Division(s):N/A

PENSION FUND COMMITTEE – 13 MARCH 2015

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. The Oxfordshire County Council Pension Fund's voting policy is set out in its Statement of Investment Principles (SIP), which states that voting decisions are fully delegated to the Fund Managers to exercise voting rights in respect of the Pension Fund's holdings. Officers monitor this activity and raise any concerns with the Fund Managers. This report summarises the voting activity and fulfils the voting disclosure requirement.

4. The Fund Managers include a summary of company engagement and voting activity in their quarterly reports.

UK Equities

5. A summary of the Oxfordshire Pension Fund voting activity during 2014 for UK Equity mandates is provided in Annex 1.

6. The majority of Legal & General's (L&G) votes against management recommendations, at UK AGMs, centred on renumeration packages and long term incentive plans (LTIP). L&G worked closely with the Government's Department for Business, Innovation and Skills in reshaping new remuneration regulations which came in to force in 2013. The regulations are aimed at improving transparency in executive pay, and directing the Remuneration Committee to create a remuneration structure that is linked to the strategy of

the business and focused on long term growth. It also provided mechanisms to give shareholders more power to curb excessive pay policies.

7. L&G is increasingly concerned about the misalignment of both the structure and sum of executive pay compared with company performance. L&G promotes structures that are simple, transparent and aligned to the long-term strategy and performance of the business. L&G believe that the remuneration committee should be mindful of the economic climate, and that pay increases should be aligned with that of the general workforce or inflation unless there is a compelling reason why a higher pay award is necessary.

8. UK companies have adopted a number of different LTIP that have the potential to provide additional reward to management for delivering business targets. In the interest of simplicity, L&G advocates the adoption of one long-term plan. The plan should not have too many performance conditions but should include at least one measure that is linked to shareholder returns.

9. If engagement with a company does not result in an outcome that supports the above principles, L&G may vote against the resolutions on remuneration and the chairman of the remuneration committee. An example of this was at the Sky AGM where L&G voted against the remuneration report due to the complexity of the LTIP, concerns with the performance measures and the lack of transparency surrounding discretion applied.

10. In comparision, following a successful turnaround in performance, L&G supported the remuneration report and the introduction of the new LTIP at ITV's 2014 AGM. L&G were consulted on the proposals and suggested some changes. Subsequent to this, ITV reduced its LTIP and complexity of the scheme, and increased its performance target level. L&G felt that the targets were sufficiently stretching and voted in favour of the resolutions.

11. The majority of Baillie Gifford's (BG) votes against resolutions were related to renumeration packages and the allotment of equity securities. As with L&G, Baillie Gifford take executive remuneration seriously. BG will engage with companies to ensure remuneration arrangements for executives are aligned with shareholders interests and, if neccesary, will vote against the proposals.

12. An example of this was at the Standard Chartered AGM. BG opposed the remuneration policy due to the company increasing fixed pay through additional allowances to compensate them for the reduction in their variable pay component. BG also felt that their focus on shorter term performance periods was not good practice. The remuneration policy received a 40% vote against by shareholders and BG are continuing their dialogue with Standard Chartered.

13. In light of the uncertainty in markets in 2009, when the banks were undertaking large rights issues, it became desirable to give companies the ability to ask their shareholders for more potential to raise capital. New guidelines for share issuance were produced, increasing the maximum amount which may be raised from 33% to 66% of the current issued share

capital. The additional 33% which companies are now allowed to request must be reserved for rights issues (as opposed to placings which do not allow existing holders to sell their right to subscribe for shares).

14. BG believe that for most companies such additional flexibility is not necessary, and that the best practice is for companies to seek authority for share issuance requests above 33% at the time of the capital raising. Share issues on such a scale can completely change the proportion of a company which existing shareholders own, particularly if they are not in a position to fully take up their rights. BG recognise their position is uncommon amongst institutional shareholders and that most UK listed companies seek shareholders' view on a similar authorisation every year. However, their votes are guided by what they believe is in the best interest of their clients, not what is common practice in a market.

15. BG have been engaging on this issue with companies, and note that some, including BG Group and GlaxoSmithKline, have reverted back to authorisations to issue only 33% of the share capital. In some cases, the authority to issue an additional 33% is proposed under a separate resolution, giving shareholders the opportunity to support the greater authority if deemed appropriate.

16. BG accept there are instances when they believe it is right to give companies the increased flexibility permitted and do very occasionally support this resolution. This generally relates to very small companies which need the additional flexibility.

17. Wellington generally voted against a range of issues with no particular trend. They did vote against remuneration packages at a few AGMs, most notably Orange where they believed remuneration packages emphasised fixed fees and short-term incentives. As a long-term investor, Wellington value remuneration plans that incentivise management on a longer-term focus.

18. All three votes against in the Private Equity portfolio were against a proposal by Sherborne Investors Management, shareholders in Electra Private Equity, to replace one of the current directors with two of their own nominees.

19. The decision to vote against these proposals was taken after discusions between officers and the Independent Financial Advisor. It was felt that Electra had perfromed very strongly over many years and the proposed changes by Sherbourne would destabilise the board and management without any clear prospect of an improved return for shareholders.

Overseas Equities

20. A summary of the Oxfordshire Pension Fund voting activity during 2014 for Overseas Equity mandates is provided in Annex 2.

21. A significant number of UBS votes against management were in relation to the appointment of company directors. UBS consider the board to be an important

aspect of the governance of a company. While no single type of structure or good board balance can ever guaarantee a company's success, having a weak board structure can negatively affect performance and shareholder returns.

22. When looking at the election of directors to company boards, UBS take into account a number of factors, including the composition of the overall board (skills, balance and independence) and the individual concerened and their contract terms.

23. If UBS have concerns at either overall board level, or with the individual nominated for election (or re-election) then they may vote against the appointment of directors. An example of this was Mediaset Espana Comunicacion, where they decided to vote against the election of various directors due to the length of contracts exceeding 4 years, and lack of independence from other board members whilst sitting on key board committees, including the remuneration committee.

24. L&G have also focused on director appointmemts as well as the appointment of internal statutory auditors, particularly in Japan. L&G have been heavily focused on improving corporate governance in the country and have been pushing for more independent directors on Japanese boards.

25. This engagement and voting action in collaboration with other international investors has led to improvements among the corporates and regulators in Japan. The introduction of a Stewardship Code, as well as the formation of a Corporate Governance Code, illustrates the positive momentum in corporate governance reform in Japan.

26. L&G have stated that they will continue to focus on corporate governance issues in Japan and are enhancing their voting policy, and leading a collaborative initiative with other international investors to improve board independence.

RECOMMENDATION

27. **The Committee is RECOMMENDED to note the Fund's voting activities.**

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