

Report



meeting	PENSIONS INVESTMENT SUB COMMITTEE	
date	24 MARCH 2006	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 2005 and to consider alternative corporate governance services for 2006.

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 in-house main fund UK portfolio is voted manually by submitting proxy forms with all other holdings being voted via an on-line proxy voting service (Proxyedge).

3. Voting 2005

- 3.1 The number of meetings for which proxy votes were submitted in 2005 is shown in the table below with 2004 figures for comparison.

	2005	2004
UK Stocks	201	196
European Stocks	88	0
Total	289	196

- 3.2 The 289 meetings considered 3,280 resolutions and votes were submitted in line with PIRC's recommendations as shown below (again with 2004 comparison where appropriate).

Vote Type	UK Stocks				European	
	2005	%	2004	%	2005	%
For	1,811	77%	1,824	76%	663	75%
Abstain	295	12%	321	13%	31	3%
Against	248	11%	263	11%	196	22%
Totals	2,354		2,408		926	

- 3.3 Appendix A shows an analysis of the reasons for the votes withheld and votes against at both UK and European meetings.

4. Comparison of Services for 2006

- 4.1 There are two main providers of voting services for 2006, PIRC/ECGS and RREV (Research, Recommendations and Electronic Voting). The latter is a joint venture between the National Association of Pension Funds (NAPF) and Institutional Shareholder Services (ISS). The fund currently subscribes to an advice only service but both offer a full proxy voting service as well.
- 4.2 The table below compares the cost of the two providers (more detail is shown in Appendix B).

	PIRC/ECGS £	RREV £
Voting advice	16,000	22,000
Proxy voting	5,000	3,663
Full cost	21,000	25,663

- 4.3 The PIRC advice charge is £9,390 for the UK stocks (based on the FTSE350 index) and £6,610 for the European stocks (based on the Eurofirst 300 index). No advice is received for stocks held which are not within the indices. There is also an element of overlap as some UK companies feature in the Eurofirst 300 index.
- 4.4 The RREV advice service covers all stocks within the funds' various portfolios and is charged at £40 per research report provided. The charge is based on an estimate of likely stock holdings.
- 4.5 The proxy voting service for both providers is based on an estimate of voting volumes for 2006.
- 4.6 No data is currently held on the number of meetings for which no votes are submitted but this will be monitored through 2006.

- 4.7 A comparison has been made between PIRC and RREV advice on two recent meetings and the resolutions where the recommendations differed are shown below.

	PIRC	RREV
BSkyB Group plc		
Re-elect director	Abstain	For
Reappoint auditors	Oppose	For
Approve remuneration report	Oppose	For
Authorise EU political donations	Abstain	For
Authorise shares for market purchase	For	Oppose
Pernod Ricard		
Re-elect director	Oppose	For
Ratify Alternate Auditor	Oppose	For
Authorise repurchase of share capital	Oppose	For
Approve up to 1% of issued capital for use in stock plan	For	Oppose
Approve capital increase reserved for employees	Oppose	For

PIRC has previously been considered to provide recommendations that are closest to the sub-committee's wishes.

- 4.8 The cost of subscribing to the voting services can be met from the budget for trustee training and activities.

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 2005 be noted
 - the sub-committee makes a recommendation to the pensions committee regarding voting services for 2006.

A L DEAKIN
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	2005				2004	
	Abstain	Against	Total	%	Total	%
Directors				19.5%		21.7%
Contract more than 1 year	9	1	10	1.8%	12	2.1%
Not independent	28	13	41	7.6%	53	9.1%
Concerns over director	35	2	37	6.8%	41	7.0%
Director over 70 not elected annually					1	0.2%
Combined chairman/chief exec	13	5	18	3.3%	20	3.4%
Remuneration				40.5%		40.4%
Approve remuneration report	58	86	144	26.5%	159	27.2%
Performance targets and rewards	0	1	1	0.2%		
Incentive plan	14	61	75	13.8%	77	13.2%
Audit & Reporting				27.1%		25.3%
Receive report and accounts	15	4	19	3.5%	22	3.8%
Appoint auditors	84	44	128	23.6%	126	21.6%
Share Capital Issues				2.4%		3.9%
Share re-purchase	6	0	6	1.1%	10	1.7%
Share issue	5	1	6	1.1%	11	1.9%
Concerns over dividends					2	0.3%
Scheme of arrangement	1	0	1	0.2%		
Environmental & Other Issues				10.5%		8.6%
Environmental policy					1	0.2%
Articles of association	3	6	9	1.7%	4	0.7%
Insufficient information provided					3	0.5%
Political donations	24	24	48	8.8%	42	7.2%
	295	248	543		584	

Votes withheld and votes against at European meetings

Voting Concern	2005			
	Abstain	Against	Total	%
Directors				33.5%
Re-elect directors	0	27	27	11.9%
Not independent	3	38	41	18.1%
Concerns over director	2	5	7	3.1%
Contract more than 1 year	0	1	1	0.4%
Remuneration				12.3%
Approve remuneration report	3	11	14	6.2%
Incentive plan	0	14	14	6.2%
Audit & Reporting				5.3%
Appoint auditors	4	8	12	5.3%
Share Capital Issues				35.7%
Share re-purchase	0	25	25	11.0%
Share issue	1	40	41	18.1%
Concerns over dividends	2	0	2	0.9%
Bonds issue	1	2	3	1.3%
Waive rights	3	7	10	4.4%
Environmental & Other Issues				13.2%
Articles of association	0	16	16	7.0%
Other issues	12	2	14	6.2%
	31	196	227	

Comparison of Voting Services for 2006

PIRC/ECGS service	UK £	Europe £	Total £
Research and voting advice service:			
PIRC FTSE350	9,390		9,390
ECGS Eurofirst 300		6,610	6,610
Total research and advice	9,390	6,610	16,000
Voting service			5,000
Full proxy voting service			21,000

RREV service	UK £	Europe £	Total £
Voting all holdings			
Research and voting advice service:			
Cost per meeting	40.00	40.00	
Advice on all meetings	10,000	12,000	22,000
Voting service:			
Cost per ballot	3.33	3.33	
Voting on all holdings	1,998	1,665	3,663
Full proxy voting service	11,998	13,665	25,663

Estimated Volumes for 2006	UK	Europe	Total
Meetings currently voted	200	100	300
Total meetings	250	300	550
Separate holdings currently voted	500	200	700
Total separate holdings	600	500	1,100