Agenda Item:

Pension Fund Committee

8

Dorset County Council

Date of Meeting	12 September 2016
Officer	Pension Fund Administrator
Subject of Report	**Voting Activity**
Executive Summary	This report gives an update on the Fund's voting activity in the year 2015/16.
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 2015/16.
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 2015/16 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 2015/16

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 Pictet Asset Management and Janus Intech (up to December 2015), Allianz, Investec and Wellington (from December 2015).

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 (up to December 2015), Allianz, Investec and Wellington (from December 2015). However, the equities managed by AXA Framlington, Standard Life (up to April 2016) 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 2016, there were 6,376 individual votes on the UK portfolio, and ISS voted against 116 and abstained on 28 of the resolutions during this period. In addition there were 9,765 individual votes on the Overseas portfolio, and Pictet voted against 476 and abstained on 200 of the resolutions during this period. A summary of the Fund's voting activity for the year ended 31 March 2016 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 2016 for the UK portfolio there were 70 votes against, or abstention from, the appointment or re-election of directors where the resolution proposed was contrary to UK best practice on corporate governance, for example, dual role of chairman and CEO (e.g. JD Sports) or the appointment of a non-independent members of the remuneration committee (e.g. Associated British Foods).

1.7 In addition there where 54 votes against, or abstention from, resolutions relating to salary and compensation schemes. The main reasons for voting against the remuneration reports were due to pay increases and bonus structures considered to be insufficiently justified or transparent, for example, the non-disclosure of targets for bonuses (e.g. Tate & Lyle), uncapped bonuses (e.g. Nostrum Oil & Gas), and significant salary increases for executive directors not explained in detail (e.g. Dixons Carphone).

1.8 Each pooled manager was asked for details of voting activity in the year 2015/16, examples of instances in which they had concerns about companies in which the fund held shares, how these concerns were addressed and whether they were collaborating with other investors in respect of these issues. Details of responses are included in Appendix 3 to this report.

Richard Bates
Fund Administrator
September 2016

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.

Appendix 2

Summary of Voting for year ended 31 March 2016 – UK Equities

This summary concerns 393 Individual Company Meetings at which there were 6,376 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	330
AGM/Special Meetings	1
Special Meetings	57
Court	14
Total	**393**

Proponent	Total Resolutions
Management	6,367
Shareholders	9
Total	**6,376**

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	50	11	0	**61**
Capitalisation / Share Capital	1,054	3	0	**1,057**
Directors	2,853	50	20	**2,923**
Salary and Compensation	490	47	7	**544**
Environmental, Social, and Governance	3	0	0	**3**
Routine / Business	1,782	5	1	**1,788**
Total	**6,232**	**116**	**28**	**6,376**

Summary of Voting for year ended 31 March 2016 – Overseas Equities

This summary concerns 779 Individual Company Meetings at which there were 9,765 Proposed Resolutions.

Country	Total
Austria	11
Bermuda	140
Canada	1,145
Cayman Islands	7
Curacao	14
Denmark	12
Finland	19
France	176
Germany	13
Ireland	178
Italy	41
Japan	638
Jersey	15
Liberia	12
Luxembourg	42
Netherlands	102
Panama	17
Portugal	21
Singapore	22
Spain	136
Sweden	35
Switzerland	172
United Kingdom	80
USA	6,711
Virgin Isl (UK)	6
Grand Total	**9,765**

Proponent	Total
Management	9,212
Share Holder	553
Grand Total	**9,765**

Meeting Type	Total
Annual	699
Annual/Special	37
Court	1
Proxy Contest	3
Special	39
Grand Total	**779**

Proposal Code Category	For	Against	1 Year	Withhold/ Abstain	Total
Takeover / Reorganisation / Merger / Disposal	131	9	-	-	**140**
Capitalisation / Share Capital	128	17	-	2	**147**
Directors	6,695	165	-	184	**7,044**
Salary & Compensation	945	156	19	2	**1,122**
Environmental, Social & Governance	75	48	-	2	**125**
Routine Business	1,096	81	-	10	**1,187**
Grand Total	**9,070**	**476**	**19**	**200**	**9,765**

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 2015 are shown below.

“Ryanair Holdings: Ryanair is Europe’s biggest low-cost airline, operating a low-fare business model which has delivered significant growth over the past 30 years.

Action: Ryanair has been a very successful company but there are a number of unusual aspects to governance arrangements which have the potential to add to investment risk. These include a high profile CEO, a number of long-serving non-executive board members and poor disclosure, particularly on remuneration. We met the Senior Independent Director (SID) to discuss these and other issues and subsequently wrote to reinforce our views. The company responded in a positive way, welcoming our feedback which was circulated to the board as a whole. Subsequently, we had a call with the SID (who is also the Chairman of the Remuneration Committee) to clarify a number of issues as part of our voting analysis ahead of the AGM.

Outcome: We were reassured of the board’s ability to hold management to account and that board succession planning is on its agenda. We conveyed views regarding the transparency of reporting, especially on remuneration policy, and received assurances that our views will be considered. We will monitor disclosures in the annual report next year and hope to see some improvement.

Volkswagen: Volkswagen AG, and its subsidiaries, manufactures and sells cars and commercial vehicles in Europe, North America, South America and Asia Pacific. It operates through four segments: passenger cars, commercial vehicles, power engineering and financial services.

Action: We were investors in both Volkswagen equity and bonds. The revelation of the manipulation of emissions test data on diesel cars in the US, and the fact that the relevant software is also installed in many other Volkswagen diesel vehicles, raised a number of questions about internal controls and risk oversight as well as culture and values. One urgent issue is the lack of independence on the Supervisory Board and its board committees. We also question whether the appointment, following the revelations, of the former CFO as Chairman of the Supervisory Board, is appropriate.

Outcome: We wrote to the Interim Chairman of the Supervisory Board outlining our concerns and stating that we would contact them with a view to progressing our engagement. We asked that our letter be circulated to the Supervisory Board and were subsequently advised that this had been done. We intend to progress this engagement in 2016.

WPP: WPP is one of the world's largest communication services groups, employing 179,000 people globally. Its operations include advertising, PR, branding, marketing and communications.

Action: We have had longstanding concerns about remuneration policy at WPP, in particular the size of the potential award for threshold performance under its Long-Term Incentive Plan. We have engaged with the company on these issues but there has been no positive change. In addition, over time, the issue of succession planning for the CEO has become progressively more pressing. The CEO has been central to the growth and success of the company and hence his succession is a key governance risk. We were not convinced that this risk was being managed in a robust and transparent fashion. We met with the incoming Chairman to discuss this and we also attended the AGM where we made a public statement on this matter.

Outcome: The board has acknowledged our concerns and we continue to engage to seek appropriate assurances.

Royal Dutch Shell: Royal Dutch Shell is a global group of energy and petrochemical companies. During 2015, it made a recommended offer for the BG Group. The offer was approved at shareholder meetings in January 2016.

Action: We made a statement at the Shell AGM regarding the appointment of a new audit partner by PwC who had previously been the audit partner for Bumi and the auditor of Rio Tinto when Shell's Audit Committee Chairman was its Chief Financial Officer. We stated that we would have expected Shell's Audit Committee to provide a meaningful explanation about its evaluation of the new partner's perceived independence and track record. In addition to our comments about the new audit partner, our statement addressed the scope of the audit undertaken by PwC which we felt was lower than other FTSE 100 companies. At the AGM, Shell announced the conditional appointment of EY as auditors, replacing PwC for the 2016 financial year. Mindful that EY are the auditors to BG, we asked what had been done to ensure safeguards were in place to address any conflicts of interest. Following the AGM, we engaged further with the Chairman and Audit Committee Chair Designate on the issues relating to audit scope and the appointment of EY. We also engaged with BG and EY to obtain their input into the management of conflicts, and we discussed our concerns with the Financial Reporting Council.

Outcome: As a result of our concerns regarding the new PwC audit partner, at the 2015 AGM we instructed our proxy to vote against the reappointment of PwC and the re-election of the Audit Committee Chair and to abstain on the re-election of the remaining Audit Committee members. While obtaining, through our engagement, additional comfort around the future approach and focus of Shell's Audit Committee, we continue to have concerns about the appointment of EY as auditors of Shell. We shall continue to focus our engagement on audit quality at Shell."

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.

Schroders say that their policy is to engage with companies ahead of our votes; in many cases, such dialogue results in changes before their vote, often paving a smoother path towards a company's AGM. Where companies are not open to changes, Schroders may decide to vote against certain resolutions on the agenda. Debate in these areas looks set to continue, and they continuously consider new approaches to create long-term incentives for management that are fully aligned with long-term shareholder value. Below they highlight some of the more contentious votes:

"GlaxoSmithKline
Having been concerned with the lack of succession planning for some time and having engaged extensively on the issue, we believe GSK is on a road of refreshment. Sir Philip Hampton became chairman and there was a high turnover of non-executive board members. Long-term CEO Andrew Witty also announced he would be stepping down in 2017. Despite some progress, we believed it was important to exercise our vote against five directors of long tenures due to a lack of results in this area. One of the directors we voted against has now announced his intention to retire from the company in 2017.

For the second year running we voted against the remuneration report. We were concerned the committee has not communicated detailed target information for incentivised pay, which is well behind market practice. T he CEO received maximum bonus payments but, as the company failed to disclose details of an individual performance multiplier element used in respect of the 2015 bonuses, we found it impossible to determine the stretch of these payments."

Standard Chartered
In late 2015, Schroders met with Standard Chartered to discuss past senior management. In light of recent capital raising and writedowns we were keen to discuss the issue of malus and clawback provisions. We felt that past management had been rewarded substantially while leaving a legacy of heavy losses for shareholders.

Our dialogue with Standard Chartered's remuneration committee reassured us that the company does spend significant time analysing what executives receive based on past long term incentive plans. We were disappointed that the company was not more publicly transparent about its consideration of malus and clawback for the departed senior management team. As such, we voted against the remuneration report.

This year, a new remuneration policy has been implemented which simplifies incentive arrangements with a clearer separation of Long-Term Incentive Plan (LTIP) awards and annual bonuses. More than 60% of variable remuneration is now based on forward-looking performance targets – which led to us voting in favour of the remuneration policy."

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. During 2015 AXA Framlington voted at 4,911 General Meetings and either abstained or voted against at least one item in 2,083 General Meetings.

Their engagement priorities during the relevant period include:

- **Equality Principle (one share, one vote)**: Engagement reinforcing the position that shareholders should have ownership and voting rights in direct proportion to their shareholding in a company.

- **Carbon Risk Mitigation:** A collaborative engagement with leading responsible investors urging companies in the extractives sectors to improve their strategy, reporting and disclosure around the challenges posed to their business by the global push to mitigate climate change risks

- **Proxy Access**: They promoted the ‘concept’ of Proxy Access whereby boards will provide long-term shareholders the opportunity to nominate directors to the board. They believe that this is an important mechanism to improve corporate governance and board responsiveness to shareholders

- **Regulatory risk in the Automobile Sector:** They held discussions with companies in this sector encouraging them to review and align their strategy with emerging emissions standards aiming to limit the ability of companies to externalise their environmental impacts.

In addition to these priorities, they held the following discussions with companies in the relevant fund:

Company	Concern	Action
BP plc	Company strategy on emerging regulations on climate change.	Engagement with Board seeking improved disclosure on company approach and strategy to tackling climate change risks.
Experian	Award of additional matching shares to executives.	Meeting with Remuneration Committee asking for the withdrawal of the company’s share matching scheme as it rewards executives twice for the same performance adds needless complexity to the company’s remuneration arrangements..
HSBC	Meeting with Remuneration Committee asking for the withdrawal of the company’s share matching scheme as it rewards executives twice for the	Meetings with the Chairman and Senior Independent Director seeking the appointment of a new independent chairman.

	same performance adds needless complexity to the company's remuneration arrangements.	
ITV	New share incentive scheme.	Discussions with Remuneration Committee on setting more challenging performance conditions to align executive performance and rewards with long-term shareholder interests.
RoyalDutchShell	Company strategy on emerging regulations on climate change.	Engagement with Board seeking improved disclosure on company approach and strategy to tackling climate change risks.
Wolseley	Payment of significant non-audit fees to company auditors.	Relayed concerns on the impact on auditor objectivity posed by a high-level of non-audit fees.