

Pension Fund Committee

Dorset County Council



Date of Meeting	13 September 2017
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 2016/17.
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 2016/17.
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 2016/17 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 2016/17

- 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 the Allianz, Investec and Wellington, the Fund's global equities managers. The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF) which researches into areas of corporate governance, and social responsibility, and it is possible to override any decision made by ISS in light of information which may be received from the LAPFF.
- 1.2 The Voting Policy of the Dorset Fund applies to those assets managed in segregated accounts by the Internal Manager, Allianz, Investec and Wellington. However, the equities managed by AXA Framlington 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.
- 1.3 During the year to 31 March 2017, there were 6,405 individual votes on the UK portfolio, and ISS voted against 142 and abstained on 28 of the resolutions during this period. A summary of the Fund's UK voting activity for the year ended 31 March 2017 is included in Appendix 2 to this report. In addition there were 5,805 individual votes on the global equities portfolio, and the Fund's managers voted against 301 and abstained on 56 of the resolutions during this period.
- 1.4 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.
- 1.5 During the twelve months ended 31 March 2017 for the UK portfolio there were 78 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. Daejan Holdings) or the appointment of a non-independent members of the audit or remuneration committees (e.g. Jardine Lloyd Thompson).
- 1.6 In addition there were 66 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. JD Wetherspoon), uncapped bonuses (e.g. Telecom Plus), and significant salary increases for executive directors not explained in detail (e.g. Coca Cola plc).
- 1.7 Each pooled manager was asked for details of voting activity in the year 2016/17, 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 are included in Appendix 3.

Richard Bates
Fund Administrator
September 2017

**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 2017 – UK Equities

This summary concerns 395 Individual Company Meetings at which there were 6,405 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	334
AGM/Special Meetings	1
Special Meetings	52
Court Meetings	8
Total	395

Proponent	Total Resolutions
Management	6,399
Shareholders	6
Total	6,405

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	38	9	0	47
Capitalisation / Share Capital	1,122	1	1	1,124
Directors	2,828	60	18	2,906
Salary and Compensation	469	61	5	535
Environmental, Social, and Governance	3	1	0	4
Routine / Business	1,775	10	4	1,789
Total	6,235	142	28	6,405

Summary of Engagement by Pooled Fund Managers

Schroders

Summary of Engagement

Schroders issue a quarterly Corporate Governance, Voting, and Stewardship Report¹ summarising contact with companies. Schroders engage with companies concerning matters 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 example of their approach:

Zotefoams

The Chair of the Remuneration Committee contacted us to ask for our feedback on the company's proposed remuneration policy. We stressed that our main concern relates to the salary increases which have been increasing significantly for a number of years for the CEO. From over £189k in 2014 to over £247k in 2017 with it moving to £272,500 in 2018 are sizable increases. With the LTIP potential maximum increasing to 150% there is potential for material increases in single figure payments. We are supportive of the TSR element being calculated relative to FTSE small cap and 25% deferral with a one year post-cessation of employment. We do feel that best practice is now 200% shareholding requirement of a company of their size. The company have since responded and have reduced their overall salary and increased shareholding guidelines to 200%. The current package represents an aligned return on management's performance.

Tate & Lyle PLC

As part of the on-going sugar roundtable project, we contacted the company to communicate our expectations on future reporting, as outlined in our final version of the Investor Expectations on Sugar, Obesity and Non-Communicable diseases. Our aim is to improve reporting and transparency around the five key principles outlined in the expectations document.

Anglo American plc

As part of our work to determine how companies manage process safety, we held a call with the safety manager of Anglo American. We were interested to learn more about how management is incentivised on safety, how Anglo American's emergency response mechanisms worked, and understand which data were being tracked. Initially when Anglo first started to track process safety, it found steady improvements in process safety data year on year, but little improvement in fatalities. This prompted a change in strategy and terminology. Process safety is now managed by operational risk management, which identifies all critical risks not limited to safety. The company is improving its reporting on leading indicators, and pointed out that high potential incidents were useful but high potential hazards were even more useful. It is clear to us that Anglo American is

beginning to apply more behind the scenes than it reports, and process safety management is rising in profile within the company. As with its large diversified mining peers, Anglo is ahead of most of the sector but behind where the sector ought to be. We again encouraged better disclosure of leading indicators and process safety management systems.

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 including on environmental, social and governance matters. During 2016-17 AXA Framlington voted on 1,042 resolutions at 75 General Meetings, and either abstained or voted against 14 resolutions.

Their engagement priorities during the relevant period include:

- **Mitigation of Carbon and Climate Risk:** AXA continue their engagement with relevant companies in the Oil and Gas, Mining and Utilities sector on their climate change strategy directly and also as part of the Institutional Investors Group on Climate Change (IIGCC) coordinated collaborative engagement.
- **Corporate Lobbying:** AXA have been meeting with companies in the automobile sectors on their preparedness to meet emerging emissions regulations that will impact on the long-term performance of these companies and, which if not properly managed, has material risks for investors in that sector.
- **Human Rights in the Extractives Sector:** The objective of this engagement is to encourage companies in the Oil and Gas and Mining sectors to enhance the implementation of the UN Guiding Principles on Business and Human rights within their strategy and business operations and to improve the level of disclosure on their policy and process for managing these risk issue.
- **UN Global Compact Engagement:** AXA have a structured and long-term engagement with companies whose practices demonstrably are in breach of one or more of the principles of the UN Global Compact and where the Company has not taken action to correct the breach.

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

Company	Issue	Action
AstraZeneca	Strategy and Performance	Discussions with Board on company strategy and alignment of the remuneration policy with performance.
BP plc	Climate Change.	Ongoing engagement asking the company to improve disclosure around strategy and mitigation in relation to the 2 degree global warming targets of COP 21 and general climate change risks.

BT Group plc	Financial Reporting	Discussion of Board and Audit Committee oversight of financial reporting and assurance to shareholders.
GlaxoSmithKline	Remuneration	Discussions with Board on company strategy and alignment of the remuneration policy with performance.
HSBC	Succession Planning	Discussions with the Company on corporate governance issues including succession planning for Chairman and Chief Executive positions.
RoyalDutchShell	Climate Change	Ongoing engagement asking the company to improve disclosure around strategy and mitigation in relation to the 2 degree global warming targets of COP 21 and general climate change risks.
Weir Group	Remuneration	Discussions on the company's remuneration policy and practices and alignment with long-term shareholder interests.