Agenda Item No.10

# Proxy Voting Disclosure by UK Asset Managers

***Report to the***

***Local Authority Pension Fund Forum***

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# Executive Summary

During March 2009, LAPFF reviewed the websites of leading UK asset managers to assess the extent and nature of disclosure of shareholder voting records. We reviewed 39 asset manager websites.

The key findings were:

- 25% of the sample disclose full records
- 37.5% disclose reasonably comprehensive data
- 55% of the sample disclose some data
- There has been an overall increase in disclosure
- Data can be hard to locate on websites
- There is a significant variation in updating of disclosures
- Archived records are often not available
- At least one record contains a significant error
- Overall disclosure by the market remains limited
- Managers which do not disclose data do not appear to provide an explanation of their policy, as recommended by the ISC
- The current voluntary regime frustrates the type of comprehensive analysis of voting behaviour possible in other markets

Based on our analysis, we recommend that the Government should exercise the reserve power in the Companies Act to mandate full voting disclosure. In addition there should be prescription as regards the nature of disclosure in order to facilitate comparative analysis.

# Table of Contents

## Introduction

In 2007 LAPFF carried out a survey of public reporting of shareholder voting decisions undertaken by asset managers. The survey was an attempt to assess the current level of disclosure, both in terms of the number of managers reporting, and the level of reporting undertaken. This research was undertaken against a background of claims of increasingly disclosure by managers, and of renewed Government interest in the issue.[1]

The Forum's analysis found that it was broadly true that disclosure had improved. However a majority of asset managers disclosed no data at all, and that the type of information disclosed varied significantly between managers. The 2007 study concluded that only full disclosure of voting records would enable trustees and other interested parties to build up a comprehensive picture of how asset managers exercise ownership rights. At the time the Institutional Shareholders Committee (ISC) was drafting guidance on how institutional shareholders should approach disclosure based on voluntary approach to the issue. LAPFF urged the ISC to promote full, standardised disclosure.

The ISC guidance was published in June 2007. Although it stated that public disclosure was generally desirable, it did not provide prescriptive guidance, and suggested a 'comply or explain' approach to the issue. If institutions decided that they did not want to disclose anything, they should provide an explanation why not. In addition, in a letter to the ISC the then Economic Secretary to the Treasury Ed Balls said that the Committee should assess the framework's effectiveness, produce "a first report starting after the first year of operation, in Autumn 2008, and publish annual statistics on compliance."[2] To date (April 2009), however, it does not appear that the ISC has published either a report on the framework's operation, or statistics on compliance.

As part of its response to the financial crisis, LAPFF decided to repeat its analysis of voting disclosure by asset managers. Given that there is a clear public interest in how managers have recently exercised their ownership rights in respect of financial institutions like banks in particular, this is an issue of growing importance. In addition, in lieu of a report by the ISC, LAPFF's analysis provides some indication of how managers have responded to the ISC's framework document.

[1] http://www.hm-treasury.gov.uk/speech_est_150307.htm
[2] http://institutionalshareholderscommittee.org.uk/sitebuildercontent/sitebuilderfiles/ISCframeworkReleaseJun07.pdf

# Research and analysis

## *The research*

The websites of 40 asset management houses were reviewed in March and April 2009. 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.

## *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 a large minority 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, 22 (55%) contain some data relating to voting, and the remainder appear to contain none. A total of 10 managers (25%) include full voting records and 15 in total (37.5%) provide a reasonably comprehensive level of disclosure. A number of managers only disclose basic statistics. As such it should be noted that only a minority of managers provide data that could aid comprehensive analysis of voting.

The manner of disclosure varies dramatically. A number of asset managers make voting disclosures within the Corporate Governance or Responsible Investment section of their website, others include it in the 'About Us' section. Sometimes the data is hard to locate unless you are familiar with reporting in this area already. In addition there are variations in the timeliness of disclosures. Some managers appear to update reporting every few months, others appear to make a years' data available in one go, at the end of the year. Unfortunately only a few managers provide archives of past reporting, meaning that comparisons across AGM seasons are usually not possible.

Some managers only report by exception, disclosing only votes against or abstentions. Without knowledge of these managers' underlying portfolios it is therefore impossible to tell whether they have voted in favour of all resolutions at a given company, or simply did not hold the stock.

Finally there are some noticeable problems with the disclosures made by some managers. One firm's record for an entire quarter is incorrect, because it has repeated its disclosure for a previous period. 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 | 4 | Level of disclosure | 3 | Level of disclosure | 1 |
| Ease of access | 3 | Ease of access | 3 | Ease of access | 2 |
| Usefulness | 3 | Usefulness | 3 | Usefulness | 1 |
| | | | | | |
| **Baillie Gifford** | | **BGI** | | **Capital** | |
| Level of disclosure | 4 | Level of disclosure | 4 | Level of disclosure | 0 |
| Ease of access | 3 | Ease of access | 2 | Ease of access | 0 |
| Usefulness | 2 | Usefulness | 3 | Usefulness | 0 |
| | | | | | |
| **Cazenove** | | **CCLA** | | **CIS** | |
| Level of disclosure | 0 | Level of disclosure | 3 | Level of disclosure | 4 |
| Ease of access | 0 | Ease of access | 2 | Ease of access | 3 |
| 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 | 3 |
| Usefulness | 0 | Usefulness | 4 | Usefulness | 3 |
| | | | | | |
| **Gartmore** | | **Glasgow*** | | **Goldman Sachs** | |
| Level of disclosure | 0 | Level of disclosure | n/a | Level of disclosure | 0 |
| Ease of access | 0 | Ease of access | n/a | Ease of access | 0 |
| Usefulness | 0 | Usefulness | n/a | Usefulness | 0 |
| | | | | | |
| **Gov. For Owners** | | **Hendersons** | | **Hermes** | |
| Level of disclosure | 0 | Level of disclosure | 3 | Level of disclosure | 4 |
| Ease of access | 0 | Ease of access | 2 | Ease of access | 4 |
| Usefulness | 0 | Usefulness | 2 | Usefulness | 3 |
| | | | | | |
| **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 | 4 | Usefulness | 0 |

| | | |
|---|---|---|
| **Investec** | **JP Morgan** | **Jupiter** |
| Level of disclosure 0 | Level of disclosure 2 | Level of disclosure 2 |
| Ease of access 0 | Ease of access 2 | Ease of access 3 |
| Usefulness 0 | Usefulness 2 | Usefulness 3 |
| | | |
| **Legal & General** | **M&G** | **Martin Currie** |
| Level of disclosure 4 | Level of disclosure 4 | Level of disclosure 0 |
| Ease of access 3 | Ease of access 2 | Ease of access 0 |
| Usefulness 3 | Usefulness 3 | Usefulness 0 |
| | | |
| **BlackRock** | **Morgan Stanley** | **Aviva**** |
| Level of disclosure 1 | Level of disclosure 0 | Level of disclosure 1 |
| Ease of access 2 | Ease of access 0 | Ease of access 3 |
| Usefulness 1 | Usefulness 0 | Usefulness 1 |
| | | |
| **Newton** | **RCM** | **Ignis***** |
| 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 3 | Usefulness 0 | Usefulness 0 |
| | | |
| **Royal London** | **Schroders** | **Scottish Widows** |
| Level of disclosure 3 | Level of disclosure 0 | Level of disclosure 0 |
| Ease of access 4 | 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** | **Lazard****** | |
| Level of disclosure 4 | Level of disclosure 0 | |
| Ease of access 3 | Ease of access 0 | |
| Usefulness 3 | Usefulness 0 | |

* - Glasgow Investment Managers was acquired by Aberdeen Asset Management in August 2007
** - Formerly Morley Fund Management
*** - Resolution Asset Management (featured in the 2007 survey) merged with Axial Investment Management to form Ignis Asset Management.
**** - new manager, added to maintain same sample size as 2007 survey.

## Manager rankings

| Manager | Level of disclosure | Ease of access | Usefulness | Total | Rank |
|---|---|---|---|---|---|
| CIS | 4 | 3 | 4 | 11 | 1 |
| F&C | 4 | 3 | 4 | 11 | 1 |
| Hermes | 4 | 4 | 3 | 11 | 1 |
| Insight | 4 | 3 | 4 | 11 | 1 |
| Aberdeen | 4 | 3 | 3 | 10 | 5 |
| Fidelity | 4 | 3 | 3 | 10 | 5 |
| Legal & General | 4 | 3 | 3 | 10 | 5 |
| Standard Life | 3 | 3 | 4 | 10 | 5 |
| UBS | 4 | 3 | 3 | 10 | 5 |
| Aegon | 3 | 3 | 3 | 9 | 10 |
| Baillie Gifford | 4 | 3 | 2 | 9 | 10 |
| BGI | 4 | 2 | 3 | 9 | 10 |
| M&G | 4 | 2 | 3 | 9 | 10 |
| Royal London | 4 | 3 | 2 | 9 | 10 |
| Jupiter | 2 | 3 | 3 | 8 | 15 |
| Hendersons | 3 | 2 | 2 | 7 | 16 |
| Newton | 2 | 2 | 3 | 7 | 16 |
| CCLA | 3 | 2 | 1 | 6 | 18 |
| JP Morgan | 2 | 2 | 2 | 6 | 18 |
| Aviva | 1 | 3 | 1 | 5 | 20 |
| Axa | 1 | 3 | 1 | 5 | 20 |
| Black Rock | 1 | 2 | 1 | 4 | 22 |
| 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 |
| 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 |
| Lazard | 0 | 0 | 0 | 0 | No ranking |
| Martin Currie | 0 | 0 | 0 | 0 | No ranking |
| Morgan Stanley | 0 | 0 | 0 | 0 | No ranking |
| RCM | 0 | 0 | 0 | 0 | No ranking |
| Ignis | 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 |

## Conclusions

First and foremost, it is clear that there has been an increasing trend towards greater disclosure of voting data, with a slight majority of the sample surveyed now disclosing some data. In absolute terms there has been an increase of six manager managers disclosing. It is not clear whether this increase has been driven by the publication of the ISC framework on disclosure, or was simply the continuation of the gradual trend towards greater disclosure.

However the simple fact that a majority disclose some data does not tell the whole story. There continues to be a dramatic variance in the nature and depth of disclosure, and this poses considerable problems for beneficiaries or other interested parties. The lack of a uniform pattern in disclosures makes any comparison or analysis extremely difficult. This became obvious when LAPFF recently undertook research into asset manager voting at UK-listed bank AGMs. Because of variations in the depth and timeliness of disclosures, the Forum was only able to find data for about a third of its target group in respect of the 2008 season, and a substantially smaller number in 2007 and 2006. If the point of disclosure is to provide clients with an informed picture of how asset managers are exercising ownership, it is hard not to conclude that the current voluntary regime is not an effective approach.

One reason to query the impact of the ISC framework on disclosure is the behaviour of non-disclosing asset managers. The framework document states that “Where their overall approach is not to disclose, the ISC recommends that they provide a reasoned explanation of that policy.” Yet none of the managers reviewed in this study which do not disclose appear to make any statement explaining their policy. Again this suggests that the existing voluntary regime does not function effectively.

In short the current regime is not ‘fit for purpose’. As the Economic Secretary to the Treasury stated in 2007, “savers, as ultimate owners, have a right to know how their agents are managing their investment”.[3] Yet the voluntary approach to disclosure does not meet such an aspiration. All of this points towards the need for a mandatory approach to voting disclosure. At a stroke the Government could stipulate the nature and timeliness of disclosure, addressing the problems outlined above. It would also greatly increase the voting data available, by forcing those managers currently providing nothing to disclose.

The experience of the US market suggests that once a mandatory regime is in place, tools can be developed to enable beneficiaries and other interested parties to make comparisons between managers.[4]

The Government took a reserve power in the Companies Act which would enable it to mandate public disclosure of voting records[5]. In the wake of the financial crisis, and the scrutiny of the shareholder role in governance, the public interest argument in favour of disclosure is compelling. In light of the analysis in this paper it is clear that the UK’s voluntary approach to disclosure is ineffective. Therefore the logical solution is for the Government to exercise its reserve power.

[3] http://www.hm-treasury.gov.uk/speech_est_150307.htm
[4] See FundVotes.com and ProxyDemocracy.org
[5] http://www.opsi.gov.uk/acts/acts2006/ukpga_20060046_en_77#pt44-pb2-l1g1277

 