Item 7

Pension Fund Investment Sub-Committee

19 May 2014

Share Voting

Recommendation

That the Sub-Committee approve the recommendation in 4.1

1 Introduction

1.1 At the meeting of 4 August 2008 it was decided that the Pension Fund approve a policy in respect of shareholder activism and the implementation of a proxy voting system to vote on the Fund's shares. Since this time the funds officers have used this voting system and approved policy to vote on the shares held in our segregated mandates held with Threadneedle Investments (UK equities) and MFS Investment Management (Global equities).

1.2 Our provider for the proxy voting system, Manifest, drafted the best practice governance and voting policy that used recommendations from the Higgs and Smith Reports. There have been subsequent regulatory developments and governance, therefore the original policy needs to be revised to reflect these changes.

2 Changes to the Voting Policy

2.1 The policy has been redrafted to include the new regulations around director's remuneration and the quality of company narrative reporting. Further amendments have been made to the policy to ensure compliance with the UK Governance Code. Also, the Pension Fund signed the Stewardship Code in 2013 which encompasses principles that should also be reflected in the policy.

3 The Proposed Voting Policy

3.1 Officers have engaged with Manifest and drawn up a revised share voting policy for the sub-committee approval. The draft voting policy is shown in **Appendix A**.

4 Recommendation

4.1 That the sub-committee approve the revised share voting policy as attached.

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Appendix A

1 ABOUT THIS DOCUMENT

This document is an executive summary of Warwickshire County Council Pension Fund's approach to investor stewardship and in particular its views on key governance and corporate sustainability issues. These issues include: capital and board structure; board evaluation and refreshment; director remuneration, audit and accountability, and narrative reporting matters.

These high-level principles are underpinned by detailed market-by-market guidelines, which are used as a basis for voting the fund's shares at general meetings.

The fund has appointed a proxy voting agency to assist the fund in the implementation of its policies. Final vote decisions are determined by Fund officers using independent research to support their decision-making. The exception to this is case-by-case investment resolutions, for example take-overs, where the investment manager is consulted before a final decision is made.

Unless otherwise specified, the Fund seeks to adopt a highest common denominator standard to its global voting. Although we recognise that local market standards may vary, our objective is to hold management accountable to the highest possible standards on a consistent basis. The only exception will be where local laws contradict.

2 SHAREHOLDER RIGHTS & RESPONSIBILITIES

2.1 One Share- One Vote

The Fund fully supports the concept of "One share- One Vote" and is not supportive of the creation of share capital with differential voting rights. Companies should therefore disclose the share structure, voting rights and any other rights or limitations attached to each class of shares.

2.2 Shareholder Engagement & Wider Stewardship Activities

The Fund is a signatory to the Stewardship Code and is also a member of the Local Authority Pension fund Forum.

While the fund undertakes its own voting, we seek to involve our fund managers in our stewardship activities and expect them to include stewardship considerations as part of their investment strategy.

As a Code signatory we believe that proper disclosure of our voting records will help companies and other stakeholders including Fund members understand our approach. These records are updated regularly and can be found at www.warwickshire.gov.uk/pensions

3 THE BOARD OF DIRECTORS

3.1 Board Composition, Diversity & Succession

When assessing the quality of investee company boards, WPF takes a balanced approach to understanding board composition which takes account of overall board size, director skills, background and experience.

Diversity brings substantial benefits to companies in terms of skills and competencies. We therefore expect to see a structured and well-articulated approach to board refreshment and succession planning. Diversity is more than simply gender; while not supporting specific gender quotas, we encourage boards to voluntarily achieve a target of at least 30% women on the board and in senior positions and to provide clear explanations of how they are achieving diversity goals.

All companies should have a succession plan and explain their approach towards to the use of executive search firms or "Head-hunters" versus internal talent or "Pipeline" development.

3.2 Director Independence & Commitment

Director independence is generally assessed against the standards set by the UK Corporate Governance Code ('the Code'), however there are times when a case-by-case approach is required.

Independence on its own is not a sufficient characteristic for a successful appointee, directors should be able to devote the necessary time to the company's affairs. We therefore expect to see full disclosure of directors other outside appointments together with a record of attendance and explanations for non-attendance, which will be considered on a case-by-case basis.

3.3 Board Evaluation

Boards should undertake a formal evaluation of its performance every two to three years under the guidance of an external, independent facilitator. A statement about the results of the evaluation should be included as a separate item in the annual report.

3.4 Chair/CEO

We support the separation of the roles of Chairman and Chief Executive.

Except in rare circumstances, former Chief Executives should not be appointed to the position of Chair. We would expect to see a clear explanation of the reasons and what time horizon the company is looking to for a replacement. The position may be temporary, due to unexpected circumstances, such as illness.

3.5 Director Re-election

Directors are expected to submit themselves for re-election on a regular basis and that boards should not insulate individual candidates.

3.6 Directors' Service Contracts

Companies should fully disclose directors' service contracts or terms of appointment; all contracts should include a notice period of no longer than one year and any exit payments should be clearly disclosed. In particular:

- Severance payments relating to poor corporate performance should not extend beyond basic salary. There should be no entitlement to discretionary payments in these circumstances.
- Contracts should not provide additional compensation for severance as a result of change of control;
- The duty to mitigate should be made a specific contract provision and remuneration committees should consider phased payments in order to fulfil compensation commitments on early termination.

4 SHAREHOLDERS' CAPITAL

Pre-emption rights are a basic shareholder right which can be easily eroded without careful monitoring. We support the principles of the UK's Pre-Emption Group guidelines on dilution which permit up to 5% of share capital to be offered for cash rather than on a rights basis. Existing shareholders should be offered the right of first refusal when a company issues shares exceeding 5% of the existing shares in issue or exceeding a 7.5% threshold in any three-year rolling period, as set out in the Pre-Emption Group's document "Disapplying Pre-Emption Rights: A Statement of Principles", issued in 2006.

Companies should provide explicit assurance that share buybacks will only be exercised in the best interests of all shareholders. This is particularly important where incentive pay may be linked to Earnings per Share performance.

5 AUDIT & ACCOUNTABILITY

5.1 Audit & Accountability

Sound audit and reporting standards are an essential investor protection. Clear presentation of material risks to the business and how they are mitigated is a core requirement. Explanations in relation to changes to accounting practices, restatements or matters of emphasis must be prominent and transparent.

5.2 Audit Committee

Boards should ensure that the relationship with the auditor is appropriately focussed on the protection of the company and not of management. The audit committee, which should be composed of suitably qualified individuals, with a least one designated "Financial Expert", is responsible for ensuring that the auditors offer independent and effective services. Non-audit related work should be minimised to avoid unnecessary conflicts of interest.

5.3 Internal Controls

Oversight and management of risk can be enhanced by the use of an internal audit function. Financial institutions should operate a separate risk committee.

5.4 Audit Partner, Audit Firm Rotation

We encourage competitive tendering for audit every 5-7 years and mandatory rotation after no more than 15 years. Retendering alone is unlikely to safeguard auditor independence. We do not support "Big 4 only" restrictions in tenders or any such requirements by lenders.

6 DIRECTOR REMUNERATION

6.1 Remuneration Committee

The UK Corporate Governance Code provisions on the role and composition of remuneration committees, serves as a benchmark for our approach to committee composition for our UK and global holdings. Remuneration committees should have access to their own independent advice which is not connected with any other services provided to management e.g. audit, HR, board evaluation etc. Non-executive fees and any associated policies, including share ownership policies should also be disclosed.

In their reporting to shareholders, committees are encouraged to explain their approach to the discretionary powers they exercise over the various components of executive pay. Blanket discretion is not supported.

6.2 Remuneration Policy & Disclosure

Remuneration policies should be clear and straightforward so as to facilitate understanding of how management is incentivised to achieve long term shareholder value and support the success of the company.

- Pay for Performance

We expect to see a significant proportion of executive pay linked to corporate performance which is clearly and meaningfully aligned with strategy and positive shareholder value. Financial metrics and ratios such as earnings per share or total shareholder return on their own are unlikely to be sufficient measures of strategy. We therefore we wish to understand the relationship between pay and Key Performance Indicators (KPI’s); business and market risk; and how these support long-term, sustainable returns. Sustainability or “extra-financial” criteria which have a material business impact are encouraged as part of the KPI’s.

- Variable or Performance-Related Pay

Companies should clearly disclose the performance targets used in any variable pay plans (Annual Bonus, Short-Term Incentives or Long-term Incentives). Where commercial sensitivity prevents forward disclosures, we expect to see retrospective disclosure. The technical analysis of variable pay schemes is provided by our research provider and takes account of global and market best practices.

- Recruitment Payments

We recognise that companies may need flexibility in order to be able to recruit new executive directors. We expect to see clear disclosure relating to the maximum variable pay which can be paid to incoming directors. Such payments should exclude compensation for variable pay forgone at the previous employer. Transaction related payments should be subject to demanding performance conditions.

- Change of Control

There should be no automatic waiving of performance conditions for either change of control or capital reorganisations. Any consequential early vesting should be time pro-rated.

- Dilution

Share-based remuneration plans have the potential to dilute shareholders. For this reason share plans should not exceed 10% of the ordinary issued share capital in any rolling 10 year period.

- Claw-backs

The remuneration policy should disclosure clearly what claw-back provisions have been made and in particular their scope. The remuneration committee should have sufficient flexibility to operate the policy rather than simply tying clawback to specific events such as financial restatements, for example.

7 SUSTAINABILITY REPORTING

7.1 Responsibility & Disclosure

There is strong evidence that demonstrates that companies with a long-term sustainable approach to their management outperform their peers. We therefore encourage our companies to describe their approach to sustainability in the widest possible sense and explain how their policies align with long- term corporate strategy. The board of directors should be directly responsible for sustainability considerations.

7.2 Sustainability Risk Reporting

We strongly support transparent and understandable sustainability risk reporting in the context of how relevant and material risk impact their business strategy.

7.3 Employment, Health and Safety

Poor employment practices present significant operational and investment risks for companies. We expect management to develop good employment practices across their organisation that are linked to sustainable corporate prosperity and thus investment value.

7.4 Political Donations

Political donations are considered on a case-by-case basis according to jurisdiction, however as a general rule we do not support shareholders’ funds being used for party political donations.

8 DETAILED VOTING PROCEDURES

In addition to these high level principles, the Fund maintains detailed voting procedures on a market by market and issue by issue basis. These are maintained by our service provider on behalf of the fund and are reviewed on a regular basis, at least annually to ensure that our procedures are consistent with local laws and best practices.

The fund aims to cast its votes on an informed and pragmatic basis having given due consideration to the specific circumstances of the company and the disclosures given to shareholders. Companies are encouraged to provide transparent explanations which explain and justify their reasons for non-compliance with standards. In cases where there is insufficient information or unduly harsh voting deadlines, the fund reserves the right to withhold votes on all resolutions.