were resolutions which would have passed but for the votes of a large controlling shareholder. At Orange SA in which the French state has a large stake, four shareholder resolutions received majority support from external shareholders.

Table 5: Top Shareholder Proposed Resolutions

Company	Shareholder Proposals	Surrey Vote	% For
BP	To request the Company provide further information on the low carbon transition	For	95%
Royal Dutch Shell PLC	To request the Company provide further information on the low carbon transition	For	95%
Orange SA	To amend the Articles of Association in relation to rights and obligations attached to shares	For	43%
Mizuho Financial Group Inc	To amend the Articles of Association in relation to dividends	For	41%
Mizuho Financial Group Inc	To amend the Articles of Association in relation to voting rights	For	35%
RWE AG	To appoint a special auditor to audit occurrences in the management with regard to the acquisition, operation and partial sale of Dutch utility Essent	For	31%
National Express Group PLC	To request the Company assess allegations of criticism of certain management actions in relation to the US bus operations	For	14%

Remuneration

- 12 Votes against remuneration resolutions in Q1 reflected the principles advocated in Surrey's policy. The chief concerns were:
- Independence of the remuneration committee. This was a factor in 17 of the 115 resolutions opposed by the fund.
 - Misalignment between incentive scheme performance measures and key performance indicators used by the company. This was a factor in 11 of the 115 remuneration resolutions opposed by the fund.

- Lack of evidence of clawback features in respect of short term incentive schemes. This was a factor in 10 of the 115 remuneration resolutions opposed by the fund.

Table 6: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration report	134	94	70.1%
Remuneration policy	24	-	-
Policy (long-term Incentives)	66	2	3.0%
Policy (short-term Incentives)	15	8	53.3%
Non-executive remuneration	92	9	9.8%
Other	21	2	9.5%
Amount (total, collective)	43	-	-
Amount (total, individual)	8	-	-
Amount (component, Individual)	9	-	-
Policy (all employee plans)	2	-	-
Policy (contracts)	3	-	-
Policy (other component)	1	-	-
Total	418	115	27.5%

Monitoring and Review

- 13 The share voting policy is kept under constant review.

CONSULTATION:

- 14 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:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

- 17 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 reviews of the policy being presented to the Pension Fund Committee on an annual basis.

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

- 19 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

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

WHAT HAPPENS NEXT

- 21 The following next steps are planned:
- Share voting policy be kept under review

Contact Officer:

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

Consulted:

Surrey Pension Fund Committee Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Latest approved share voting policy

Sources/background papers:

None
