



Committee and Date

Pensions Committee

22 February 2013

10.00am

Item

**11**

Public

## **CORPORATE GOVERNANCE MONITORING**

**Responsible Officer** Ed Roberts

e-mail: [ed.roberts@shropshire.gov.uk](mailto:ed.roberts@shropshire.gov.uk)

Tel: (01743) 252078

### **1. Summary**

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> October 2012 to 31<sup>st</sup> December 2012.

### **2. Recommendations**

- 2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A, Corporate Governance Policies at Appendix B and F&C Responsible Engagement Overlay Viewpoint Reports at Appendix C.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.
- 3.4 There are no direct Equalities or Community consequences.

### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.

### **5. Background**

- 5.1 The Shropshire County Pension Fund has been actively voting for over ten years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all segregated equity portfolios.

- 5.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. F&C Asset Management provide this responsible engagement overlay on the Fund's UK equities portfolio.

## 6. PIRC Voting Activity

- 6.1 With effect from 1<sup>st</sup> September 2012 all voting is carried out by individual Fund Managers following the decision of Pensions Committee on 2<sup>nd</sup> July 2012 to no longer use PIRC.
- 6.2 Further to the question raised at the previous Pensions Committee on Firstgroup plc's decision to approve political donations, the following response has been received from PIRC :-
- 6.3 As a matter of principle, PIRC generally regards use of shareholder funds of listed companies to support political organisations as unacceptable. Since the introduction of the Political Parties, Elections and Referendums Act 2000, UK companies need to seek prior shareholder consent for political donations or expenditure within the EU if this exceeds £5,000 in total. Because of uncertainty as to what may be caught under the definition of an EU political organisation under the relevant legislation a significant amount of companies have sought precautionary resolutions to avoid the potential for directors being personally liable. To illustrate the uncertainty BAA as was, was challenged by shareholders who were part of the Stop Stanstead Expansion Campaign over donations, as BAA allowed MPs and MEPs free use of the car park. The Court held that this was not a donation for the purposes of the Act.
- 6.4 In general PIRC supports such resolutions provided political parties are specifically excluded from the authority, the authority is for no more than one year and the amount is reasonable given the size of the company and amounts previously disclosed as political 'expenditure'. If donations were made during the year, for PIRC to support the resolution a full breakdown of recipients should be provided together with a clear justification for how any donations are in shareowners' interests. Interestingly only a handful of companies report making donations under this authority.
- 6.5 UK companies are not required to seek prior shareowner approval for political expenditure outside of the EU, but PIRC considers such approval should be sought as a matter of best practice. Should political donations (anywhere in the world) be disclosed which have not been previously authorised by shareowners, PIRC vote accordingly on a suitable related resolution.
- 6.6 Therefore to recap, the vote was not to support a particular donation but to support the idea that at some stage in the coming year, the company may, up to a limit make donations, which may be deemed political in nature, if challenged by shareholders. However, in this case the resolution specifically excluded donations to political parties and given both the amount and the fact the company does not have a track record of giving money to political parties, support for the proposal was recommended.

## 7. Manager Voting Activity

- 7.1 Details of managers voting activity during the quarter relating to segregated equity portfolios are attached (Appendix A).
- 7.2 The regions covered by these managers and voting activity during the quarter are detailed in the appendix.
- 7.3 Corporate Governance Policies for both the UK and US segregated equity portfolios are attached (Appendix B).

## 8. Responsible Engagement Activity

- 8.1 During the last quarter F&C have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix C in the REO Viewpoint reports.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Corporate Governance Monitoring report, Pensions Committee 29 November 2012

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

- A. Manager Voting Activity Reports.
- B. Corporate Governance Policies.
- C. F&C Responsible Engagement Overlay Viewpoint Reports.