

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board
Date of Committee 26 November 2007
Report Title Shareholder Activism

Summary Report setting out the need for shareholder activism within the Warwickshire County Council Pension Fund

For further information please contact: Phil Triggs
Group Manager
Tel: 01926 412227
philtriggs@warwickshire.gov.uk

Would the recommended decision be contrary to the Budget and Policy Framework?

No.

Background papers

None.

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Davis, Chair of Pension Fund Board
- Cabinet Member
- Chief Executive
- Legal Tony Maione, Solicitor
- Finance David Clarke, Strategic Director of Resources (reporting officer)
- Other Chief Officers
- District Councils

Health Authority

Police

Other Bodies/Individuals

FINAL DECISION YES

SUGGESTED NEXT STEPS:

Details to be specified

Further consideration by this Committee

To Council

To Cabinet

To an O & S Committee

To an Area Committee

Further Consultation

Pension Fund Investment Board - 26 November 2007

Shareholder Activism

Report of the Strategic Director of Resources

Recommendation

The Board is asked to approve the report and delegate to officers the appointment of Manifest and the drafting of a policy with Manifest in respect of shareholder activism and the voting of the Fund's shares. The results will be presented to a future meeting of the Board for approval.

1 Introduction

- 1.1 The Government requires that each LGPS pension fund states in its SIP how far it keeps to CIPFA's 10 principles resulting from the Myner's Review. The Myners report was based on the findings of a specially commissioned government review committee.
- 1.2 In order to further conform to the CIPFA/Myners principles, further development is required of the Council's approach to corporate governance and shareholder activism.

2 Further Development of Shareholder Activism

- 2.1 Share voting and company engagement can be a complex, time consuming and tricky process to organise successfully. It means keeping on top of a number of issues, such as:
 - tracking when corporate meetings are to take place;
 - identifying contentious issues with companies in the portfolio;
 - ensuring that voting preferences are expressed at the meeting;
 - establishing governance preferences as owners of companies in which the fund is invested.

- 2.2 In Warwickshire's case, individual fund managers have responsibility for voting shares on the Fund's behalf. However, that does not mean the Investment Board should not take responsibility for shaping and monitoring the voting policy. It is important for the Board to know that fund managers are acting consistently with its preferences and with each other. If this were not the case, the Board's voting and engagement programme would look rather hollow and ownership rights would be out of control.
- 2.3 The Board must be sure of its preferences with regard to its voting policy. Thus, it must have the tools to analyse the voting of each of its managers against voting preferences. The Board must be satisfied that all of its fund managers are working consistently on its behalf. Specifically, it is vitally important that the Board knows when fund managers have voted differently, either to your policy or to each other, so that it can focus attention on the exceptions without having to trawl through the non-exceptions.

3 Appointment of a specialist company

3.1 Manifest offers a set of analytical tools that will hone in on and highlight fund manager voting records. This will enable the keeping of a cross-referencing analysis of contentious issues with fund managers' governance and voting records. This will put the Board in control of the facts and in a fully informed position when addressing the issues with your fund managers.

3.2 In its Governance Watch service, Manifest offers three levels as follows:

3.3 Level 1

At the entry level of service, Governance Watch provides the following:

- A best practice governance and voting policy that takes into account the very latest recommendations from the Higgs and Smith Reports. The Board will ensure its voting policy reflects the most up-to-date standards. Manifest have wide-ranging contacts within the fund management industry to ensure that it hears of the latest developments and can reflect these developments in voting policy and the Fund's SIP.
- A weekly portfolio analysis of shareholder meetings. This executive summary report enables at a glance analysis of issues. Manifest's analysis will provide plenty of time to review events with fund managers before voting. Only the events pertinent to the Fund will be highlighted saving considerable time and effort.
- Monthly portfolio holdings review to reflect any changes in holdings.

3.4 **Level 2**

The intermediate level of service introduces elements of tailoring to provide a more bespoke service. Based on the Level 1 service, Level 2 additionally offers:

- A bespoke governance and voting template is developed based on particular concerns your funds may have. Manifest's analysts will perform the detailed sorting of complex issues, enabling the Fund to focus only on the issues and topics of concern. For trustees, this makes sense compared with the daunting task of reading forty or more reports each week during the busy 'peak season'.
- Bi-monthly portfolio updates.
- A quarterly portfolio summary analysis of the issues pertinent to the Fund so that they can be compared with fund manager reports for any variances.
- An annual monitoring meeting to review and refine policy.

3.5 **Level 3**

Level 3 has been developed to offer funds the added comfort of knowing that their policies are being implemented through a thorough audit process. In addition to the elements of Level 1 and 2, Level 3 customers will benefit from:

- Audit trail and variance analysis: Manifest's vote management software compares the fund's voting policy against fund manager voting reports looking for any differences between policy and activity. This will enable discussion of differences with your fund managers at meetings. In a multi-manager scenario, this type of monitoring will enable the elimination of variances in voting activity and create a constructive dialogue with fund managers about future activity.
- Weekly portfolio updates.
- 6-monthly meetings with Manifest's analysts to review policy and activism issues.

3.6 The Governance Watch range of services also include:

- Agenda: a weekly electronic bulletin to keep you up-to-date with key governance developments.
- Governance Profile Reports are available for each company in your portfolio on an ad hoc basis to get to the analysis behind the issues.

4 Cost

- 4.1 The cost is still to be negotiated. It is estimated that a level 3 service would result in an annual cost to the Fund of around £7,000.

5 Recommendation

- 5.1 The Board is asked to approve the report and delegate to officers the appointment of Manifest and the drafting of a policy with Manifest in respect of shareholder activism and the voting of the Fund's shares. The results will be presented to a future meeting of the Board for approval.

DAVID CLARKE
Strategic Director of Resources

Shire Hall
Warwick
October 2007