

WILTSHIRE PENSION FUND COMMITTEE
25 May 2006

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 confirming that the Wiltshire Pension Fund's Voting Policy should remain unchanged when this Committee met on 5 September 2005. This policy is to adopt the PIRC Shareholder Voting Guidelines as the Fund's UK Proxy Voting Policy.

The 2006 PIRC Guidelines

3. I have received the PIRC Shareholder Voting Guidelines 2006 and the resulting summary "The Guide to PIRC Voting Analysis 2006" (see Appendix). This Voting Analysis is consistent with the essential principles of the 2003, 2004 and 2005 Guidelines.
4. These Guidelines continue to conform to "The Combined Code" published by the Financial Reporting Council. The Combined Code is the best practice guidance that investment professionals should adopt in their shareholder engagement and voting policies.

Wiltshire Pension Fund's Proxy Voting Policy

5. The annual guidelines received from PIRC over the last four years for voting and engagement show that their underlying principles have not changed since 2003. It is these principles which determine PIRC's voting recommendations to Capital International and Baillie Gifford on our behalf in respect of UK companies (they cannot be applied to Northern Trust Global because our investments with them are in Pooled Funds). Therefore, I can confirm that the Wiltshire Pension Fund's Proxy Voting Policy should remain the same.
6. In general PIRC's voting recommendations apply these principles as follows:
 - **FOR** – The proposal meets best practice guidelines and is in shareholders' 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.
7. 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.
8. 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

9. 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.
10. 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 (i.e. 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.
11. Notwithstanding these limited exceptions, the voting record for the Wiltshire Pension Fund is good.
12. In respect of UK votes, there have been no instances that I am aware of in the past 12 months where any of our equity managers have deliberately voted contrary to PIRC's recommendation.

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

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

Proposal

14. The Committee is asked to confirm that Wiltshire Pension Fund's Proxy Voting Policy should be the latest PIRC Voting Guidelines (see Appendix).

MIKE PRINCE
County Treasurer

Report Author: Catherine Lee

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

9/2007/WPF/CL

GUIDE TO PIRC VOTING ANALYSIS

In general terms, PIRC considers the following in coming to voting recommendations:

- PIRC's shareholder voting guidelines
- Board's explanation for the proposal including any departure from good practice.
- Board assurances on positive changes.
- Potential impact of oppose votes on corporate structure (and likelihood of occurrence).
- Materiality of any concern and timescales involved.
- Opportunities for further votes in the future on the issue.
- Market implications from any precedent created.

PIRC applies these guidelines to all companies that we cover on the UK market.

This table provides a guide to PIRC's usual considerations in deciding its recommendation on a particular resolution. It should not be taken as an exhaustive checklist.

ALL RESOLUTIONS	Does the resolution only cover one substantive issue?
	Is there full explanation and justification?
	Is there full disclosure of information relevant to the consideration of the matter and is such information is presented in a fair and balanced way?
REPORT AND ACCOUNTS	Are there material omissions in terms of disclosure?
	Are there full and clear statements of compliance with the provisions and appliance of the principles of the Combined Code?
	Are there serious breaches of corporate governance best practice at the company?
	Does the company respect the principle of one share, one vote?
	Has the company sought shareholder approval for dividends (paid or proposed)?
	Have donations been made to political organisations/parties without shareholder approval?
APPROVAL OF DIVIDEND	Is the dividend covered by earnings or has the board provided adequate explanation to demonstrate the sustainability of the dividend policy?
	Have other relevant stakeholder interests been addressed?

ELECTION OF DIRECTORS	Are there circumstances which give rise to serious concerns over the conduct or competence of the director?
	Will the director face regular re-election by shareholders?
	The biographical information provided to shareholders.
	The individual's other time commitments.
	The individual's record of attendance at meetings.
	Any issues for which it is considered appropriate to hold the individual responsible.
ELECTION OF CHAIRMAN	The combination of roles of chairman and chief executive in name or practice.
	Any executive responsibilities?
	Has the individual previously been an executive?
	Is the individual linked to the controlling shareholder, if any?
	Independence upon appointment of a new chairman.
	Any risks to the chairman's effectiveness?
ELECTION OF NON-EXECUTIVE DIRECTORS	The independence of the individual (in terms of PIRC's guidelines) and the balance of independent directors on the board.
ELECTION OF EXECUTIVE DIRECTORS	Contractual notice period and/or termination provisions.
APPROVAL OF REMUNERATION REPORTS OR POLICY	The company's remuneration disclosure, its reward structure and contract policies.
NEW DISCRETIONARY SHARE-BASED INCENTIVE SCHEMES	The terms of the scheme and the company's disclosure.
AMENDMENTS TO DISCRETIONARY SHARE SCHEME	Case by case analysis including: <ul style="list-style-type: none"> ○ The interests of the participants and shareholders ○ Increased rewards being subject to stringent targets ○ Potential remuneration issues for the future

APPOINTMENT OF AUDITORS	Factors potentially affecting independence of the auditors such as <ul style="list-style-type: none"> ○ Personal or professional links between partners of the audit firm and the company; ○ The level of non-audit fees.
	Any concerns regarding professional conduct or the integrity of the audit process.
SHARE REPURCHASES	The board's explanation and justification for this use of company resources.
	Potential impact on the interests of other stakeholders.
SHARE ISSUES	UK market norms, directors' interests, control issues.
MEMORANDA AND ARTICLES OF ASSOCIATION	The potential effects on shareholder rights.
TAKEOVERS, CORPORATE ACTIONS, CAPITAL CHANGES	The information and justification provided by the board.
	An assessment of the impact on the interests of employees.
	Potential impacts on business relationships with suppliers, customers and others.
	Standards of business conduct implied.
	The board structure.
AUTHORITY TO MAKE POLITICAL DONATIONS AND/OR INCUR POLITICAL EXPENDITURE	PIRC will support such resolutions provided political parties are specifically excluded, 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'.
ALL OTHER RESOLUTIONS PROPOSED BY THE BOARD	Case by case analysis based on our corporate governance principles.
SHAREHOLDER RESOLUTIONS	PIRC judges these on the merits of the specific issue addressed.