

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	
MEETING DATE:	21 SEPTMEBER 2012	AGENDA ITEM NUMBER
TITLE:	ANNUAL REPORT OF VOTING ACTIVITY	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 – Monitoring Review of Proxy Voting 2011		

1 THE ISSUE

1.1 Exercising shareholder rights to vote at investee company meetings is one way in which the Fund can seek to influence companies to address risks to shareholder value. The governance characteristics that the Fund is most concerned with given their potential materiality for shareholder value are:

- (1) An independent and accountable control of accounting and finance functions
- (2) A strong independent Board and sub committees with a diversity of skills and experience
- (3) A link between (executive and board) reward and strategic performance

1.2 The Fund's voting policy is to delegate voting decisions to the investment managers to vote on the Fund's behalf.

1.3 A vote monitoring service was implemented during 2011 to provide greater insight on voting issues and to improve monitoring of the voting activity of the Fund's investment managers. The report at Appendix 1 is provided by Manifest, the Fund's independent vote monitoring service provider and summarises the voting activity carried out on behalf of the Fund. This is the first annual report and represents approximately one half of the calendar years' voting, as the process started part way through the year. Future annual reports will encompass a full calendar year's voting and will be presented at June committee meetings.

1.4 Manifest has been invited to present their report at the meeting.

2 RECOMMENDATION

That the Committee note:-

2.1 The review of voting activity undertaken in 2011 on behalf of the Fund.

2.2 Based on this annual review, the issues the Fund will focus on with its managers in the 2013 voting season are (i) remuneration policy and its link with strategic performance and (ii) governance structures including the independence and diversity of the Board.

3 FINANCIAL IMPLICATIONS

3.1 There is a provision in the budget for the costs of this annual monitoring service.

4 BACKGROUND AND APPROACH

4.1 Voting is one of several tools used by shareholders to influence company behaviour. Often voting is used in conjunction with (and in support of) engagement with companies.

4.2 The aim of Manifest's vote monitoring service is to provide an insight into:

- (1) The overall voting activity taken by the investment managers on the Fund's behalf, and how managers use voting rights to influence company behaviour
- (2) Wider voting issues
- (3) Governance standards at companies

4.3 The monitoring process uses Manifest's 'best practice' template to highlight governance issues. The template is a best practice policy in terms of corporate governance standards for investee companies rather than a voting policy template, but is being used as a benchmark to analyse and compare managers' voting activity. The analysis provided by Manifest shows:

- (1) How well companies' are aligned with the best practice template (i.e. a benchmark of the governance standards at underlying companies)
- (2) How the Fund's investment managers have voted compared to the template and to other shareholders, and whether this is in-line with expectations

4.4 Often, a single issue at a company can trigger multiple resolutions within a single company meeting. For example, numerous director election resolutions can be triggered if there is an issue of Board diversity at a company. Therefore the template identifies a large number of resolutions in its analysis.

4.5 The Fund does not require managers to vote in line with the template, but gives managers discretion to vote in line with their own voting policy. Managers can often vote tactically, choosing which resolutions to focus protest on and how best to combine voting with their on-going engagement with companies.

5 VOTING ACTIVITY REPORT - MAIN THEMES

5.1 In general, the most common areas at investee companies where issues were triggered by the best practice template were:

- (1) Independence of Board / Committees
- (2) Remuneration reports, incentive plans and specific payments to directors.
- (3) Board structure and practices, and issues relating to the reporting of information.

5.2 The report shows that the Fund's managers are marginally more active in voting against management than the average shareholder.

5.3 Manager voting activity was in-line with expectations given the mandate and investment approach taken by each manager. This report focuses on the 3 managers for which there was a large enough body of data to undertake meaningful detailed analysis (next year's report will include detailed analysis on all

managers as the data will cover the full calendar year for all managers). The report highlights the differences between the 3 equity portfolios and managers:

- (1) The large passive equity portfolio managed by BlackRock brings into play a higher exposure to potential governance risks, evidenced by the relatively lower alignment of the companies in the portfolio with the governance standards of the best practice monitoring template. This is a reflection of both the global nature of the mandate and its exposure to the variance in governance standards across global equity markets, and the fact that as a passive manager, BlackRock has to hold the majority of stocks within the relevant index. This relatively higher governance exposure places a greater emphasis on the use of shareholder rights to mitigate governance risks to which the portfolio is inevitably exposed. BlackRock is the second most active of the Fund's managers (measured by dissent with management) and they hold by far the largest number of holdings of all the Fund's managers.
- (2) As expected, companies held in the Jupiter UK SRI portfolio exhibited a higher than average alignment with the best practice governance standards reflected in the monitoring template, affirming the fact that governance concerns form an integral part of the stock selection and management process.
- (3) The TT portfolio exhibits an average degree of alignment with the best practice governance standards, and when compared with general shareholder voting activity, TT's voting records show they are in-line with the average investor. This would suggest a relatively neutral approach to governance in terms of stock selection and use of share voting.

5.4 The report also highlights issues to monitor by individual manager. Particular areas for future focus include remuneration, director elections, and incentive pay plans.

6 ONGOING MONITORING

6.1 As the first report of this type for the Fund, it will serve as a base on which to report and compare future voting activity. It is envisaged that the report will develop in subsequent years as the data provides a more meaningful analysis of the trends. This will enable the Fund to focus on the issues and challenge managers on their voting activity.

6.2 Officers will follow up the issues raised in the report with each manager and discuss with the Investment Panel in manager meetings as appropriate.

6.3 Based on the issues highlighted in this initial report and the materiality of the issues to the Fund, the areas of particular focus with the managers in the 2013 voting season will be:

- (1) Remuneration policy and how this relates to corporate performance and objectives
- (2) Whether governance structures provide adequate independence to the decision making process and draw experience and knowledge from a diverse selection of individuals.

7 RISK MANAGEMENT

7.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via the Asset Liability Study which determines the appropriate risk adjusted return profile (or strategic benchmark) for the Fund and through the selection process followed before

managers are appointed. This report monitors how the Fund is using its voting rights to protect shareholder value which forms part of the overall risk management process.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 N/a

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	