Agenda Item:

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Pension Fund Committee

Dorset County Council

Date of Meeting	14 September 2015
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 2014/15.
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 2014/15.
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 2014/15 Appendix 3 – Summary of Engagement of Pooled Fund Managers
Background Papers	ISS Proxy Voting Record
Report Originator and Contact	Name: David Wilkes Tel: (01305) 224119 Email: d.wilkes@dorsetcc.gov.uk

1. Summary of Voting for the year 2014/15

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 2015, there were 6,193 individual votes on the UK portfolio, and ISS voted against 114 and abstained on 54 of the resolutions during this period. In addition there were 9,741 individual votes on the Overseas portfolio, and Pictet voted against 507 and abstained on 190 of the resolutions during this period. A summary of the Fund's voting activity for the year ended 31 March 2015 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 During the twelve months ended 31 March 2015 there were 53 votes against or abstention from the appointment or re-election of directors, where the resolution was proposed contrary to UK best practice on corporate governance, for example, dual role of chairman and CEO (e.g. Centamin) or the, appointment of a non-independent chairman of the remuneration committee (e.g. Personal Assets Trust).

1.7 In addition there where 94 votes against or abstention on resolutions relating to salary and compensation schemes. The main reasons for voting against the remuneration reports were due to them awarding pay increases and bonus structures considered to be insufficiently justified or transparent, for example, the non disclosure of targets for bonuses (e.g. British Sky Broadcasting Group), uncapped bonuses (e.g. Sports Direct International), retrospective amendment of targets for bonuses (e.g. Betfair Group).

1.8 Each pooled manager was asked for details of voting activity in the year 2014/15, 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.

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Richard Bates
Fund Administrator
September 2015

Appendix 1

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 2015 – UK Equities

This summary concerns 393 Individual Company Meetings at which there were 6,193 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	319
AGM/Special Meetings	2
Special Meetings	65
Court	7
Total	**393**

Proponent	Total Resolutions
Management	6,353
Shareholders	8
Total	**6,361**

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	39	1	0	**40**
Capitalisation / Share Capital	1,028	4	2	**1.034**
Directors	2,755	39	14	**2,808**
Salary and Compensation	686	61	33	**780**
Environmental, Social, and Governance	3	0	0	**3**
Routine / Business	1,682	9	5	**1,307**
Total	**6,193**	**114**	**54**	**6,361**

Summary of Voting for year ended 31 March 2015 – Overseas Equities

This summary concerns 790 Individual Company Meetings at which there were 9,741 Proposed Resolutions.

Country	Total
Australia	61
Austria	12
Belgium	27
Bermuda	112
Canada	1,424
Curacao	14
Denmark	29
Finland	13
France	215
Germany	169
Hong Kong	120
Ireland	138
Italy	42
Japan	643
Jersey	13
Liberia	8
Luxembourg	60
Netherlands	101
Norway	20
Singapore	73
South Korea	11
Spain	56
Sweden	84
Switzerland	240
United Kingdom	80
USA	5,971
Virgin Isl (UK)	5
Grand Total	**9,741**

Proponent	Total
Management	9,222
Share Holder	519
Grand Total	**9,741**

Meeting Type	Total
Annual	681
Annual/Special	49
Court	1
Proxy Contest	3
Special	56
Grand Total	**790**

Proposal Code Category	For	Against	One Year	Withhold	Total
Takeover / Reorganisation / Merger / Disposal	209	12	-	2	223
Capitalisation / Share Capital	210	31	-	-	241
Directors	6,421	182	-	162	6,765
Salary and Compensation	962	149	13	14	1,138
Environmental, Social and Governance	90	34	-	2	126
Routine / Business	1,139	99	-	10	1,248
Grand Total	**9,031**	**507**	**13**	**190**	**9,741**

Appendix 3

Summary of Engagement by Pooled Fund Managers

Standard Life

Summary of Engagement

Standard Life Investments conduct an Annual Governance and Stewardship Review[1] and report to investors their key engagements and activity for the calendar year. The review document considers all companies is 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 2014 are shown below.

Sports Direct: Sports Direct is a FTSE 100 retailer of sports goods, apparel and accessories and is majority owned by its founder, Mike Ashley. It is head quartered in Derbyshire, UK, and was listed on the London Stock Exchange in early 2007. In the year to the end of April 2014, Sports Direct generated sales of £2.7 billion. It has grown a significant online sports retail business and enjoys a dominant position in the high street sports goods market.

Action: Concern over governance arrangements has been a persistent theme of the relationship between Sports Direct and its minority investors. These issues have included board appointments, inappropriate remuneration arrangements, share lock-up agreements and Sports Direct's practice of buying minority stakes in other companies. In July 2014, minority investors voted, by a modest margin, to approve a new incentive scheme for executives after two years of discussion and at the fourth time of asking. In the wake of this vote, we engaged collectively with other minority investors to impress our concerns upon the Chairman and to discuss the need for a higher standard of governance assurance.

Outcome: Many of the issues that informed the collective engagement remain unresolved. Recent changes to the Listing Rules that relate to the dual vote on independent directors at majority controlled companies could provide a catalyst for change in the absence of improvement.

Pfizer: Pfizer is a leading global pharmaceutical company, headquartered in New York. It has a market value of nearly $200 billion and some of its best-known products include Lipitor, for the lowering of blood cholesterol, and Celebrex, an anti-inflammatory drug. The company has grown substantially over the past decade by a process of acquisition that included the purchase of Warner Lambert and Wyeth Healthcare. The group has also been involved in a number of regulatory and shareholder actions relating to the quality of its business practices. In 2014, Pfizer made an offer to acquire the UK-Swedish pharmaceutical firm
Astra Zeneca, a proposal that was subjected to intense and hostile scrutiny on account of the primary rationale for the deal, which was to optimise the tax arrangements of the combined entity.

Action: We met with the company to discuss the ways in which the board addresses some of the key risks facing the group. We also discussed the need for board refreshment and encouraged the company to review the necessity of combining the role of board

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

Chairman and CEO. We emphasised that there were sound business and governance reasons for splitting the roles and pointed out that this was evolving as best practice for S&P 500 listed companies in the US. We also discussed remuneration and encouraged the company to adopt financial as well as share price measures of success. We also discouraged it from the adoption of a formal policy of interaction with stockholders in favour of a commitment to high quality engagement as circumstances dictated and the clear communication of the group's business values and practices.

Outcome: The company undertook to review the combination of the roles of Chairman and CEO and succession planning for the board committees. We shall monitor developments.

HSBC Holdings: HSBC Holdings is a global financial services organisation. It operates through four global businesses: retail banking & wealth management; commercial banking; global banking & markets; and global private banking.

Action: We were consulted by the company on proposed new remuneration arrangements. As part of these arrangements, the Remuneration Committee intended to make annual incentive awards to the Executive Chairman, stating that increasing regulatory challenges justified such awards. However, this was not consistent with the terms of his original appointment. We also noted that regulatory issues were expected to be a particular focus of the role and, as such, the role description in the annual report had not changed since his appointment in 2010. As a matter of principle, we questioned whether it was appropriate to provide such an incentive to someone who is responsible for relationships with regulators and governments, for maintaining corporate reputation, and for reviewing the performance of the CEO. The Committee subsequently proposed that the award would be of a one-off nature but its binding remuneration policy still retained the provision for further awards in future.

Outcome: We engaged further with the Chairman of the Remuneration Committee. We requested that the Committee remove any provision to make awards from the binding policy but it declined to do so. We therefore voted against the remuneration policy. The resolution received a 20% vote against at the AGM. We have engaged further with the company to underline our views and have received assurances that lead us to believe that the substance of our concerns have been addressed.

Royal Dutch Shell: Shell is a global group of energy and petrochemical companies, headquartered in The Hague. The parent company of the Shell group is Royal Dutch Shell PLC which is incorporated in England and Wales.

Strategy & performance
Action: We engaged with the company directly and through collective meetings on a number of topics throughout the year. Our own engagement was with the Chairman and Senior Independent Director through meetings and correspondence covering the board's effectiveness developing and overseeing the company's strategy, capital allocation and operational execution. In addition, we participated in a number of collective meetings with the Chairman, Deputy Chairman, Company Secretary, CEO and CFO. These meetings addressed issues relating to the company's strategy and performance and were convened at our suggestion.

Outcome: The Chairman and CEO gave commitments to improve performance, particularly through capital discipline. This was demonstrated in the cancellation of some projects, such as the Gas to Liquid plant in Louisiana and the possible sale of assets such as part of its operation in Nigeria. Although the company was not willing to publicly disclose specific performance targets, it confirmed that a new performance reporting structure had been put in place to improve reporting to the board and bring greater clarity to executive management performance.

Remuneration
Action: We had concerns regarding the amount of bonus payments made to executive directors in respect of the 2013 financial year. Although the Remuneration Committee had exercised discretion to reduce these payments, we were unconvinced that the resulting amounts were appropriate. We engaged with the company on this issue, including a meeting with the Chairman of the Remuneration Committee.

Outcome: We received assurances regarding our expectations of the rigour with which the Remuneration Committee would apply any discretion in the future. Therefore, we decided to abstain on the vote to approve the Remuneration Report at the AGM. We also requested that, going forward, the Remuneration Report contain an explanation of how the Remuneration Committee evaluates the underlying financial performance of the company.

Schroders

Summary of Engagement

Schroders issue a quarterly Corporate Governance, Voting, and Stewardship Report[2] summarising contact with companies. Schroders engage with companies concerning maters such as changes in management, performance, health & safety, and remuneration, some key engagements are set out below.

"BHP Billiton

1. Cyclical industry, cyclical pay?

One key strand in our discussions was how the cyclical downturn in the mining industry was affecting the remuneration of BHP's management team. We feel it is important that incentives provide the right signals for management to allocate capital to maximise returns. Discussions are ongoing and we expect them to be concluded by the time of the company's AGM next year.

2. Protecting the London listing

A second area of concern was the London-listed company's plan to spin off some assets in a new company (now named 'South32'), to be listed only in South Africa and Australia. This would prevent certain European funds – including Schroders – from investing in South32, thereby reducing our exposure to BHP's aluminium, nickel, coal and silver assets which we felt could benefit from enhanced management attention leading to better value creation. We therefore held several meetings directly with BHP to encourage it to consider an additional London listing, resulting in an announcement from the company's CEO in October that this would be done – allowing us to maintain our exposure to these assets.

3. Increasing climate change transparency

In the third major area of engagement for the quarter, we were heartened by news that BHP had gone some way to delivering on an earlier promise to Schroders to increase the amount of information it provided about its carbon exposure. This followed a meeting earlier in the year when we had met BHP's climate experts to find out how it factored carbon regulation changes into its capital expenditure planning, especially for high-risk coal mining projects. At the time, we were encouraged to learn that BHP applied several different 'carbon scenarios', using a shadow carbon price to attribute a cost to those assumptions. We then wrote to the chairman of the company's sustainability committee to encourage more transparency on these scenarios and disclosure of the carbon price assumptions used. This would allow investors to evaluate BHP's climate strategy against policy developments and thereby determine the potential costs. BHP has now provided more information about the scenarios, but has fallen short of disclosing its carbon price assumptions. This has diluted the good news and we continue to encourage further transparency from the company.

What next? The spin-off next year alters the balance of ESG risks in the remaining business (giving it, for example, higher exposure to petroleum and shale), while concentrating others in South32 (which will have more exposure to thermal coal and to regions with labour unrest and corruption). We will continue to seek reassurance that the sustainability risks will be managed with rigour in both companies.

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[2] http://www.bcsss-pension.org.uk/schroders-voting-engagement-records.htm

Debenhams

2014 has been a difficult year for Debenhams. The UK retailer ended 2013 with a profit warning and opened 2014 with major board changes. These problems prompted us, as a sizable shareholder, to have a number of engagements with the company.

Balance sheet concerns have been an area of particular focus. We have been pushing for discipline in how the company allocates its capital. For example, Debenhams has signed leases with lengths of up to 20 years – longer than those signed by its peers. In the face of structural changes in shopping habits and the rise of online shopping, we have therefore been pushing to ensure that any lease commitments make sense and create value over the full length of the lease.

During the year, the company contacted us with proposed changes it was making to the performance share plan element of its executive remuneration structure in 2015. We were concerned about a move away from a return on capital employed (ROCE) target towards measures based on the share price. Given our focus on capital allocation, we felt strongly that ROCE should be retained as a component in determining remuneration and also that store leases should be included in the calculation of the capital base. We communicated this view to the company during face to face meetings.

Following our comments, the company introduced a ROCE underpin in the performance share plan. The vesting of the plan will now be subject to an underpin based on an improvement in ROCE over three years. This calculation will also include a capitalised value of future store rental payments, while profitability will be calculated before both tax and rentals. We saw this as vindication of our engagement efforts, which should lead to much better alignment between board pay and the long-term development of the company.”

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 2014 is shown below.

Company	Concern	Action
AstraZeneca	The Board decided to pay bonus at almost maximum level despite fall in earnings relative to global peers.	Engagement with Remuneration Committee to express our concerns and ask the board to link share incentive to attainment of bid price. Voted against Remuneration Report and Remuneration Policy at the AGM.
Anerisur Resources plc	Concerns about Health and safety issues at the operations in Colombia. Also concerned about governance issues.	Engagement with the Board to express our concerns. The structure of Board is improving. There is a good overview and monitoring of security issues in Colombia.

[3] http://www.axa-im.com/en/responsible-investment/publications