

WILTSHIRE PENSION FUND COMMITTEE
24 May 2004

PROXY VOTING UPDATE

Purpose of the Report

1. This report updates Members on the Wiltshire Pension Fund's Proxy Voting Policy.

Background

2. Members will recall receiving a report on the Corporate Governance arrangements for the Wiltshire Pension Fund when this Committee met on 24 October 2004. The decision then was to re-appoint PIRC Ltd as the Fund's Corporate Governance provider and to adopt their Shareholding Voting Guidelines 2003 as the Fund's UK Proxy Voting Policy.

The 2004 PIRC Guidelines

3. I have recently received the PIRC Shareholder Voting Guidelines 2004 ("The 2004 Guidelines"). The update from 2003 follows the publication by the Financial Reporting Council of the "Combined Code", which now incorporates many of the underlying principles already recommended by PIRC. The Combined Code is the best practice guidance that investment professionals should adopt in their shareholder engagement and voting policies.
4. As a result, the format of The 2004 Guidelines has been changed into more of a discussion document, although helpfully it is clearly cross-referenced to the relevant paragraphs of the Combined Code. I have both paper and electronic copies of The 2004 Guidelines available in full for any Member who is interested and I can also obtain a copy of the Combined Code.

Wiltshire Pension Fund's Proxy Voting Policy

5. Although The 2004 Guidelines do not show PIRC's underlying principles for voting and engagement as clearly as previously, a discussion with PIRC has confirmed that their underlying principles have not changed since 2003. It is these principles (see the Appendix) which determine PIRC's voting recommendations to Capital International and Baillie Gifford on our behalf in respect of UK companies. Therefore, I can confirm that the Wiltshire Pension Fund's Proxy Voting Policy should remain the same.
6. PIRC provides a weekly "PIRC Alerts" document, which keeps us updated on issues at forthcoming company AGMs and EGMs, particularly where the PIRC recommendation is either to abstain or oppose the recommendation of the company's board. These could be made available to any Member who wishes to be kept up-to-date more regularly.
7. In respect of overseas companies and UK companies that are not within the FTSE 350 Index, our equity managers vote according to their own interpretation of the Combined Code. At the October 2003 meeting, Members agreed not to buy an overseas voting service for the present.

Compliance with Policy

8. We start from the presumption that all shares (both UK and overseas) will be voted by Capital International and Baillie Gifford (our two direct equity managers) and that all UK FTSE 350 votes will be in accordance with PIRC guidance.
9. However, in any year, there may be limited instances where this starting presumption is not achieved:
 - a) Where the equity manager's view is that PIRC's voting recommendation is not consistent with maximising investment returns – in these cases they are required to seek my authorisation first.
 - b) Due to some failure in the voting system or late dispatch, the votes do not get delivered.
 - c) PIRC's voting recommendations are very occasionally received too late for the Manager to act on them, which means that he votes in accordance with his own interpretation of best practice (ie. The Combined Code).
 - d) In some overseas markets, shares cannot be traded in the period between votes being submitted and the AGM date – occasionally Managers do not wish to be constrained in this way and so do not vote.
 - e) In some Scandinavian markets the cost of voting is high, so if the vote is non-contentious a Manager may make a value-for-money judgement not to vote.
10. In respect of UK votes, there has only been one instance in the past 12 months where one of our equity managers has deliberately voted contrary to PIRC's recommendation. This was concerning the recent Chelsfield AGM, when Baillie Gifford felt that the offer from N M Rothschild & Sons did not reflect the true worth of the company, so they wished to vote against the Board's proposal. In accordance with the agreed procedure, they did seek my authorisation first, which I gave.
11. Notwithstanding these limited exceptions, the voting record for the Wiltshire Pension Fund is good.

Reasons for Proposals / Environmental Impact of the Proposals / Risk Assessment

12. This paper updates Members and does not include new policy proposals.

Proposal

13. The Committee is asked to confirm that Wiltshire Pension Fund's Proxy Voting Policy should remain unchanged.

MIKE PRINCE
County Treasurer

Report Author: David Broome

Unpublished documents relied upon in the production of this report: None

1/2005/PEN/DB

PIRC VOTING GUIDELINES

VOTING POLICY

In general PIRC's voting recommendations are as follows:

FOR

The proposal meets best practice guidelines and is in share-holders' long-term interests.

ABSTAIN

The proposal raises issues which do not meet best practice guidelines but
EITHER the concern is not regarded as sufficiently material to warrant opposition;
OR an oppose vote could have a detrimental impact on corporate structures;
OR the issue is being raised formally with the company for the first time.

OPPOSE

The proposal does not meet best practice guidelines and is not in shareholders' interests over the long term.

BEST PRACTICE PRINCIPLES UPON WHICH VOTING DECISIONS ARE BASED

Directors

There should be a clear division of responsibilities at the head of the company

- A. *There is a separate chairman and chief executive*
- B. *The chairman has not previously been chief executive*
- C. *There is a senior independent director*

The board should contain sufficient numbers of independent non-executives

- D. *Non-executives comprise more than 50% of the board*
- E. *There are at least three non-executives on the board*
- F. *At least a third of the board is independent by PIRC guidelines*

All directors should be accountable to shareholders by facing regular re-election

- G. *All directors are required to seek election in the articles*
- H. *All directors face election every year*

There should be an independent and transparent appointments and review process

- I. *A nomination committee exists comprising wholly independent directors*
- J. *Recruitment practices for new directors are transparent*
- K. *Process for succession planning is disclosed*
- L. *Process for regular board and individual appraisals and general outcomes are disclosed*
- M. *Individual director's attendance at board meetings is disclosed*
- N. *There is evidence that the training needs of the board are regularly reviewed and acted upon*

Director's Remuneration

Executive remuneration should be determined by a formal and independent procedure

1. *Remuneration committee exists comprising wholly independent directors*
2. *Remuneration committee receives independent advice*

There should be full and transparent disclosure of director's remuneration

3. *All elements of each director's cash remuneration is disclosed*
4. *All share incentive awards are fully disclosed with award dates and prices*
5. *Expected values are disclosed for all share incentive awards for each director*
6. *Pension contribution and entitlements are fully disclosed*
7. *Pay policy aims are fully explained in terms of the company's objectives*
8. *Pay elsewhere in the company is considered in determining director's remuneration*
9. *All the individual components of the pay package are fully described*
10. *There is information on the composition of the NEDs' remuneration and how it is determined*
11. *Duration of contracts and company liabilities on termination are given*
12. *Compensation payments or significant changes in policy are fully explained*
13. *Future performance conditions and/or past targets for annual bonuses paid are stated*
14. *Maximum potential awards under annual bonuses are stated*
15. *Performance conditions for long term incentive schemes are disclosed*
16. *Maximum awards for long term incentive schemes disclosed*
17. *Vesting scale for long-term incentives schemes is clear*

Longer-term incentives should provide rewards scaled towards superior performance

18. *Maximum vesting targets are challenging relative to performance required*
19. *Minimum vesting targets are challenging relative to performance required*
20. *Vesting scales are sufficiently broad and geared towards better performance*
21. *There are at least two performance criteria, one of which uses a comparator group*

Remuneration structure as whole should not be excessive

22. *Total potential rewards under all incentive schemes are not excessive*
23. *Average salaries are broadly in line with the sector*
24. *Directors are required to build up significant shareholding*
25. *Share incentive schemes conform with dilution guidelines*
26. *Schemes are available to enable all employees to benefit from business success*
27. *Other remuneration practices do not raise concerns*

Contracts policy should balance potential costs to shareholders with director's interests

28. *No current directors have rolling contracts of longer than one year*
29. *Statement on application of mitigation made*
30. *Contracts do not provide for liquidated damages or automatic payments in excess of one year in any circumstances*
31. *Future bonuses are not taken into account in determining compensation*

Audit and Reporting

The system of internal controls should be fully described

- A. *The statement on internal controls meets minimum Turnbull requirements*

B. *The board reports on issues of non-financial risk*

The auditors should be independent of the company and management

C. *No directors have a significant connection with the auditors*

D. *Audit firm is subject to regular fixed term rotation*

Non-audit fees should be disclosed and should not potentially affect independence

E. *UK and global non-audit fees disclosed*

F. *An adequate break-down of the nature of non-audit fees is provided*

G. *Level of non-audit fees do not raise independence concerns*

Independent audit committee demonstrates accountability and expertise

H. *There is a fully independent audit committee comprising at least three members*

I. *Audit committee includes at least one member with significant financial experience*

J. *Audit committee reports on its activities*

K. *Audit committee has the ability to engage outside advisers*

L. *Audit committee's policy on awarding non-audit work is fully described*

Share Capital and Shareholder Relations

Shareholders should have an opportunity to vote on dividend policy

A. *Declared dividend or policy is put to the vote*

Shareholders should have adequate information on an access to all directors

B. *Sufficient biographical information on all directors is disclosed*

C. *Justification for new director appointments is provided*

D. *Meetings between NEDs and shareholders are reported*

All ordinary shares should have equal rights

E. *Each ordinary share has equal voting rights*

F. *There is no controlling shareholder*

G. *No persons have the right to designate directors to the board*

Voting by shareholders should be democratic and transparent

H. *All voting is conducted by poll on the basis of one share one vote*

I. *The levels of proxy votes have been disclosed on request*

Environmental Issues

There should be a comprehensive, published policy

A. *Group-wide environmental policy published*

B. *Areas of environmental risk identified*

C. *Policy for managing environmental risk set out*

There should be clear lines of accountability, management and stakeholder engagement

D. *Board director with environmental responsibilities is identified*

E. *Environmental standards for suppliers disclosed*

Companies should report fully on environmental performance

F. *Environmental initiatives described*

G. *Improvements in environmental performance reported*

H. *Target setting disclosed*

I. *Company produces a separate environmental report*

There should be an independent auditing and verification process

J. *Environmental audit undertaken*

K. *Environmental report is externally verified*