

Position paper on voting policy

1. Introduction

Until the adoption of a voting policy in April 2000 CFB voting rights were not usually exercised. Exceptions occurred either at the express request of a company to ensure the passage of a resolution (e.g. to facilitate a takeover) or to register disagreement with the policy of a company on a specific matter of ethical concern (e.g. Shell on disclosure, and Granada on executive terms and conditions).

In July 1999 a regulation was laid before Parliament which requires trustees of pension funds to state their policy on the exercise of voting rights. This will take effect in July 2000 by which time reference to such a policy had to be included within the Statement of Investment Principles which are required of all pension funds.

Those pension funds which have appointed the CFB as investment manager (The Methodist Ministers Pension Trust and NCH – Action For Children Superannuation Fund) refer to the CFB voting policy as being appropriate for their needs.

To date the CFB has produced relevant pieces of work on three previous occasions:-

- The CFB Mission Statement (April 1996)
- Shareholder Voting and Corporate Governance (September 1996)
- Corporate Governance Issues (August 1999)

2. Aims

2.1 The National Association of Pension Funds (NAPF) Committee of Inquiry into UK Vote Execution states:

“the Committee was unanimous in its view that the vote attaching to share ownership is, of itself, valuable since its exercise has the potential to affect the management and direction of the company”

It then recommends:

“that trustees and investment managers embrace the practice of voting as part of their fiduciary responsibility towards their members, seeing it as part of good governance to develop and implement considered voting policies”

It would appear to be the view of NAPF that failure to use shareholder rights is to waste a valuable asset and might be construed as abrogation of fiduciary duty.

2.2 The NAPF report referred to above included the result of various surveys. One produced by the Association of Unit Trust and Investment Funds estimates that of the total funds under management by the industry, 61% already have a voting policy and for only 10% was it normal not to vote on shareholder resolutions. These statistics indicate that the CFB falls short of its declarations.

“To show leadership by example, in accepting the responsibilities that ownership of investment entail.”

2.3 Most shareholder resolutions in the UK refer to corporate governance; however, there are some issues which have wider ethical implications. The CFB has a better record in reacting to such votes but is certainly at risk in not living up to its aims:

“by providing the means of investment which allow our investors to use their assets not only to strive for an above average financial return but also to support attempts to improve business practices and social justice.”

- 2.4 It is important that any voting policy is seen to be disciplined, consistent and fair. Any agreed policy must therefore be applied to all holdings in the portfolio. This is a time consuming and expensive exercise, yet to avoid it on such grounds would be contrary to the CFB aims by not:

“providing the necessary resources to enable both investment and ethical aspects of the service to be tackled effectively.”

- 2.5 The CFB is committed to wrestling with the tensions of seeking both superior returns and improving ethical standards. However, it recognises the paradoxes and compromises which are involved and accepts that its best effort may justly be criticised as falling short of its ideals.

“Enough is never enough”

- 2.6 A standing instruction to vote all shares in favour of the board or to give the Chair proxy authority to do so would not be consistent with the spirit of the CFB Mission Statement.

3. Reality

- 3.1 There are various aspects to take into account if a fair and consistent approach to voting is to be taken.

- All resolutions put by a company to shareholders should be monitored.
- A policy in relation to any resolution put to shareholders needs to be agreed.
- The vast majority of resolutions are of a routine nature which the CFB would have no reason to oppose.
- Any custodian or voting service would need to be given an instruction on every resolution put by every company held in the CFB portfolio.
- An attempt should be made to confirm that the CFB instructions were carried out.
- The company should be informed whenever the CFB votes against the Board's recommendations.

- 3.2 To fully implement such a policy would be prohibitively expensive in terms of:

- diversion of senior management time and
- additional costs which would directly reduce investment returns.

- 3.3 Better use could be made of current resources ie information supplied by PIRC, NAPF and EIRIS.

- 3.4 Additional resources need to be allocated to ensure an improvement in the current CFB performance in this area.

4. Conclusions

- 4.1 The CFB should adopt the suggested Statement on Voting Policy.

- 4.2 Over time, the CFB voting policy on individual issues should be developed to ensure that it is consistent with other aspects of ethical policy.

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