

AGENDA MANAGEMENT SHEET

Name of Committee Pension Fund Investment Board
Date of Committee 4 August 2008
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 John Galbraith, 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 - 4 August 2008

Shareholder Activism

Report of the Strategic Director of Resources

Recommendation

The Board is asked to review and approve the policy in respect of shareholder activism and the voting of the Fund's shares.

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.
- 1.3 At its last meeting on 19 May 2008, the Board instructed officers to engage with Manifest with a view to bringing back to the next meeting a suitable policy for their consideration and approval.

2 Implementing a 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 With regard to Warwickshire's request, Manifest has offered 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.
- 2.3 Manifest will provide 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.
- 2.4 Manifest will develop a bespoke governance and voting template, enabling the Fund to focus only on the issues and topics of concern. For Board members, this makes sense compared with the daunting task of reading forty or more reports each week during the busy 'peak season'.

3 Setting a share voting policy

- 3.1 Officers have engaged with Manifest and drawn up a share voting policy for the Board's approval. The draft voting policy is shown as Appendix A.
- 3.2 The Board is invited to review the policy and suggested any changes as appropriate.
- 3.3 Sarah Wilson from Manifest will be present at the London meeting on 1 August 2008.

4 Recommendation

- 4.1 The Board is asked to review and approve the policy in respect of shareholder activism and the voting of the Fund's shares.

DAVID CLARKE
Strategic Director of Resources

Shire Hall
Warwick
July 2008

Corporate Governance & Voting Policy Statement

Warwickshire Pension Fund (the Fund) aims to be an informed and responsible long-term shareholder of companies and markets in which it invests. The Fund has a commitment to encourage responsible corporate behaviour which is based upon the view that oversight and stewardship of companies encourages good long-term value and performance. The Fund has a duty to protect and enhance the value of its investments, thereby acting in the best interests of the Fund's beneficiaries.

The Fund takes seriously its responsibility to ensure that the voting rights for which it is responsible are exercised in an informed, constructive and considered manner. The Fund supports the 'comply or explain' principles of the UK's Combined Code and will seek to take all relevant disclosures into account when exercising its votes. While the Fund expects companies to take appropriate steps to comply with the Code, we recognise that departure from best practice may be justified in certain circumstances. In these situations, the Fund expects a considered explanation from the company.

In general the Fund aims to support management in their stewardship role. This document sets out the instances where The Fund's voting intentions may override support for company management proposals.

1 Approval of Financial Statements

Where there is a qualified audit statement, or restatements of annual results made in the previous year (apart from where adapting to new regulations), or where there are concerns of fundamental significance, the Fund will consider approval on a case by case basis.

2 Approval of Remuneration Report & Policy

The Remuneration Committee of any company should at all times be independent of management, with no executive director membership. Notice periods for executive directors should not normally exceed 24 months. Where share-based bonus schemes are reported within a policy, the minimum holding period should exceed three years, exercise should be subject to performance targets and a peer ranking of at least 50% should be required before minimum share vesting. Additional bonus payments should not be made. Should any of these conditions not be met, the Fund may positively abstain.

3 Removal of Auditors

Warwickshire Pension Fund will normally vote with management on proposals for the removal of auditors, unless the proposal is for alleged financial irregularities. In this instance, the Fund will judge on a case by case basis.

4 Election of Directors

Director notice periods are significantly important. Where an executive director's notice period exceeds 24 months or where severance pay exceeds an equivalent of twelve months, the Fund may abstain. Equally important is the independence of the Remuneration Committee. The Fund may also abstain from a director's election if they are an executive or non-independent director on the Remuneration Committee.

5 Separation of Chairman & CEO

The Fund believes the roles of Chairman and CEO should be separate. Therefore, where the roles of Chairman and CEO are not separated, the Fund may abstain on the election of the Chairman.

6 Removal of Directors

Where there is a proposal to remove a director, the Fund will vote against it unless the proposal has board support and it is uncontested by the individual concerned. Where the proposal is contested by the individual concerned, the Fund will consider its position on a case by case basis.

7 Approval of Long Term Incentive Schemes

The Fund's policy on executive remuneration is that companies should develop equitable reward systems that genuinely incentivise directors to deliver sustainable, long-term shareholder value. The Fund wishes to encourage companies to move away from "one-size-fits-all" performance conditions and to introduce objective performance conditions related to the company's long-term strategy.

In general, the Fund will abstain from approval of any proposed scheme where:

- the Remuneration Committee is not entirely independent of management;
- a proposed scheme allows bailing out or repricing of options;
- exercise is not subject to performance targets;
- the minimum performance or holding period is less than three years;
- less than 50% ranking is required for minimum share vesting;
- the performance measurements are not relative to a peer group or benchmark comparison;
- less than 50% ranking is required for minimum share vesting;
- retesting of performance is permitted.

The Fund will also abstain from supporting an all employee share scheme where non-executives are also permitted to participate.

8 Shareholders' Rights

WCC will consider resolutions relating to shareholder rights on a case by case basis. The following outlines the principles that we expect our companies to adhere to:

Pre-emption right for issues of new capital

The Fund does not support resolutions that are inconsistent with rules of the Pre-emption Group of the London Stock Exchange.

Restricted Voting Rights

The Fund does not support issues of shares with restricted voting rights, nor any action which effectively restricts the voting rights of shares held by WCC.

Share Repurchases

The Fund will normally vote in favour of an authority for share repurchases provided that it complies with the Listing Rule guidelines (e.g. limit of 15% of issued share capital) and that directors demonstrate that this is the most appropriate use of a company's cash resources. Companies should adopt equal financial treatment for all shareholders. The Fund therefore supports measures that limit the company's ability to buy back shares from a particular shareholder at higher-than-market prices.

Hostile takeover bids

Companies should seek shareholder approval on any action which alters the fundamental relationship between shareholders and the board. This includes anti-takeover measures.

Mergers & Acquisitions

We support mergers and acquisitions which enhance shareholder returns in the longer term. We encourage companies to disclose fully relevant information and provide for separate resolutions on all issues which require the shareholders to vote, for example, the effect of a merger on the compensation and remuneration packages of the individual board members.

Article Changes

The Fund does not support proposed changes to Articles of Association and/or constitutional documents that reduce shareholder rights or do not reflect good governance practices.

9 Shareholder Resolutions

All such proposals will be reviewed on a case-by-case basis. The Fund will, however, generally vote against shareholder resolutions not supported by management.

10 Other Business

Where a resolution proposes moving to an unregulated market or de-listing, the Fund will consider issues on a case by case basis. Schemes of arrangement, significant transactions and bundled resolutions are also considered on a case by case basis.

Where a resolution is proposed given to not allow for any other business, the Fund may abstain.