

Pension Fund Committee

Dorset County Council



Date of Meeting	17 September 2018
Officer	Pension Fund Administrator
Subject of Report	Voting Activity 2017/18
Executive Summary	This report gives an update on the Fund's voting activity in the year 2017/18.
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 2017/18.
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 2017/18 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 2017/18

- 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 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 2018, there were 6,361 individual votes on the UK portfolio, and ISS voted against 142 and abstained on 31 of the resolutions on the Fund's behalf. A summary of the Fund's UK voting activity for the year ended 31 March 2018 is included in Appendix 2 to this report. In addition, there were 5,680 individual votes on the global equities portfolio, and the Fund's managers voted against 263 and abstained on 42 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 2018 for the UK portfolio there were 76 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, chairman at more than one UK listed company (e.g. Bodycote Plc) or the appointment of a non-independent member of the remuneration committee (e.g. Fresnillo Plc).
- 1.6 In addition, there were 74 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, significant salary increases for executive directors not explained in detail (e.g. JD Sports Plc).
- 1.7 Each pooled manager was asked for details of voting activity in the year 2017/18, 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 2018

**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 2018 – UK Equities

This summary concerns 392 Individual Company Meetings at which there were 6,361 Proposed Resolutions.

Meeting Type	Total Meetings
Annual General Meeting	316
AGM/Special Meetings	1
Special Meetings	65
Court Meetings	10
Total	392

Proponent	Total Resolutions
Management	6,357
Shareholders	4
Total	6,361

Proposal	Voted for	Voted against	Abstained	Total Votes
Takeover / Reorganisation / Merger / Disposal	301	9	0	310
Capitalisation / Share Capital	1,233	1	0	1,234
Directors	2,679	53	23	2,755
Salary and Compensation	572	70	4	646
Environmental, Social, and Governance	0	2	0	2
Routine / Business	1,403	7	4	1,414
Total	6,188	142	31	6,361

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:

Safestore

Safestore withdrew resolutions in relation to an amended remuneration structure at their 2017 AGM. The company then wrote to us in June to outline the Committee's work since the AGM. The Committee has reflected on all the feedback received and current investor sentiment around executive pay. They have spent considerable time with their largest shareholder and in the process have re-shaped the proposed Remuneration Policy ahead of putting the proposal to all shareholders at a general meeting in July 2017.

The key elements of the proposed Policy and the pertinent changes since the AGM, are as follows:

- Salary and benefits remain at low levels during the policy period, including a commitment not to increase Director salaries beyond average raises across the Group and a reduction of the maximum pension contribution under the policy from 20% to 10%;
- Strategic and operational measures have been introduced under the Annual Bonus plan, with an overall reward opportunity of 150% of salary;
- Executive Director award levels under the 2017 LTIP have been reduced by 20% and the threshold EPRA EPS target has been strengthened to 6% p.a. from 5% p.a. Maximum awards pay out at 12% p.a. EPS growth over the five-year measurement period, which is deemed exceptional performance given the current stage of business; and
- Market leading shareholding guidelines of 1,000% for the CEO and 350% for the CFO ensure a long-term alignment between the shareholders and management in the light of the higher quantum of equity awards.

Imagination technologies

We had a call with Imagination Technologies' CFO for an update on human capital management and cyber-security. The business has suffered significant restructuring over the past year and Apple, one of their main customers, has reviewed their contract for the coming years. According to the CFO, human capital has improved substantially since he joined the business 18 months ago. The key improvements have been: a large increase in

employee communications (weekly and monthly updates from the CEO), introduction of bonus schemes, more training, a new HR director with engineering experience. As a key outcome, attrition levels have halved. Regarding cyber, the CFO recognises it is an important topic, but they are also less exposed than other technology businesses. Still, the company has taken cyber-security insurance and have commissioned detailed cyber audits last year.

Investor engagement following regulatory changes

We engaged with eight portfolio holdings as part of a wider engagement project to ensure that companies remain open to investor dialogue following regulatory changes. We wrote to our Pan European holdings to highlight the corporate access issues that Schroders is facing given the regulatory changes on the horizon, particularly MiFID II. Due to the interaction we have with companies in which we invest, and especially because of our stewardship responsibilities as major shareholders in companies across global equity markets, this is a significant issue.

Historically we have had a dialogue with companies through direct contact and third party intermediaries (mainly stock brokers). However, the traditional broker service provision is changing due to increased payment expectations and regulatory scrutiny. As a result, we are pursuing additional methods of contact which include more direct contact with investor relations. 'corporate access networks' and 'direct access networks'. Some of these 'new intermediaries' have different business models. Companies have control of who they meet through IR and corporate access networks. Direct access networks allow requests to be submitted directly by investors. We asked companies to recognise and engage with these alternative platforms to ensure that long term fundamental investors, such as ourselves, can continue our relationships with companies throughout Europe.

We are sympathetic to the competitive and regulatory challenges they face but want to ensure that looking forward we are able to maintain the close relationships that we have with the companies in which we invest. We recognise that this is particularly relevant to smaller companies who may not have a separate IR function.

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 2017-18 AXA Framlington voted on 1,010 resolutions at 70 General Meetings, and either abstained or voted against 6 resolutions.

Their engagement priorities during the relevant period include:

Mitigation of Carbon and Climate Risks: We continue our 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 : We 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: We 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.

Diversity: We strongly believe that the ability of a board to adequately conduct its oversight responsibilities depends on it having the right mix of directors with relevant skills, backgrounds and experience. This naturally points to the important benefits that diversity can have on the long-term success of companies. We have been engaging with boards to promote diversity, both at the leadership level and throughout the company.

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

Company	Issue	Action
Amryt Pharma Plc	Strategy and Performance	Discussions on company strategy and need for capital with respect to placing.
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.
ECO Animal Health Group Plc	Sucession Planning	Discussion with the Board on balance and composition, as the company continues to grow.
Hunting Plc	Remuneration	Discussions with Board on company strategy and alignment of the remuneration policy with performance.
Royal Dutch Shell 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.
Weir Group Plc	Remuneration	Discussions on the Company's remuneration policy and practices and alignment with long-term shareholder interests.