

# Report



meeting	<b>PENSIONS INVESTMENT SUB COMMITTEE</b>		
date	<b>27 March 2009</b>	agenda item number	

## REPORT OF THE SERVICE DIRECTOR (FINANCE)

### PROXY VOTING 2008

#### **Purpose**

- 1.1 To report on the voting of equity holdings in quarter 4 of 2008.

#### **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. The Fund's revised statement on responsible investment states that "the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds".
- 2.2 The Fund retains responsibility for voting (rather than delegating this 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.

#### **3. Voting**

- 3.1 The period from October to December had a relatively small number of company meetings. Votes were submitted to 74 meetings in the quarter as shown in the table below.

	<b>UK</b>		<b>Europe</b>		<b>US</b>		<b>Japan</b>		<b>Total</b>	
Meetings voted	31	97%	11	92%	31	97%	1	100%	74	96%
Meetings not voted	1	3%	1	8%	1	3%	0	0%	3	4%
	<b>32</b>		<b>12</b>		<b>32</b>		<b>1</b>		<b>77</b>	
Meetings with 1 or more oppose or abstain votes	18	56%	3	25%	29	91%	1	100%	51	66%

- 3.2 It can be seen that 66% of the meetings had at least one oppose or abstain recommendation. The full analysis of resolutions is shown in the table below.

	UK		Europe		US		Japan		Total	
For	190	78%	33	82%	148	56%	10	77%	381	68%
Oppose	38	15%	5	13%	36	14%	3	23%	82	15%
Abstain	18	7%	2	5%	15	6%	0	0%	35	6%
Withhold		0%		0%	62	24%		0%	62	11%
	<b>246</b>		<b>40</b>		<b>261</b>		<b>13</b>		<b>560</b>	

- 3.3 In the UK, the usual issues of directors' remuneration, independence of directors and inappropriate non-audit fees featured strongly. There was also concern at Diageo over political donations, as these are seen as a serious corporate governance issue and out of line with market practice. The quarter also saw a number of EGMs as troubled banks tried to raise additional capital and HBOS was taken over by Lloyds.
- 3.4 There were similar problems at European banks. The majority of the oppose votes were at Fortis where the whole board of directors resigned. Five new directors were proposed but all had recent close connections with the company, raising concerns over independence. Given the recent events at Fortis, it was felt that the new board should have a clear majority of independent directors.
- 3.5 The US has notably fewer votes in line with management and this reflects the ongoing issues with shareholder rights at US companies. One particular issue is the nomination process for directors and consequent concerns over board independence – 24% of votes were withheld in director elections. Last quarter highlighted three proposals at EGMs that sought shareholder approval to postpone meetings if insufficient votes were cast to adopt mergers. Quarter 4 saw 11 such proposals, including at Merrill Lynch and Wachovia. The fund continued to vote against these.
- 3.6 Only one meeting was voted in Japan where the fund opposed the common practice of awarding payments to non-executive directors other than fees for board service and related expenses (in this case a retirement allowance for audit services). These have the potential to compromise independence and are not considered best practice.
- 3.7 Appendix A shows a summary of voting throughout 2008 both quarter by quarter and in total.

#### **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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SERVICE DIRECTOR (FINANCE)

Background Papers Available for Inspection  
None

## Appendix A

### Summary of voting in 2008

Quarter 1	UK		Europe		US		Japan		Total	
Meetings voted	30	86%	26	90%	22	100%	1	100%	79	91%
Meetings not voted	5	14%	3	10%	0	0%	0	0%	8	9%
	<b>35</b>		<b>29</b>		<b>22</b>		<b>1</b>		<b>87</b>	
Meetings with 1 or more oppose or abstain votes	21	60%	22	76%	21	95%	1	100%	65	75%
For	212	75%	209	69%	116	58%	30	97%	567	69%
Oppose	34	12%	58	19%	13	7%	1	3%	106	13%
Abstain	37	13%	36	12%	5	3%	0	0%	78	10%
Withhold	0	0%	0	0%	64	32%	0	0%	64	8%
	<b>283</b>		<b>303</b>		<b>198</b>		<b>31</b>		<b>815</b>	

Quarter 2	UK		Europe		US		Japan		Total	
Meetings voted	128	96%	159	96%	231	100%	51	96%	569	97%
Meetings not voted	6	4%	6	4%	1	0%	2	4%	15	3%
	<b>134</b>		<b>165</b>		<b>232</b>		<b>53</b>		<b>584</b>	
Meetings with 1 or more oppose or abstain votes	116	87%	127	77%	211	91%	35	66%	489	84%
For	1,370	78%	1,558	73%	1,636	60%	573	76%	5,137	70%
Oppose	183	11%	485	23%	222	8%	183	24%	1,073	15%
Abstain	197	11%	79	4%	112	4%	1	0%	389	5%
Withhold		0%		0%	781	28%		0%	781	10%
	<b>1,750</b>		<b>2,122</b>		<b>2,751</b>		<b>757</b>		<b>7,380</b>	

Quarter 3	UK		Europe		US		Japan		Total	
Meetings voted	60	75%	9	100%	26	100%			95	83%
Meetings not voted	20	25%	0	0%	0	0%			20	17%
	<b>80</b>		<b>9</b>		<b>26</b>		<b>0</b>		<b>115</b>	
Meetings with 1 or more oppose or abstain votes	50	63%	5	56%	23	88%			78	68%
For	540	77%	58	67%	167	62%			765	72%
Oppose	84	12%	28	32%	21	8%			133	13%
Abstain	79	11%	1	1%	7	3%			87	8%
Withhold		0%		0%	74	27%			74	7%
	<b>703</b>		<b>87</b>		<b>269</b>		<b>0</b>		<b>1,059</b>	

Quarter 4	UK		Europe		US		Japan		Total	
Meetings voted	31	97%	11	92%	31	97%	1	100%	74	96%
Meetings not voted	1	3%	1	8%	1	3%	0	0%	3	4%
	<b>32</b>		<b>12</b>		<b>32</b>		<b>1</b>		<b>77</b>	
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## Appendix A

### Summary of voting in 2008

<b>Total for 2008</b>	<b>UK</b>		<b>Europe</b>		<b>US</b>		<b>Japan</b>		<b>Total</b>	
Meetings voted	249	89%	205	95%	310	99%	53	96%	817	95%
Meetings not voted	32	11%	10	5%	2	1%	2	4%	46	5%
	<b>281</b>		<b>215</b>		<b>312</b>		<b>55</b>		<b>863</b>	
Meetings with 1 or more oppose or abstain votes	205	73%	157	73%	284	91%	37	67%	683	79%
For	2,312	78%	1,858	73%	2,067	59%	613	77%	6,850	70%
Oppose	339	11%	576	23%	292	8%	187	23%	1,394	14%
Abstain	331	11%	118	5%	139	4%	1	0%	589	6%
Withhold		0%		0%	981	28%		0%	981	10%
	<b>2,982</b>		<b>2,552</b>		<b>3,479</b>		<b>801</b>		<b>9,814</b>	