

# Pensions Committee

21 March 2018

<b>Report title</b>	Shareholder voting update	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	Michael Marshall Tel Email	Responsible Investment Officer 01902 552086 Michael.Marshall@wolverhampton.gov.uk
<b>Report to be/has been considered by</b>	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

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## Recommendation for approval:

The Committee is recommended to:

1. Extend on an interim basis, up to 31 December 2018, the contract of its incumbent voting services provider.

## Recommendation for noting:

The Committee is asked to note:

1. The Fund's UK Voting Principles.

## 1.0 Purpose

- 1.1 To brief the Pensions Committee on a review of the Fund's UK Voting Principles and to provide assurance as to how shareholder voting activities will be carried out in the short term and in the longer term, in particular during the initial transition of investment portfolios to LGPS Central.

## 2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment policy. There are three main areas of responsible investment that we focus on: **engagement through partnerships, voting globally** and **shareholder litigation**. This paper refers to the Fund's programme of voting globally.

## 3.0 Shareholder voting

### *UK Voting Principles*

- 3.1 The Fund has had its own, bespoke UK voting template since 2003. The current template remains largely unchanged since 2008, with minor additions having been made from time to time since 2003. The Fund observes the increasing importance of matters of investment stewardship and has therefore conducted a thorough review of the current voting template.
- 3.2 In drafting the UK Voting Principles, the Fund's RI Officer has conducted interviews, attended investor roundtables, surveyed literature and performed desk-based research. Since 2003, the Financial Reporting Council (FRC) has made nine significant updates to corporate governance in the UK and has introduced the UK Stewardship Code. With the time lapse since the last in-depth review, and noting the proactive nature of the Fund's voting activity, it was determined that a forensic comparison of the Fund's voting template against industry best practice was warranted. It is believed that the Fund's UK Voting Principles positions the Fund among the most progressive UK investors in matters of investment stewardship. Following any comments from the Committee, the Fund will use the principles to specify in more detail the conditions in which it will support or withdraw support for standard UK company resolutions.
- 3.3 The main features of the UK Voting Principles are as follows. The objectives of the Fund's voting policy are to support the long-term economic interests of scheme members, and to ensure boards of directors are held accountable to shareholders. There are ancillary enablers of these objectives, including limiting our use of abstain, occasional pre-declaration of voting intentions and ensuring abstain and oppose votes are interpreted as an expression of strong and conscious dissatisfaction, not as a mechanical or thoughtless matter of routine.

- 3.4 These objectives are to be achieved in a number of ways, which are categorised into five groups: (i) a great board with a long-term view; (ii) a transparent audit function, supporting true and fair reporting; (iii) stewarding our capital, protecting shareholder rights; (iv) fair remuneration for strong performance through the cycle; (v) other (which includes ESG-related shareholder resolutions, including climate change-related resolutions).
- 3.5 The UK Voting Principles document, which is appended to this committee paper, provides further details within each group. In summary, when compared with the current voting template, the new policy exhibits these features:
- structural changes and a beliefs-oriented approach;
  - greater prominence of the role of the workforce;
  - stronger policies on diversity;
  - limited duplication of the UK Corporate Governance Code (the Fund fully supports the Code); and
  - a best-practice approach to remuneration that recognises there is no one-size-fits-all approach.
- 3.6 The Fund values the importance of providing regular training to Committee members and will provide training on the Fund's UK Voting Principles at the next available opportunity. The Fund's approach to voting could evolve in the future, by leveraging the potential benefits of pooling services through LGPS Central. For example, the Fund's bespoke voting policy applies to its UK holdings only, whereas a further aspiration is to develop non-UK voting policies.

#### *Contract with voting services provider*

- 3.7 The Fund currently has a contract with Pirc Limited ("Pirc") which expires on 31 May 2018. The contract was originally for five years from 1 June 2012 with an option to extend by two years, and the Fund has exercised one of the two years of optional extension already (covering 1 June 2017 to 31 May 2018). The contract mandates Pirc to provide research and advice relating to the entirety of the Fund's voting rights. Pirc also executes the votes on the Fund's behalf through arrangements with custodians, sub-custodians and other third-party intermediaries. The completeness of the Fund's voting arrangements – i.e. that it proactively votes all its eligible shares – is considered to be a strength of the Fund's commitment to responsible investment and stewardship.
- 3.8 From April 2018, a significant part of the Fund's investments with attached voting rights is expected to transfer to an authorised contractual scheme ("ACS") managed on the Fund's behalf by LGPS Central Limited ("Central"). This includes the internally managed passive equities portfolios, and they will be custodied by Northern Trust. Assets held in the Fund's Global Active Equity and Emerging Market Equity portfolios will continue to be custodied by HSBC for the time being.

3.9 The Committee is asked to approve the following proposal with respect to the portfolios above and the voting rights attached to them. It is proposed that, in the interim period, the Fund extend its contract with Pirc and enter into a letter of understanding with Pirc such that Pirc is able to advise on and execute the Fund's voting rights wherever the assets are custodied and whoever manages them on behalf of the Fund. A wider review of voting arrangements in conjunction with partner funds and Central is proposed over the summer of 2018 and as such, the duration of this contract extension is expected to be to the end of December 2018.

3.10 The main advantage of this extension is that it avoids any change in voting services provider coinciding with the "busy season" and of the Fund failing to discharge its stewardship duties, noting key company meetings in the calendar.

#### **4. Financial implications**

4.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

4.2 The cost associated with extending on an interim basis the contract of the Fund's incumbent voting services provider is expected to be in line with the contract price already agreed.

#### **5.0 Legal implications**

5.1 This report contains no direct legal implications.

#### **6.0 Equalities implications**

6.1 This report contains no equal opportunities implications.

#### **7.0 Environmental implications**

7.1 This report contains no direct environmental implications.

#### **8.0 Human resources implications**

8.1 This report contains no direct human resources implications.

#### **9.0 Corporate landlord implications**

9.1 This report contains no direct corporate landlord implications.

#### **10.0 Schedule of background papers**

10.1 This report contains no direct background papers.

## **11.0 Schedule of Appendices**

### **11.1 Appendix 1 West Midlands Pension Fund UK Voting Policy 2018**