

Proxy Voting Disclosure by UK Asset Managers

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Executive Summary

During May 2007, LAPFF reviewed the websites of leading UK asset managers to assess the extent and nature of disclosure of shareholder voting records. We reviewed 40 asset manager websites.

The key findings were:

- 15% of the sample disclose full records
- 22.5% disclose reasonably comprehensive data
- 40% of the sample disclose some data
- Data can be hard to locate on websites
- A number of managers' records are not regularly updated
- At least one record contains an inaccurate or misleading disclosure on a high-profile voting issue
- Overall disclosure by the market is limited

Based on our analysis, we are recommending that the Institutional Shareholders Committee make the following points in its forthcoming principles on voting disclosure:

- That full disclosure of voting records by company is best practice
- That voting records should be made easily accessible
- That voting records should be updated at least quarterly

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Introduction

The issue of public disclosure of shareholder voting records has been the subject of considerable debate over the past three or four years. An increasing willingness on the part of some institutional investors, combined with pressure, primarily from trades unions, for greater transparency, has resulted in a gradual increase in the level of disclosure.¹ Most institutions continue to disclose nothing, but a handful of investors disclose their full records, and a greater number provide some voting data. According to research by the Investment Management Association, the trade body for asset managers, by June 2005 there were ten institutions making some kind of public disclosure.²

The issue took on a political dimension in 2005 when the Government introduced a clause in the Company Law Reform Bill, which would give it the power to make disclosure mandatory. The Government proposed taking a reserve power, which would be used if there was not a significant increase in voluntary disclosure. The fund management industry reacted furiously and heavily lobbied Government and Opposition to have the clause removed. Although initially Conservative and Liberal Democrat members of the Lords combined to vote the clause down, it was ultimately passed and is now part of the Companies Act 2006.³

More recently the Economic Secretary to the Treasury Ed Balls has repeated the Government's desire to see a greater level of public disclosure. He also announced that the Institutional Shareholders Committee was to develop a set of principles intended to encourage more transparency, based on a 'comply or explain' approach.⁴ In a speech to the NAPF investment conference he also said that 16 institutions now disclose voting data.⁵

However our understanding was that the number of managers making meaningful disclosure was noticeably lower. Indeed the IMA itself acknowledges "a wide variation in the matters reported".⁶ LAPFF believes that the simple headline figures often used in relation to the level of voting disclosure are imprecise. In our view there is a need for a deeper understanding of the extent and nature of disclosure in order to establish both how far there is to travel to meet the Government's aspiration, and to aid the development of best practice principles in proxy vote disclosure.

As a result of this debate, and the Government's latest pronouncements, LAPFF has undertaken an analysis of the true extent and nature of voting disclosure in the UK, based on the data disclosed by asset managers.

¹ See the annual TUC Fund Manager Voting Survey: <http://www.tuc.org.uk/pensions/tuc-11994-f0.pdf>

² <http://www.investmentuk.org/press/2006/20060621.asp>

³ Clause 1277 of the Act: <http://www.opsi.gov.uk/acts/acts2006/60046-as.htm#1277>

⁴ http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2007/press_27_07.cfm

⁵ http://www.hm-treasury.gov.uk/newsroom_and_speeches/speeches/econsecspeeches/speech_est_150307_2.cfm

⁶ See footnote 2 above.

Research and analysis

The research

The websites of 40 asset management houses were reviewed in May 2006. In each case the asset manager was given a three-number score for their voting disclosure, which encompasses the level of disclosure, the ease of accessing the data, and the usefulness of the information provided. More detail on the scoring system used is provided below.

A. Level of disclosure

- 0 – no data disclosed
- 1 – headline statistics
- 2 – detailed statistics, or limited company-specific information
- 3 – detailed company-specific information (i.e. votes against and abstentions only disclosed)
- 4 - full record (i.e. all votes at all companies are disclosed)

B. Ease of access

- 0 – no data found
- 1 – data hard to find
- 2 – data can be found relatively easily
- 3 – data easy to find and/or located in an appropriate area (i.e. corporate governance or SRI section of website)
- 4 – front page link to voting record

C. Usefulness

- 0 – no data found
- 1 – very limited value
- 2 – limited value
- 3 – valuable
- 4 – data provided is searchable or interactive

It should be noted that a rating of 0 under category A (level of disclosure) automatically leads to a 0 rating in categories B and C since there is no data to access or utilise.

In addition there may be instances where the manager does disclose data but we have been unable to access it and as such have given them a 0-0-0 score. However we believe this is fair and is an issue for the asset manager to address. If informed researchers, knowing both what to look for and where they might find it, cannot locate voting data we do not believe that

beneficiaries with no expertise stand any chance. In addition, by reference to the IMA's figures on public disclosure, we believe we have accounted for all those asset managers known to disclose data.

Analysis of results

So what is the real state of voting disclosure in the UK at present? It is broadly true that disclosure is gradually improving. However, based on our research, we believe it is important to stress both that the majority of asset managers disclose no data at all, and that the type of information disclosed varies significantly between managers.

For the purposes of our analysis we have defined a full voting record, or 'full disclosure', as the reporting of voting decisions on all resolutions at all companies.

Out of 40 asset manager websites reviewed, 16 (40%) contain some data relating to voting. However only 6 (15%) include full voting records and nine in total (22.5%) provide a reasonably comprehensive level of disclosure. In contrast a number of managers only disclose extremely basic statistics. As such we believe the industry should recognise that the headline figures relating to voting disclosure that are often used are very misleading. LAPFF believes that this requires a more sophisticated discussion about disclosure.

In addition the manner of disclosure also varies. In the case of one institution, voting data can be accessed directly from the front page of their website. At the other extreme, one manager only makes data available in the section of its website for financial advisers. In another case, where the asset manager was known to disclose, it was necessary to use a search engine to find the disclosure because no link to the data was apparent on the company's website. A number of asset managers make disclosures within the Corporate Governance or Responsible Investment section of their website. Others include it in the 'About Us' section.

Finally there are some noticeable problems with the disclosures made by some managers. In several cases sites have not been updated recently. For example, one firm's record does not appear to have been updated for nine months. In another we believe that an incorrect or misleading voting outcome has been recorded in relation to a high-profile voting issue. Whilst we recognise that there will always be errors, given the thousands of votes that need to be disclosed, we believe that this highlights the problems of leaving it entirely to institutions to decide how to report.

Manager disclosure ratings

Aberdeen	Aegon	AXA
Level of disclosure 0	Level of disclosure 0	Level of disclosure 1
Ease of access 0	Ease of access 0	Ease of access 4
Usefulness 0	Usefulness 0	Usefulness 1
Baillie Gifford	BGI	Capital
Level of disclosure 0	Level of disclosure 4	Level of disclosure 0
Ease of access 0	Ease of access 3	Ease of access 0
Usefulness 0	Usefulness 2	Usefulness 0
Cazenove	CCLA	CIS
Level of disclosure 0	Level of disclosure 1	Level of disclosure 4
Ease of access 0	Ease of access 2	Ease of access 4
Usefulness 0	Usefulness 1	Usefulness 4
Credit Suisse	F&C	Fidelity
Level of disclosure 0	Level of disclosure 4	Level of disclosure 4
Ease of access 0	Ease of access 3	Ease of access 2
Usefulness 0	Usefulness 2	Usefulness 2
Gartmore	Glasgow	Goldman Sachs
Level of disclosure 0	Level of disclosure 0	Level of disclosure 0
Ease of access 0	Ease of access 0	Ease of access 0
Usefulness 0	Usefulness 0	Usefulness 0
Gov. For Owners	Hendersons	Hermes
Level of disclosure 0	Level of disclosure 3	Level of disclosure 3
Ease of access 0	Ease of access 2	Ease of access 4
Usefulness 0	Usefulness 2	Usefulness 2
HSBC	Insight	Invesco
Level of disclosure 0	Level of disclosure 4	Level of disclosure 0
Ease of access 0	Ease of access 3	Ease of access 0
Usefulness 0	Usefulness 3	Usefulness 0

Investec	JP Morgan	Jupiter
Level of disclosure 0	Level of disclosure 1	Level of disclosure 2
Ease of access 0	Ease of access 2	Ease of access 3
Usefulness 0	Usefulness 1	Usefulness 3
Legal & General	M&G	Martin Currie
Level of disclosure 0	Level of disclosure 4	Level of disclosure 0
Ease of access 0	Ease of access 1	Ease of access 0
Usefulness 0	Usefulness 2	Usefulness 0
Merrill Lyn/BlackRock	Morgan Stanley	Morley
Level of disclosure 0	Level of disclosure 0	Level of disclosure 1
Ease of access 0	Ease of access 0	Ease of access 2
Usefulness 0	Usefulness 0	Usefulness 1
Newton	RCM	Resolution
Level of disclosure 2	Level of disclosure 0	Level of disclosure 0
Ease of access 2	Ease of access 0	Ease of access 0
Usefulness 2	Usefulness 0	Usefulness 0
Royal London	Schroders	Scottish Widows
Level of disclosure 3	Level of disclosure 0	Level of disclosure 0
Ease of access 3	Ease of access 0	Ease of access 0
Usefulness 2	Usefulness 0	Usefulness 0
SG	Standard Life	Threadneedle
Level of disclosure 0	Level of disclosure 3	Level of disclosure 0
Ease of access 0	Ease of access 3	Ease of access 0
Usefulness 0	Usefulness 4	Usefulness 0
UBS		
Level of disclosure 0		
Ease of access 0		
Usefulness 0		

Manager rankings

Manager	Level of disclosure	Ease of access	Usefulness	Total	Rank
CIS	4	4	4	12	1
Insight	4	3	3	10	3
Standard Life	3	3	4	10	3
BGI	4	3	2	9	6
F&C	4	3	2	9	6
Hermes	4	3	2	9	6
Fidelity	4	2	2	8	9
Jupiter	2	3	3	8	9
Royal London	3	3	2	8	9
Hendersons	3	2	2	7	11
M&G	4	1	2	7	11
Newton	2	2	2	6	12
Axa	1	3	1	5	13
CCLA	1	2	1	4	16
JP Morgan	1	2	1	4	16
Morley	1	2	1	4	16
Aberdeen	0	0	0	0	No ranking
Aegon	0	0	0	0	No ranking
Baillie Gifford	0	0	0	0	No ranking
Capital	0	0	0	0	No ranking
Cazenove	0	0	0	0	No ranking
Credit Suisse	0	0	0	0	No ranking
Gartmore	0	0	0	0	No ranking
Glasgow	0	0	0	0	No ranking
Goldman Sachs	0	0	0	0	No ranking
Governance for Owners	0	0	0	0	No ranking
HSBC	0	0	0	0	No ranking
Invesco	0	0	0	0	No ranking
Investec	0	0	0	0	No ranking
Legal & General	0	0	0	0	No ranking
Martin Currie	0	0	0	0	No ranking
Merrill Lynch	0	0	0	0	No ranking
Morgan Stanley	0	0	0	0	No ranking
RCM	0	0	0	0	No ranking
Resolution	0	0	0	0	No ranking
Schroders	0	0	0	0	No ranking
Scottish Widows	0	0	0	0	No ranking
SG	0	0	0	0	No ranking
Threadneedle	0	0	0	0	No ranking
UBS	0	0	0	0	No ranking

Conclusions

It is important first to make clear that some estimates of the current level of disclosure in the UK strain the bounds of credibility. It is broadly true that disclosure is increasing year on year. However variations in disclosure mean that the fairest assessment of the market at present would conclude that only a small minority of asset managers make meaningful disclosures.

The dramatic variance in the nature and depth of disclosure poses considerable problems for beneficiaries or other interested parties. Firstly, it means that the beneficiary is dependent on the asset manager for the level of information they have access to. They might be lucky, and choose an asset manager that discloses its full record. Alternatively they may choose an asset manager that discloses only basic headline statistics, or even nothing at all.

Secondly, the lack of a uniform pattern in disclosures makes any comparison or analysis extremely difficult. A trustee involved in a beauty parade might wish to compare voting records, or might ask their consultant to carry out some analysis. At present they will likely be unable to do so since few managers make meaningful disclosures.

Added to the variance in the nature of data provided are problems with the manner of disclosure. Some data is hard to access, it is not always disclosed where a user might expect to find it, and some records are updated irregularly. Overall the extent of disclosure is limited, it varies in depth and can be hard to access. At present much of it is simply not useful for beneficiaries. It is perhaps not surprising then that some asset managers say that voting records do not attract much web traffic.

All of this points towards the clear need for a comparable reporting format for proxy disclosure, both in terms of the information disclosed and the manner in which it is provided. This would serve two purposes. First it would make it much simpler for beneficiaries who wish to check their own asset manager's record. Secondly it would enable trustees and their advisers to carry out comparative analysis and more effectively fulfil their requirements for effective monitoring under the Myners' Principles.

In addition we believe that this is in the interest of asset managers themselves. If information is buried in an obscure part of the website, or rarely updated, it is far less likely to be used by existing and potential customers.

Based on our analysis we believe it is necessary for the industry to embrace a common disclosure format for proxy voting disclosure. The ISC is currently developing guidelines on voting disclosure. It is important that this opportunity is taken to promote standardisation.

Recommendations:

At the very least we believe that the ISC guidelines should set out:

- That full disclosure of voting records by company meeting is best practice
- That voting records should be made easily accessible
- That voting records should be updated at least quarterly