

HERTFORDSHIRE COUNTY COUNCIL
INVESTMENT COMMITTEE
THURSDAY 5 SEPTEMBER 2002 AT 10.00 AM

Agenda Item No:

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VOTING REVIEW

Report of the Finance Director

Author of this report: Nicola Webb (01992 555394)

1. Purpose of the Report

To advise the Committee of a review of the Fund's voting policy and voting advisory service.

2. Background

2.1 Since July 1997 the Fund has retained Pensions Investment Research Consultants (PIRC) to advise the County Council on voting actions in respect of the Fund's holdings of equities in the largest 350 quoted UK companies. In accordance with the resolutions of the Policy Operations Sub-Committee (16 July 1997) the Fund's voting policy was revised to:

- (i) ensure consistent voting (on Cadbury and Greenbury corporate governance issues), by subscribing to PIRC and instructing the Fund's investment managers to vote in accordance with PIRC's advice;
- (ii) request the investment managers to report voting actions to the Investment Committee;
- (iii) review the Fund's policy on the voting of UK shareholdings on an annual basis;
- (iv) instruct investment managers who feel unable to follow PIRC advice to seek advice from the Finance Director in order to agree appropriate action after consultation with the Chairman of the Investment Committee.

3. Implementation

3.1 PIRC were appointed as the Fund's voting adviser following the July 1997 meeting of the Policy Operations Sub Committee. The investment managers have received PIRC voting advice and have been instructing the relevant custodian to lodge votes for all meetings of the top 350 UK listed companies in which the Fund has shareholdings.

3.2 The managers have included their voting actions in their quarterly reports.

3.3 The voting policy was reviewed last by the Investment Panel in November 2001.

4. Review of Voting Policy July 2001 – June 2002

- 4.1 The Finance Director has reviewed PIRC's voting advice over the period from July 2001 to 30 June 2002 and is satisfied that it has been consistent with the recommendations of both the Cadbury and Greenbury reports. A detailed analysis of proxy voting actions and PIRC voting advice is available from the Finance Director if any member of the Committee would wish to examine it.
- 4.2 The Finance Director has also reviewed the voting instructions reported by managers. Over the period of the review the managers voted at all the meetings they were entitled to – this led to one or more of the managers voting at 205 Company AGMs or EGMs.
- 4.3 The review has found that on two occasions fund managers have not voted in accordance with PIRC's recommendations without obtaining prior clearance from the Finance Director. One error was at Baillie Gifford and one at Schroders. Both managers have apologies for the errors and have reviewed their systems to ensure errors do not happen again.

5. Review of Voting Service

- 5.1 A review of the voting service provided by PIRC has been undertaken by the Finance Director. As part of this, a review of the alternative providers in the market has been carried out.
- 5.2 The review found that the National Association of Pension Funds' (NAPF) Voting Issues Service costs £4,000 per annum compared to PIRC's charge of £8,640 per annum.
- 5.3 In addition NAPF are able to make information available to both HCC and the managers over the internet. This is a more efficient service than PIRC's practice of e-mailing all reports which then need to be stored.
- 5.4 Both these factors led to the Finance Director appointing NAPF with effect from 1 September 2002 to provide a voting service to the Fund for the next twelve months.

6. CONCLUSIONS

- 6.1 The Fund is following best practice as witnessed by the compliance with the recommendations of the Committee of Inquiry into UK voting.
- 6.2 The Fund's investment managers have voted in accordance with PIRC guidelines in the period July 2001 – June 2002, except on two occasions as a result of errors.
- 6.3 A review of the voting service providers in the market has resulted in appointment of NAPF Voting Issues Service on the grounds of cost and efficiency.

Background papers used by the author

Managers quarterly reports – September 2001 – June 2002
PIRC guidance notes – July 2001 – June 2000

