

**22 March 2012**

**Agenda Item:7**

## **REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**

### **PROXY VOTING 2011**

#### **Purpose of the Report**

1. To report on the voting of equity holdings in the calendar year 2011.

#### **Information and Advice**

2. The Myners principles require pension funds to have an explicit strategy towards their holdings voting on issues that may affect the value of the Fund's investments. The Fund's statement on responsible investment states that "the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds".
3. The Fund retains responsibility for voting (rather than delegating to its investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Voting is implemented by Pensions Investment Research Consultants (PIRC) based on their Shareholder Voting Guidelines.
4. During 2011 883 meetings were held, of which 15 were not voted mainly because no ballot was held. The table below shows the number of meetings by region.

<b>2011</b>	<b>Meetings</b>	<b>Meetings with oppose/abstain votes</b>	
UK	222	197	89%
Europe	211	187	89%
US	284	283	100%
Japan	68	63	93%
Global	98	89	91%
<b>Total</b>	<b>883</b>	<b>819</b>	<b>93%</b>

5. Overall there were 819 meetings (representing 93% of the total) at which 1 or more oppose or abstain votes were cast. This high proportion of meetings with oppose or abstain votes shows that the Fund continues to take its stewardship role seriously through considered exercise of its voting rights. The full analysis of resolutions is shown in the table below.

2011	UK		Europe		US		Japan		Global		Total	
For	2,792	79%	1,978	69%	1,973	54%	760	84%	544	60%	8,047	68%
Oppose	371	10%	704	24%	1,128	31%	143	16%	216	24%	2,562	22%
Abstain	390	11%	198	7%	240	7%	3	0%	68	8%	899	8%
Withhold	3	0%	6	0%	320	9%	0	0%	76	8%	405	3%
	<b>3,556</b>		<b>2,886</b>		<b>3,661</b>		<b>906</b>		<b>904</b>		<b>11,913</b>	

6. Overall, 22% of votes were to oppose resolutions, with marked regional differences – the UK having 10% of such votes compared to 31% in the US. The main topics that led to oppose votes included executive remuneration and associated incentive/bonus schemes, independence of board members, political donations and appointment of auditors.
7. Throughout 2011 there have been a number of themes in the spotlight concerning corporate governance. The Association of British Insurers released an updated version of its 'Principles of Executive Remuneration' and a report on board effectiveness. Executive pay has also been highlighted with research by Incomes Data Services showing directors' pay up on average by 49% over the year. The Department for Business, Innovation & Skills has issued a discussion paper on wide-ranging proposals to link executive remuneration more closely with company performance. Further scrutiny in this area came from the High Pay Commission together with comments by senior members of the Church of England as well as by politicians.
8. The wider issue of effective governance has been highlighted by events at News Corporation, its proposed takeover of BSkyB and the role of the Murdochs on its board. The Financial Reporting Council has raised the profile of the role of institutional shareholders by publishing its 'Stewardship Code' and canvassing for its adoption by them. This code sets out principles to follow in order to enhance shareholder engagement and as a consequence improve long-term returns to shareholders.
9. There have also been concerns raised by the re-appointment of auditors who may have their independence compromised by obtaining a large proportion of fees from non-audit work from the same company. The EU is currently reviewing proposals to prohibit this practice.
10. On a more technical level, International Financial Reporting Standards have been criticised as giving a misleading impression of company accounts, particularly with regard to banks and their assessment of bad loans. Both the Sharman Inquiry and a study by NAPF have highlighted how the dangers of 'toxic' loans by the banks were not identified by auditors prior to the banking crisis of 2008.

## Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

- 1) That the report be noted.

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