

## **PENSION FUND COMMITTEE – 9 MARCH 2018**

### **CORPORATE GOVERNANCE - VOTING**

#### **Report by the Director of Finance**

##### **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. An update to the Code is planned for 2018 and will be subject to consultation.
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 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 ISS also confirms that the Pension Fund maintains ultimate responsibility for ensuring voting is undertaken in the best interests of the Fund. The Committee and officers monitor the voting activity of the Fund Managers and raise any concerns as considered necessary.

##### **Voting Details**

5. 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 2017. The report enables the Pension Fund to fulfil the objectives of the Stewardship Code in using the

results to constructively challenge the external fund managers on their stewardship activities.

6. The key points from the 2017 report can be summarised as follows:
7. Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 5.55% of resolutions. This was up from 3.63% for the prior 12 months.
8. Looking at the results at the individual fund manager level, UBS, L&G Investment Management and Baillie Gifford voted with management slightly less than shareholders in general. 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	1,118	92.40%	96.82%	83.72%
L&G Investment Management	3,379	96.71%	97.05%	85.38%
UBS	1,318	89.45%	94.61%	66.62%
Wellington	1,082	95.99%	94.63%	69.96%
<b>Total</b>	<b>6,625</b>	<b>94.45%</b>	<b>96.25%</b>	<b>79.49%</b>

9. The Pension Fund'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 6,625 resolutions analysed in 2017, 1,100 were resolutions where the Manifest Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 1,012 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. Managers also need to be conscious of focussing on those issues they

consider most material; simply voting against a high number of resolutions may result in their key concerns being lost among other less significant issues.

11. Table 2 below shows voting activity per resolution category. In the prior year the greatest proportion of dissent in the Pension Fund's portfolio was seen for corporate action related resolutions. However, excluding the other category, this year has seen the highest proportion of dissent on sustainability related resolutions. There was a significant increase in dissent on sustainability related resolutions with dissent for the year being 13.04% compared to 4.72% in the prior year.
12. Sustainability related issues have been gaining in profile over recent years due to developments such as the Paris climate agreement. This has led to a sharper focus among shareholders on the risks faced by companies from sustainability related issues and has led to an increasing number of shareholder proposed resolutions requesting additional disclosures on this topic. The Fund Managers have clearly been taking a keen interest in this topic and within the sustainability resolution category the highest level of dissent from the Fund Managers was seen for resolutions on environmental practices.
13. In line with the previous year there also continued to be a substantial level of dissent on remuneration related resolutions. This continues a trend seen over the last few years which has seen a greater level of scrutiny over executive remuneration in the corporate governance arena.

Table 2: Overall Voting Patterns

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	3,285	3,236	3.93%	3.06%
Capital	1,137	1,131	7.92%	3.14%
Remuneration	872	861	10.89%	7.31%
Audit & Reporting	829	816	1.21%	1.58%
Shareholder Rights	267	261	5.66%	7.01%
Sustainability	186	177	13.04%	8.08%
Corporate Actions	39	38	7.69%	3.88%
Other	10	5	20.00%	2.34%
<b>Total</b>	<b>6,625</b>	<b>6,525</b>	<b>5.55%</b>	<b>3.75%</b>

14. The Pension Fund's fund managers supported three successful shareholder sponsored proposals during the 12 months under review all three of which were in the US. One was a resolution to allow shareholders proxy access – the right to place their own nominees on a company's proxy card for board elections. The other two proposals were requests for boards to provide enhanced sustainability reporting.

15. There were four defeated management proposed resolutions in the Pension Fund's portfolio, three of which the fund managers were non-supportive of. L&G opposed the defeated remuneration report at Pearson. Wellington voted against the advisory vote on executive remuneration at McKesson Corp. UBS voted against the election of an employee shareholder representative at Renault, the position was contested and UBS voted in favour of the successful candidate.

### **Internally Managed Holdings**

16. 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 2017 a total of 139 resolutions were voted on at 12 separate meetings consisting of 12 Annual General Meetings, one Ordinary General Meeting, and one Extraordinary General Meeting. The Fund voted with management on 137 occasions. The two votes not voted in-line with management's recommendation were at the same meeting and were abstentions on proposals relating to the remuneration policy where the Pension Fund had concerns about whether the proposals were in the best long-term interests of shareholders.
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.

### **RECOMMENDATION**

18. **The Committee is RECOMMENDED to note the Fund's voting activities, and determine any issues they wish to follow up with the specific fund managers, or in general.**

Lorna Baxter  
Director of Finance

Contact Officer: Gregory Ley, Financial Manager, Pension Fund Investments Tel:  
(01865) 323978

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