



# Shropshire County Council Pension Authority

Proxy Voting Review  
July 2010 – September 2010

October 2010  
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## **UK Voting Review**

### **Tesco plc – AGM 2nd July**

Combined awards under the annual bonus and long term incentives were considered excessive in the year under review and considered highly excessive on a potential basis, particularly in light of high executive salaries. Last year Sir Terry Leahy was the second-highest paid director within the FTSE 100 consumers' services sector in terms of salary and average directors' salaries were within the upper quartile of the comparative group. Both the PSP and the ESOS relied on a single performance condition, and neither used a comparator group. PIRC considered that long term incentives should use two performance criteria concurrently, one with a comparator group, and that separate schemes should utilise different criteria to avoid rewarding directors twice for the attainment of a single performance measure. PIRC was therefore concerned that the two additional schemes exclusively for the US CEO and Group CEO were both primarily based on ROCE, whether as a measurement of US operations or the overall Group. The executive directors had one-year rolling service contracts, however directors could receive termination payments in excess of two years salary, contrary to best practice.

We recommended shareholders oppose the remuneration report.

### **Misys plc – AGM 29th September**

Potential maximum awards were excessive in our view and the value of the awards actually granted during the year confirms our concerns, which were further compounded by the fact that salaries rank at the top of the comparator group (FTSE Midcap Technology). Specific performance targets applied under the Annual Bonus were not disclosed. We welcomed the use of two additional performance criteria, linked to the Company's objectives, under the deferral match provision on the Annual Bonus deferred and matching share provisions. However, we were concerned that no specific targets are disclosed. Concerning long-term awards, we considered that long-term incentive plans should use two separate performance criteria, one of which relative to a comparator group. However, this was not the case for the Omnibus Plan, which operates only one criterion (EPS). In addition, the EPS targets are not sufficiently challenging based on brokers' forecasts and the vesting scale is too narrow.

The Chief Executive is entitled to basic salary, on-target bonus, pension contribution and health insurance on a change of control. PIRC considered that executives should not receive payments for more than one years' salary and benefits upon termination.

We recommended that shareholders oppose the remuneration report.

# UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	DE LARUE PLC	AGM	22 Jul 10	18	Approve the executive and employee incentive plans	For	40.76
2	TESCO PLC	AGM	02 Jul 10	2	Approve the Remuneration Report	Oppose	31.94
3	SCOTTISH & SOUTHERN ENERGY	AGM	22 Jul 10	9	Issue shares with pre-emption rights	For	17.02
4	MICRO FOCUS INTL PLC	AGM	23 Sep 10	3	Approve the Remuneration Report	Abstain	16.86
5	MITIE GROUP PLC	AGM	14 Jul 10	4	Re-Election of Ian Reginald Stewart	Oppose	14.85
6	TESCO PLC	AGM	02 Jul 10	11	Issue shares with pre-emption rights	For	13.48
7	MITIE GROUP PLC	AGM	14 Jul 10	5	Re-Election of William Robson	For	11.08
8	LAND SECURITIES GROUP PLC	AGM	22 Jul 10	20	Notice of general meetings	For	10.04
9	TOMKINS PLC	<b>EGM</b>	31 Aug 10	2	To approve the Executive Team Arrangements	For	9.69
10	TOMKINS PLC	<b>EGM</b>	31 Aug 10	1	To approve the acquisition of Tomkins by Pinafore Acquisitions Limited	For	9.68

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	5	100	0	0	0	0	0	0	5
Annual Reports	19	50	4	10	15	39	0	0	38
Articles of Association	7	41	10	58	0	0	0	0	17
Auditors	25	73	6	17	3	8	0	0	34
Corporate Actions	4	100	0	0	0	0	0	0	4
Corporate Donations	10	100	0	0	0	0	0	0	10
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	93	82	6	5	14	12	0	0	113
Dividend	17	100	0	0	0	0	0	0	17
Executive Pay Schemes	3	60	0	0	2	40	0	0	5
Miscellaneous	3	75	0	0	1	25	0	0	4
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0	0	0
Share Issue/Re-purchase	59	96	2	3	0	0	0	0	61
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	23	100	0	0	0	0	0	0	23

# UK Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	268
Oppose	35
Abstain	28
Withdrawn	0
Total	331

Meetings	AGM	EGM	Total
Total Meetings	19	5	24
1 (or more) oppose or abstain vote	19	1	20

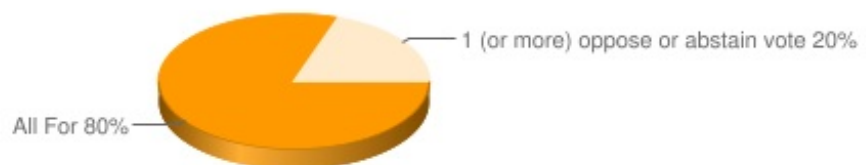
## UK Voting Record



## UK AGM Record



## UK EGM Record



## UK Voting Timetable Q3 2010

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	TESCO PLC	02 Jul 10	AGM	2010-06-21
2	3i GROUP PLC	07 Jul 10	AGM	2010-06-30
3	BABCOCK INTERNATIONAL GROUP PLC	08 Jul 10	AGM	2010-07-01
4	MAN GROUP PLC	08 Jul 10	AGM	2010-07-01
5	MITIE GROUP PLC	14 Jul 10	AGM	2010-07-08
6	LONDON STOCK EXCH GROUP PLC	14 Jul 10	AGM	2010-07-07
7	ELECTROCOMPONENTS PLC	15 Jul 10	AGM	2010-07-08
8	SEVERN TRENT PLC	20 Jul 10	AGM	2010-07-12
9	RESOLUTION LTD	20 Jul 10	<b>EGM</b>	2010-07-12
10	LAND SECURITIES GROUP PLC	22 Jul 10	AGM	2010-07-12
11	DE LARUE PLC	22 Jul 10	AGM	2010-07-16
12	SCOTTISH & SOUTHERN ENERGY	22 Jul 10	AGM	2010-07-09
13	NATIONAL GRID	26 Jul 10	AGM	2010-07-19
14	VODAFONE GROUP PLC	27 Jul 10	AGM	2010-07-13
15	YELL GROUP PLC	29 Jul 10	AGM	2010-07-16
16	MISYS PLC	13 Aug 10	<b>EGM</b>	2010-08-05
17	PHOENIX IT GROUP PLC	26 Aug 10	AGM	2010-08-10
18	DS SMITH PLC	26 Aug 10	<b>EGM</b>	2010-08-12
19	TOMKINS PLC	31 Aug 10	<b>EGM</b>	2010-08-19
20	MAN GROUP PLC	01 Sep 10	<b>EGM</b>	2010-08-20
21	DS SMITH PLC	07 Sep 10	AGM	2010-08-23
22	MICRO FOCUS INTL PLC	23 Sep 10	AGM	2010-09-13

### Not Voted Meetings

Table 4: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	TATE & LYLE PLC	22 Jul 10	AGM	No ballot
2	MISYS PLC	29 Sep 10	AGM	No ballot

## UK Upcoming Meetings Q4 2010

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 5: Upcoming Meetings

	Company	Meeting Date	Type
1	BHP BILLITON GROUP (GBR)	21 Oct 10	AGM
2	HAYS PLC	10 Nov 10	AGM
3	KIER GROUP PLC	12 Nov 10	AGM
4	HARGREAVES LANSDOWN PLC	26 Nov 10	AGM
5	SPORTINGBET PLC	17 Dec 10	AGM

# US Corporate Governance Review

## Dodd-Frank makes it through

We're there. The Dodd-Frank financial regulation passed through both the House and Senate in July, meaning that vital corporate governance reforms took place in the US market.

Amongst the bill various provisions that made it through the negotiation process intact are as follows.

**Vote on Executive Pay and Golden Parachutes:** Gives shareholders a say on pay with the right to a non-binding vote on executive pay and golden parachutes.

**Nominating Directors:** Gives the SEC authority to grant shareholders proxy access to nominate directors. These requirements can help shift management's focus from short-term profits to long-term growth and stability.

**Independent Compensation Committees:** Standards for listing on an exchange will require that compensation committees include only independent directors and have authority to hire compensation consultants in order to strengthen their independence from the executives they are rewarding or punishing.

**No Compensation for Misrepresentation:** Requires that public companies set policies to take back executive compensation if it was based on inaccurate financial statements that don't comply with accounting standards.

**SEC Review:** Directs the SEC to clarify disclosures relating to compensation, including requiring companies to provide charts that compare their executive compensation with stock performance over a five-year period.

**Enhanced Compensation Oversight for Financial Industry:** Requires Federal financial regulators to issue and enforce joint compensation rules specifically applicable to financial institutions with a Federal regulator.

**Fiduciary Duty:** Gives SEC the authority to impose a fiduciary duty on brokers who give investment advice - the advice must be in the best interest of their customers.

**Encouraging Whistleblowers:** Creates a program within the SEC to encourage people to report securities violations, creating rewards of up to 30% of funds recovered for information.

**New Advocates for Investors:** Creates the Investment Advisory Committee, a committee of investors to advise the SEC on its regulatory priorities and practices; the Office of Investor Advocate in the SEC, to identify areas where investors have significant problems dealing with the SEC and provide them assistance; and an ombudsman to handle investor complaints.

## SEC reviews US proxy system

Meanwhile the Securities and Exchanges Commission has published a concept release seeking comment on the US proxy system and asking whether rule revisions should be considered to promote efficiency and transparency.

The concept release, which requests comment on matters relating to the US proxy system, is organized under three general areas: accuracy, transparency, and efficiency of the voting process; communications and shareholder participation; and relationship between voting power and economic interest. Issues covered in these areas include:

**Over-voting and under-voting of shares:** At times, a broker-dealer — or other securities intermediary — may cast more votes, or fewer votes, than the number of shares that the intermediary actually holds. This imbalance results from the way securities transactions are cleared and settled in the US markets.

**Vote confirmation:** The concept release explores the possibility of requiring vote tabulators, securities intermediaries, and proxy service providers to provide each other with access to vote data so investors and issuers can confirm that votes have been received and tallied according to investors' voting



instructions.

Proxy voting by institutional securities lenders: The concept release examines whether shareholders would be helped by requiring the agenda items at shareholder meetings to be identified earlier, so that lenders can make a decision to re-call their shares and vote on issues important to them.

Potential means to facilitate retail investor voting participation: The concept release presents several ideas that could potentially improve retail investor voting participation, including: Improving investor education; enhancing brokers' Internet platforms; permitting advance voting instructions for retail investors; enhancing investor-to-investor communications; and improving the use of the Internet for distribution of materials.

Role of proxy advisory firms: The concept release seeks comment on improving disclosure of potential conflicts of interest, enhancing regulatory oversight over the formation of voting recommendations, and requiring eventual public disclosure by proxy advisory firms of their voting recommendations in Commission filings.

"Empty voting": The concept release requests comment on whether "empty voting" and related activities are being used to inappropriately influence corporate voting results.

## **Record support for ESG proposals**

Investors in US companies gave more support than ever before to a wide range of social and environmental shareholder proposals this year, according to research by the Sustainable Investments Institute.

The Institute said that this season has produced the highest votes ever recorded and an overall average of more than 19%. Two proposals received majority support, at Layne Christensen and Massey Energy, and 15 more received more than 40% of the shares cast for and against.

Environmental concerns continue to be the biggest single issue category, accounting for 25% of the total proposals filed; when broader sustainability reporting proposals which mentioned environmental issues are included, this category accounts for 35% of the total. A broad swath of labour and human rights issues accounted for another 18% of the total filed, with subjects ranging widely from pay equity to human rights reporting. Corporate political activity resolutions, which in large part asked for political spending disclosure, made up another 14%.

## **Billionaire bosses**

Oracle founder and chief executive Larry Ellison was the best paid director of a US company over the past decade, picking up a total of \$1.84bn according to analysis by the Wall Street Journal.

Also in the billionaires' club was Barry Diller, who the WSJ calculates received approximately \$1.14bn from IAC/InterActive and Expedia.com, the online travel site IAC spun off in 2005, where he remains chairman. Wall Street heavyhitters also did well, even if the financial institutions they ran did less so. Dick Fuld, former Lehman Brothers chief exec, trousered \$457m, and former Citi CEO Sandy Weill pocketed \$361m.

## **Walden wants separated HP roles**

Walden Asset Management filed a resolution at Hewlett Packard calling for the separation of the roles of chairman and chief executive, CorpGov.net reported. The asset manager's intervention came in the wake of the departure of former chief executive Mark Hurd.

In letter to Hewlett Packard, Walden set out the arguments for separating the roles, noting that this is best practice in many markets and is being adopted by a growing number of US companies. The letter also included the shareholder proposal seeking a splitting of the roles at HP. In the supporting statement Walden argued that recent commentary suggests that separating the two roles frees up the CEO's time to manage the company, mitigates conflict of interests, promotes oversight of risk and helps restore market trust.

## **The CalPERS effect**

The California Public Employees' Retirement System's (CalPERS) engagement with companies on its annual Focus List significantly improved stock performance over the past 23 years, according to new research.

"The data strongly show that CalPERS involvement has generally stopped the erosion of performance results," Wilshire Associates, the pension fund's prime consultant, claimed in a report to the Board. "CalPERS good governance campaign has added value to the share prices of targeted companies."

Since 1987, CalPERS has publicly named 142 companies to its annual Focus List based on underperformance in share value compared with industry peers, returns on investment and corporate governance practices.

For the five years prior to their placement on the Focus List, the companies produced average annual returns that fell 30.1 percent below their market industry benchmarks. But in the five years after listing, they beat those benchmarks by an average of 2.4 percent per year for "a dramatic turnaround from the poor returns shown by the Focus List companies prior to CalPERS' involvement," according to the report, "The 'CalPERS Effect' on Targeted Company Share Prices."

Overall, companies responded favorably to CalPERS concerns such as the need for improved board quality and leadership, majority voting in uncontested board elections, shareowners' advisory votes on executive compensation, and annual board elections. The report noted that Focus List selection issues have changed over time. Initially, CalPERS corporate governance concerns were largely related to anti-takeover measures that protected companies from corporate raiders at the expense of share value. Later, CalPERS concentrated on long-term corporate performance and the practices that undermine it.

## **Spotting the liars**

Shareholders can lose millions if the executives running the businesses they own misrepresent how well the company is doing. But are there ways that investors can spot lying execs?

According to research by a pair of Stanford academics that was recently covered by the WSJ, there may actually be some tell tale signs worth looking out for. David Larcker and Anastasia Zakolyukina analysed statements made in conference calls by chief executives and chief financial officers of companies that subsequently restated their earnings.

They analysed the content of these calls using a model built on psychological and linguistic indicators of deception. And they claim the model would have done a better job at spotting the liars than a random guess. So what should investors be looking out for in conference calls?

"We find that answers of deceptive executives have more references to general knowledge, fewer non-extreme positive emotions, and fewer references to shareholders value and value creation. In addition, deceptive CEOs use significantly fewer self-references, more third person plural and impersonal pronouns, more extreme positive emotions, fewer extreme negative emotions, and fewer certainty and hesitation words."

For those interested in the theory behind the paper, the authors provide a run-through of the various theories about deception. It seems that the results of the analysis provide most support to the so-called 'control perspective' theory. According to the paper "this perspective implies general, non-specific language, fewer self-references, short statements with little detail, and more irrelevant information as a substitute for information that the deceiver does not want to provide."

## **Job-cutting CEOs are paid more**

Chief executives of the 50 firms that have laid off the most workers since the onset of the economic crisis took home 42% more pay in 2009 than their peers at S&P 500 firms, according to the Institute for Policy Studies.

In its report CEO Pay and the Great Recession, the IPS found that the 50 top CEO 'layoff leaders' received \$12m on average in 2009, compared to the S&P 500 average of \$8.5m. Each of the corporations

surveyed laid off at least 3,000 workers between November 2008 and April 2010. 72% percent of the firms announced mass layoffs at a time of positive earnings reports..

Five of the 50 top job-cutting CEOs were recipients of major financial bailouts. Of these, American Express CEO Kenneth Chenault took home the highest 2009 pay, \$16.8m, including a \$5m cash bonus. American Express has laid off 4,000 employees since receiving \$3.4bn in taxpayer bailout funds.

## **NYSE backs informed voting**

The New York Stock Exchange Commission on Corporate Governance issued its report and recommendations for reform.

Whilst most attention focused initially on the role of firms like PIRC that advise shareholders on the exercise of voting rights, there are other interesting themes that deserve exploration.

In respect of proxy advisory firms, the NYSE commission stated the following: "The Commission recognises the influence that proxy advisory firms have on the market, and believes that such firms should be held to appropriate standards of transparency and accountability. The Commission commends the SEC for its issuance of the Concept Release on the U.S. Proxy System, which includes inviting comments on how such firms should be regulated."

As we've noted before, it's entirely reasonable that those that work with institutional shareholders on ownership issues are accountable. This is why earlier in the year we published a list of best practice principles that we seek to adhere to, and hope could inform general market practices. We also argued that the Stewardship Code should apply to firms like us.

The principal issues that deserve attention are those that affect any other market participant – a coherent and auditable process, proper transparency, and robust policy on conflicts of interest. As such we believe the NYSE commission's recommendations definitely have merit.

But we would also draw attention to Principle 3: "Shareholders have the right, a responsibility and a long-term economic interest to vote their shares in a thoughtful manner, in recognition of the fact that voting decisions influence director behaviour, corporate governance and conduct, and that voting decisions are one of the primary means of communicating with companies on issues of concern."

There has been a very unwelcome tendency by some institutions in the UK to downplay the importance of voting, and counter-pose it with 'engagement'. As such we welcomed the NYSE's reaffirmation of the importance of shareholders using their votes.

## **Massey overhauls governance**

The board of Massey Energy announced that it approved significant enhancements to the company's corporate governance practices. Several measures passed by the Board take effect immediately; the effectiveness of five additional measures is conditional upon the affirmative vote of Massey stockholders.

Prior to and following Massey's 2010 Annual Meeting of Stockholders, the Board has been evaluating the Company's corporate governance structure and has enhanced Massey's corporate governance policies in several ways. On May 18, 2010, the Board approved amendments to the Amended and Restated Bylaws to provide for majority voting in non-contested director elections and announced it would work actively toward declassifying the Board.

The Board has now taken additional steps to improve corporate governance practices. The following actions are effective immediately:

- Amended the Corporate Governance Guidelines to clarify the responsibilities of the Lead Independent Director;
- Amended the Corporate Governance Guidelines to prohibit a Massey director who is a chief executive officer of a public company from serving on the boards of more than two public companies (other than his or her own board) and Massey non-executive directors from serving on the boards of more than five public companies (other than Massey);
- Divided the current Safety, Environmental and Public Policy Committee into two committees: the Safety

and Environmental Committee to consist exclusively of independent directors and the Public Policy Committee to consist of a majority of independent directors; and

- Eliminated excise tax gross-ups for change-of-control payments (subject to final implementation by the Compensation Committee).

After careful study of what it believes are corporate governance practices and policies that will beneficially serve Massey stockholders, the Board approved additional changes that - if also approved by shareholders - will amend the Company's Restated Certificate of Incorporation. The proposals which will now go before shareholders for consideration and approval are:

- Declassification of the Board of Directors;
- Elimination of cumulative voting;
- Removal of supermajority vote provisions related to shareholder amendment of bylaws;
- Removal of supermajority vote provisions related to shareholder approval of business combinations with a more than five percent shareholder; and
- Removal of the prohibition of the right of stockholders to request special meetings of shareholders.

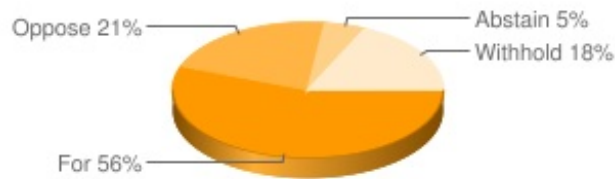
## US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

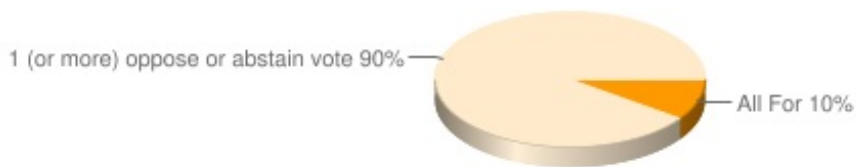
Total Resolutions	
For	70
Oppose	26
Abstain	6
Withhold	22
Withdrawn	0
Total	124

Meetings	AGM	EGM	Total
Total Meetings	10	0	10
1 (or more) oppose or abstain vote	9	0	9

### US Voting Record



### US AGM Record



### US EGM Record

There were no EGMs during the last period in the client's portfolio.

## US Voting Timetable Q3 2010

List of meetings held throughout the period in the fund's portfolio.

### Voted Meetings

Table 6: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	DELL INC.	16 Jul 10	AGM	2010-06-29
2	MCKESSON CORP.	28 Jul 10	AGM	2010-07-20
3	COMPUTER SCIENCES CORP.	09 Aug 10	AGM	2010-07-22
4	FOREST LABORATORIES, INC.	09 Aug 10	AGM	2010-07-22
5	MEDTRONIC INC	25 Aug 10	AGM	2010-07-26
6	SYMANTEC CORP.	20 Sep 10	AGM	2010-09-03
7	NIKE INC.	20 Sep 10	AGM	2010-09-03
8	CONAGRAFOODS INC.	24 Sep 10	AGM	2010-09-07
9	FEDEX CORPORATION	27 Sep 10	AGM	2010-09-13

### Not Voted Meetings

Table 7: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	AIRGAS INC	15 Sep 10	AGM	No ballot

## US Upcoming Meetings Q4 2010

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 8: Upcoming Meetings

	Company	Meeting Date	Type
1	PROCTER & GAMBLE CO	12 Oct 10	AGM
2	NEWS CORPORATION	15 Oct 10	AGM
3	PARKER-HANNIFIN CORP.	27 Oct 10	AGM
4	CARDINAL HEALTH INC.	03 Nov 10	AGM
5	ARCHER DANIELS MIDLAND CO.	04 Nov 10	AGM
6	WESTERN DIGITAL CORP	11 Nov 10	AGM
7	MICROSOFT CORP.	16 Nov 10	AGM
8	CISCO SYSTEMS INC.	18 Nov 10	AGM
9	HARMAN INTERNATIONAL INDUSTRIES INC	03 Dec 10	AGM
10	MICRON TECHNOLOGY INC	03 Dec 10	AGM

## **PIRC Summary Report Appendices**

### **UK**

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

### **US**

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

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