

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Responsible Investment Sub-Committee
Date:	6 March 2020
Title:	Shareholder voting highlight report
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

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Purpose of this Report

1. This report provides information on how the Pension Fund's investment managers have voted on behalf of the Fund for the equities that they are invested in.

Recommendations

2. That the RI sub-committee notes how the Pension Fund's investment managers have voted the shares in the Fund's portfolios as highlighted in this report.

Executive Summary

3. As investors in common stock (equities) the Pension Fund will have certain rights to vote on how the company it invests in is run. These include being able to vote in elections to the board of directors and on proposed operational alterations, such as shifts of corporate aims, and the right to vote on other matters such as remuneration policies and the appointment of auditors. In addition to these items, for which recommendations will be made by company management for shareholders to either agree or oppose, individual shareholders can propose their own subjects for the shareholders to vote on, but they are non-binding on the company's management in most instances.
4. Shareholder votes are an important tool for company engagement alongside more direct communication (such as meetings) with company management. Voting provides an ultimate sanction for shareholders to show their disapproval with how a company is operating. How votes are cast by the

Pension Fund will be determined by the voting policy, which for Hampshire varies depending on how the equity investment is held:

- Directly held equities (Acadian and Baillie Gifford's Global Alpha portfolios) will be voted in accordance with Hampshire's voting policy, which is part of its Responsible Investment policy.
- Equities directly held in the ACCESS pool (Schroders Prime and Baillie Gifford's Long-term Global Growth portfolios) will be voted in accordance with ACCESS' voting guidelines, which were agreed by the Joint Committee.
- Equities in pooled funds of external investment managers (such as UBS or Dodge & Cox) will be voted in accordance with the investment manager's voting policy, which applies to all holdings within the fund. Dodge & Cox report on their voting activity annually, unlike the quarterly reports of the other investment managers, and details of their voting are not included in this report.

Voting highlights

5. In order for the RI sub-committee to scrutinise the voting activity for the Pension Fund's investments a summary of voting highlights is contained in Appendix 1. The highlight report does not attempt to quantify the number of votes cast by the Fund's investment managers (which is significant) but focuses on providing examples of the types of issues where investment managers have voted against company management, resolutions of fellow shareholders, or on sensitive or interest issues.
6. The majority of votes cast against company management by the Fund's investment managers cover the following reasons:
 - Nominees for company directors who are not sufficiently independent, have too many other outside interests or who have a history of managing the company and ignoring shareholders' concerns.
 - Remuneration policies where the level of pay is felt to be excessive and/or short-term incentives are more valuable than long-term incentives and do not provide adequate alignment with shareholders' long-term interests.
 - The appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company were not clear.
7. In all these instances voting against the company management is in line with Hampshire's or ACCESS' policy. Both policies allow for the investment manager to exercise their judgement and to not follow the policy if they can provide a suitable rationale for doing so. The highlight report shows instances where Baillie Gifford have exercised this discretion and chose to

support the company management on some of these issues, where they believe that there are compensating governance controls in place.

8. The review of voting records highlighted one instance where the Pension Fund's investment managers had voted differently on the same point; a shareholder resolution for BHP (formerly BHP Billiton, a mining company) to approve suspension of memberships of industry associations that are involved in lobbying actions felt to be inconsistent with the goals of the Paris Agreement. The investment managers (UBS, Schroders and Baillie Gifford) felt that this was a worthy action, but Schroders and Baillie Gifford chose not to support it as they were satisfied that the company management was already tackling the issue, already terminating its membership of some organisations and giving others a deadline to make changes.

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Acadian (global equities)

Stock	Proposal	Vote	Rationale
Solar Capital Ltd	Elect Director David S. Wachter	With-held	Governance Committee member David Wachter for a material governance failure. The company's governing documents prohibit or restrict shareholders' ability to amend the company bylaws.
Regis	Ratify Named Executive Mgmt For Against Against Officers' Compensation	Against	The CEO's \$9.1 million front-loaded equity grant contains a rigorous share price goal, although performance is measured at the end of three years — notwithstanding that the award is intended to cover five years of annual equity grants. Such a front-loaded award inhibits the committee's ability to adjust pay based on future company performance over a relatively long period of time. Further, the committee discretionarily rewarded NEOs with additional payouts under the STI plan based on overachievement on a key internal goal that was not utilized as a separate performance metric for competitive and internal bias reasons, notwithstanding failure to achieve threshold performance on both quantitative performance metrics and an STI plan design that already places significant weight on individual performance goals.
Vital Healthcare Property Trust	Elect Andrew Evans as Director	Against	Andrew Evans presence contributes to the board being not majority independent. He has exceeded 12 years tenure on the board and is a non-independent director on a non-majority independent board.
Reit 1 Ltd	Reappoint BDO Ziv Haft as Auditors and Authorize Board to Fix Their Remuneration	Against	Audit fees are not itemized. As such, it cannot be determined if the non-audit fees are excessive.
Oritani Financial Corp	Vote on Golden Parachutes	Against	The value of payments was felt to be excessive (three times salary plus the highest bonus paid in the last three years) and whilst the payments automatically trigger upon resignation for any reason, it is expected that the CEO will re-join the new company.
Sysco	Require an Independent Board Chairman	Against	(Shareholder proposal) it was deemed that the proposal to have an independent board chairman, wasn't required because when looking at Sysco's board leadership structure, governance practices and performance generally,

			there were no significant concerns.
Oracle	Require an Independent Board Chairman	For	(Shareholder proposal) Shareholders may benefit from a board led by an independent chair who challenges and provides better oversight of management. The company exhibits ongoing executive compensation concerns, non-responsiveness to shareholders regarding compensation concerns, significant share pledging by the chair, and short-and long-term underperformance against peers, which cumulatively indicate ineffective independent board oversight. Further, the lead director role is not considered robust and may not be able to effectively counterbalance the three executive leaders. Accordingly, this non-binding proposal offers an opportunity to clarify board leadership.

Baillie Gifford – Long-term Global Growth (global equities) (ACCESS)

Stock	Proposal	Vote	Rationale
Alibaba	Elect Directors	For	ACCESS guidelines recommend we oppose the election of non-independent directors where less than half of the board is independent. We are comfortable with the current board composition and therefore supported.
Alibaba	Appoint/Pay Auditors	For	ACCESS guidelines recommended opposing as the tenure of the audit firm was over 10 years. We believe auditor tenure is an important issue however do not require a change in auditor after 10 years. We instead focus on if the company has a process in place to tender for a new auditor over a suitable timeframe.
Atlassian	Remuneration Policy	For	ACCESS guidelines recommend opposing remuneration where there are no performance targets. There was no incentive remuneration paid during the year and we are comfortable with the remuneration arrangements at the company and therefore supported.
Inditex	Remuneration Policy	For	ACCESS guidelines recommend opposing remuneration where the performance period is less than 5 years. We are comfortable with the remuneration arrangements at the company and therefore supported.

Baillie Gifford – Global Alpha (global equities)

Stock	Proposal	Vote	Rationale
Microsoft	Gender pay disclosures	For	We supported a shareholder proposal requesting that the company produce enhanced disclosure on gender pay disparities across their business.
Res Med	Executive compensation	Against	We opposed the executive compensation policy as it includes a retesting provisions which we do not believe provides alignment with shareholders.
CyberAgent	Appointment of directors	Against	We opposed the election of two outside directors and four inside directors, due to ongoing concerns over board composition.
Microsoft	Employee board representation	Against	We opposed a shareholder proposal requesting a report on employee representation at board level as we believe it to be overly prescriptive and of limited value to shareholders
Pernod Ricard	Share issue	Against	We opposed the authority to issue shares via private placement as we do not believe this is in our clients' best interests.
BHP	Approve Suspension of Memberships of Industry Associations That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement	Against	In our view, BHP is an industry leader with regard to climate action. It was the first major company to publish a detailed review of industry association membership in 2017. The subsequent decision to terminate its membership of the World Coal Association demonstrates the rigour of this process and a track record of responsiveness. The 2019 review process concluded recently and identified four organisations (including Coal21) that were only partly aligned with BHP's approach to climate and energy policy. The company has given these organisations until end August to see changes enacted. Shareholder proposal 22 pre-empts this process and effectively seeks BHP's exit from these associations before the review is completed.

UBS – passive equities

Stock	Proposal	Vote	Rationale
Goodwin	Elect John Goodwin as Member of the Audit Committee.	Against	Candidate is not considered independent and is serving on a committee that should be fully independent.

Goodwin	Approve Remuneration Policy.	Against	The level of discretion allowed by the remuneration committee within the framework of the policy is of concern.
Airport City	Reappoint Somekh-Chaikin as Auditors and Authorise Board to Fix Their Remuneration.	Against	The company has not clearly explained the ratio of non-audit fees to audit fees.
Telstra	Approve Remuneration Report.	Against	Pay frameworks where short-term incentives are more valuable than long-term incentives do not provide adequate alignment with shareholders' long-term interests.
Origin Energy	Approve Paris Goals and Targets.	Against	(Shareholder proposal) Through our engagement we have determined that the company is addressing the majority of the issues raised, via its current commitments to cut scope 1 and scope 2 GHG emissions by half by 2032 and reduce scope 3 emissions by 25 per cent by 2032. In addition, the company has pledged to exit carbon coal generation by 2032 and to significantly grow renewables. They report according to the TCFD recommendations with targets approved by the Science Based Targets initiative for GHG emissions reductions. The matter raised related to executive remuneration is better addressed through dialogue.
City of London Investment Group	Amend Articles of Association.	Against	We will not support amendments to articles which are against shareholders' interests.
Bendigo and Adelaide Bank	Elect David Foster as Director.	Against	The nominee holds a significant number of positions on the boards of listed companies, raising concerns over their ability to commit sufficient time to the role.
Coles	Improve Human Rights Management in Fresh Food Supply Chains.	Against	(Shareholder proposal) The company has clear disclosure regarding the topics raised, including ethical supplier policies and practice management, and oversight in place to address supply chain risks.
Oracle	Elect Director Naomi O. Seligman.	Against	Member of the Remuneration Committee. The company has a long history of significant shareholder dissent of executive pay and the Committee has shown insufficient responsiveness.

Campbell Soup	Ratify Pricewaterhouse Coopers LLP as Auditors.	Against	The tenure of auditor used by the company exceeds 20 years.
BHP	Approve Suspension of Memberships of Industry Associations That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement	For	(Shareholder proposal) Engaging from within trade associations is a perfectly legitimate action but this does not seem to have brought any results with certain industry associations.
Insurance Australia	Approve Fossil Fuel Investment Exposure Reduction Targets.	For	We support proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.
Westpac Banking	Approve Disclosure of Strategies and Targets for Reduction in Fossil Fuel Exposure.	For	We support proposals that require issuer to report information concerning their potential liability from operations that contribute to global warming, their goals in reducing these emissions, their policy on climate risks with specific reduction targets where such targets are not overly restrictive and the degree to which a company is in line with its industry sector's 2 degrees glide path.

Schroders (UK equities)

Stock	Proposal	Vote	Rationale
Assura	Remuneration policy	Against	We opposed the quantum of increase across all elements of pay.
First Group	Re-elect Jim Winestock as Director	Against	We opposed the appointment in the best interests of the future of the company.
BHP	Approve Suspension of Memberships of Industry Associations	Against	(Shareholder resolution) While we do believe there could be potential inconsistencies between the Paris climate goals and with the work of some of BHP's trade associations, we are encouraged that BHP has already engaged,

	<p>That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement</p>		<p>for example, to change the constitution of Coal21 to be better aligned. We therefore believe it is logical to await the outcome of the company's forthcoming review, rather than support a resolution calling for memberships to be suspended.</p>
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