Nottinghamshire County Council

Report to Pensions Sub-Committee

06 February 2014

Agenda Item:5

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PROXY VOTING

Purpose of the Report

1. To report on the voting of equity holdings in the final quarter of 2013 (calendar year).

Information and Advice

2. The *UK Stewardship Code*, issued in September 2012 by the Financial Reporting Council, highlights the responsibilities that institutional investors have with regard to the "long-term success of companies in such a way that the ultimate providers of capital [in this case, the Nottinghamshire Pension Fund] also prosper". These responsibilities include, among other things, having a clear policy on voting and on the disclosure of voting activity. The *Code* states that investors "should not automatically support the board".

3. Alongside this the CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Statement of Investment Principles and report periodically on the discharge of such responsibilities. 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".

4. 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). PIRC issue Shareholder Voting Guidelines each year and the latest version places even greater emphasis on management of shareholders' capital and remuneration policies. PIRC use these guidelines when implementing voting on behalf of the Fund.

5. During the final quarter of 2013, 57 meetings were held with a total of 611 voting resolutions. A list of all meetings held during the period together with analysis of voting at each meeting will be available on the Fund's website at: http://www.nottspf.org.uk/pensionfund/voting/.

6. Overall, 22% of the votes cast were not in favour of the resolutions with Europe and the US having the highest percentage of oppose votes at 24% and 33% respectively. The UK meetings had 12% of oppose votes. The main oppose votes were on directors appointments, executive pay schemes and remuneration reports. This demonstrates that the Fund continues to take it stewardship role seriously through considered exercise of its voting rights. A summary of the voting is shown in the table below.

Geographic Region	Resolutions		For		Oppose		Abstain		Withheld		Non-Voting		Not Supported	
NORTH AMERICA	248		123	49.6%	82	33.1%	12	4.8%	31	12.5%	0	0.0%	0	0.0%
UK	260		201	77.3%	31	11.9%	27	10.4%	0	0.0%	1	0.4%	0	0.0%
EU	99		46	46.5%	24	24.2%	13	13.1%	0	0.0%	15	15.2%	1	1.0%
JAPAN	4		2	50.0%	0	0.0%	2	50.0%	0	0.0%	0	0.0%	0	0.0%
REST OF THE WORLD	0		0		0		0		0		0		0	
Total	611	100.0%	372	60.9%	137	22.4%	54	8.8%	31	5.1%	16	2.6%	1	0.2%

Extracts from PIRC's quarterly report

7. The last Quarterly Report outlined proposals from the Competition Commission to reform auditor selection and governance processes for FTSE 350 companies, including rotation and reporting to shareholders as part of its Statutory Audit Services Market Investigation.

8. The Financial Reporting Council (FRC) has now responded to these proposals in a letter sent to the Competition Commission. The FRC does not support, or seeks amendments to, many of the proposals and has undertaken to conduct a further consultation later in 2014 around changes to the UK Corporate Governance Code. The response can be viewed at the FRC website. In respect of its proposed remedies, the Competition Commission is expected to publish a draft Order in late January 2014.

9. The latest report from PIRC highlights another interesting idea, which was contained in the recent Parliamentary Commission on Banking Standards (PCBS) report: that shareholder primacy should be removed at the banks. The proposal was included in the Business, Innovation & Skill (BIS) consultation paper *Transparency & Trust*.

10. The idea has already been rejected by the FRC (which argued that 'if shareholder primacy is removed it may affect the ability of banks to attract future capital') and the Institutional Investor Committee. The idea was given a more positive welcome by the TUC, possibly as an opportunity to discuss other governance models where employees play a greater role. Possibly the most surprising response to the BIS consultation came from the Institute of Directors (IoD) who, although not agreeing with amending company law as proposed by the PCBS, is sympathetic to the thrust of the proposal.

11. The IoD is quoted as saying 'we agree that the directors of systemically important financial institutions have wider responsibilities than simply promoting the interests of shareholders… In an ideal world, systemically-important financial institutions (or other organisations that are "too big or important to fail") would adopt some other corporate legal framework in which directors' fiduciary duties were explicitly framed in terms of promoting broader social or stakeholder objectives, such as the stability of the financial system.' This view could be regarded as a major change from established governance principles.

Statutory and Policy Implications

12. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, 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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For any enquiries about this report please contact: Simon Cunnington

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- PIRC Notts Quarterly Report Q4 2013
- Financial Reporting Council, The UK Stewardship Code, September 2012.
- FRC's letter to the Competition Commission (9/1/2014): http://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-Letter-to-Competition-Commission-re-Statutory.pdf