

Agenda Item:

Pension Fund Committee

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Dorset County Council



Date of Meeting	9 September 2013
Officer	Report of the Fund Administrator
Subject of Report	Voting Activity
Executive Summary	This report gives an update on the Fund's voting activity in the year 2012/13.
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: N/A
	Budget: N/A
	Risk Assessment: N/A
	Other Implications: N/A

Recommendation	That the Committee note the Fund's voting activity for the year 2012/13.
Reason for Recommendation	To ensure that appropriate corporate governance policies are in place.
Appendices	Appendix 1 – Voting Issues Policy Appendix 2 – Summary of Voting for the year 2012/13 Appendix 3 – Summary of Engagement of Pooled Fund Managers
Background Papers	ISS Proxy Voting Record
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1. Summary of Voting for the year 2012/13

- 1.1 The Dorset County Pension Fund's voting policy is based on the National Association of Pension Fund's (NAPF) policy and the Combined Code on Corporate Governance, which was reviewed and adopted on 24 November 2011, and is included in Appendix 1 of this report. To manage the voting process Proxy Voting services are provided by Institutional Shareholder Services (ISS) for the UK equity portfolio and by Pictet et Cie for the Overseas Equities, which includes those under management of Janus Intech.
- 1.2 The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which researches into areas of corporate governance, and social responsibility. It is possible to override any decision made by ISS in light of information which may be received from the LAPFF.
- 1.3 The Voting Policy of the Dorset Fund applies to those assets managed in segregated accounts by the Internal Manager, Pictet and Janus Intech. However, the equities managed by AXA Framlington, Standard Life and Schroders, in the UK, and JP Morgan in Emerging Markets, are held in Pooled Funds and are subject to the voting policies of each individual manager. Corporate Governance and Voting Policies for each pooled manager have been obtained. These seek to protect shareholder interest, setting out voting policy in a number of areas which include strategy, integrity, management, use of capital, remuneration, mergers and acquisitions, and reporting. Each policy complies with the Combined Code on Corporate Governance.
- 1.4 During the year to 31 March 2013, there were 5,677 individual votes on the UK portfolio, and ISS voted against 130 and abstained on 34 of the resolutions during this period. In addition there were 10,050 individual votes on the Overseas portfolio, and Pictet voted against 531 and abstained on 103 of the resolutions during this period. A summary of the Fund's voting activity for the year ended 31 March 2013 is included in Appendix 2 to this report.
- 1.5 Typical reasons for voting against a resolution include non independence of directors who are required to be independent for their duties, inappropriate remuneration packages, undemanding targets, and share issues to majority shareholders or groups of shareholders without making a general offer to other shareholders.
- 1.6 High profile issues during the twelve months ended 31 March 2013 include votes around Director remuneration, where 88 votes against or abstention on the resolution have been actioned. High profile examples include the remuneration of the Directors of Xstrata, William Hill, Prudential, Aviva and Sports Direct. The main reasons for voting against the remuneration reports were due to them awarding pay increases and bonus structures considered to be insufficiently justified. In the case of Xstrata for example, remuneration packages of senior executives made provisions for basic salary increases of above 10%, and potential bonuses of up to 300% of basic salary. In addition to this, contractual termination provisions had the potential to lead to payments in excess of one year's basic salary.
- 1.7 Other significant meetings in the year include the Annual General Meeting (AGM) of News Corporation on 16 October 2012. Following the phone hacking scandal in the UK, there was concern that the costs of the investigation and compensation payments to the victims of the scandal were excluded from the executive performance pay calculations. Pictet voted against the management on this issue.
- 1.8 Also worthy of note was the AGM of Wal-Mart where the re election of three directors

including the Chairman, CEO and a former CEO who was still a Director, for their failure to respond to allegations of corruption and bribery of Mexican officials. Whilst at the time of the meeting the bribery incidents were only allegations ISS felt that the failure of the board to action an internal enquiry reflected poor internal governance. The New York City Comptrollers office has since filed a lawsuit against Wal-Mart for its handling of the bribery allegations.

- 1.9 Each pooled manager was asked for details of voting activity in the year 2012/13, examples of instances in which they had concerns about companies in which the fund held shares, and how these concerns were addressed. They were also asked whether they were collaborating with other investors in respect of these issues, and details of responses are included within Appendix 3 to this report.

Paul Kent
Fund Administrator
August 2013

**Dorset County Pension Fund
Voting Issues Policy**

	Issue	Action for non compliance
	Leadership	
1.	The roles of Chairman of the Board and Chief Executive should be separate to avoid undue concentration of power.	Vote against the re-appointments as appropriate.
	Effectiveness	
2.	All directors should be subject to re-election every three years.	Vote against the acceptance of accounts.
3.	Audit Committee should consist of at least three non-executive directors.	Vote against the acceptance of accounts.
	Accountability	
4.	If a proposed dividend is not covered by earnings and there is no clear justification for the long term benefit of the company.	Vote against the acceptance of accounts.
5.	The company should comply with the UK Corporate Governance Code and stock exchange listing requirements	Vote against the acceptance of accounts.
	Remuneration	
6.	Remuneration committees should comprise only of non-executive directors.	Vote against director's appointment.
7.	Bonus and incentive schemes must have realistic performance targets.	Vote against director's appointment.
8.	Service contracts should be one year rolling unless the Remuneration Committee is able to justify longer periods.	Vote against director's appointment.
	Relations with Shareholders	
9.	Changes to the articles of association should not adversely affect existing shareholders rights.	Vote against the resolutions.
	Other	
10.	Uncontroversial issues.	Vote for the resolutions.

If you have any enquiries, please contact Nick Buckland on (01305) 224763.

Appendix 2

Summary of Voting for year ended 31 March 2013 – UK Equities

This summary concerns 360 Individual Company Meetings at which there were 5,677 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	299
AGM/Special Meetings	2
Special Meetings	50
Court	9
Total	360

Proponent	Total Resolutions
Management	5651
Shareholders	26
Total	5677

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	301	10	0	311
Capitalisation / Share Capital	962	3	0	965
Directors	2,593	41	23	2,657
Salary and Compensation	353	53	5	411
Environmental, Social, and Governance	5	21	0	26
Routine / Business	1,299	2	6	1,307
Total	5,513	130	34	5,677

Summary of Voting for year ended 31 March 2013 – Overseas Equities

This summary concerns 825 Individual Company Meetings at which there were 10,050 Proposed Resolutions.

Country	Total Resolutions
Australia	49
Belgium	31
Bermuda	97
Canada	1,339
France	257
Germany	99
Hong Kong	71
Ireland	103
Italy	32
Japan	797
Liberia	7
Luxembourg	73
Netherlands	81
NetherlandsAntilles	16
Norway	9
Panama	23
Singapore	77
South Korea	23
Spain	87
Sweden	70
Switzerland	211
United Kingdom	20
USA	6,478
Grand Total	10,050

Proponent	Total Resolutions
Management	9,471
Share Holder	579
Grand Total	10,050

Meeting Type	Total Meetings
Annual	737
Annual / Special	44
Court	1
Proxy Contest	9
Special	34
Grand Total	825

Proposal	Against	Do Not Vote	For	One Year	Withhold	Grand Total
Takeover / Reorganisation / Merger / Disposal	10	4	126			140
Capitalisation / Share Capital	27	1	186			214
Directors	173	78	6,763		145	7,159
Salary and compensation	188	9	981	17		1,195
Environmental, Social and Governance	50	4	47			101
Routine / Business	83	7	1,151			1,241
Grand Total	531	103	9,254	17	145	10,050

Summary of Engagement by Pooled Fund Managers

Standard Life

Summary of Engagement

Standard Life Investments conduct an Annual Governance and Stewardship Review¹ and report to investors their key engagements and activity for the calendar year. The review document considers all companies and summarises contact with companies and voting activity. Standard Life seeks to improve shareholder value through consulting and engaging with companies, and seek to meet with representatives of investee companies at least once a year. Some key engagements during 2012 are shown below.

Company	Concern	Action
Barclays Bank	The scale of bonuses paid to the then CEO Bob Diamond and to the Group Finance Director, Chris Lucas, and the failure to notify shareholders of the controversial tax equalisation payment made to the CEO.	Standard Life communicated their views on remuneration and Barclays proposed making a proportion of the bonuses subject to additional performance targets. This resulted in voting in favour of the remuneration report, but they voted against the re election of the chair of the remuneration committee. Following the LIBOR rate fixing settlement, SL were contacted by the senior independent director to discuss a number of governance remedies which were incorporated in announcements made by the company in July. In July SL met with the Chairman designate and impressed on him the need for cultural and behavioural change as Barclays moves forward.
Aviva	<p>Strategy and Management, with the scale of bonuses for the CEO and the recruitment arrangements of another employee.</p> <p>The appointment of Glyn Barker (former vice chair of PWC) in 2012. PWC were appointed as Aviva's auditors in 2011 and as such there were conflicts of interest.</p>	<p>Voted against the remuneration report and abstained on the re election of the chairman and members of the remuneration committee. The remuneration report was voted down (very rare for a FTSE 100 company)</p> <p>Spoke to the company and it detailed the controls it would put in place in relation to potential conflicts of interest. SL were unconvinced by these and abstained on the election of the chair to the audit committee and to Glyn Barker himself.</p>
Easyjet plc	The company's largest shareholder has been conducting a very public campaign against the board's strategy and the individuals concerned.	SL engaged with the board and the main shareholder himself and concluded that the strategy being pursued by the company was the right one, as good progress had been made despite the economic headwinds on higher fuel prices and declining economic activity in

¹ The full review can be found at http://www.standardlifeinvestments.com/Governance_Stewardship_Review/getLatest.pdf

		its areas of operation.
Enterprise Inns	The rapid growth of the company since floatation in 1995 exposed the securitisation techniques used to finance its expansion until the financial crisis in 2007/08. It was felt that the governance processes and remuneration policies were weak and did not reflect the environment in which the business was now operating	SL re-engaged with the new chairman and received assurances that the concerns would be addressed through more detailed reporting in the accounts and the search for a new non executive director with property experience.

Schroders**Summary of Engagement**

Schroders issue a quarterly Corporate Governance, Voting, and Stewardship Report² summarising contact with companies. Schroders engage with companies concerning matters such as changes in management, performance, health & safety, and remuneration, some key engagements are set out below.

Company	Concern	Action
BP	Schroders had concerns following the Deepwater Horizon deep water oil spill and wanted to seek assurances from the Board.	At the meeting BP placed a particular emphasis on how it is changing following the Macondo deep water oil spill in the Gulf of Mexico. The board was keen to show how the culture is changing with an emphasis on safety being the overriding concern. Whether that emphasis is reflected in all safety key performance indicators is to be established but, for example, the board believes BP is being far more rigorous when hiring rigs – previously, the company might have accepted a rig subject to remedial work on defects. There has been some questioning of the role of the chairman during the disaster and subsequently. It was therefore reassuring that during this meeting, the chairman did indeed appear to be acting as a chairman.
Easyjet plc	Concerns raised from the major shareholder about the boards performance and strategy	We voted for all resolutions at the February 2012 Easyjet AGM. We heard the arguments advanced by Stelios Haji-loannou as to why a vote against the remuneration report may be justified but we disagreed with his views. Stelios has conducted a long-running argument with the board regarding further investment in new aircraft. Whilst there are elements of his argument that may be justified, the management team at Easyjet has performed well operationally. The long-running and high-profile aspects of his campaign, the creditable performance of the Easyjet management and a series of discussions with management and advisers led us to conclude it was entirely appropriate to continue to support the board.

² <http://www.bcscs-pension.org.uk/schroders-voting-engagement-records.htm>

<p>Xstrata/Glencore</p>	<p>During Xstrata and Glencore announced a merger. As reported in the press, Schroders is concerned that the deal is not appropriate for the non-Glencore shareholders of Xstrata on grounds of pricing. In addition, the governance arrangements following the merger appear sub-optimal with the current Xstrata CEO becoming CEO of the combined group and the Glencore CEO deputy CEO. Both are strong individuals who are leading large organisations and we perceive there is a risk of conflict and/or distraction if there are 2 heads of a company.</p>	<p>Schroder felt that the terms of the deal were not in the best interests of the Xstrata shareholders and voted against the merger.</p>
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Schroders worked collectively with other shareholders regarding a number of engagements with companies during 2012/13. Schroders' view is that there are occasions when it is better to work with other shareholders to effect change, whether this involve sharing views and ideas with institutions, or meeting companies jointly with other shareholders.

AXA Framlington

Summary of Engagement

AXA Framlington hold regular discussions with the board and management of investee companies as part of their regular investor relations programme, and also hold additional meetings with companies in which they have significant holdings. These meetings are an opportunity to discuss and clarify any emerging concerns. They also have a programme of responsible investment and believe that this drives performance and returns. They produce an annual Responsible Investment report.³ During 2012 AXA Framlington voted at 2,830 AGMs and either abstained or voted against at least one item in 967. A summary of engagement during 2012 is shown below.

Company	Concern	Action
BHP Billiton	There were concerns around the succession planning, Environmental, Social and Governance and Diversity.	Particular focus on succession planning and the need to pay due attention to diversity as it relates to gender and the Company's geographical footprint.
Barclays	There were concerns around the remuneration strategy and risk management	Engagement with Board on remuneration and proper governance of risks. Voted against remuneration report and several non-executive directors.

³ <http://www.axa-im.com/en/responsible-investment/publications>