

Report



meeting

PENSIONS INVESTMENT SUB COMMITTEE

date

30 March 2007

agenda item number

REPORT OF THE DIRECTOR OF RESOURCES

CORPORATE GOVERNANCE SERVICES

1. Purpose

- 1.1 To report on the voting of UK and European equities in 2006 and to consider the alternatives available for carrying out proxy voting for UK, European and US stocks in future.

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. It subscribes to voting information services to assist this".
- 2.2 Since 1996 the fund has used the Pensions Investment Research Consultants (PIRC) service for voting recommendations for UK shares and since mid-2004 PIRC's European Corporate Governance Service (ECGS) for European stocks. The Investments Sub-Committee agreed in principle at its meeting in December to vote US stocks.
- 2.3 The process for executing votes varies depending on the custody of the stocks. The in-house main fund UK portfolio is voted directly by a combination of manual and electronic proxy forms. All other holdings are voted via an on-line proxy voting service (Proxyedge) provided through the custodian, State Street.

3. Voting 2006

3.1 Proxy votes were submitted to 348 meetings in 2006 as shown in the table below (with 2005 and 2004 figures for comparison).

	2006	2005	2004
UK meetings	223	201	196
European meetings	125	88	0
Total	348	289	196

3.2 Records have also been kept on 2006 meetings to which no votes have been submitted. These are summarised below with the reasons for not voting.

	UK	%	Europe	%
Meetings voted	223	76%	125	47%
Voting advice not received	59	20%	105	39%
Submission deadline missed	10	3%	11	4%
No manual proxy form received	3	1%		
No voting option on ProxyEdge			27	10%
	295		268	

PIRC provides voting advice based on UK and European indices. Stocks held outside these indices are not currently voted although PIRC has recently extended its index coverage. The meetings for which ProxyEdge has no voting option are mainly in countries that require a power of attorney in order to vote.

3.3 The 348 meetings in which the fund participated considered 3,734 resolutions and votes were submitted in line with PIRC/ECGS recommendations as shown below (again with 2005 comparison).

Vote Type	UK Stocks				European			
	2006	%	2005	%	2006	%	2005	%
For	1,888	77%	1,811	77%	914	72%	663	75%
Against	259	10%	248	11%	318	25%	196	22%
Abstain	312	13%	295	12%	43	3%	31	3%
Totals	2,459		2,354		1,275		890	

The votes at UK meetings in support of management remained constant with a slight increase in abstentions and corresponding reduction in votes against. The European voting shows lower support for management overall with an increase in votes against.

3.4 Appendix A shows the areas where the fund has not voted in line with management recommendations. This shows that the main area of contention is still directors and their remuneration with share issues and repurchases also featuring strongly in Europe.

4. Comparison of Research and Voting Services

- 4.1 The three main UK providers of voting services are PIRC, RREV (Research, Recommendations and Electronic Voting) and Manifest. RREV is a joint venture between the National Association of Pension Funds (NAPF) and Institutional Shareholder Services (ISS), and Manifest is an independent research and voting agency.
- 4.2 The fund currently subscribes to an advice only service with voting carried out in-house. As the fund is now planning to vote US stocks it is appropriate to consider whether this arrangement should continue.
- 4.3 The cost estimates from the three providers are based on last year's voting data and a stock list as at January 2007 (summarised in the table below). This demonstrates that voting US stocks is likely to approximately double the current volume of votes.

	UK	Europe	US	Japan	Total
Number of holdings					
- in-house custody	185				185
- State Street custody	234	438	632	48	1,352
Separate companies held	216	275	393	48	932
Meetings voted in 2006	223	125			348

- 4.4 The table below compares the estimated annual costs of the services from each provider. PIRC and RREV are able to carry out proxy voting on the fund's behalf whereas Manifest offer an integrated voting platform to enable us to vote all stocks through one system. As part of the voting services, all three providers offer vote audit reporting at least quarterly.

	PIRC £	RREV £	Manifest £
Research & advice only	23,832	26,520	32,750
Voting platform			6,750
Full voting service	6,000	8,008	
Research, advice & voting	29,832	34,528	39,500

- 4.5 PIRC research covers all stocks in the FTSE All Share, MSCI Europe (500) and the S&P 500. The estimate above also includes up to 50 Japanese stocks. A small additional cost would cover the few UK stocks held outside the FTSE All Share. European coverage has recently increased from the Eurofirst 300 index and, based on the stock list at January 2007, PIRC estimates coverage of 87% of the fund's stocks. PIRC also offer Governance Plus advice for UK stocks, to include corporate social responsibility issues, for an additional £2,385. The PIRC estimates are based on a three year contract.

- 4.6 The RREV estimate covers all stocks within the funds' various portfolios (except Japan) and is based on separate unit rates per research report and per vote submitted. The charge is based on the estimated stock holdings but would incur additional charges if volumes are above those estimated.
- 4.7 Manifest emphasise the bespoke nature and timeliness of their advice and, although not offering a full voting service, the Manifest voting platform would enable consolidation of the disparate practices currently undertaken to vote stocks. Manifest also offer a Governance Watch service to monitor voting activity and compliance with the fund's voting policy, regardless of who provides advice or voting services.
- 4.8 The Sub-Committee will need to consider two main issues:
- which provider to use for voting research and advice
 - whether to also use an external provider to carry out proxy voting.
- 4.9 If PIRC is retained for the research and advice, the Sub-Committee will also need to consider whether to:
- agree a 3 year contract
 - subscribe to the Governance Plus service
 - cover UK stocks outside the FTSE All Share.

5. Statutory and Policy Implications

- 5.1 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.

6. Recommendations

- 6.1 It is recommended that:
- the voting results for 2006 be noted
 - the Sub-Committee makes recommendations to the Pensions Committee regarding the issues stated in paragraphs 4.8 and 4.9.

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DIRECTOR OF RESOURCES

Background Papers Available for Inspection

Sample voting recommendations.

PIRC Shareholder Voting Guidelines

Votes withheld and votes against at UK meetings

Voting Concern	2006		2005		2004	
	Total	%	Total	%	Total	%
The Board	150	26.3%	106	19.5%	127	21.7%
Directors' Remuneration	221	38.7%	220	40.5%	236	40.4%
Audit & Reporting	118	20.6%	128	23.6%	126	21.6%
Shareholders, AGMs & other	81	14.2%	89	16.4%	94	16.1%
Environmental Management	1	0.2%	0	0.0%	1	0.2%
	571	100.0%	543	100.0%	584	100.0%

Votes withheld and votes against at European meetings

Voting Concern	2006		2005	
	Total	%	Total	%
The Board	120	33.2%	76	33.5%
Directors' Remuneration	31	8.6%	28	12.3%
Audit & Reporting	39	10.8%	12	5.3%
Shareholders, AGMs & other	170	47.1%	111	48.9%
Environmental Management	1	0.3%	0	0.0%
	361	100.0%	227	100.0%

The majority of the concerns within the 'Shareholders, AGMs & other' section for European companies were regarding share issues and repurchases.