

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: 9 FEBRUARY 2018

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 Q3 of 2017/18 (1 October 2017 to 31 December 2017).

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 and Voting Template.

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 and Annex 2 shows the Fund's latest approved responsible investment and stewardship (and share voting) policy.

Meetings Voted: Q3 2017/18

- 4 Table 1: Meetings Voted below shows that 43 meetings were voted in total, comprising 33 AGMs and 10 other meetings.

Table 1: Meetings Voted

Region	AGM	EGM	GM	Court	SGM	Total
UK and Ireland	7	1	-	-	-	8
Asia and Oceania	16	1	-	1	-	18
North America	8	1	-	-	-	9
Europe	1	5	-	-	-	6
Africa	1	-	-	-	-	1
South & Central America	-	1	-	-	-	1
Total	33	9	-	1	-	43

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 Q3, 464 resolutions were voted, with the bulk of these in UK and Ireland.

Table 2: Resolutions Voted

Region	AGM	EGM	GM	Court	SGM	Total
UK & Ireland	144	2	-	-	-	146
North America	136	2	-	-	-	138
Asia & Oceania	124	7	-	1	-	132
Europe	9	15	-	-	-	24
Africa	15	-	-	-	-	15
South & Central America	-	9	-	-	-	9
Total	428	35	-	1	-	464

- 6 The higher number of meetings reflects the Australian AGM season.

Table 3: Meetings Voted per Month (October to December)

Event	Oct	Nov	Dec	Total
AGM	10	18	5	33
EGM	2	1	6	9
GM	-	-	-	-
Court	-	1	-	1
SGM	-	-	-	-
Total	12	20	11	43

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 Table 4 shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey voted against management on 11.2% of the resolutions for which votes were cast during Q3.
- 9 Remuneration resolutions accounted for the majority of all resolutions to be voted on with 18 voted against. Of the 18 remuneration resolutions voted against, 14 resolutions sought remuneration report approvals, two related to non-executive remuneration, one was an advisory vote on remuneration policy and the remaining resolution was a shareholder request for pay equity report. Surrey voted against Remuneration resolutions in 17.0% of cases.
- 10 A notable proportion of Capital resolutions was also voted against (13.5%). All seven resolutions opposed concerned share issue authority requests, within the UK & Ireland or Australia. The majority of Sustainability resolutions were voted against. Just under a half of Shareholder Rights related resolutions were voted against, 5 out of 7 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	215	9	17.31%
Capital	52	7	13.46%
Remuneration	106	18	34.62%
Audit & Reporting	48	1	1.92%
Shareholder Rights	19	7	13.46%
Sustainability	12	10	19.23%
Corporate Actions	11	-	0.00%
Other	1	-	0.00%
Total	464	52	100%

Shareholder Proposed Resolutions

- 11 There were 13 resolutions voted during the period proposed by the 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 the possibility of lack of shareholder support from other shareholders.

- 12 Half of the resolutions put to vote received significant shareholder support however none passed. The support received for the repeal of certain amendments to regulations at Procter & Gamble was an insufficient majority for the resolution to be approved and the resolution seeking to adopt the Holy Land Principles was withdrawn by the proponent before the meeting was held.
- 13 The proposed election of Nelson Peltz received the second highest level of support at that meeting but was subject to cumulative and plurality voting. There were 12 candidates for 11 board seats and Peltz received the lowest number of votes in favour out of the 12 candidates.
- 14 The resolutions proposed at BHP Billiton Ltd and plc relating to a review of energy policies were conditional upon the passing of the resolutions to amend the constitution of BHP Billiton Ltd. As the constitution amendment resolutions were not successful the energy policy resolutions were declared void although the vote data was published.

Remuneration

- 15 Votes against remuneration resolutions in Q3 reflected the principles advocated in Surrey's policy. 12 distinct resolutions informed Surrey's remuneration voting and the chief concerns as measured by the number of resolutions associated with remuneration issues were:
- **Bonus Caps:** where the upper bonus cap for any of the executive directors exceeds an acceptable multiple of salary. This was a factor in 6 of the remuneration resolutions opposed by the fund;
 - **Alignment:** where there is misalignment between the incentive scheme performance measures and key performance indicators used by the company. This was a factor in 8 of remuneration resolutions opposed by the fund;
 - **Assessment:** Seven of the remuneration resolutions indicated that the company received a low Manifest Remuneration assessment grade.
- 16 All remaining concerns featured in less than five resolutions opposed during Q3. These concerns included the composition of the size and vesting period of LTIP awards, potentially excessive severance payments, the lack of a disclosed bonus cap, performance targets not measured against an external benchmark, the composition of the Remuneration Committee the payment of recruitment incentives and lack of individual disclosure of remuneration.
- 17 Surrey supported one remuneration-related shareholder proposal.

Table 5: Remuneration

Resolution Category	Total Resolutions	Voted Against Management
Remuneration – Report	28	14
Remuneration – Policy (Overall)	8	1
Remuneration – Other	22	1
Remuneration – Policy (Long-Term Incentives)	13	-
Remuneration – Non Executive	9	2
Remuneration - Amount (Total, Collective)	-	-
Remuneration – Policy (All Employee Share Plans)	1	-
Remuneration – Amount (Component, Individual)	19	-
Remuneration – Policy (Contracts)	6	-
Remuneration – Policy (Short-Term Incentives)	-	-
Total	106	18

Monitoring and Review

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

CONSULTATION:

- 19 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:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF FINANCE COMMENTARY

- 22 The Director of Finance (Section 151) 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 on a regular basis.

LEGAL IMPLICATIONS – MONITORING OFFICER

- 23 There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

- 24 The approval of a share voting policy will not require an equality analysis, as the initiative is not a major policy, project or function.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

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

Contact Officer:

Neil Mason (Head of Pensions)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1: List of abbreviations

Annex 2: Latest approved Responsible Investment and Stewardship Policy

Sources/background papers:

None