

Report



meeting

PENSIONS INVESTMENT SUB COMMITTEE

date

14 March 2008

agenda item number

REPORT OF THE STRATEGIC DIRECTOR OF RESOURCES

CORPORATE GOVERNANCE SERVICES

Purpose

- 1.1 To report on the voting of equity holdings in 2007.

2. Background

- 2.1 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. Our Statement of Investment Principles states that "the fund continues to support a policy of actively voting stock it holds".
- 2.2 This policy has long been implemented for UK stocks and, since 2004 for European stocks. In 2007 US and Japanese stocks were included. Voting research and advice has been provided by Pensions Investment Research Consultants (PIRC) and the Investments Sub-Committee decided in March 2007 to continue using PIRC to provide this service.
- 2.3 Proxy voting was previously carried out in-house by a combination of manual and electronic forms. With the inclusion of the US and Japan, the number and complexity of votes will increase dramatically and so it was also decided to engage PIRC to execute votes on our behalf.
- 2.4 The report in March 2007 gave brief details for three providers: PIRC, RREV and Manifest. Following the meeting, Manifest raised concerns over their portrayal as "not offering a full voting service". This was meant to indicate that Manifest encourages direct input from the client for each vote rather than taking day-to-day voting decisions without prior client oversight. Manifest have subsequently demonstrated that their system is easy to use, provides comprehensive and timely advice, and offers a full audit trail for each vote placed. Clients may, however, arrange for Manifest to instruct votes to meetings on their behalf without prior confirmation, according to an agreed policy.

3. Voting

3.1 PIRC starting submitting proxy votes during June 2007 (including US votes). Prior to this, UK and European meetings were voted in-house. PIRC provide a quarterly report on voting including a commentary on the major governance issues during the quarter. In future voting will be reported to the Sub-committee on a quarterly basis. A breakdown of voting activity in 2007 is shown in Appendix A.

3.2 Votes were submitted to 356 meetings in 2007 as shown in the table below (with the previous 2 years for comparison).

| Meetings Voted | 2007 | 2006 | 2005 |
|-----------------------|-------------|-------------|-------------|
| UK | 194 | 223 | 201 |
| Europe | 115 | 125 | 88 |
| US | 47 | | |
| Totals | 356 | 348 | 289 |

3.3 The table below shows an analysis of voting at UK meetings (again with comparison to the previous 2 years).

| UK Votes | 2007 | | 2006 | | 2005 | |
|-----------------|-------------|-----|-------------|-----|-------------|-----|
| For | 1795 | 78% | 1888 | 77% | 1811 | 77% |
| Oppose | 239 | 10% | 259 | 10% | 248 | 11% |
| Abstain | 274 | 12% | 312 | 13% | 295 | 12% |
| | 2308 | | 2459 | | 2354 | |

The pattern of voting at UK meetings has been broadly constant over the last three years with just over three quarters of votes in support of management. The main area of contention is consistently directors' remuneration and all significant oppose and abstain votes this year related to elements of pay.

3.4 The analysis of voting of European stocks is shown below.

| Europe | 2007 | | 2006 | | 2005 | |
|---------------|-------------|-----|-------------|-----|-------------|-----|
| For | 916 | 73% | 914 | 72% | 663 | 75% |
| Oppose | 287 | 23% | 318 | 25% | 196 | 22% |
| Abstain | 48 | 4% | 43 | 3% | 31 | 3% |
| | 1251 | | 1275 | | 890 | |

This shows a slightly lower level of support overall for resolutions but a noticeably higher proportion of votes against. The main concerns in Europe are board structures and share issues, particularly voting rights and anti-takeover mechanisms.

- 3.5 The fund voted its US shareholdings for the first time this year and the analysis of votes (from June) is shown below.

| US | 2007 | |
|-----------|-------------|-----|
| For | 249 | 56% |
| Oppose | 46 | 10% |
| Abstain | 21 | 5% |
| Withhold | 127 | 29% |
| | 443 | |

The withhold votes relate to the election of directors in the US where a slate of directors is put to shareholders for approval. Shareholders can vote for a director or withhold their votes; they cannot vote against.

- 3.6 Director elections is a major area of contention in the US, particularly after a recent decision by the Securities and Exchange Commission (SEC) to allow companies to continue to exclude shareholders from nominating directors. The other main concern in the US is directors' remuneration. There is currently no right to a shareholder vote on executive pay although there is considerable pressure to change this following the recent option backdating scandals.

4. Statutory and Policy Implications

- 4.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, crime and disorder, human rights and those using the relevant service. Where such implications are material, they have been described in the text of the report.

5. Recommendations

- 5.1 That the report be noted.

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DIRECTOR OF RESOURCES

Background Papers Available for Inspection

None

Summary of 2007 voting activity by quarter

UK

| | Q1 | Q2 | Q3 | Q4 | Total | % |
|--------------------|------------|-------------|------------|------------|-------------|-----|
| Meetings | | | | | | |
| Meetings voted | 18 | 100 | 59 | 17 | 194 | 78% |
| Meetings not voted | 12 | 39 | 1 | 2 | 54 | 22% |
| | 30 | 139 | 60 | 19 | 248 | |
| Resolutions | | | | | | |
| For | 102 | 1020 | 536 | 137 | 1795 | 78% |
| Oppose | 16 | 144 | 64 | 15 | 239 | 10% |
| Abstain | 21 | 163 | 70 | 20 | 274 | 12% |
| | 139 | 1327 | 670 | 172 | 2308 | |

Europe

| | Q1 | Q2 | Q3 | Q4 | Total | % |
|--------------------|-----------|-------------|-----------|-----------|-------------|-----|
| Meetings | | | | | | |
| Meetings voted | 15 | 86 | 11 | 3 | 115 | 51% |
| Meetings not voted | 13 | 95 | 2 | 2 | 112 | 49% |
| | 28 | 181 | 13 | 5 | 227 | |
| Resolutions | | | | | | |
| For | 77 | 772 | 60 | 7 | 916 | 73% |
| Oppose | 14 | 238 | 21 | 14 | 287 | 23% |
| Abstain | 2 | 43 | 3 | 0 | 48 | 4% |
| | 93 | 1053 | 84 | 21 | 1251 | |

US

| | Q1 | Q2 | Q3 | Q4 | Total | % |
|--------------------|----------|-----------|------------|------------|------------|-----|
| Meetings | | | | | | |
| Meetings voted | | 4 | 26 | 17 | 47 | 98% |
| Meetings not voted | | | 1 | | 1 | 2% |
| | 0 | 4 | 27 | 17 | 48 | |
| Resolutions | | | | | | |
| For | | 21 | 129 | 99 | 249 | 56% |
| Oppose | | 3 | 27 | 16 | 46 | 10% |
| Abstain | | 2 | 12 | 7 | 21 | 5% |
| Withhold | | 13 | 75 | 39 | 127 | 29% |
| | 0 | 39 | 243 | 161 | 443 | |