

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 13 MAY 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 Q4 of 2015/16 (1 January 2016 to 31 March 2016).

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: Q4 2015/16

- 4 Table 1: Meetings Voted below shows that 60 meetings were voted in total, comprising 47 AGMs and 13 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Total
UK & Ireland	8	0	6	14
Europe – Developed	10	2	-	12
Europe – Emerging	1	0	-	1
Asia & Oceania – Developed	15	2	-	17
Asia & Oceania – Emerging	3	2	-	5
South & Central America	2	1	-	3
Japan	8	0	-	8
Total	47	7	6	60

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 Q4, 677 resolutions were voted, with the bulk of these in Europe (209), the UK and Ireland (177) and Asia & Oceania – Developed (115).

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Total
UK & Ireland	168	-	9	177
Europe – Developed	194	20	-	214
Europe – Emerging	15	-	-	15
Asia & Oceania – Developed	111	4	-	115
Asia & Oceania – Emerging	31	15	-	46
South & Central America	16	1	-	17
Japan	93	-	-	93
Total	628	40	9	677

- 6 There was 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	2	5	40	47
EGM	3	2	2	7
GM	2	2	2	6
Total	7	9	44	60

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 18.2% of all resolutions for which votes were cast during Q4, which is consistent with the proportion of resolutions opposed in previous quarters.

- 8 A high proportion of the sustainability resolutions were voted against management. Sustainability is broadly defined and the resolutions opposed were in connection with political donations, human rights and environmental practices.
- 9 20% of the Shareholder Rights resolutions saw votes against management. The vast majority were UK resolutions seeking to approve 14-day notice periods for ordinary general meetings (other than AGMs). All capital resolutions voted against were related to share issue authorities.
- 10 Of the 28 remuneration resolutions opposed, four were put forward by Japanese companies seeking approval on the limit on aggregate remuneration payable to the Board of Directors. Seven resolutions opposed were at UK companies, seeking an advisory authority to accept the report on how pay policy had been implemented during the year.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	371	59	15.9%
Remuneration	83	28	33.7%
Audit & Reporting	82	2	-
Capital	75	16	21.3%
Shareholder Rights	40	8	20.0%
Corporate Actions	12	-	-
Sustainability	9	6	66.7%
Other	5	4	80.0%
Total	677	123	18.2%

Shareholder Proposed Resolutions

- 11 Seven resolutions voted during the period were proposed by shareholders. Shareholder proposed resolutions usually 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 apply 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.
- 12 In Q4, there was a successful shareholder proposal at Danske Bank to introduce a cap on golden handshakes, which the Board recommended voting in favour of it (it passed with 98.48% shareholder support).

Remuneration

- 13 Votes against remuneration resolutions in Q4 reflected the principles advocated in Surrey's policy. 28 distinct resolutions informed Surrey's remuneration voting but the chief concerns as measured by the number of resolutions associated with remuneration issues were:

- **Disclosure Standards:** The aggregate limit proposed for board remuneration is not accompanied by individual disclosure of remuneration for each director. This was a factor in 19 of the 28 remuneration resolutions opposed by the fund;
- **Bonus Caps:** The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 4 of the 28 remuneration resolutions opposed by the fund;
- **Independence of the Remuneration Committee:** This was a factor in 3 of the 28 remuneration resolutions opposed by the fund; and
- **Misalignment:** Incentive scheme performance measures and key performance indicators used by the company do not match. This was a factor in 3 of the 28 remuneration resolutions opposed by the fund.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration report	17	8
Policy (long term incentives)	18	-
Policy (short term incentives)	1	1
Remuneration Policy	6	-
Amount (Total Collective)	17	14
Non-executive remuneration	16	5
Amount (Collective, individual)	4	-
Amount (Collective, component)	1	-
Policy (all employee plans)	1	-
Remuneration other	2	-
Total	83	28

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

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