

## **PENSION FUND COMMITTEE – 10 MARCH 2017**

### **CORPORATE GOVERNANCE - VOTING**

#### **Report by Chief Financial Officer**

##### **Introduction**

1. The UK Stewardship Code was introduced by the Financial Reporting Council in 2010, and revised in September 2012. The Code, directed at institutional investors in UK companies, aims to protect and enhance the value that accrues to ultimate beneficiaries through the adoption of its seven principles. The code applies to fund managers and also encourages asset owners such as pension funds, to disclose their level of compliance with the code.
2. Principle 6 of the Code states that Institutional investors should have a clear policy on voting and disclosure of voting activity. They should seek to vote all shares held and should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution, informing the company in advance of their intention to do so and why.
3. In 2016 the Financial Reporting Council (FRC) introduced tiering for Stewardship Code signatories. The FRC assesses signatories to the Stewardship Code based on the quality of their Code statements and uses this to put asset managers into one of three tiers. All of the Pension Fund's investment managers undertaking voting on the Fund's behalf have been assessed as tier 1, which is the highest rating.
4. The Oxfordshire County Council Pension Fund's voting policy is set out in its Investment Strategy Statement (ISS), which states that voting decisions are delegated to the Fund Managers to exercise voting rights in respect of the Pension Fund's holdings. The responsibility for monitoring company performance does not rest with fund managers alone. The committee and officers monitor the voting activity of the Fund Managers and raise any concerns as considered necessary.
5. In the Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement (2016) document it states that administering authorities should become signatories to the Stewardship Code. As such, and to demonstrate the Fund's commitment to effective stewardship as outlined in the ISS, it is recommended that the committee commit to the Fund becoming a signatory to the Code.

## Voting Details

6. Manifest were appointed in August 2014 to monitor the voting activity of the Fund. As part of this service they provide an annual report summarising the Fund's voting activity, a copy of which is included in annex 1. The report covers the 12 month period ending 31 July 2016. The report enables Oxfordshire to fulfil the objectives of the Stewardship Code in using the results to constructively challenge the external fund managers in their stewardship activities.
7. We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies. This is the second report prepared by Manifest so it is too early to comment on any trends but attention will be paid to this in future years.
8. The key points from the 2016 report can be summarised as follows:
  - Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 3.63% of resolutions.
  - Looking at the results at the individual fund manager level, UBS and Baillie Gifford voted with management slightly less than shareholders in general. L&G Investment Management and Wellington voted with management more than shareholders in general. Table 1 below contains a breakdown of votes by manager.

Table 1: Overall Voting Patterns

FUND	RESOLUTIONS VOTED	OXFORDSHIRE MANAGERS SUPPORTED MANAGEMENT	GENERAL SHAREHOLDERS SUPPORTED MANAGEMENT	TEMPLATE FOR MANAGEMENT
Baillie Gifford	989	93.12%	96.99%	82.61%
L&G Investment Management	2,051	98.59%	97.02%	82.30%
UBS	678	92.18%	95.17%	76.11%
Wellington	1,082	97.78%	95.28%	71.63%
<b>Total</b>	<b>4,800</b>	<b>96.38%</b>	<b>96.40%</b>	<b>79.08%</b>

9. Oxfordshire's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require managers to follow a specific policy. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but

more of an aspirational benchmark for best practice company behaviour. It is to be used as a flagging mechanism to identify potential risk that can then be raised with fund managers.

10. Of the 4,800 resolutions analysed in 2016, 917 were resolutions where the Manifest Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 871 occasions. This may seem like a relatively high proportion but it should be noted that not all concerns merit a vote against management, especially where managers use engagement to express concerns and bring about change. Conversely, the report has also identified instances of votes against management where no concerns have been identified by the Manifest template, demonstrating the willingness of managers to apply their own judgement on these issues.
11. The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, where ESG factors are embedded into a fund manager's selection criteria the portfolio would be expected to exhibit a relatively high governance standard amongst constituent companies and therefore it should be expected that there is less reason to vote against management.
12. As shown in table 2 below, remuneration related resolutions remain the most contentious resolutions proposed by management in 2016 and continue to have the lowest level of alignment with governance best practice analysis. Remuneration related resolutions constituted the second highest proportion of votes against management for Oxfordshire.
13. The greatest proportion of votes against from Oxfordshire's managers related to corporate actions. These tend to be items such as mergers, takeovers, disposals and acquisitions which are often company specific. What is best practice in these cases is highly subjective so variation between different shareholders and with the template is to be expected.

14. Table 2: Overall Voting Patterns

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	2,633	2,500	1.67%	2.41%
Capital	750	743	8.40%	3.81%
Audit & Reporting	598	586	0.00%	1.63%
Remuneration	433	422	9.47%	9.04%
Shareholder Rights	212	206	6.13%	8.97%
Sustainability	127	127	4.72%	8.07%
Corporate Actions	45	40	15.56%	3.14%
Other	2	1	0.00%	4.63%
<b>Total</b>	<b>4,800</b>	<b>4,625</b>	<b>3.63%</b>	<b>3.60%</b>

15. Oxfordshire fund managers supported seven successful shareholder sponsored proposals during the 12 months under review. UBS, Baillie Gifford and L&G all supported the 'Aiming for A' resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.
16. There were seven defeated management proposed resolutions in the collective Oxfordshire's fund manager portfolio, all of which the fund managers were non supportive of. L&G opposed the defeated remuneration reports at BP and Smith & Nephew. Baillie Gifford filed votes against the unsuccessful resolutions at The Weir Group plc to approve the LTIP and remuneration policy. In addition, UBS were against remuneration at BP plc. Of the defeated management resolutions all were in the UK bar two say-on-pay frequency votes at Kraft Heinz in the US. At each of the UK examples management recommended a vote 'For' the resolution but at Kraft Heinz 'Against' was the recommendation, Wellington in this case abstained from voting.
17. It is important to note that voting forms one part of the wider stewardship activities undertaken by fund managers and asset owners and should be considered alongside other activities including company engagement and contributing to the development of corporate governance standards in general. Investors may therefore be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity, even though the company currently falls short of the desired standard.

### **Internally Managed Holdings**

18. Voting decisions on internally managed holdings are determined by the Service Manager – Pensions after taking advice from the Fund's Independent Financial Adviser. These votes are outside the scope of the Manifest report. Over the 12 month period ending 31 July 2016 a total of 138 resolutions were voted on at 14 separate meetings consisting of 12 Annual General Meetings and two Ordinary General Meetings. The Fund voted with management on 136 occasions. Two of these votes, at the same meeting, were to vote against shareholder proposals that were not considered to be in the Fund's best interest. The two votes not voted in-line with management's recommendation were at the same meeting and were abstentions on proposals to re-elect directors.

## **RECOMMENDATION**

19. **The Committee is RECOMMENDED to:**

**(a) note the Fund's voting activities, and determine any issues they wish to follow up with the specific fund managers, or in general; and**

**(b) commit to becoming signatories to the UK Stewardship Code and request that officers prepare a Stewardship Code statement to be considered at the next Pension Fund Committee meeting.**

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