

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **23 SEPTEMBER 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 Q1 of 2016/17 (1 April 2016 to 30 June 2016).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

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: Q1 2016/17

- 4 Table 1: Meetings Voted below shows that 289 meetings were voted in total, comprising 274 AGMs and 15 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	Class	Total
UK & Ireland	90	-	4	2	-	96
Europe – Developed	64	2	-	-	-	66
Japan	59	-	-	-	-	59
Asia & Oceania – Developed	28	2	-	-	1	31
South & Central America	12	2	-	-	-	14
North America	9	-	-	-	-	9
Asia & Oceania - Emerging	4	2	-	-	-	6
Europe – Emerging	4	-	-	-	-	4
Africa	4	-	-	-	-	4
Total	274	8	4	2	1	289

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 Q1, 4,314 resolutions were voted, with the bulk of these in UK and Ireland (1,751), Europe – Developed (998) and Japan (850).

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Court	Class	Total
UK & Ireland	1,745	-	4	2	-	1,751
Europe – Developed	987	11	-	-	-	998
Japan	850	-	-	-	-	850
Asia & Oceania – Developed	263	3	-	-	1	267
South & Central America	123	-	-	-	-	123
North America	100	-	-	-	-	100
Asia & Oceania - Emerging	90	5	-	-	-	95
Europe – Emerging	83	-	-	-	-	83
Africa	45	2	-	-	-	47
Total	4,286	21	4	2	1	4,314

- 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 (April to June)

Event	Apr	May	Jun	Total
AGM	1,507	1,503	1,236	4,286
EGM	3	8	10	21
GM	2	-	2	4
Court	1	-	1	2
Class	-	-	1	1
Total	1,513	1,511	1,250	4,314

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 15.6% of all resolutions for which votes were cast during Q1, which is consistent with the proportion of resolutions opposed in previous quarters.
- 8 A high proportion of the sustainability resolutions were voted against management (81.7%). Sustainability is broadly defined and the resolutions opposed were in connection with political donations, human rights and environmental practices.
- 9 22.5% of the Capital resolutions saw votes against management. All but five of the 159 Capital related resolutions opposed were in connection with share issue authority requests, mainly within the UK or Developed Europe.
- 10 Of the 107 remuneration resolutions opposed, 85 were remuneration report approvals and ten of those were resolutions relating to non-executive remuneration. The other 12 resolutions opposed related to remuneration policy. Remuneration resolutions attracted 15.9% shareholder dissent.
- 11 Over a third of Shareholder Rights related transactions were voted against. 83.7% of resolutions opposed within this category were resolutions to approve 14-day notice periods for ordinary general meetings (other than AGMs). The other resolutions opposed related to anti-takeover provisions, article amendments and shareholder rights.

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	2,325	242	10.4%
Capital	706	159	22.5%
Audit & Reporting	562	9	1.6%
Remuneration	359	107	29.8%
Shareholder Rights	219	86	39.3%
Sustainability	71	58	81.7%
Corporate Actions	53	2	3.8%
Other	19	11	57.9%
Total	4,314	674	15.6%

Shareholder Proposed Resolutions

- 12 68 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.

- 13 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.
- 14 In Q1, there were four successful shareholder proposals in which three of the Boards recommended voting in favour. The Boards of Anglo American, Rio Tinto and Suncor Energy recommended to vote in favour of the shareholder proposed resolutions aimed at improving the sustainability practices within the companies. All three resolutions passed with comfortable shareholder support (an average of 98% shareholder support).

Remuneration

- 15 Votes against remuneration resolutions in Q1 reflected the principles advocated in Surrey's policy. 40 distinct resolutions informed Surrey's remuneration voting but the chief concerns as measured by the number of resolutions associated with remuneration issues were:

Misalignment: Incentive scheme performance measures and key performance indicators used by the company do not match. This was a factor in 57 of the 107 resolutions opposed. Performance targets not measured against a peer group or other benchmark was a factor in 13 of the 107 resolutions opposed.

Bonus Caps: The upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 57 of the 107 resolutions opposed by the fund.

Independence of the Remuneration Committee: This was a factor in 21 of the 107 resolutions opposed by the fund.

Special Awards: Recruitment and/or retention awards have been paid was a factor in 12 of the 107 resolutions opposed by the fund.

Disclosure Standards: Remuneration of the directors has not been disclosures individually for all directors. This was a factor in 10 of the 107 resolutions opposed.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration report	115	85
Remuneration – non executive	75	10
Policy (long term incentives)	51	2
Amount (Total Collective)	27	-
Policy overall	33	2
Policy short term incentives	17	8
Amount (Total, individual)	19	-
Remuneration other	3	-
Policy (all employee plans)	12	-

Amount (component, individual)	2	-
Amount (component, collective)	3	-
Policy (contracts)	2	-
Total	359	107

Monitoring and Review

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

CONSULTATION:

- 17 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:

- 18 There are no risk related issues contained within the report.

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

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

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

WHAT HAPPENS NEXT

- 23 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
