



A SOLACTIVE COMPANY

Annex 2

Surrey Pension Fund

Proxy Voting Services Issue - Update

24 August 2020

Update

At the previous Surrey Pensions Committee meeting held on 12 June 2020, we discussed an issue that had occurred at the end of 2019 which resulted in the switching of Surrey’s existing proxy voting service over to another Minerva stewardship service, which does not have an active voting component. As a result, Surrey’s voting activity did not take place in the usual manner. During the meeting we covered our initial thoughts on why this might have occurred, when the issue was noticed, when the issue was corrected, and what steps we were taking to ensure such an issue did not happen again.

At the Committee meeting we were asked to report back once we had:

- discovered the reason for the early end to the voting service;
- reviewed what meetings had been missed during the period when the voting service was not ‘active’; and
- to note if any significant votes may have been missed.

Finding the Prompt for the Service Change

As of today, 24th August, our voting team have been unable to return to the office, due to the ongoing Covid-19 environment. As a result they have not had the opportunity to review their manual records to search for any material which might have prompted the change. Once they are able to return to the office, they will review any information that would indicate why the action was taken, and we will report back on the findings to the Committee in due course.

Reviewing any Missed Meetings

Our Voting Team analysed our database, to determine which meetings had been missed during the period the voting service was not active. The following 45 meetings were determined to have taken place in the period where Surrey had an existing ‘segregated’ holding which would have meant they could have voted:

| Company | Event | Record Date | Event Date | Company | Event | Record Date | Event Date |
|--------------------------------------|-------|-------------|------------|--|-------|-------------|------------|
| Abbott Laboratories | AGM | 26-Feb-20 | 24-Apr-20 | Lennar Corp | AGM | 10-Feb-20 | 07-Apr-20 |
| Accenture plc | AGM | 02-Dec-19 | 30-Jan-20 | Lonza Group AG | AGM | 14-Apr-20 | 28-Apr-20 |
| AJ Bell plc | AGM | 20-Jan-20 | 22-Jan-20 | Medtronic plc | AGM | 10-Oct-19 | 06-Dec-19 |
| AP Møller-Maersk AS | AGM | 16-Mar-20 | 23-Mar-20 | Meggitt plc | AGM | 21-Apr-20 | 23-Apr-20 |
| Apple Inc | AGM | 02-Jan-20 | 26-Feb-20 | Microsoft Corp | AGM | 08-Oct-19 | 04-Dec-19 |
| Applied Materials Inc | AGM | 16-Jan-20 | 12-Mar-20 | Newmont Mining Corp | AGM | 24-Feb-20 | 21-Apr-20 |
| Associated British Foods plc | AGM | 04-Dec-19 | 06-Dec-19 | Novartis AG | AGM | 25-Feb-20 | 28-Feb-20 |
| AstraZeneca plc | AGM | 27-Apr-20 | 29-Apr-20 | Ping An Insurance (Group) Company of China Ltd | EGM | 08-Nov-19 | 10-Dec-19 |
| Bayer AG | AGM | 21-Apr-20 | 28-Apr-20 | Ping An Insurance (Group) Company of China Ltd | AGM | 09-Mar-20 | 09-Apr-20 |
| Bellway plc | AGM | 06-Dec-19 | 10-Dec-19 | RELX plc | AGM | 21-Apr-20 | 23-Apr-20 |
| Capital & Counties Properties plc | AGM | 29-Apr-20 | 01-May-20 | Rio Tinto plc | AGM | 06-Apr-20 | 08-Apr-20 |
| Cisco Systems Inc | AGM | 11-Oct-19 | 10-Dec-19 | Royal Bank of Scotland Group plc; The | AGM | 27-Apr-20 | 29-Apr-20 |
| Citigroup Inc | AGM | 24-Feb-20 | 21-Apr-20 | Samsung SDI Co Ltd | AGM | 31-Dec-19 | 18-Mar-20 |
| CMS Energy Corp | AGM | 03-Mar-20 | 01-May-20 | Shaftesbury plc | AGM | 29-Jan-20 | 31-Jan-20 |
| Costco Wholesale Corp | AGM | 18-Nov-19 | 22-Jan-20 | Smith & Nephew plc | AGM | 07-Apr-20 | 09-Apr-20 |
| Ebara Corp | AGM | 31-Dec-19 | 27-Mar-20 | SSP Group plc | AGM | 24-Feb-20 | 26-Feb-20 |
| Euromoney Institutional Investor plc | AGM | 24-Jan-20 | 28-Jan-20 | Suntory Beverage & Food Ltd | AGM | 31-Dec-19 | 27-Mar-20 |
| Goldman Sachs Group Inc | AGM | 02-Mar-20 | 30-Apr-20 | Unilever NV | AGM | 02-Apr-20 | 30-Apr-20 |
| HSBC Holdings plc | AGM | 22-Apr-20 | 24-Apr-20 | Unilever plc | AGM | 27-Apr-20 | 29-Apr-20 |
| Japan Tobacco Inc | AGM | 31-Dec-19 | 19-Mar-20 | Vivendi SA | AGM | 15-Apr-20 | 20-Apr-20 |
| Kasikornbank PCL | AGM | 12-Mar-20 | 02-Apr-20 | Weir Group plc; The | AGM | 24-Apr-20 | 28-Apr-20 |
| Kaz Minerals plc | AGM | 28-Apr-20 | 30-Apr-20 | Wolters Kluwer NV | AGM | 26-Mar-20 | 23-Apr-20 |
| Koninklijke KPN NV | AGM | 18-Mar-20 | 15-Apr-20 | | | | |

Significant Votes Missed

At the time of writing this update report, we are currently comparing Surrey's existing voting policy against the agendas and resolutions of the company meetings listed in the previous table, to identify if there were any resolutions that the Fund would normally have voted against, or abstained – this is how we would define a 'significant' vote in this context. Whilst the findings of this analysis are not available at this time, they will be available for the Pensions Committee meeting of 11 September, and we will present the results in person at that meeting. A written summary will then also be provided to the Fund.

Voting and Securities Lending

There is one additional factor that directly impacts whether Surrey is able to vote at meetings, which we do not believe has been explicitly covered to date – securities lending.

The Fund participates in securities lending programme, managed by Northern Trust, the Fund's custodian. This programme allows third parties to 'borrow' the Fund's assets, providing collateral for the duration of the loan, and a fee at the end of the loan. One aspect of securities lending is that the legal title to the asset is transferred to the borrower – meaning that the original 'owner' of the asset is no longer the registered owner of the asset, and so does not retain the voting rights associated with shares, which transfer to the borrower for the duration of the loan.

When we were in the process of reinstating the voting service at the start of May, we worked closely with Officers to try to ensure that the Fund's votes were cast at the Barclays AGM, since there were some potentially contentious issues on the meeting agenda. Despite our combined efforts – which included Minerva contacting both Barclays and their registrars directly on behalf of the Fund – Surrey's votes were, ultimately, unable to be cast as the Fund's Barclays holding was out on loan at that time.

Clearly the nature of the Fund's investment arrangements are changing, with the staged transfer of assets to the Border to Coast pool. It may well be that Border to Coast have a policy in place in terms of recalling assets from being on loan with sufficient time to allow them to vote at the company meetings. However, we wanted to flag this issue up as we do not believe it is a particularly well-known aspect of securities lending. As asset owners seek to implement their ESG policies through voting and engagement with companies more, we believe that they should consider how they can ensure their (legitimate, in our view) securities lending activity does not hinder their stewardship activities.

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