

Division(s): N/A

PENSION FUND COMMITTEE – 8 MARCH 2013

CORPORATE GOVERNANCE - VOTING

Report by Assistant Chief Executive and 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. Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services and disclose their approach to stock lending and recalling lent stock.
4. The Oxfordshire County Council Pension Fund's voting policy is set out in its Statement of Investment Principles (SIP), which states that its Fund Managers have been instructed to vote in accordance with the guidance set by RiskMetrics Group. However, in exceptional circumstances managers may vote differently from the RiskMetrics Group guidance, if in their judgement this would be in the best interests of the fund. Where managers take a contrary view to the RiskMetrics Group they must obtain permission from officers to vote differently and officers must report this to the Pension Fund Committee.
5. RiskMetrics Group research and voting operations in the UK are conducted through a wholly-owned subsidiary called Research, Recommendations and Electronic Voting Limited (RREV). In the UK, RREV's research and voting recommendations cover all companies in the FTSE All-Share and selected UK companies that fall outside the

FTSE ALL-Share Index. RREV voting recommendations for UK companies are based on the NAPF's corporate governance policies.

6. RREV's research and recommendations provide a best practises view on a company's:
 - Governance and financial performance
 - Board structure
 - Remuneration
 - Auditing and accounting disclosure
 - Shareholder Relations

7. Proxy voting advisors provide a service to investors utilising accepted principles of good corporate governance and guidelines devised by asset owners, and other market participants. However, the ultimate voting decision for each resolution at a company meeting is the responsibility of the investor. Whilst Oxfordshire Pension Fund asks its Fund Managers to vote in accordance with RREV, it expects Fund Managers to consider the recommendations and identify resolutions which may be contentious and in contrast to the Managers own policy, and where appropriate request permission to vote differently. Use of RREV recommendations is in part a screening mechanism to highlight issues which may require further attention by officers and the Pension Fund Committee.

8. Proxy voting advisory services are widely used by pension funds to assist with informed decision making. They can also help funds to vote all shares consistently, when they have stocks held by more than one fund manager. Some funds prefer to delegate all voting decisions to their fund managers. This may result in the pension fund voting a proportion of the shares it holds in a company 'for' and a proportion 'against' if its fund managers hold different views. Voting decisions should follow active dialogue with company boards and a vote 'against' or 'abstain' should be a result of an unsatisfactory outcome following engagement with the company. Whilst Fund Managers and proxy voting advisors can engage with companies, proxy voting agents don't manage the assets. Fund Managers may ultimately decide to sell the stock as a result of unsatisfactory engagement with the company.

Current Position

9. The Pension Fund Committee may wish to consider whether or not it wishes to continue with its current policy or delegate fully vote decisions to its Fund Managers. In practice, RREV advice applies to approximately 30% of the equity holding within the Fund, being the segregated element invested in the UK. Officers believe that the corporate governance and voting policies and procedures of the fund's segregated UK equities manager are robust.

10. The remaining 70% of our equity portfolio is held within pooled funds, or in overseas investments. Assets held indirectly via pooled funds,

are not subject to the Oxfordshire Pension Fund's voting policy. The segregated global equity fund portfolio is managed in accordance with the managers own corporate governance policies using recommendations provided to the fund manager by Glass Lewis. Voting decisions in relation to the listed private equity holdings are taken by officers with regard to the recommendations provided by the Fund's Independent Financial advisor.

11. Voting and corporate action notifications are sent to the relevant fund managers by the Fund's global custodian. Fund Managers are responsible for advising the custodian's proxy voting agent of the vote decision for each resolution based on the Pension Fund's existing policy. The proxy voting agent files vote decisions in accordance with the instructions received from relevant fund managers. Officers periodically review the independent voting records held by the proxy voting agent and monitor fund manager compliance with the voting policy.
12. Stocks on loan via the global custodian's stock lending program may be returned at the request of the fund manger, if it is deemed to be advantageous to the fund, in order to exercise rights to vote. No stocks on loan were returned during 2012 for the purpose of exercising voting rights.
13. A summary of the Oxfordshire Pension Fund voting activity for segregated UK equity mandates at 31 December 2012, is provided below:-

Manager	Number of Meetings	Number of Resolutions	Number of votes against management proposals	Number of items abstained	Number of resolutions voted against RREV recommendations
Baillie Gifford UK equities	59	1094	17	8	4 (with permission)
Private Equity	16	113	2	0	n/a

Votes against management proposals generally related to re-election of directors, remuneration reports and share plans. Resolutions voted against management are listed in Annex 1.

Pooled Funds

14. Legal and General Investment Management and UBS invest in pooled funds on behalf of the Oxfordshire Pension Fund. There are also some pooled fund investments within the segregated portfolio managed by Baillie Gifford. The Pension Fund's voting policy does not apply to its pooled fund investments, which are subject to the corporate governance policies of the individual funds. The Pension Fund is not able to exert direct control over the voting or engagement activities of

pooled funds. However, officers have reviewed the Fund Manager's vote records. UK resolutions voted 'against' are shown in Annex 2.

15. During 2012, the LGIM UK FTSE 100 Equity Index fund voted 'against' management in 31 of 2056 resolutions. For 13 of the 31 resolutions, RREV recommended a vote 'for' and 'abstain' for one of them. Baillie Gifford did not hold any of the 31 stocks voted 'against' by LGIM.
16. 7 resolutions voted 'against' by Baillie Gifford were voted 'for' by LGIM UK FTSE 100 fund during 2012. These are shown in bold in Annex 1.

Manager	Number of Meetings	Number of Resolutions	Number of votes against shareholder proposals	Number of votes against management proposals
LGIM UK FTSE 100 equity index	100	2056	0	31
LGIM World (Ex UK) Equity Index	1737	20435	0	2373
UBS Property	9	38	0	2
UBS Global Optimal Thirds	79	945	34	37
UBS Emerging Markets	55	1223	2	78

Overseas

17. The Fund's global equities manager, Wellington exercises voting activities for overseas stocks according to the Manager's own voting policies and guidelines. For securities domiciled in the UK, the Manager will exercise voting rights attached to the Oxfordshire Pension Fund in accordance with NAPF guidelines.

NAPF guidelines

18. The NAPF supports the UK Stewardship Code and believes that 'the informed use of votes, while not a legal duty, is a responsibility of owners and an implicit fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function'. NAPF Corporate Governance policy and voting guidelines have recently been updated and are available on the NAPF website.

RECOMMENDATIONS

19. The Committee are RECOMMENDED to:

- (a) note the Fund's voting policies and activities and consider whether or not they continue meet the requirements of the Oxfordshire County Council Pension Fund; and**
- (b) decide whether or not they wish to continue to use proxy voting advisors or fully delegate vote decisions to fund managers.**

Sue Scane
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Background Papers: None

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