

# Avon Pension Fund Fund Manager Vote Monitoring

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Background: Manifest and Vote Monitoring

Governance Issues in 2011 Voting

Fund Managers and Voting

Q&A

Analysing corporate governance and meeting business for institutional investors since 1996

Specialise in custom voting policies, therefore well equipped to assess varying voting behaviours

Vote monitoring: 3 stages

1. Manifest governance and meeting analysis of meetings voted by Avon's fund managers
2. Post-meeting results obtained from the companies
3. Fund manager voting reports assessed in light of 1 and 2 above.

## Why monitor voting?

Voting is an important part of the investment process: Use of ownership rights to manage governance risks in the portfolio

Monitoring voting helps Avon with:

- Understanding of best practice governance issues at investee companies
- Comparison of fund managers with each other, general shareholder voting behaviour and fund expectations

Vote monitoring is about understanding investment risk management, not enforcing compliance with a policy.

- Collection of data from company disclosures ahead of meetings on Manifest database into hundreds of data points.
- Manifest analysts add commentary to reports and qualitative judgement selections to database fields
- Resolutions then analysed using data and judgements with purpose built, customisable governance policy systems
- Result – a report detailing each resolution where the company falls short of the governance policy

- Resolution by resolution, Manifest adds the actual voting decisions reported by each fund manager
- Manager voting decisions then compared with the report highlighting governance shortfalls
- Exception analysis is then produced, resulting in quarterly reports and the Annual Voting Summary Report
- 2011 assessment is to be a benchmark for following years

“The system by which corporate direction and control operates”

Actors in the process:

- Regulators
  - Laws, Codes of Best Practice, Sanction
  - Government, Trade Associations, Market Regulatory Agencies
- Boards
  - Strategic direction and running of the company
  - Independent directors, committees, remuneration, audit, reporting
- Stakeholders
  - Consultation, autonomous actions
  - Employees, unions, customers, NGOs
- Investors
  - Exercise rights of control and oversight
  - Pension Funds, Insurance Companies, Sovereign Wealth Funds, Charities, Individuals

A single governance issue may trigger concerns with multiple resolutions at a meeting

- E.g. Director elections may be affected by the independence of the nomination committee or board diversity concerns

Therefore the voting template identifies concerns with a large number of resolutions in its analysis, but it's the underlying governance issues that are important

It is not expected that managers follow the voting template. The template identifies concerns that fund managers use their discretion to decide upon

Voting is tactical in the wider context of engagement and investment decisions



These are the substantial issues for investor focus; more important than over-emphasis on opposition to specific resolutions.

## Director Elections

- Board gender balance, committee independence or size, nominee independence, length of NED tenure, committee responsibilities, severance arrangements (exec directors)

## Remuneration

- Committee independence, sustainability issues in performance target setting, upper bonus cap, LTIP award sizes, LTIP award limits

## Annual Reports

- Fees to auditor for non-audit work, board independence, board size

## Auditors

- Committee independence, value of non-audit work compared to audit fee, auditor tenure

Overall average support for management – 96.1%

Fund Manager support for management (general support)

|                    |                   |               |
|--------------------|-------------------|---------------|
| – BlackRock        | 1,560 resolutions | 93.8% (94.8%) |
| – Jupiter          | 1,071 resolutions | 97.5% (97.5%) |
| – TT International | 953 resolutions   | 97.6% (96.7%) |

BlackRock, Jupiter and TT International featured enough resolutions for some thematic analysis

- Identification of a concern does not necessarily mean a vote against: Voting is only a part of the wider investment process of maximising returns
- Governance concerns might be addressed through stock selection (i.e. in active strategies, managers may choose not to invest and therefore don't get to vote at more contentious companies)
- Other elements of ownership rights might be used to communicate concerns, such as meetings and correspondence
- Where sale is not an option (i.e. passive investment strategy), importance of use of voting rights increases as a means of investment risk mitigation
- Active investment may not mean active voting; passive investment may not mean passive voting

Voting activity is broadly in line with expectations from the investment mandate

BlackRock:

- A passive equity portfolio increases risk of low alignment with governance standards. The higher level of votes cast against management reflects this.

Jupiter

- High levels of alignment with governance standards to be expected in an active SRI mandate. Higher level of votes cast against than alignment suggests shows serious use of voting rights.

TT International

- Active manager with slightly higher than average governance alignment, combined with low level of votes cast against management suggests governance risk is part of selection process.

## Director Appointments

- TT: Board size, tenure and non-independent nominees for committee with independence concerns
- BlackRock: Committee independence, nominee not considered independent by the company, tenure, board gender balance, severance payments or bonuses on exit (execs)

## Remuneration Reports

- Jupiter: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps, recruitment/retention payments, lack of shareholding requirements
- TT: Maximum LTIP awards made, committee independence, unearned bonus on termination, upper bonus caps
- BlackRock: Absence of ESG linkage, upper bonus caps, value of LTIP awards made

## Incentive Pay Plans

- Jupiter: Maximum potential award values
- TT: Maximum potential award values

- A sound point of comparison for future reports
- Director elections-related issues most wide-spread, because director elections are by far the most common resolution. Tenure and gender diversity are prominent considerations
- Remuneration is also noteworthy, especially relating to high levels of incentive pay and relatively low levels of voting dissent
- Sustainability considerations to become more important?
- Materiality of issues is more important than voting actions and outcomes
- Voting must be seen in the widest context of investment strategy

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