

## REVIEW OF VOTING POLICY

### Report of the Deputy Chief Executive

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#### 1. Purpose of the Report

- 1.1 To advise the Committee of the results of the review of the Fund's voting policy over the period July 2015 to September 2016

#### 2. Summary

- 2.1 The Fund has a policy to vote at the AGMs and EGMs of FTSE 350 companies in the UK in accordance with corporate governance principles. The Fund uses an external voting advisory service provided by ISS (Institutional Shareholder Services) formerly RREV (Research, Recommendations and Electronic Voting). They analyse the resolutions at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs) to determine their compliance with corporate governance principles and advise on voting actions accordingly. The investment managers are required to follow this advice. Investment managers must obtain prior written authority to vote contrary to RREV recommendations.
- 2.2 In addition to this proxy service the Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF act in a stewardship role on behalf of LGPS funds to facilitate effective engagement with companies and policy makers. There are 70 Local Government Pension Scheme member funds of this Forum. This service will complement the voting service provided by ISS to the Fund in exercising its votes in ensuring responsible corporate governance and engagement on issues such as executive pay and carbon reduction.

#### 3. Conclusions

- 3.1 Votes were cast in accordance with the Fund's policy in 99.9% of cases. In cases where investment managers breach voting policy they are asked to provide an explanation for this breach and confirm that they would review their internal control systems so as to avoid further voting breaches occurring in the future. One of the Fund's investment managers breached the guidance during this period

#### **4. Recommendation**

That Members of the committee note the content of this report.

#### **5. Background**

- 5.1 The Pension Fund since July 1997 routinely votes on all matters raised by FTSE 350 listed UK companies where it own shares. The Investment Managers are asked to vote in accordance with the recommendations of the voting advisory service provided by the Fund's external provider ISS and to report the votes annually. If the investment managers feel it is not appropriate to vote in accordance with the guidance, if they believe that such action would not be in the best financial interests of the Pension Fund, then they must obtain prior written authority from the Fund to vote contrary to ISS recommendations.
- 5.2 The Fund uses an external company ISS to provide the Fund with a voting advisory service. They analyse the resolutions at Company AGMs and EGMs to determine their compliance with corporate governance principles and advise on voting actions accordingly.
- 5.3 The Hertfordshire Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF). The LAPFF has a membership of 71 LGPS Funds across the country with combined assets of over £175 billion, and the objectives of the LAPFF are to:
- Hold companies accountable for providing a true and fair view of their financial position and that this is dealt with by their audited accounts.
  - Initiate engagement with the most widely held global companies in member portfolios on relevant governance, capital stewardship and corporate responsibility issues.
  - Develop the Forum's innovative approach to executive pay incorporating views from asset managers, asset owners and companies; maintain pressure on companies with complex pay structures.
- 5.4 As part of its longer term objectives and recognising the global nature of the companies the LGPS is invested in, the LAPFF is looking to initiate engagement with companies that the Forum has not previously engaged with in order to build positive relationships and develop market awareness of LAPFF's approach as an investor group. Engagement will be on environmental, social or governance issues identified specific to each company but in the context of best practice for that market or sector.

## **6. Review of votes cast**

- 6.1 A review of the voting instructions reported by the managers over the period July 2015 to September 2016 has been carried out. Over the period of the review the managers voted at all the meetings they were entitled to, this led to one or more of the managers voting at 198 company AGMs or EGMs in the UK.
- 6.2 Baillie Gifford, Jupiter and Allianz Global investors voted in accordance with the policy in all cases. JP Morgan voted in accordance with the policy in all but 1 case, and did not seek permission prior to exercising this vote.
- 6.3 JP Morgan voted at 22 meetings during the year and failed on one occasion to vote in accordance with ISS guidance at the Shire plc AGM and voted for the resolution approving the remuneration package for directors. The resolution was passed by a majority vote. After investigation JP Morgan admitted this was an error and they have subsequently amended their controls to avoid a reoccurrence in the future.

## **7. LAPFF engagement**

- 7.1 Over the last twelve months the LAPFF has responded to a number of consultations on behalf of its membership covering areas such as the Task Force on climate disclosure phase 1 consultation, the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and the consultation on Corporate Human Rights Benchmark.
- 7.2 The LAPFF response in particular to the Task Force on Climate Disclosure Phase 1 consultation set out its view encouraging a forward looking focus on quantitative and qualitative reporting across five areas: operational emissions; strategic resilience; research and development; the governance of company policy implementation on climate change; and public policy.
- 7.3 Representatives from the LAPFF have also attended a number of Company Annual General Meetings (AGMs) over the last twelve months and examples of the representations made on behalf of its membership are as follows:
  - National Grid – raised the issue at this AGM about emissions reporting and the importance of understanding the full extent of a company's global emissions.
  - Sports Direct – working with a number of shareholder groups calling for an independent review of this company's human capital management strategy.

- LAPFF filed shareholder resolutions at the meetings of Anglo American, Glencore, and Rio Tinto that received overwhelming shareholder support on the need for these companies to be more transparent about how they are preparing for the transition to a low carbon economy.
- National Express – LAPFF has supported shareholder resolutions with National Express requesting an independent assessment of labour conditions in one of its US subsidiaries.