

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 12 FEBRUARY 2016

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 2015/16 (1 July 2015 to 31 December 2015).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note the report.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must be aware of the voting actions pertaining to the segregated portfolios of shares held 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: Q2 and Q3 2015/16

- 4 Table 1: Meetings Voted below shows that 94 meetings were voted in total, comprising 56 AGMs and 38 other meetings.

Table 1: Meetings Voted

Region	Meeting Type						Total
	AGM	EGM	Court	Class	GM	SGM	
UK & Ireland	32	2	3	-	8	-	45
Asia & Oceania – Developed	18	10	-	1	-	-	29
Europe – Developed	5	2	-	-	1	1	9
South & Central America	-	8	-	-	-	-	8
Africa	1	-	-	-	-	-	1
Asia & Oceania – Emerging	-	1	-	-	-	-	1
Europe – Emerging	-	1	-	-	-	-	1
Total	56	24	3	1	9	1	94

Resolutions

- 5 Table 2: Resolutions Voted shows the total number of resolutions voted by region, broken down by meeting type. This shows the high volume of voting decisions that AGMs bring compared with other meetings. During Q2 and Q3, 991 resolutions were voted, with the bulk of these in the UK and Ireland (664).

Table 2: Resolutions Voted

Region	Meeting Type						Total
	AGM	EGM	Court	Class	GM	SGM	
UK & Ireland	623	-	3	22	16	-	664
Asia & Oceania – Developed	135	1	-	18	-	-	154
Europe – Developed	93	-	-	5	2	2	102
South & Central America	-	-	-	44	-	-	44
Africa	20	-	-	-	-	-	20
Europe – Emerging	-	-	-	4	-	-	4
Japan	-	-	-	2	-	-	2
Asia & Oceania – Developed	-	-	-	1	-	-	1
Total	871	1	3	96	18	2	991

- 6 The clustering of UK AGMs in July 2015 is explained by the number of companies with 31 March year ends. After December 31st, March 31st is the next most frequently used financial year end date. Because company law requires AGMs to be held within six months of the year end, many companies with March year ends hold their AGMs before the summer break.

Table 3: Resolutions Voted per Month (July to December)

Event	Jul	Aug	Sep	Oct	Nov	Dec	Total
AGM	20	3	7	10	10	6	56
EGM	2	2	3	4	3	10	24
GM	-	1	1	2	1	4	9
SGM	-	-	1	-	-	-	1
Class	-	-	-	-	-	1	1
Court	-	-	-	-	1	2	3
Total	22	6	12	16	15	23	94

Votes Against Management

- 7 The data in Table 4 (Votes Against Management By Resolution Category) show 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 to which they relate. Surrey voted against just over 14% of all resolutions for which votes were cast during Q2 and Q3, which is consistent with the proportion of resolutions opposed in the previous two quarters.
- 8 A high proportion of the sustainability resolutions were voted against management. Political donation authorities account for all but one of the sustainability resolutions in the second half of 2015. The one exception was a shareholder resolution at the AGM of Australia and New Zealand Banking Group Ltd, where there was a shareholder proposal to request the board of directors produce a report on climate change, which management opposed but Surrey supported.
- 9 Over a third of the Shareholder Rights resolutions saw votes against management. All but two of these instances where management was opposed were resolutions to approve 14-day notice periods for ordinary general meetings (other than AGMs), with the other two being requests to amend Articles of Association (one of them a shareholder proposal).
- 10 Surrey opposed management to a great extent on remuneration related resolutions. Of the 32 remuneration resolutions opposed, all but two were resolutions by UK companies seeking shareholder advisory approval on their reports on how pay policy had been implemented during the year. The remaining two resolutions were seeking awards of shares or options to specific directors. All but 3 of the 43 capital related resolutions opposed concerned share issue authority requests, mainly within the UK or Developed Europe.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	418	18	4.3%
Capital	191	43	22.5%
Audit & Reporting	126	-	-
Remuneration	123	32	26.0%
Shareholder Rights	74	28	37.8%
Corporate Actions	40	-	-
Sustainability	18	15	83.3%
Other	1	1	100.0%
Total	991	137	13.8%

Shareholder Proposed Resolutions

- 11 There were two shareholder proposed resolutions voted on during the period., both at Australia and New Zealand Banking Group Ltd and were related. One was, “to amend the articles of association in respect of general meetings”, and the other was, “to request that the board of directors produce a report on climate change”.
- 12 This former was a motion aimed at changing the company rules so that shareholders could effectively require the company board to publish an opinion or report on a matter when required to do so by shareholders, in preparation for the subsequent motion asking for a report on climate change. It was filed by The Australasian Centre for Corporate Responsibility, who cited the UK, US, Canada and New Zealand as examples of jurisdictions where this was already possible for shareholders. Although the resolution was defeated, the support it received (over 12%, including from Surrey) should not be ignored by the company. Due to its defeat, the climate change report request resolution was withdrawn.

Remuneration

- 13 Votes on all remuneration resolutions in the second half of 2015 reflected the principles advocated in Surrey’s voting policy. The chief concerns were:
- The maximum limit for the amount of potential annual bonus by reference to salary;
 - Lack of sufficient alignment between incentive scheme performance measures and key performance indicators used by the company;
 - Long-term incentive performance targets were not measured against a peer group or other suitable benchmarks (e.g. RPI, WACC);
 - Independence of the remuneration committee;
 - Performance conditions for incentive pay not being disclosed.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management	% Against Management
Remuneration report	47	27	57.4%
Policy (long term incentives)	24	-	
Amount (Component Individual)	23	2	8.7%
Non-Exec Remuneration	11	3	27.3%
Remuneration Policy	8	-	-
Amount (Total Collective)	5	-	-
Remuneration (Other)	2	-	-
Policy	3	-	-
Total	123	32	26.0%

Monitoring and Review

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

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.

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 reviews of the policy being presented to the Pension Fund Committee on a regular basis.

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:
- Share voting policy be kept under review

Contact Officer:

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

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Latest approved share voting policy

Sources/background papers:

None

