

PENSION FUND COMMITTEE – 8 March 2019

CORPORATE GOVERNANCE - VOTING

Report by the Director of Finance

Introduction

1. The UK Stewardship Code was introduced by the Financial Reporting Council (FRC) 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. The FRC published a consultation on the draft 2019 Stewardship Code on 30 January 2019 with a closing date of 29 March 2019. The final version is expected to be published in the summer of 2019. Through its representation on the Cross-Pool Responsible Investment Group the Pension Fund has been involved in meetings with the FRC to provide feedback on the proposed new code.
3. 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.
4. In 2016 the 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.
5. 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

6. Manifest, now Minerva Analytics, 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 2018. 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.
7. Minerva analyse the votes on the Pension Fund's equity portfolios. As the equity portfolios transfer to Brunel fewer votes will be covered by Minerva's services. As all the equity portfolios the Pension Fund intends to allocate to are expected to complete transition by March 2020 the Pension Fund intends for the report to 31 July 2019 to be the last report received from Minerva. Brunel have appointed Hermes EOS as their voting and engagement provider. The Pension Fund will receive reporting from Brunel on voting activity and will discuss the potential for an interim solution covering the period between the final Minerva report and all equity portfolios being transferred to Brunel.
8. The key points from the 2018 report can be summarised as follows:
9. Overall the Fund's managers voted against management more often than general shareholders, by 2.42%, opposing management on 6.44% of resolutions. This was up from 5.55% for the prior 12-month period.
10. Looking at the results at the individual fund manager level, UBS, L&G Investment Management and Baillie Gifford voted with management less than shareholders in general. Wellington voted with management on marginally more occasions than shareholders in general. Table 1 below contains a breakdown of votes cast by manager.
11. Table 1: Overall Voting Patterns

FUND	RESOLUTIONS VOTED	OXFORDSHIRE MANAGERS SUPPORTED MANAGEMENT	GENERAL SHAREHOLDERS SUPPORTED MANAGEMENT	TEMPLATE FOR MANAGEMENT
Baillie Gifford	649	93.53%	97.05%	84.59%
L&G Investment Management	4,149	94.65%	97.01%	85.01%
UBS	1,245	87.95%	92.78%	76.64%
Wellington	1,143	95.71%	94.88%	73.09%
Total	7,186	93.56%	95.98%	81.63%

12. 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.

13. Of the 7,186 resolutions analysed in 2018, 1,188 were resolutions where the Manifest Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 1,035 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 focusing 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.
14. 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 sustainability related resolutions. However, excluding the other category, this year has seen the highest proportion of dissent on remuneration related resolutions. Remuneration continues to be a hot topic in corporate governance particularly due to its high public profile. Concerns around the overall quantum of executive remuneration, complexity, alignment to shareholder interests, and the cultural aspect of remuneration levels are all issues frequently seen in voting on remuneration related resolutions.
15. Table 2: Overall Voting Patterns

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	3,590	3,467	6.56%	3.89%
Capital	1,344	1,313	5.43%	2.95%
Audit & Reporting	965	935	1.87%	1.32%
Remuneration	713	693	13.18%	7.90%
Shareholder Rights	352	343	7.69%	7.43%
Sustainability	148	145	6.76%	7.72%
Corporate Actions	71	66	5.63%	3.82%
Other	3	0	33.33%	-
Total	7,186	6,525	6.44%	4.02%

16. The Pension Fund's fund managers supported five successful shareholder sponsored proposals during the 12 months under review all of which were in the US market. Two sustainability related proposals at Kinder Morgan were successful, one requesting an annual report on sustainability and the other an

assessment of the long-term portfolio impacts of scenarios consistent with global climate change policies. The other successful proposals related to the ability of shareholders to nominate directors and to shareholder rights.

17. The Fund's managers voted against 24 management proposed resolutions that were ultimately defeated. Of these, 18 were remuneration related, three related to share issue authorities and three the election of directors.

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 2018 a total of 117 resolutions were voted on at 11 separate meetings consisting of 10 Annual General Meetings and one Ordinary General Meeting. The Fund voted with management on 115 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.
19. 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 was occurring and management was working towards making improvements from that engagement activity, even though the company currently falls short of the desired standard.

RECOMMENDATION

20. **The Committee is RECOMMENDED to:**
 - (a) note the Fund's voting activities; and**
 - (b) determine any issues it wishes to follow up with the specific fund managers, or in general.**

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