

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 11 NOVEMBER 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 of 2016/17 (1 July 2016 to 30 September 2016).

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

- 1 Note the report.
- 2 Approve the latest versions of the Responsible Investment and Stewardship Policy.

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 2016/17

- 4 Table 1: Meetings Voted below shows that 46 meetings were voted in total, comprising 27 AGMs and 19 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	Total
UK & Ireland	20	1	7	5	33
Europe – Developed	2	1	-	-	3
Japan	1	-	-	-	1
Asia & Oceania – Developed	2	-	-	-	2
South & Central America	-	3	-	-	3
North America	-	1	-	-	1
Asia & Oceania - Emerging	-	1	-	-	1
Africa	2	-	-	-	2
Total	27	7	7	5	46

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, 508 resolutions were voted, with the bulk of these in UK and Ireland (399), Europe – Developed (38) and Africa (33).

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Court	Total
UK & Ireland	384	1	9	5	399
Europe – Developed	36	2	-	-	38
Africa	33	-	-	-	33
Asia & Oceania – Developed	12	-	-	-	12
Japan	12	-	-	-	12
South and Central America	-	9	-	-	9
North America	-	4	-	-	4
Asia & Oceania – Emerging	-	1	-	-	1
Total	477	17	9	5	508

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

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

Event	Jul	Aug	Sep	Total
AGM	261	44	172	477
EGM	8	2	7	17
GM	2	4	3	9
Court	2	1	2	5
Total	273	51	184	508

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.
- 8 Surrey voted against 17.9% of all resolutions for which votes were cast during Q2, which is consistent with the proportion of resolutions opposed in previous quarters.
- 9 A high proportion of the sustainability resolutions were voted against management (80.0%). Sustainability is broadly defined and the resolutions opposed were in connection with political donations, human rights and environmental practices.
- 10 27.4% of the Capital resolutions saw votes against management. All of the 26 Capital related resolutions opposed were in connection with share issue authority requests, mainly within the UK.
- 11 Of the 22 remuneration resolutions opposed, 19 were remuneration report approvals and three were resolutions relating to non-executive remuneration.
- 12 Almost two-thirds of Shareholder Rights related transactions were voted against, all of which were resolutions to approve 14-day notice periods for ordinary general meetings (other than AGMs).

Table 4: Votes Against Management By Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes against Management
Board	245	17	6.9%
Capital	95	26	27.4%
Audit & Reporting	67	1	1.5%
Remuneration	47	22	46.8%
Shareholder Rights	26	16	61.5%
Sustainability	10	8	80.0%
Corporate Actions	18	1	5.6%
Total	508	91	17.9%

Shareholder Proposed Resolutions

- 13 None of the resolutions voted on during the quarter were proposed by shareholders.

Remuneration

- 14 Votes against remuneration resolutions in Q2 reflected the principles advocated in Surrey's policy. 16 distinct resolutions informed Surrey's remuneration voting and 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 15 of the 22 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 12 of the 22 resolutions opposed by the fund.

Long Term Incentive Plan (LTIP) Caps: The LTIP grant is set at the maximum allowed under the plan rules in normal circumstances. This was a factor on four of the 22 resolutions opposed by the fund.

Disclosure Standards: Remuneration of the directors has not been disclosed individually for all directors. This was a factor in three of 22 resolutions opposed.

Clawback and Malus: There are no clawback of malus provisions in place under the annual bonus plan. This was a factor in three of 22 resolutions opposed by the fund.

Independence of the Remuneration Committee: This was a factor in three of the 22 resolutions opposed by the fund.

Special Awards: Recruitment and/or retention awards have been paid was a factor in three of the 22 resolutions opposed by the fund.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration report	22	19
Remuneration policy (long term incentives)	9	-
Remuneration Policy overall	7	-
Remuneration Non Executive	4	3
Remuneration Amount (Total, Collective)	3	-
Remuneration Amount (Total, Collective)	2	-
Total	47	22

Monitoring and Review

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

CONSULTATION:

- 16 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:

17 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

18 There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

19 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

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

EQUALITIES AND DIVERSITY

21 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 Responsible Investment and Stewardship Policy

Sources/background papers:

None

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