

RECORD OF MEETING WITH NATIONAL ASSOCIATION OF PENSION FUNDS, 26 NOVEMBER 1991

Present:

Clive Gilchrist, Chairman Investment Committee
John Rogers, Secretary Investment Committee
Sir Adrian Cadbury
Nigel Peace

Proxy voting

Mr Gilchrist drew attention to his article on Proxy Voting (Annex A), the feature on the subject in the February 1991 edition of the Investment Committee bulletin (Annex B), and his letter asking NAPF members whether they would like the NAPF to provide an advisory service on voting issues (Annex C). IFMA had also produced a paper on Voting by Shareholders which was part of the same drive. It did not however have unanimous support and Mercury Asset Management in particular took the view that voting involved too much administrative inconvenience.

2 Mr Gilchrist said that the impetus towards a more active role by the pension funds had to come from the trustees. They had to take a view on their objectives. If it was simply (say) to outperform the index by 0.5% then there might be no justification for an active role on corporate governance issues. About a quarter of funds had a policy of not voting and he assumed they could justify it. Many indexed funds did not vote, although some did. His immediate target was the 24% of funds (table at Annex D) which did not know if they had a policy or not.

3 It did not matter if pension funds did not vote on every issue. The important thing was that they voted when it counted, and that they had a working system to enable them to deliver their votes in such situations. The NAPF's proposed service would highlight the contentious issues for subscribers. It would not however advise them how to vote. Quite apart from problems of concert parties and block votes, this was properly a matter for the funds themselves, and it was important that they voted in a considered manner. It was better not to vote at all, than automatically to vote Yes in all circumstances.

4 One large member intended to rely on its own managers rather than the NAPF service. It had drawn up a system under which votes would always be cast provided that it owned a minimum of 0.25% of the company. Votes would be cast in favour of management unless there was a good reason to the contrary; and if so the matter would be referred to a subcommittee of the trustees to determine the voting line. In fact 0.25% was a high cut-off but at least the fund had a workable policy.

5 Mr Gilchrist said that pension funds had argued for many years against non-voting shares. For this position to remain credible they had to show that they exercised their voting rights. However he would not wish to follow the US route where it was held that voting was a fiduciary duty.

6 Sir Adrian commented that he had detected at the Georgeson Conference in July the beginnings of a shareholder movement in the UK. He was conscious that a Chairman typically controlled only 10 to 11% of the votes so proxy solicitors would be close to a winning vote with 12%. He also detected a greater monitoring of company reports - for example, the new monthly journal Company Reporting, and the recent Phillips and Drew expose of doubtful accounting practices. The proposed NAPF service would be a similarly welcome development.

Role of Investment Committee

7 Mr Gilchrist agreed that it was very difficult to get an accurate picture of the extent of the influence of the NAPF Investment Committee (and the ABI's). The fact was that it was in everybody's interests that the Committee's involvement should be kept secret. The full procedure was not activated frequently but it worked as follows. A member of the Committee would suggest that an issue needed to be looked at. If the Committee considered it sufficiently important, a sub-committee would be set up. Its deliberations would be entirely confidential, even to the full Committee. The only clue to the membership generally would be a circular letter asking who held shares in the company.

8 He was familiar with the argument that the procedure did not happen often enough, and that shareholders who were quick enough off the mark preferred simply to sell up. He pointed out however that this was not an option for funds in aggregate because they would simply sell to each other.

9 Mr Gilchrist said that he had been surprised to learn about the recent case of an institutional shareholder in Marks and Spencer raising concern about the company's US operations in a motion to the AGM. He would have regarded such a motion as a last resort. There were many intermediate stages which he would have pursued first.

Auditors

10 Mr Gilchrist drew attention to the NAPF's response to the APB proposals for an expanded auditors' report (Annex E). He had hoped to see proposals for a much greater degree of comment by the auditors on the extent to which they completely agreed with the financial statements, or whilst prepared to accept them would have preferred a different approach. At the moment there was a huge gulf between qualified and unqualified accounts and he would like to see it bridged.

11 Mr Gilchrist said that he was tempted to ask at an AGM to see the auditor's Management Letter. Management Letters were required to be disclosed to the regulators in the case of banks and building societies so there would be a precedent of some sort although it was not a close one. He suspected that the ploy would not work a second time because the letter would subsequently be sanitised.

N D P

27 November 1991

Other documents handed over by Mr Gilchrist:

- Speech by Mr Charkham to NAPF Conference on 21.11.91
- Article for Financial Adviser Magazine
- Investment Committee Bulletin, June 1991
- NAPF's response to FRC letter seeking contributions to the FRC's first report.

*and
attached*