Lancashire County Council

Pension Fund Committee

Friday, 25th May, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Agenda

Part 1 (Open to Press and Public)

No.	**Item**	
1.	**Apologies**	
2.	**Disclosure of Personal and Prejudicial Interests** Members are asked to consider any Personal/Prejudicial Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 3 February 2012** To be confirmed, and signed by the chair.	(Pages 1 - 6)
4.	**Exclusion of Press and Public** The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.	

Part II (Not open to Press and Public)

5.	**Fund Performance Report** (Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).	(Pages 7 - 18)
6.	**Report of the Investment Panel - Appointment of Managers to the Unconstrained Global Equities Framework and Award of the Mandate**	(Pages 19 - 38)

Lancashire County Council

(Not for Publication – Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

7. Appointment of Independent Advisers to the Fund (Pages 39 - 42)

(Not for Publication – Exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A to the Local Government Act, 1972. It is considered that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interests in disclosing the information).

Part I (Open to Press and Public)

8. Fund Shareholder Voting Report (Pages 43 - 140)

9. Internal audit annual report 2011/2012, including the audit plan 2012/13 (Pages 141 - 154)

10. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

11. Date of Next Meeting

The Committee is asked to note the following revised timetable of meetings for the remainder of 2012/13:

- **Friday 27 July 2012** (meeting moved from 13 July 2012)
- **Friday 30 November 2012** (meeting moved from 16 November 2012)
- **Friday 22 March 2013** (meeting moved from 1 February 2013)

The Committee is also asked to note that the meeting scheduled to take place on 12 April 2013 has been cancelled.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 3rd February, 2012 at 10.00 am in Cabinet Room 'C' - County Hall, Preston

Present:

County Councillor David Westley (Chair)

County Councillors

T Aldridge	T Pimblett
M Brindle	S Riches
P Evans	G Roper
F De Molfetta	M Welsh
M Parkinson	K Young

Co-opted members

Councillor Peter Doyle, (Lancashire Leaders' Group representative)
Bob Harvey, (Trade Union representative)
Councillor Mark Smith, (Blackpool Council representative)
Ron Whittle, (Trade Union representative)

Noel Mills and Eric Lambert, Independent Advisers to the Pension Fund were also present.

Announcements

The Chair welcomed Karen Murray as the new District Auditor.

1. Apologies

Apologies for absence were received from County Councillor Mike France and Councillor Mrs D Walsh

2. Disclosure of Personal and Prejudicial Interests

County Councillors M Parkinson, M Brindle, T Pimblett, and D Westley, and Mr R Harvey and Mr R Whittle disclosed personal non-prejudicial interests in the agenda as they were members of the Local Government Scheme.

3. Minutes of the Meeting held on 18 November 2011

The Minutes of the meeting held on 18 November 2011 were presented.

Resolved: That the Minutes of the meeting held on 18 November 2011 be confirmed and signed by the Chair.

4. Exclusion of Press and Public

Resolved: That the press and members of the public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the paragraph of Part 1 of schedule 12A to the Local Government Act, 1972, indicated against the heading to the item. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

5. Fund Performance Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on the performance of the Fund as at 30 November 2011, focussing on the funding position, the investment performance and allocation, and risk management of the Fund.

It was reported that investment performance information to the end of December 2011 had only just been received immediately prior to the meeting and that it had not been possible to produce an updated report in the limited time available.

It was agreed that members needed to have the most up to date performance information before them for discussion at meetings. Officers were asked to review the timetable of future meetings and ensure that meetings were aligned with the availability and production of audited information. In the meantime, officers promised to circulate a further report based on the investment performance to the end of December 2011 as soon as practically possible. Members were invited to contact officers to discuss any issues arising from the updated report.

Officers would also welcome feedback on the style and content of the performance report and promised to consider any suggested improvements.

There was a general discussion on the report presented. Officers responded to questions about the effects of interest rate changes on the Pension Fund and the Fund's liabilities management approach.

Resolved: That the report be noted.

6. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act, 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information)

The Committee considered a report on matters considered by the Pension Fund Investment Panel on 14 December 2011 and members were given an update on issues and action taken since that meeting.

It was noted that the Panel had discussed a broad range of issues relating to:

- The investment Context in which the Fund was operating;
- The current position of the Fund, including specific manager performance and risk profile;
- On-going procurements;
- Further development of the Committee's investment strategy, particularly through the consideration of proposals for investment within the Lower Volatility Strategies Allocation; and

In considering the report members also discussed the following issues:

- The likelihood of increased income from equities;
- The need for the United States to reduce its level of debt and possible implications for the Pension Fund;
- A newspaper article which predicted a significant fall in the price of oil and the effects which this might have on the Pension Fund;
- The Fund's approach to asset management; and
- Clarification in respect of potential investment in Social Housing

Resolved: That the report be noted.

The Committee then returned to the remaining Part I agenda items.

7. Update on procurement processes

The Committee considered a progress report on the procurement of the following contracts:

- Global Equity Investment managers
- UK property management and independent valuers

With regards to the global equity investment managers contract, it was reported that 15 of the top scoring investment managers had, following a tendering exercise, been invited to meet Pension Fund officers and advisers in late February. A bench of 10 managers would then be approved and asked to present to a formal selection panel of Fund officers and advisers including the Treasurer to the Fund in late March. From this, 2 investment managers would be initially selected to take on specific mandates within the overall global equities allocation.

The Committee was informed that the finalisation of the global equity investment managers contract had involved much more time and resource than previously envisaged. This meant that it had been necessary to postpone the tenders for the UK property management and independent valuers contract until spring 2012.

Resolved: That the report be noted.

8. Knowledge and Skills Framework

The Committee considered a report on the adoption of the CIPFA Code of Practice on Public Sector Finance Knowledge and Skills including a comprehensive framework of knowledge and skills requirements.

By adopting the Code, the Committee would ensure good governance and training practices. Whilst Members and officers of the Fund already possessed some of the required skills set out in the Skills and Knowledge frameworks; it was recognised that there may be some areas where knowledge may need supplementing or strengthening.

The Committee noted that a knowledge and skills self assessment tool had been developed by Hymans Robertson in conjunction with the CIPFA Pensions Network to enable officers and members to help identify these gaps.
It was agreed that the Code and frameworks should be adopted and that officers and members should use the toolkit to identify knowledge gaps. A training program for both members and officers would then be developed, incorporating the training materials available in the toolkit, relevant seminars, conferences, internal training days and possibly joint training with other Pension Funds. The training program would be devised to ensure compliance with the Code of Practice.

Resolved:

1. That the Knowledge and Skills Framework, as set out in the report now presented, be adopted as part of the Policy Framework of the Lancashire County Pension Fund.

2. That officers be requested to commence work using appropriate tools to identify areas where the knowledge and skills of both officers and members require strengthening, and that following this a programme of activity to address any identified development areas be developed.

9. Proposed Changes to the Local Government Pension Scheme

The Committee considered a report on the Government's proposals to change the Local Government Pension Scheme.

The Government had announced a "Heads of Terms" framework within which a new scheme would be developed on a careers average basis for implementation from 2014. In summary, the framework provided for:

- The introduction of a new Scheme in April 2014 (with regulations in place by April 2013) addressing the short term savings required as well as the longer term objectives;
- The new scheme being a Career Average Scheme as set out in the Hutton report;
- The ability to have limited or no contribution rate increases for employees provided that the Government's financial constraints were met;
- Some elements of choice to encourage new members to join and existing members to remain in the Scheme;
- Normal Pension Age would match the rise in the State Pension Age for post 2014 service.

Members were pleased that the proposals whilst framed in a different context addressed the key issues raised by the Committee in its response to the Government's consultation of the already relatively higher contributions paid by LGPS members than those in other public sector schemes and measures to reduce the opt out rate.

It was noted that one union had indicated that it was unwilling to continue to participate in the further discussions to turn the Heads of Terms into a new scheme. However, the two largest unions had indicated that they would continue to negotiate within the framework through weekly meetings with Government officials and the Local Government Association. Further reports would be presented to the Committee as the position became clearer.

Resolved: That the report be noted.

10. Audit Commission Audit Plan 2011 2012

The Committee considered the Audit Commission's detailed audit plan including the key audit risks for 2011/12 and the planned audit strategy, as well as a planned increase in the audit fee.

The increased audit fee was considered acceptable given the changes in the operation of the pension fund and their impact on audit requirements.

Resolved: That the report be noted.

11. Urgent Business

None.

12. Date of Next Meeting

It was noted that whilst the next meeting of the Committee was scheduled to take place on Friday 20 April 2012, the date may change in the light of earlier

discussions about the need to align meetings with the availability and production of audited information.

I M Fisher
County Secretary and Solicitor

County Hall
Preston

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Document is Restricted

Pension Fund Committee
Meeting to be held on 25 May 2012

Electoral Division affected:
'All'

Fund Shareholder Voting Report
(Appendices 'A' and 'B' refer)

Contact for further information:
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Executive Summary

For many years the Fund has engaged the services of PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility. While the Fund has followed the voting recommendations of PIRC, from 1 October 2011, PIRC has been acting as the Fund's proxy and casting the Fund's votes. This enables PIRC to provide comprehensive reporting of how the Fund has cast its shareholder votes.

The attached reports (Appendices 'A' and 'B') cover the period 1 October to 31 March. The Fund has voted on 295 occasions and has opposed or abstained in 25% of votes. PIRC recommends not supporting resolutions where it does not believe best governance practice is being applied and in the case of remuneration policy votes, where it does not consider the executives' remuneration plans are properly aligned with the success of the business or the performance and responsibilities of the executive.

Recommendation

It is recommended that the Committee note the report.

Background and Advice

For many years the Fund has engaged the services of PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility. Until September 2011, the Fund's investment managers cast the votes on the Fund's shares at shareholder meetings. The investment managers were instructed to cast votes in accordance with PIRC guidelines, but there was no efficient mechanism to review how closely investment managers followed PIRC guidelines nor bring together a report to show how the votes on the Fund's shares had been cast in shareholder meetings.

Lancashire County Council

From 1 October 2011, PIRC has acted as the Fund's proxy and replaced the investment managers in casting the Fund's votes at shareholder meetings. PIRC are instructed to vote in accordance with their guidelines unless the Fund instructs an exception. PIRC analyses investee companies and produces publically available voting recommendations to encourage companies to adhere to high standards of governance and social responsibility. PIRC is also an active supporter of the Stewardship Code, a code of practice published by the Financial Reporting Council with the aim of enhancing the quality of engagement between institutional investors and companies.

There may be occasions when the Fund wishes to cast a vote at a shareholder meeting in a way which does not accord with PIRC's recommendations. For example, an investment manager might request the Fund to vote in a particular way to support or oppose a corporate action. Such requests would be considered by the Fund on a case by case basis and PIRC instructed to cast the Fund's vote accordingly.

PIRC lobbies actively on behalf of its investing clients as well as providing them with detailed support. It works closely with NAPF (the National Association of Pension Funds) and LAPFF (the forum of Local Authority Pension Funds). Examples of where PIRC has opposed recommendations in line with its brief on corporate governance and corporate social responsibility include:

- Asking for support for its opposition recommendation regarding the remuneration of Barclays CEO. PIRC produced a clear reasoning for its clients explaining why it considered that the remuneration package for Barclays CEO was not aligned with the performance of the individual and the success of the business.
- PIRC has also organised a campaign of letters from investors to News Corporation in support of the appointment of a truly independent director (which the Fund took part in with the approval of the Chairman).

This change enables a summary of the Fund's voting activity for the six months from 1 October 2011 to 31 March 2012 to be presented to the Committee. PIRC have produced two reports, one for Quarter 4 2011 and one for Quarter 1 2012. These reports are presented as Appendices 'A' and 'B' to this report. For each region of the investment world, PIRC produces a round-up of active shareholder governance issues then a summary of how it has cast the votes of the Fund's shares.

PIRC also produces a detailed document which is reviewed by the Fund's officers, which sets out the circumstances and reasoning for every resolution opposed, abstained or withheld. These documents are available on request.

The Fund's voting record using PIRC as its proxy for the six months ended 31 March 2012 is summarised below:

Region	Voting action:				
	For	Oppose	Abstain	Withheld	Total
UK	153	20	16	-	189
Europe	17	2	1	-	20
USA	20	8	1	-	29
Japan	-	-	-	-	-
Rest of World	31	7	14	5	57
Total	221	37	32	5	295

Through PIRC, the Fund has voted for 75% of shareholder resolutions and has opposed or abstained in 25% of resolutions. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition.

In certain foreign jurisdictions, shareholders either vote for a resolution or not at all, opposition to these votes is described as vote withheld.

Much of the active opposition at the moment is to executive remuneration packages where PIRC does not consider the rewards awarded to the executives are sufficiently or appropriately linked to the business performance.

PIRC also promotes good corporate structures, such as the separation of duties of the CEO and Chairman and the appointment of truly independent directors. It also opposes the appointment of auditors where it considers their independence might be compromised by significant non-audit service fees.

Consultations

N/A

Implications:

It is a key component of good governance that the Fund is an engaged and responsible investor complying with the Stewardship Code.

Well run responsible companies are more likely to be successful and less likely to suffer from unexpected scandals, such as suffered by News Corporation recently.

Risk management

The promotion of good responsible corporate governance in the companies the Fund is invested in reduces the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Local Government (Access to Information) Act 1985
List of Background Papers

N/a

Appendix 'A'

Lancashire Council

Proxy Voting Review
January 2012 – March 2012

April 2012

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UK Corporate Governance Review

Compass Group plc - AGM 2nd February

Remuneration was an issue at Compass Group.

The remuneration policy was mostly adequate, although there was limited evidence of alignment between remuneration policy and overarching business objectives manifested in the company's key performance indicators. Disclosure was generally acceptable, although the Company did not provide an estimated value of share-based awards granted during the year. There were concerns over the failure to provide quantifiable targets for one of the criteria under the LTIP.

Combined individual awards were potentially excessive and this was the case for the year under review. However, salaries were not excessive when compared to the comparator group. The lack of quantifiable performance targets under the annual bonus scheme and for one of the LTIPs did not allow an assessment of whether the targets applied were challenging. Furthermore, the lower and upper TSR performance targets were not deemed challenging and the vesting scale was not sufficiently wide.

Executive directors had one year rolling contracts. PIRC did not support the policy of including 'on target' bonuses in payments in lieu of notice. These concerns were partially reduced by the fact that that termination payments were made in monthly instalments to apply the principle of mitigation.

We recommended that shareholders oppose the remuneration report.

The board also sought shareholder approval for the authority to: (a) make donations to political parties or independent election candidates; (b) make donations to political organisations other than political parties; and (c) to incur political expenditure. The maximum aggregate payable under each of points a, b, and c should have not exceeded £125,000.

The aggregate amount of the authority was considered to be excessive and there were further concerns that although the Company stated that it operates a policy of not giving any cash contribution to any political party in the ordinary meaning of those words and that it had no intention of changing that policy, the authority sought did not explicitly exclude political parties or organisations. Therefore, an oppose vote was recommended.

We also recommended that shareholders abstain on the election of two directors. Chairman Sir Roy Gardner was considered independent upon appointment by PIRC. However, he was the chairman of the nomination committee and the selection and appointment process regarding newly-appointed director John Bason were not adequately described and justified.

Non-executive director Don Robert was also considered independent. However, there were concerns over his attendance record as he missed two board meetings and one audit committee meeting during the year under review.

UK Corporate Governance Review

The end of the DB era

Oil giant Shell became the last FTSE100 company to close its final salary scheme. It's important in terms of UK pensions policy, but the implications for share ownership have gone curiously unremarked.

The closure of Shell's scheme, which will be replaced with a defined contribution alternative, was part of a medium-term trend that picked up speed at the turn of the century. The collapse of equity markets, as the TMT bubble burst, wiped out surpluses and instead introduced companies to deficits. However, as previously rather vague pension promises offered by companies had been hardened into legal obligations as a result of legislative change (in part responding to the Maxwell scandal), the room for manoeuvre in terms of reducing costs was limited.

The response of many companies was to close their scheme. First this was to new entrants, but more recently schemes have been closed to future accrual. So in the space of just over 10 years the decline in defined benefit scheme membership has been dramatic. In a few cases the shift has been from final salary to career average provision – a different form of DB. But in the large majority of cases it has been a straight DB to DC shift. In a nutshell this is a wholesale transference of risk from companies to their employees. Given the typically lower level of company pension contributions to DC plans it is also arguably a deferred pay cut.

But the DB to DC shift also represents a significant change in the nature of the agency relationship within the investment chain. In a DB scheme, asset managers are employed by the trustee board and, theoretically, can be held accountable for voting and engagement activity. What is more, in large DB schemes at least the value of the mandate is enough for the asset manager to take client concerns seriously. Trustees can and do switch asset managers. Compare and contrast with DC schemes, where typically the 'client' is the individual saver (except for rare cases of trust-based DC). How much accountability can they realistically expect from asset managers? What's more, plenty of research shows that most DC scheme members rarely move fund, and the industry knows this. Therefore, the leverage that DC members have over asset managers is limited in general terms. In respect of voting and engagement it is practically non-existent.

So, in ownership terms, the DB to DC shift potentially represents a strengthening of the agents relative to the principals within the investment chain. This is important given the weight that is being put on the role of shareholders, for example in relation to executive pay. It's an important question for UK corporate governance in the years ahead.

Keeping an eye on BSkyB

Voting data relating to November's 2011 BSkyB AGM started to emerge in the first quarter, providing an insight in the extent of the City's loss of faith in chair James Murdoch.

A quick trawl of asset manager websites confirmed that Legal & General opposed James Murdoch's re-election as chair. He was the only director L&G voted against. This was a shift from L&G's previous position, as they supported Murdoch in 2010. The Co-op Asset Management's voting disclosure also confirmed that it opposed Murdoch's election, along with other News Corp linked directors Tom Mockridge, David DeVoe and Arthur Siskind.

But it wasn't all bad news for the troubled BSkyB chair. M&G's Q4 disclosure revealed that it voted for him, though it opposed David DeVoe and Arthur Siskind, presumably on independence grounds. This marked a shift in M&G's position, as it supported the re-election of all BSkyB directors in 2010. It's worth noting that DeVoe and Siskind did not in any way become 'less' independent between the 2010 an 2011 AGMs. Both were directors of News Corp at the time of the 2010 AGM and had already been on the board for more than nine years.

Clegg details further pay reforms

Typical. You wait years for one of the major political parties to talk seriously about reforming capitalism, and then three come along at once!

There was more evidence of the current vogue for the main parties to set out a vision of the economy – with responsible capitalism now the neologism of choice. With both David Cameron and Ed Miliband having already had a crack at it, Nick Clegg was due a turn.

Given the recent focus on executive pay, it was not surprising to see Clegg flesh out a few reform ideas. He confirmed that the Coalition was looking to bring in a binding vote on remuneration. He also indicated that another element of the Coalition's reform package would be greater disclosure.

He said: "One: shareholders will only need to look at one number, not a dozen, to see how generously top executives are being paid, and they will need a clear policy in place for departing CEOs so that, if they deviate from that policy, and if a hefty payment is made for failure, that decision is up in lights. Two: the way money is spent will need to be crystal clear. So if a company is spending too much on boardroom pay compared to the amount being reinvested in the business, they will have to explain why: show investors where their money is going."

Clegg also announced that the Coalition would look at measures to facilitate greater employee ownership of businesses.

The bank bonus dilemma

The confusion of exactly what RBS chief executive Stephen Hester has been or will be offered as a bonus highlights some of the problems of shareholder oversight of executive pay.

Top pay is a controversial subject, but bankers' bonuses are in a class of their own, both given the scale of reward, and the rather unimpressive track record of the banks in recent years. So, one might argue, it would make sense for shareholders to take a tough line, to save themselves money and to protect the reputation of the banks. That's the theory.

But, if you believe that there is a "war for talent" then perhaps the low-risk option is to not kick up a fuss. Why make a point over a bonus if it leads the recipient to walk? It is this way of thinking that could still cause a problem at RBS. According to Sky's Mark Kleinman, some investors told the bank to stand up to any political pressure and pay Hester a sizeable bonus.

This squares with our own foray into this territory in 2009 when, under a Freedom of Information request, we were able to obtain letters written to the Treasury by asset managers about their stance on pay at the banks. A recurring theme in the letters was the need to pay big to get the top talent, and thus a reluctance to put much pressure on. It doesn't look like much has changed.

A higher threshold for pay votes?

Companies could face a 75% threshold to pass resolutions relating to executive pay, Business Secretary Vince Cable told Parliament as he set out new reforms.

Cable revealed that the Government was putting forward a mixture of greater transparency, increased shareholder powers and further best practice guidance. On shareholder powers the Government said it would consult further, but options under consideration were a binding vote on future pay policy and on notice periods greater than one year, and an increase in the level of support required to pass a policy, possibly to 75%.

In particular we favoured the forward looking vote as we said in our response to a BIS consultation, "We believe that the Government should look at whether upfront approval could be sought for the contractual terms for directors, what we have called the 'heads of terms.' In addition the Government could explore whether shareholder authority could be sought for the future distribution of profits (ie remuneration vs dividends vs reinvestment)."

Secondary legislation will be introduced later this year to split remuneration reports in two - a forward looking section and a section on implementation of existing policy. The forward-looking section will require an explanation of metrics used, any comparison with employee earnings used and how views of employees are taken into account. The section on implementation will require a simple single-figure disclosure for each director, how rewards relate to performance and set out the distribution of pay versus dividends, reinvestment and so on. In addition, the UK Corporate Governance Code will be amended to state that companies should introduce clawback policies.

In order to get an idea of the impact of a higher threshold, we looked at 1,700 votes on remuneration reports at a sample of companies over the last four years. We found the following

· Looking at votes for and against only, there were 85 cases where companies failed to secure a vote in favour of at least 75% during the period;

· Only one bank in one year failed to achieve at least 75% in favour (RBS in 2009);

· In 2011 there were 31 companies (6.5%) that failed to achieve 75% votes in favour of their remuneration report.

· Companies failing to reach 75% in 2011 include WPP, Thomas Cook, ICAP and Aberdeen Asset Management.

Of course it's not a straight read across, as investors may vote differently when they know both that it is easier to inflict a defeat and that the result would be binding. Nonetheless it does look like this reform could have teeth. It would also strengthen the hand of minority shareholders in companies that have a large dominant investor. For example, Xstrata would have *lost* the vote on its remuneration report last year, despite Glencore's support.

Overall, it's two cheers from PIRC for the package of reform. We continue to believe that real reform of remuneration committees, widening the membership to allow direct employee and investor representation, is also required in order to ensure that company decision-making is improved. Unfortunately this has been ducked. We were disappointed too that disclosure of pay ratios has been dropped. Finally, we also believe that the Government should make disclosure of shareholder voting records mandatory. If asset managers in particular are to have even greater powers over pay it is vital that they can be accountable for how they use them.

Hester gave up £1m share award

After almost a week of media and political scrutiny, RBS chief executive Stephen Hester decided to waive a share award worth just shy of £1m. Whilst the public row had been defused, it raised some interesting issues for the corporate governance community.

It seemed that Hester's decision resulted from backdoor negotiating combined with the threat from opposition leader Ed Miliband MP to hold a parliamentary vote on the award. After a week suggesting variously that it was contractually obliged to make the award, didn't have the power to block it, or that to do so would damage the bank, it appears that the Government believed it could not risk appearing to be out of control and put some pressure on.

Whilst Hester's decision was likely to be seen as the right one in the court of public opinion, for many in the corporate governance world the award was not unreasonable. The argument goes that this was part of the deal when Hester joined, and that he was still turning the ship around. What's more, to not make the award would be taking a big risk, lest the talent decamp. Finally, this was a share award, meaning that 'alignment of interests' was achieved. In purely governance terms some would say it is 'fair.' In fact, many people in the governance world appeared perplexed, if not downright annoyed, by the row about the award, and consider that Hester's decision not to take it was a sign of political meddling.

So, there were two competing notions of 'fairness.' What is acceptable in the boardroom is increasingly unacceptable, it seems, to the public. The tension between corporate and public notions of fairness was felt most keenly at RBS because the taxpayer owns most of the bank. But there is a wider disconnect between public views on pay and those of people who make decisions on it. Many in the City, including those who cast shareholder votes, would consider that the public is misinformed, naïve or just

plain ‘wrong’ about cases like RBS.

This disconnect is exacerbated by the conflation of corporate governance reform with action on ‘unfairness’ in economic rewards. They are not the same thing. It is striking that of all the arguments the Government advanced before putting pressure on Hester to waive his award, citing governance norms was not one of them. This appeared to be because the Government recognised that a public, rather than corporate, conception of ‘fairness’ was likely to dominate in this case. But what happens at other companies? The proposals floated by Vince Cable certainly had much merit, and should have facilitated greater shareholder engagement if enacted. They were also likely to result in some of the worst pay policies being stopped by shareholders. But they were unlikely to reduce the pay gap, and would have not delivered ‘fair’ outcomes as far as the public was concerned because most people casting most of the shareholder votes do not believe that high PLC pay is necessarily a problem in itself.

None of this would matter ordinarily, but the recent political debate about ‘responsible capitalism’ has suggested significant change in corporate behaviour. This sets expectations high. But governance reforms are likely only to address a corporate conception of fairness, for example, by helping eliminate ‘rewards for failure,’ which all parties agree is unacceptable. They will not address an apparent public desire for lower awards at the top.

This is potentially problematic for institutional shareholders. The Government is setting them up as the countervailing force to address excess at the top. If executive rewards continue to rise in a way that the public regard as ‘unfair’ they could end up criticised for failing to block them. You have been warned.

Murdoch steps down, from GSK

James Murdoch will not stand for re-election at pharma giant GlaxoSmithKline the company announced.

In a statement the company said Murdoch was stepping down to focus on his current duties as chair of BSkyB. It seems shareholder pressure may have played a part. Murdoch’s position had been queried by CTW Investment Group that wrote to the board last October calling for him to stand down. CTW also wrote to Sotheby’s, where Murdoch is a non-executive, so perhaps one to keep an eye on. Meanwhile, the News Corp scandal continued to take its toll with a string of arrests taking place relating to payments to police officers. Notably four of those arrested were current or former employees of The Sun.

Ex-Chancellor Lawson blasts IFRS

Former Chancellor Nigel Lawson, joined the growing list of critics of International Financial Reporting Standards (IFRS).

In a piece for the FT, Lawson pointed out that a fundamental flaw of the “pro-cyclical” IFRS is that it enables executives to receive bonuses based on “paper profits” that are “never subsequently realised.” He said shareholders continually come up short and bank management remains financially unscathed. Also, the fact that IFRS allows tax deductions of debt interest together with non-tax deductibility of dividend payments not only obstructs the ability of banks to stabilise but encourages them to finance themselves through debt as opposed to equity, said Lawson. As such, he suggested that tax deductibility of debt should cease.

Cameron hints at gender quotas

Prime Minister David Cameron suggested that mandatory quotas of female board representation were still a possible option if companies do not pursue diversity themselves.

Cameron attended the Northern Future Forum in Stockholm to discuss ways the UK can “speed up the process” of getting more females on company boards. Everyone at the conference, including Cameron, agreed that having more women on boards is essential to improving the economy. “The evidence is that there is a positive link between women in leadership and business performance, so if we fail to unlock the potential of women in the labour market, we’re not only failing those individuals, we’re failing our whole economy,” said Cameron.

However, a mandatory approach to female board representation would likely face challenge from within Cameron's own party. Conservative backbencher Dominic Raab, a high-profile opponent of positive discrimination, has already penned a piece warning the Prime Minister off the idea.

Incentives versus ethics

It's taken as a given by many in corporate governance that performance related pay is A Good Thing. Over the past couple of years, we've been trying to argue that this is too simplistic.

In fact, there is a long and interesting academic debate about how rewards actually work. The counter argument, popularised by the likes of Alfie Kohn and Dan Pink, has painted a more negative picture, with claims that contingent rewards can undermine intrinsic motivation, lessen creativity and lateral thinking and, ultimately, lead to poorer performance.

However, a further element to the discussion worth considering comes from the emerging field of behavioural ethics. In common with behavioural finance and economics, this field seeks to build on decision-making and other psychological research to understand how people actually made decisions on ethical issues. This includes the concept of 'bounded ethicality,' mirroring that of 'bounded rationality.' The recent book *Blindspots* by Max Bazerman and Ann Tenbrunsel provides a good overview of the area, and has some interesting things to say about goals, and the rewards attached to them.

In addition to undermining intrinsic motivation, they argue that directing too much attention to certain goals can lead to too much focus on one area, more risk-taking and a corrosion of broader organisational goals. This overlaps with their broaden concern with 'ethical fading,' whereby individuals compartmentalise certain decisions as 'business decisions,' thereby overlooking any ethical ramifications. Their advice is tread carefully when setting explicit goals for individual employees. Needless to say, this makes the implementation of performance-related rewards difficult.

It is also a long way away from the classic corporate governance view of the world. Go back to Michael Jensen, and compensation and contract design is all about 'bonding,' or 'do this and you'll get that,' and intended to ensure that executives adhere closely to explicit goals. A further sign of changing ideas?

Lloyds reduces past bonuses

Lloyds Banking Group was to claw back up to £2m in bonuses, including that paid to former chief executive Eric Daniels, in response to the mis-selling of payment protection insurance (PPI).

The news was broken in a report in the Daily Telegraph, which said that at least five current or former executives would be hit. The BBC's Robert Peston stated that 10 executives would be affected, with the total being clawed back reaching up to £2m. The Telegraph stated that Daniels could have lost at least £360,000, whilst Peston had said that the figure could be up to £700,000. The report suggested that those affected would lose a quarter or more of the bonus awards made in respect of 2010.

These were significant sums, even though they were dwarfed by the reported £3.2bn Lloyds had set aside to fund payouts to customers who believe that they were wrongly sold PPI. The importance of the Lloyds' action was that it will start to hack away at the defeatist argument that there is little shareholders can do about awards that have already been made. In reducing past bonuses, Lloyds will demonstrate that something can be done when awards can be shown not to have been merited. In addition, it will set a precedent in terms of the sort of scenario in which a company might look to attempt clawback. Other banks will be watching, but this should have been seen as an example with much wider applicability.

Finally, it's worth noting that the Lloyds decision came a few weeks after reports that the FSA wanted to see the banks seek to claw back awards in light of the PPI mis-selling. So it looked like regulatory pressure was beginning to impact on bank remuneration.

As The Sun rises, dirt is revealed

The first edition of The Sun on Sunday, News International's new paper, fills the hole left by the News of

the World. But even as Rupert Murdoch sought to go on the offensive further details about illegal activity in his UK press operations emerged.

By all accounts, the launch of The Sun on Sunday was a success, with the first edition selling 3 million copies. But even before the first edition had hit the presses, there were more developments in the hacking scandal, and the first day of the second module of the Leveson Inquiry, looking at press relations with the police, saw accusations of corrupting public officials.

Some of the most significant developments related to News International's knowledge of wrongdoing, and its response to it. For example, an email from 2006 from former legal manager Tom Crone showed that both Andy Coulson and Rebekah Brooks had been told by a police source about the Met's view of the likely extent of phone-hacking activity.

Separately, the Telegraph reported on NI's strategy once the net started to close. It reported that court documents relating to phone hacking cases appeared to show the attempt by individuals at the company to destroy emails and other evidence.

The Sun also took significant reputational damage. The Deputy Assistant Commissioner Sue Akers told the inquiry that the investigation into illegal payments was not focused on issues such as journalists paying for lunches, but rather on "regular, frequent and sometimes significant sums of money." She also stated that the "vast majority" of disclosures considered related to "salacious gossip." The language used by Akers will heighten concerns that News Corp could be exposed in the US under the Foreign Corrupt Practices Act.

Also giving evidence was former Deputy Assistant Commissioner Brian Paddick. He pointed out that the NOTW may have obtained mobile numbers for people in the witness protection programme. He said: "People are only put into the witness protection programme when their lives are potentially at risk or in serious danger…. For this [information] to be in the hands of Mulcaire and potentially the News of the World is clearly worrying."

This follows the disclosure that Robert Thompson, one of the murderers of the toddler Jamie Bulger, was also seeking compensation for having his phone hacked. Whilst there will be little sympathy for his case, it again raised questions about how News of the World was able to obtain his mobile number, given that he has a new identity.

Elsewhere it was revealed that Cherie Blair filed a claim against News Group Newspapers over illegal interception of her voicemail messages. This meant that there was a possibility that messages left by the then Prime Minister Tony Blair were amongst those accessed by Glenn Mulcaire. Separately, singer Charlotte Church agreed a settlement in her case of £600,000, and there are likely to be a further 200 civil claims, with the process lasting another year.

As if that wasn't enough, there were developments in the computer hacking aspect of the scandal. Philip Campbell Smith was convicted and jailed for conspiring to illegally access private information for profit. Though his conviction was for 'blagging,' he was also accused of computer hacking. According to The Guardian, Smith was alleged to have sent an email containing a Trojan virus to an intelligence officer in order to copy his emails. It was claimed this was commissioned by a News of the World editor.

What we hadn't seen, yet, was a view from Ofcom on whether News Corp is 'fit and proper' as an owner of BSkyB. However, we understand that some investors are already starting to scenario plan what impact a negative Ofcom decision could have.

One thing is entirely clear: News Corp is now in the midst of major and multi-faceted corporate scandal. Illegally obtaining information, bribing public officials, destroying evidence, misleading parliament – there is a long list of major offences here. In another industry we would expect to see formal sanctions and board resignations. Investors cannot allow News Corp to continue without agreeing to significant reform.

Voting disclosure - not happening

Former City minister Lord Myners continued to push governance issues from his seat in the Lords.

In a written question he asked the Government under what circumstances it would enact the clause

in the Companies Act that would make public disclosure of shareholder voting records mandatory.

Baroness Wilcox responded: "We do not currently plan to bring this section into force. Section 1277 of the Companies Act 2006 provides a power to require the disclosure of information about the exercise of voting rights by, among others, institutional investors. The Financial Reporting Council's stewardship code requires institutional investors to disclose their voting records on a comply or explain basis."

As we've noted previously, the Code does not "require" disclosure of voting records, it states that "Institutional investors should disclose publicly voting records and if they do not explain why." So it is an entirely "comply or explain" approach, and in practice the large majority of asset manager signatories to the Code disclose little or no data publicly. PIRC carried out research into how asset managers voted at FTSE100 companies during 2010. We were only able to find significant voting data for 19 asset managers. That's out of just under 180 asset manager signatories to the Code. Companies wouldn't get away with this under the Corporate Governance Code, because they know investors would raise questions about the lack of compliance. To date, Stewardship Code signatories face no such pressure.

MP called for review of UKFI role

The public interest role of UK Financial Investments needs to be examined, according to Shadow Financial Secretary to the Treasury Chris Leslie MP.

Speaking at the PIRC Corporate Governance Conference, Leslie said that there was a "massive democratic deficit" in relation to UKFI's role, and that this should be properly reviewed. He also said that there should be a "fiduciary duty of care" on financial services firms. The conference also heard an impassioned call for executive pay restraint from a former PLC leader. Ex-Greggs managing director Sir Michael Darrington said it was time for a pro-business, anti-greed movement to tackle rewards at the top

Accounts obscure RBS position

The true financial position and performance of RBS was almost totally obscured by faulty accounting standards, with millions of pounds worth of bonuses still missing.

RBS accounts showed:

· The RBS bad book is still overvalued by at least £10bn, due to the defective IFRS accounting standards used by the bank.

· But the "rear-view mirror" IFRS accounting for losses on the bad bank, which results from loans being grossly overvalued at 31 December 2007, and is a case of "catch-up," is masking a more profitable bank than the IFRS numbers show.

· But, unlike Barclays, RBS is still not charging deferred bonuses or disclosing them, even though they are there. Whilst Barclays is not charging bonuses of £2bn already promised in respect of 2011 and prior years, it is at least disclosing it now. RBS is not.

· PIRC has further evidence that RBS was only notionally deferring bonuses because it was advancing cash to employees simultaneously by separate agreements. The employees therefore got the cash upfront.

PIRC was very disappointed that the Financial Reporting Review Panel (the part of the Financial Reporting Council that polices accounts) did not act proactively across the industry to crack down on hidden bonuses. This was despite PIRC making a written complaint to the FRRP last year about Barclays' 2010 accounts relating to a systemic fault in the IFRS accounting standards that are inconsistent with the requirement that accounts give a true and fair view of the net asset position of a company.

PIRC noted that the FRRP had not found fault with the accounts of banks prior to the collapse of the banking system, despite those accounts playing a key role in financial governance as well as banking regulation.

Kay Review hinted at a new regime

The Kay Review's interim report highlighted the potential for a significant shift in thinking about corporate governance in the UK, and not before time.

Perhaps the most striking thing about Professor Kay's first public thoughts was the emphasis on stewardship. Whilst shareholder engagement has rapidly risen up the public policy agenda as a solution for various intractable problems such as high pay, the under-representation of women in senior management and environmental responsibility, Kay was under no obligation to endorse this trend.

Yet, whilst the interim report did not make any formal recommendations, the Review clearly had sympathy for the concept of stewardship. The emphasis was such that the report said that the Review will be "largely concerned with these issues." The interim report also, correctly in our view, sees stewardship both as extending beyond matters of corporate governance, and as entailing a long-term relationship.

But how do we foster such a long-term mindset? Here the report was at its most interesting. Kay argued that many respondents, implicitly or otherwise, seemed to accept the potential for preferential treatment for longer-term investors. This might be facilitated by fiscal incentives, differential voting rights, or other mechanisms. The report's language here was enlightening.

It said: "If shareholders were not treated equally, then some shareholders who did not receive the advantages given to others might be discouraged from entering the market. It is not obvious that such discouragement would always be a bad outcome… Measures to favour some shareholders might plausibly be to the benefit of shareholders as a whole if it facilitated better governance and decision making within companies."

It might sound uncontroversial, but this potentially marks an important shift. Until relatively recently it would be heretical to argue that long-term investors should be favoured, since this would conflict with the principle of equal treatment. It would no doubt also be argued that it is impossible to define the difference between short and long-term, so any attempt to do so would be a wasted effort. And an entire army of vested interests would stress the value of "liquidity." Where Kay goes with this line of thinking will be interesting, especially since the paragraph above comes after a discussion of takeovers. PIRC would certainly favour revisiting some of the options rejected by the Takeover Panel, such as a qualifying period for being able to vote on deals.

It is also worth noting that Kay sees asset managers as the principal group capable of enacting change. He pointed out that bodies such as the ABI and NAPF are much reduced in influence, due to the declining share of UK equities held by their members. Certainly their influence on recent public policy issues relating to share-ownership appeared to have been negligible, preferring to cling to old certainties rather than engage in any critical thinking in the wake of the crisis. There is a gap here that is not being filled, certainly not by the phantom Institutional Investor Committee.

Finally, we are also eternally grateful to John Kay for highlighting the importance of voting. He describes votes as one of the most important aspects of ownership. If only the asset managers, which cast most of them, shared this view.

Horses and hacking

A horse came to signify the overlapping relationships exposed by the phone-hacking scandal, whilst the latest reshuffle at News Corp suggested that Murdoch family control continues to weaken.

The horse, of course, was Raisa, a former Metropolitan Police horse that was loaned to former News International (NI) chief executive, and News of the World editor, Rebekah Brooks. That little detail emerged as the Leveson Inquiry continued its exploration of the relationship between the police and the media. But it subsequently emerged that the horse had also been ridden by the Prime Minister. Depending on where you stand this is either a piece of meaningless trivia, or symbolic of the far too cosy relationship between politicians and the media.

The other big news was the announcement by James Murdoch that he was giving up his position as executive chair of NI to focus on pay TV. According to media commentators, the announcement really only confirms the reality on the ground that James had stepped back from the papers since the phone hacking scandal erupted. Nonetheless the announcement was taken as a further sign of his sidelining

within News Corp as the company waits for the DCMS committee's report, which will inevitably comment on his role.

And of course this has led to further speculation about his role as chair of BSkyB. Perhaps the most notable development here was the comment by long-standing Murdoch ally Crispin Odey, who publicly backed James as chair of the broadcaster ahead of last November's AGM. He was quoted saying that "There is definitely change afoot" and suggested that Murdoch's giving up of his News International role and move back to the US might signal a step away from the broadcaster.

Barclays: not a taxing problem

Barclays' chief executive Bob Diamond became the poster boy for a 'business as usual' approach to pay in the banking sector.

His spectacularly ill-judged remark in front of a parliamentary committee last year that the "period of remorse and apology" by the banks "needs to be over" cemented his reputation as someone who was not likely to bow to popular opinion. So it wasn't perhaps surprising that he isn't planning to don the hair shirt this year and waive his sizeable incentives.

It emerged that as part of the deal to bring Diamond over from the US, the bank had also compensated him for the increase in his tax bill. If UK institutions find this troublesome, they ought to say so. After all, opposition to this type of arrangement is spelt out in some industry guidelines.

For example, here's what the ABI says on "taxation" in its executive pay guidelines: "Remuneration committees should not seek to make changes to any element of executive remuneration to compensate participants for changes in their personal tax status."

There is a tendency on the part of some investors to over-complicate things in respect of executive pay, always looking for the potential unintended consequences of taking action. This one is pretty easy. If you follow ABI policy, it looks like Barclays is not in line with it. If you don't think Barclays should have paid the tax bill, vote against the remuneration report. There's an unintended consequence of inaction too. If shareholders don't object to breaches of policy by FTSE100 companies, won't that encourage other companies to try it on?

Clouds gather over BSkyB

The hacking scandal was beginning to have an impact on BSkyB, where News Corp owns 39% and James Murdoch is a board director.

An FT scoop revealed that broadcasting regulator Ofcom had set up a dedicated team to look at the 'fit and proper' test as it could apply to BSkyB. According to the paper, the intensified scrutiny by the regulator would consider both James Murdoch and News Corp. A negative ruling by Ofcom could threaten the chair or require News Corp to sell down its holding.

BSkyB (and Ofcom) will also have to take a view on the long-awaited Department of Culture, Media and Sport (DCMS) select committee's report. The BBC's Robert Peston reported that BSkyB sources had told him that if the DCMS committee's report on phone-hacking challenges James Murdoch's testimony then he is likely to lose the support of the company's independent directors. This is undoubtedly true, but probably under-estimates the threat to Murdoch posed by the report.

Even if the committee cannot agree that his testimony was unreliable they may question his management. For independent shareholders failing to spot and deal with the phone-hacking case represents a serious failure. Therefore even if the board concludes that the DCMS committee report isn't bad enough for them to risk taking on News Corp, shareholders may seek change themselves.

BIS pushes on with pay reform

The Government issued its consultation on increasing shareholder powers in respect of executive pay.

The paper, issued by the Department of Business, Innovation and Skills (BIS) proposed -

· An annual binding vote on future remuneration policy

· Increasing the level of support required on votes on future remuneration policy, potentially to 75%

· An annual advisory vote on how remuneration policy has been implemented in the previous year

· A binding vote on exit payments over one year's salary

If implemented together, this adds up to a serious reform effort and could lead to improved shareholder engagement over remuneration. It would certainly give shareholders more effective powers to tackle problems where they arise.

It's worth remembering how we got here. PIRC supported the introduction of an advisory vote on remuneration policy in 2002. It's worth recalling that for a long time many business groups, and some investors, argued that even this power was going too far. In practice, we think it has led to an improvement in shareholder engagement. But it has become increasingly clear that a mixture of company intransigence and changes in share-ownership require a retooling of shareholder rights in respect of pay. PIRC is therefore very supportive of what BIS is trying to achieve.

We should not assume that these reforms will have an easy path to implementation. It's notable that the CBI seems to want to push back. Despite having put out a fairly supportive statement in response to Vince Cable's statement in Parliament in January, it is now starting to focus its lobbying. The business lobby group also took aim at two of the key proposals made by BIS – introducing a binding vote, and raising the threshold for pay votes to pass. If both those ideas were knocked out, the package of reforms would be significantly weakened.

Business tactics in preventing serious reform are likely to be varied. There is too much risk of reputational damage in seeming to defend high pay on its own terms. So watch out instead for much of the inevitable counter attacking to be done by blowing technical issues out of proportion. We might also see professional service providers to PLCs - lawyers and remuneration consultants – get involved in over-egging the technical challenges.

Therefore if investors believe that what BIS is proposing is valuable they should be vocal in support. We also believe that supportive investors could do worse than explaining how they might use the proposed reforms in practice – particularly the binding vote on future policy.

If you want these new rights, fight for them.

It's alive! IIC springs into action

Regular PIRC Alerts readers may have noticed a certain degree of scepticism on our part about the 'senior body' representing institutional shareholders.

What was the Institutional Shareholders Committee, became the Institutional Investor Council and has ended up (after losing the Association of Investment Companies as a member) as the Institutional Investor Committee (IIC), has not always struck us as a particularly impressive body. Until recently, and despite major issues of concern to shareholders, such as the battle over bankers' bonuses, it has been silent.

Well, like buses, you wait ages for an indication that the IIC might actually be a real, functioning organisation, and then two come along at the same time. First came a press release in response to the BIS consultation on strengthening shareholder rights in respect of executive pay. The headline comment in the release was a vague welcome for the Government's encouragement of engagement over pay, without any comment on the actual proposals. This might be because IIC members have previously opposed some of the ideas floated, such as a binding vote.

However, it's the detail after the main comment that is of most interest, as it sketches out an IIC framework for assessing top pay. The key themes here are simplicity, transparency and performance linkage and accountability. It is notable on the last point that the IIC said that companies can expect more votes against remuneration committee members. However, we can't see any reference in there, even a euphemistic one, to the question of quantum. This is despite the ABI guidelines including a section specifically on it. We hope this is an oversight, and not indicative of the problem that beset the ISC of settling on the lowest common denominator in terms of policy positions.

The second IIC statement was on audit issues, and was a response to the European Commission's

proposed regulation. Here again we were a little wary that the collective nature of the IIC might mean that it pulls its punches. For example, a number of investors already take a tougher line on the provision by the auditor on non-audit services than that advanced by the IIC.

Still, having goaded the IIC and its predecessor for the best part of three years over its inaction, we can hardly complain that it is finally starting to do things in its own name. A mean-spirited semi-welcome is clearly much deserved.

Trinity Mirror claims backing

Trinity Mirror's chairman Sir Ian Gibson attempted to put an end to speculation over chief exec Sly Bailey's pay after announcing a 40% drop in profits last year.

Bailey has "unanimous and complete" shareholder backing claimed Gibson after rumours of a possible shareholder rebellion began to surface, reported the Guardian. He confirmed that the company is reviewing her remuneration scheme. He pointed out that Bailey's total package of £1.66m (in 2010) has not had a rise in her basic pay since 2008, though he claims it will continue to remain frozen this year. Since taking the role of chief exec nine years ago, Bailey has earned over £12m while the share price has fallen by 90%.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	GRAINGER PLC	AGM	08 Feb 12	2	Approve the Remuneration Report	Oppose	23.78
2	GRAINGER PLC	AGM	08 Feb 12	14	Appoint the auditors	Oppose	17.82
3	GRAINGER PLC	AGM	08 Feb 12	15	Authorise the directors to fix the remuneration of the auditors.	For	15.59
4	BELLWAY PLC	AGM	13 Jan 12	3	Re-elect Mr H C Dawe	For	12.50
5	WH SMITH PLC	AGM	25 Jan 12	14	Approve annual share incentive plan	Oppose	12.31
6	GRAINGER PLC	AGM	08 Feb 12	11	Re-elect John Barnsley	Oppose	11.45
7	GRAINGER PLC	AGM	08 Feb 12	19	To reduce the notice period for general meetings to 14 days.	For	11.20
8	WH SMITH PLC	AGM	25 Jan 12	2	Approve the Remuneration Report	Abstain	11.05
9	COMPASS GROUP PLC	AGM	02 Feb 12	19	Meeting notification related proposal	For	10.58
10	IMPERIAL TOBACCO GROUP PLC	AGM	01 Feb 12	19	Notice period for general meetings	For	10.33

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	0	0	0	0	0	0	0	0	0
Annual Reports	8	50	1	6	7	43	0	0	16
Articles of Association	0	0	0	0	0	0	0	0	0
Auditors	13	81	2	12	1	6	0	0	16
Corporate Actions	2	100	0	0	0	0	0	0	2
Corporate Donations	1	25	0	0	3	75	0	0	4
Debt & Loans	1	100	0	0	0	0	0	0	1
Directors	62	89	5	7	2	2	0	0	69
Dividend	8	100	0	0	0	0	0	0	8
Executive Pay Schemes	2	50	1	25	1	25	0	0	4
Miscellaneous	8	100	0	0	0	0	0	0	8
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0	0	0
Share Issue/Re-purchase	22	88	3	12	0	0	0	0	25
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	0	0	0	0	0

UK Voting Charts

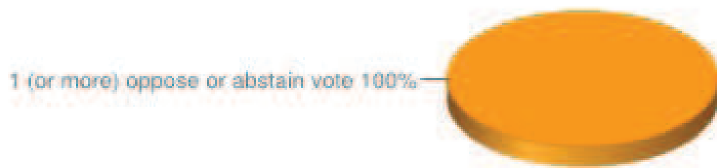
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	127
Oppose	14
Abstain	12
Withdrawn	0
Total	153

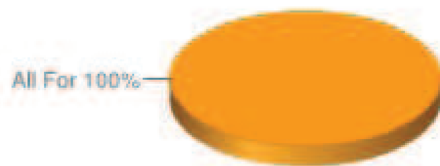
Meetings	AGM	EGM	Total
Total Meetings	8	2	10
1 (or more) oppose or abstain vote	8	0	8

UK Voting Record

UK AGM Record



UK EGM Record



UK Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	ANGLO AMERICAN PLC	06 Jan 12	**EGM**	2011-12-16
2	BELLWAY PLC	13 Jan 12	AGM	2011-12-20
3	WH SMITH PLC	25 Jan 12	AGM	2012-01-09
4	ITE GROUP PLC	26 Jan 12	AGM	2012-01-12
5	IMPERIAL TOBACCO GROUP PLC	01 Feb 12	AGM	2012-01-16
6	COMPASS GROUP PLC	02 Feb 12	AGM	2012-01-17
7	DS SMITH PLC	03 Feb 12	**EGM**	2012-01-23
8	GRAINGER PLC	08 Feb 12	AGM	2012-01-23
9	PARAGON GROUP OF COS PLC	09 Feb 12	AGM	2012-01-24
10	BEAZLEY PLC	27 Mar 12	AGM	2012-03-13

UK Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	LADBROKES PLC	19 Apr 12	AGM
2	HAMMERSON PLC	19 Apr 12	AGM
3	DEVRO PLC	19 Apr 12	AGM
4	PERSIMMON PLC	19 Apr 12	AGM
5	RIO TINTO GROUP (GBP)	19 Apr 12	AGM
6	ANGLO AMERICAN PLC	19 Apr 12	AGM
7	SPECTRIS PLC	20 Apr 12	AGM
8	CAPITAL & COUNTIES PROPERT	20 Apr 12	AGM
9	SHIRE PLC	24 Apr 12	AGM
10	FILTRONA PLC	24 Apr 12	AGM
11	BODYCOTE PLC	25 Apr 12	AGM
12	BRITISH AMERICAN TOBACCO PLC	26 Apr 12	AGM
13	ELEMENTIS PLC	26 Apr 12	AGM
14	TAYLOR WIMPEY PLC	26 Apr 12	AGM
15	ASTRAZENECA PLC	26 Apr 12	AGM
16	BARCLAYS PLC	27 Apr 12	AGM
17	XSTRATA PLC	01 May 12	AGM
18	RANK GROUP PLC	01 May 12	AGM
19	PROVIDENT FINL GROUP	02 May 12	AGM
20	LANCASHIRE HOLDINGS LTD	03 May 12	AGM

21	MORGAN SINDALL GROUP PLC	03 May 12	AGM
22	AVIVA PLC	03 May 12	AGM
23	GLAXOSMITHKLINE PLC	03 May 12	AGM
24	GKN PLC	03 May 12	AGM
25	ROLLS-ROYCE HOLDINGS PLC	04 May 12	AGM
26	MORGAN CRUCIBLE CO PLC	08 May 12	AGM
27	WILLIAM HILL PLC	08 May 12	AGM
28	SAVILLS PLC	09 May 12	AGM
29	RIGHTMOVE PLC	09 May 12	AGM
30	UNILEVER PLC	09 May 12	AGM
31	STANDARD CHARTERED PLC	09 May 12	AGM
32	WEIR GROUP PLC	09 May 12	AGM
33	CATLIN GROUP LTD	10 May 12	AGM
34	CENTRICA PLC	11 May 12	AGM
35	PETROFAC LTD	11 May 12	AGM
36	BOVIS HOMES GROUP PLC	16 May 12	AGM
37	HOWDEN JOINERY GROUP PLC	16 May 12	AGM
38	TULLOW OIL PLC	16 May 12	AGM
39	LEGAL & GENERAL GROUP PLC	16 May 12	AGM
40	BG GROUP PLC	16 May 12	AGM
41	NEXT PLC	17 May 12	AGM
42	PRUDENTIAL PLC	17 May 12	AGM
43	CAIRN ENERGY PLC	17 May 12	AGM
44	THE RESTAURANT GROUP	17 May 12	AGM
45	COMPUTACENTER PLC	18 May 12	AGM
46	KENTZ CORP	18 May 12	AGM
47	DERWENT LONDON PLC	20 May 12	AGM
48	ROYAL DUTCH SHELL PLC	22 May 12	AGM
49	HSBC HLDGS PLC	25 May 12	AGM
50	FERREXPO PLC	26 May 12	AGM
51	HISCOX LTD	30 May 12	AGM
52	KENMARE RESOURCES PLC	01 Jun 12	AGM
53	EURASIAN NATURAL RESOURCES	01 Jun 12	AGM
54	KINGFISHER PLC	01 Jun 12	AGM
55	MORRISON (WM) SUPERMARKETS	01 Jun 12	AGM

AIM UK Market Voting Timetable Q1 2012

There were no meetings held by the client during the period.

AIM UK Market Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q1 2012

There were no meetings held by the client during the period.

Fledgling UK Market Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

European Corporate Governance Review

ABP drops Walmart over labour

One of the world's largest pension funds divested from US retail giant Walmart.

The Netherland's biggest pension fund, Algemeen Burgerlijk Pensioenfonds (ABP), announced that Walmart has been placed on its blacklist for failure to comply with the United Nations' Global Compact principles. This isn't the first time that Walmart has come under criticism for its anti-union stance and poor labour practices. After four years of engaging with Walmart, ABP found the retailing behemoth reluctant to make meaningful changes. The United Food and Commercial Workers International Union praised the decision, hoping that it would send a clear message.

Commodity speculation targeted

An analysis claimed that the investment activities of 29 European banks, pension funds and insurance companies are contributing to the rise in global hunger and poverty as well as financing land grabs in poorer countries.

Friends of the Earth Europe's (FOEE) report, *Farming Money* , alleged that the dramatic increase in financial institutions involvement in agricultural commodity 'futures' has caused massive swings in the cost of world food prices. These investments have diminished the role natural supply and demand play in the price of agricultural commodities, added FOEE. It also found that a number of European banks are directly or indirectly funding large-scale acquisitions of farmland in developing countries. According to the report, Deutsche Bank, Barclays, ABP, Allianz and BNP Paribas are the most involved in trading or marketing investment products based on agricultural commodity futures. FOEE has called on financial institutions to investigate, disclose and minimise their involvement in food speculation and investments in land, and for banks, pension funds, and insurers to 'phase-out' or avoid speculating in staple foods like wheat, rice and corn. It has also recommended European legislature assist with curtailing excessive speculation by placing limits on the size of bets speculators can take.

Ryanair ad criticised, part 7954

Ryanair is too sexy for newspapers. At least according to The Advertising Standards Authority (ASA), which pulled the plug on Ryanair's "Red hot fares & Crew" advertising campaign featuring female cabin crew members wearing lingerie in suggestive poses.

The online campaign against the ads was spearheaded by an unnamed Ryanair flight attendant and gained over 11,000 signatures asking that they be banned. The ASA also received 17 complaints that the ads were sexist and objectified women. A spokesperson from Ryanair dismissed the complaints, stating that the images were taken from their charity calendar, something the airline will continue to produce.

This is the latest in series of clashes between Irish budget airline and advertising authorities over racy or misleading newspaper campaigns. The British authorities banned its 2008 "hottest back to school fares" newspaper ads that featured female models dressed like schoolgirls. Ryanair also had three ads banned in 2007, one attacking Eurostar, another criticising lastminute.com and a third that made misleading claims about carbon emissions.

Dutch bill tightens audit practices

The Dutch Parliament set a stricter tone for the auditing profession by passing three significant amendments to a bill.

The three amendments awaiting approval by the Dutch Senate include the separation of audit and non audit services for public interest entities. However, work that was commissioned prior to the new rules can be performed up to two years after the effectual date of the new law. In addition, mandatory rotation of auditors every eight years was proposed with a “cooling off” period of two years before the same firm is allowed to do the audit work again. This provision will come into force on 1 January 2014. Lastly, the bill called for the removal of the so-called Chinese Walls thus giving more power to the Autoriteit Financiële Markten to improve monitoring of financial reporting.

Volkswagen keeps it in the family

In an increasingly common move among German corporations, Volkswagen chairman Ferdinand Piech proposed the appointment of his wife to the company’s board, said the Financial Times.

Should VW’s shareholders approve Ursula Piech’s appointment, she and her husband would increase their familial representation on the board to five. There are 20 board members in total. Ursula’s addition to the board would further solidify the Piech-Porsche family control over the German carmaker of which the families already own around 50.73% by means of its 90% stake in Porsche – VW’s holding company. Her credentials include kindergarten teacher and qualifications in business and law. Europe’s largest car maker has also nearly doubled the remuneration of its chief executive Martin Winterkorn to €17.5m, making him one of the highest paid chief executives in Germany. He has also publicly announced support for the appointment of Ursula to the board.

European Voting Charts

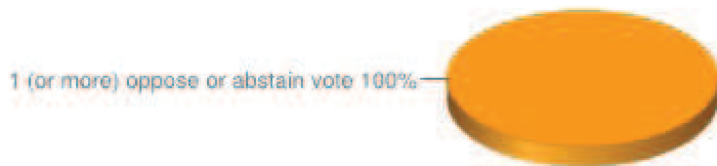
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	17
Oppose	2
Abstain	1
Withdrawn	0
Total	20

Meetings	AGM / Combined	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

European Voting Record

European AGM Record / Combined



European EGM Record

There where no EGMs during the last period in the clients portfolio.

European Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 5: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	NOVARTIS AG	23 Feb 12	AGM	2012-02-09

Not Voted Meetings

Table 6: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	ROCHE HOLDING AG	06 Mar 12	AGM	Do not hold ISIN, no voting rights

European Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by European companies currently in the fund's portfolio.

Table 7: Upcoming Meetings

	Company	Meeting Date	Type
1	NESTLE SA	19 Apr 12	AGM
2	SYNGENTA AG	24 Apr 12	AGM
3	DNB NOR ASA	25 Apr 12	AGM
4	AB INBEV (ANHEUSER-BUSCH INBEV) NV	25 Apr 12	AGM
5	BAYER AG	27 Apr 12	AGM
6	ACTELION LTD	04 May 12	AGM
7	AIR LIQUIDE SA	09 May 12	AGM
8	FRESENIUS MEDICAL CARE AG & CO KGAA	10 May 12	AGM
9	TOTAL	11 May 12	AGM
10	THALES	15 May 12	AGM

US Corporate Governance Review

US corporate influence challenge

A number of US states have already begun to launch an attack against corporate personhood and any associated rights, such as corporate political spending.

Vermont became the first state to call for a constitutional amendment to the US Supreme Court decision that gave corporations the same rights as people. Since Vermont's resolution, created with the help of 2004 Green Party presidential candidate David Cobb, California, the New York City Council and the Los Angeles City Council have followed suit by voting in favour of similar resolutions. However, 75% of states' legislatures must ratify the amendment before a constitutional convention can come into effect.

Meanwhile, a recent ruling by the Montana Supreme Court reinstated the state's 100 year-old ban – the Corrupt Practices Act - on corporate political spending. The Court stated that the US Supreme Court's decision to allow for political spending by corporations does not invalidate Montana's law.

US golden parachutes top $100m

21 US CEOs have received golden parachutes worth over $100 million since 2000, according to a report by GovernanceMetrics International (GMI).

These large severance packages known as "walk-away" packages generally include actual and potential stock option profits, full-value stock awards, salary and bonus continuation, benefit and perquisite continuation, executive pension benefits and other deferred compensation. Such walk away packages, which were originally meant to work in the best interest of shareholders by ensuring executive decisions were made in the long-term interest of the company and/or mergers and acquisitions, were applied too widely. GMI added that, the enormity of these packages, regardless of their original intention, now only seem to benefit departing executives and provide very little or no value for shareholders.

AFSCME governance campaign

21 shareholder proxy proposals were filed by the American Federation of State, County and Municipal Employees Pension Plan.

The proposals seeking independent board chairs, annual director elections and disclosure of corporate lobbying expenditures and tax strategies were filed at some of America's largest corporations such as Bank of America, Coca-Cola, Goldman Sachs and JPMorgan Chase. The aim of the proposals was to "increase corporate management's accountability and transparency and better align the interests of management with those of shareholders," at this season's AGM, added AFSCME.

Siemens pushed on lobbying links

Change to Win Investment Group (CtW) called on German conglomerate Siemens to sever its ties with the US Chamber of Commerce.

In a letter, the 5.5 million member union coalition asked CEO Peter Löscher and supervisory board chair Gerhard Cromme to halt the company's contributions and relinquish its position on the US Chamber's board, stating that it undermines Siemens' 2008 pledge to establish "state of the art" anticorruption measures. According to CtW, the US Chamber has engaged in an expensive lobbying campaign to weaken the Foreign Corrupt Practices Act (FCPA).

Unlike Germany, membership is not compulsory in the US and many prominent companies have already left the US Chamber over its extreme positions, added CtW. CtW has been engaging with Siemens for almost two years now over its relationship with the US Chamber. Siemens defended its

membership at last year's AGM stating that by being a member, it could "mould the Chamber's position from within." Siemens' AGM was on 24 January.

Lobbyists target voting advisers

As the battle over regulating proxy advisers heated up in the USA various interests were making their views known to the SEC. The latest was the Shareholder Communications Coalition, representing, the corporate community, or 'issuers' in US parlance.

They published their views in a letter to SEC chair Mary Shapiro, setting out several policy positions that were beginning to sound familiar in this debate. Some of their suggestions will resonate with a UK audience: proxy advisory firms (as the debate labels firms like PIRC, ISS etc) should be regulated by the SEC (or the FSA in a UK context); there should be increased transparency by proxy firms and there should be requirements for 'accuracy of factual information' used by firms.

The devil, however, was in the detail. Proxy firms SCC said should meet the following conditions: requiring minimum standards of professional and ethical conduct; these standards should address conflicts of interest (particularly where a firm provides services to issuers as well as proxy advice on the same issuers annual meeting proposals (and whether a shareholder proposal is being submitted by a client of the proxy service); and proxy advisory firms should be regulated by the SEC in the way that the rating agencies are or will be.

Greater transparency was proposed in relation to procedures, guidelines, standards, methodologies, and assumptions used in the development of voting guidelines. This, the Coalition argued was particularly important where "they apply policies without taking into account company-specific or industry-specific facts and circumstances in making such voting recommendations." Also, they advocated that proxy firms should "be required to maintain a public record of all their voting recommendations. Consideration also should be given to requiring disclosure of the underlying data. Information and rationale used to generate specific voting recommendations. These disclosures could have been made at a reasonable time after the recommendation had been made and would still have been relevant and useful to companies, academics, and others who study the influence of such firms." This presumably included the Shareholder Coalition itself, how handy would that be?

These proposals, emanating from a lobby group serving the interests of corporations, deserve consideration. As they represent a weakening of the proxy advisory function in the face of corporate interests, proxy firms must respond and defend themselves. The flaw in the origin of such criticism is that the clients of a proxy firm are not corporations, but investors. Getting that right puts into perspective such proposals and necessarily weakens their case. With so much human and capital resource at the disposal of big business, proposals that weaken proxy firms and compromise their services to the institutional investor community would be a considerably large nail in the coffin of shareholder democracy. The debate has begun.

Insurers face climate disclosure

Insurance commissioners in three US states must now handle the risks to insurers posed by climate change.

California, one of the three states, has been issuing the Climate Risk Survey since it was first established by the National Association of Insurance Commissioners (NAIC) in 2009 but only now has participation of insurers been made mandatory. New York and Washington State are the other two states that have agreed to make it mandatory for insurers writing policies worth over $300 million nationally to reply to the survey. Ceres, the Boston-based coalition of investors, environmental organisations and other public interest groups, has hailed this as a victory. The group has been working for over five years to get this measure passed.

CalSTRS pokes Facebook

The California State Teachers' Retirement System (CalSTRS) wrote to Facebook, asking the social media giant to improve its board diversity ahead of its $5 billion initial public offering (IPO) in May.

Currently, the board has no female representation. In the letter, Anne Sheehan, director of corporate governance at CalSTRS asked Facebook founder Mark Zuckerberg to strengthen its governance by diversifying its all male board to better reflect the company's user demographics. Diversity isn't the only concern at Facebook. The company has a dual-class structure with Zuckerberg holding the largest stake (28%), which, in effect, gives him 56.9% of voting power. And, in its IPO filling, Zuckerberg has announced further governance setbacks, which include running Facebook as a controlled company with a classified board. So, Facebook will sidestep governance best practice by giving Zuckerberg alone decision making power over everything from electing the company's board of directors to determining executive remuneration. He will also remain as both CEO and chairman, and hold exclusive decision over his replacement. This all sounds like a 'poke' in the eye for shareholder rights. As one commentator put it: "we want your money, not your interference."

NY funds pull clawback motions

Shareholders agreed to withdraw resolutions on clawbacks at two investment banking giants.

The coalition of five New York City pension funds, New York City Employees' Retirement System, the New York City Fire Department Pension Fund, the New York City Teachers' Retirement System, the New York City Police Pension Fund and the New York City Board of Education Retirement System, had jointly filed the clawback provision resolution at Morgan Stanley and Goldman Sachs. The group decided to withdraw the proposal after the banks agreed to "broaden the scope of their policies, hold managers and supervisors accountable to clawbacks and provide public disclosure about clawbacks," reported the Financial News. In exchange, both banks withdrew their filings with the Securities and Exchange Commission seeking permission to block the proposals from their proxies.

Yahoo board shake-up

Yahoo's chairman and three other long-time board members planned to step down as the search engine company began some much need housecleaning.

The company had undergone a series of changes, including the announcement of co-founder Jerry Yang's resignation, the recent appointment of former PayPal executive Scott Thompson to CEO and talks of selling its Asian holdings, reported the New York Times. So far, the board has elected two new directors, Maynard Webb Jr and Alfred Amoroso with plans to add more. The shake-up should give some satisfaction to Yahoo's shareowners who have been putting increasing pressure on the company to overhaul its board after a series of missteps have contributed to its drop in share price and for failure to keep up with competitors Google and Facebook.

US union fund targets auditors

One of North American's largest unions filed shareholder proposals at over a dozen US companies requesting that they reveal how long they have used the same external auditor, according to Reuters.

The United Brotherhood of Carpenters (UBC), with $45 billion in assets, sought similar proposals on auditor rotation last year but failed to gain enough support. The audit related proposals are in three parts, requesting that companies disclose if they cyclically rotate auditors and if not, why; how much auditors have been paid over the years; and if the board's audit committee considers potential risks from having a long-term auditor, added Reuters.

As well, the union petitioned the Securities and Exchange Commission to make auditor rotation mandatory on company ballots last year. The SEC denied the request stating that companies could continue to omit auditor rotation proposals on the grounds of "ordinary business" matters. Ed Durkin, director of corporate affairs at UBC called the SEC's ruling "erroneous." He argued audit rotation is a public interest issue because "it's about auditor independence – not the annual selection of an audit firm."

The issue of auditor rotation has been the subject of much debate in both the US and the UK with accounting regulators on both sides of the Atlantic calling for increased scrutiny of auditor independence. In the US, the Public Company Accounting Oversight Board (created by the Sarbanes-Oxley Act to oversee company auditors) announced last August that it would consider mandatory auditor firm rotation as a means to increasing auditor independence, said Reuters.

Blood and Gore and capitalism

In a recent white paper, entitled Sustainable Capitalism, former US vice president Al Gore and former Goldman Sachs chief executive David Blood called for investors to embrace a more long-term and responsible form of capitalism.

The paper consisted of a series of key recommendations that they believe will accelerate sustainable investment by 2020, including aligning remuneration to long-term sustainable performance and encouraging long-term investments with loyalty-driven securities. The founders of Generation Investment Management also suggested an end to quarterly earnings guidance by chief executives. This default practice, they argued, incentivises executives to view the business in the short term. They would also like to see a new framework that shifts away from a singular focus on profit maximisation to one that considers the cost of all externalities like water and carbon into the balance sheet.

US drive for board diversity

A "Critical Mass Campaign" was launched by a coalition of 27 US industry thought leaders to push CEOs, investors and other stakeholders into action to address the lack of diversity in US corporate boardrooms.

The group stated that the aim of the campaign was to secure a minimum of 30% multicultural women on every US-based publicly listed company board of directors by the end of 2015. The rate of progress has been glacial in the US. Statistics from Catalyst's 2011 census of Fortune 500 companies showed that the number of female held board seats between 2010 and 2011 increased by just 0.4%, and that female executives and top earners are no further along the corporate ladder than they were six years ago. The group pointed to other nations like Europe that have taken significantly more strides to help women reach the upper echelons by opting in favour of quotas and other "demand-side initiatives" to push companies to change their board composition to include more women.

Apple agrees to majority voting

Technology giant Apple gave in to pressure from shareholders by agreeing to adopt majority voting.

The California Public Employees' Retirement System (CalPERS) hailed the move as a victory for shareholders. The US' largest public pension fund had filed the non-binding proposal at both the company's 23 February AGM as well as last year's where a similar proposal earned over 73% shareholder support. Though not mandatory, nearly 80% of the companies in the S&P 500 and 60% in the Russell 1000 have some form of majority voting standard. Anne Simpson, senior portfolio manager in charge of corporate governance at CalPERS, said "We strongly commend the board for adopting this good corporate governance measure and for giving its shareowners a voice in the election process."

Janus bows to investors on pay

Investment firm Janus Capital Group gave in to shareholder pressure over excessive fees paid to executives, announcing it will set up a new pay scheme.

The US-based group revealed the changes in its proxy statement, which was released at the beginning of March. Janus attributed the changes to: last year's AGM where the company's pay policy was backed by only 40%, recommendations by the compensation committee's consultants and

discussion with shareholders. Under the new pay scheme, CEO Richard M. Weil's remuneration will be capped at $10 million – a 40% reduction compared to 2010. Other changes include the replacement of time-vesting equity grants with more performance-based awards that are contingent on stock price.

As You Sow proxy season preview

Energy and political spending lead investor concerns this coming proxy season, found shareholder advocates As You Sow in its analysis of hundreds of environmental and social resolutions filed in the US.

According to the US-based group's eighth edition of Proxy Preview, shareholder proposals concerning political spending and lobbying comprised almost a third of the 349 social environmental resolutions filed thus far. The inclusion of resolutions on lobbying during this year's proxy season for the first time exemplifies the growing concern among investors about corporate influence on politics and the economy.

The comprehensive review noted that environmental advocates have broadened their definition of climate change risk to requests in terms of energy efficiency and renewable energy more than in past years. It also found that coal and hydraulic fracturing continue to dominate natural resource management proposals. In contrast, the research showed the number of resolutions on labour and human rights have decreased compared to previous years.

James Murdoch going, going, gone

James Murdoch will not stand for re-election to the board of Sotheby's this May, the auction house has announced.

In an SEC filing, the company said that Murdoch had indicated that he would not be standing for re-election as he wanted to focus on his core responsibilities at News Corp. His decision to step down follows a similar decision to relinquish a non-executive post at Glaxosmithkline. His position at Sotheby's had been vocally challenged by US union shareholder activists, led by Change To Win. It is understood that further pressure on his Sotheby's role was expected ahead of the AGM.

Separately, James Murdoch wrote an unsolicited seven-page letter to the Department of Culture, Media and Sport select committee defending his role at News International. Whilst he accepted that he could have done more to question, he stressed that he was not aware of the extent of phone-hacking, as alleged by other former NI executives. He also sought to give the DCMS committee his own reading of the June 2008 email that appears to provide enough information to conclude that hacking might have gone beyond jailed Royal reporter Clive Goodman.

The committee's report has been delayed as more evidence piles up. Critically for Murdoch more criminal activity at NI has been exposed that appears to have taken place whilst he was in post. Further arrests appeared to relate to the attempt to destroy evidence of knowledge of hacking. So Murdoch may have failed to spot the cover-up as well as the crime. Spin-watchers might also note that Murdoch's letter was trailed in the FT before it appeared on the committee website. This has led some to speculate that a committee member supportive of Murdoch leaked it.

Muppets of the universe

A departing Goldman Sachs executive has issued a stinging rebuke to the firm.

Greg Smith was with the firm for over a decade, with his most recent position being executive director and head of the firm's US equity derivatives business in Europe, the Middle East and Africa. In a New York Times op-ed, Smith described a thriving culture of greed and power where both clients and integrity have been sidelined in pursuit of profit. He went on to describe a replacement of the "secret sauce" he once knew – a place where teamwork, humility and serving the client thrived- with a "slow decline in the moral fibre" where leaders are selected based on their ability to callously rip off "muppets" (clients) in order to increase Goldman's profit. Smith said his moment of truth came when he could no longer look students in the eye and say that Goldman's is a great place to work. He claimed that the firm was on a downward trajectory with morally bankrupt staff taking too many shortcuts and not caring enough about

achievement. “People who only care about making money will not sustain this firm – or the trust of its clients – for very much longer,” warned Smith.

NY funds seek board reforms

New York City Comptroller John C. Liu and the New York City Pension Funds filed resolutions at 13 companies seeking more independent directors.

Together they were seeking access to the proxy at companies like Chesapeake Energy and Nabors Industries to nominate directors, independent chairs, declassify boards and encourage majority voting in director elections. Should they be adopted, the bylaws would enable shareholders to avoid the high cost of issuing their own proxy cards when they are dissatisfied with a board and want to run their own candidates for election as directors. Since filing, the Comptroller has withdrawn the board declassification resolution at Juniper Networks and majority voting resolutions at both HollyFrontier and Hersha Hospitality after they agreed to adopt the shareholder proposals.

‘Jobs bill’ is a governance problem

The US Senate recently passed a bill that strips away any corporate governance requirements for companies with annual sales of up to $1 billion, said Global Proxy Watch.

In effect, the provision will allow 90% of all IPOs to be exempt from basic transparency, accountability and disclosure requirements such as say-on-pay enforced under the Sarbanes-Oxley Act. Supporters of the so-called ‘jobs bill’ claim the legislation will increase jobs and economic growth. Sceptics like the Council of Institutional Investors argue that whether or not the bill will create jobs is debatable but it is clear that the passage of it will increase risks for investors by dismantling many investor protections put in place by Congress a decade ago after the dotcom bubble. Obama is expected to sign the bill.

McPackaging goes green

McDonald’s took its first step toward sustainable packaging after a 2011 shareholder proposal asked the company to assess the environmental impacts of its beverage containers.

The proposal, put forward by US-based responsible investment group As You Sow at last year’s AGM, also asked the global food chain behemoth to develop packaging recycling goals. The shareholder advocacy group said in a press release that the vote had earned almost 30% investor support – the highest vote to date for any of As You Sow’s proposals on container recycling. McDonald’s has agreed to test its replacement paper cups at 2,000 or 15% of its US West Coast-based restaurants this year to see how consumers respond and the overall performance of the new double-walled fibre hot cups. As You Sow plans to urge other companies such as Yum! Brands, Tully’s, and Peets to implement recycling measures as well.

US Voting Charts

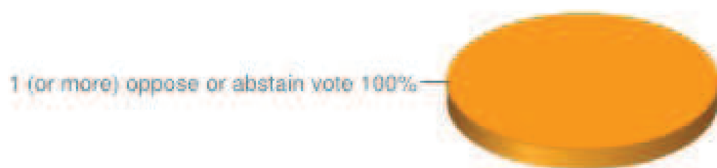
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	20
Oppose	6
Abstain	0
Withhold	0
Withdrawn	0
Total	26

Meetings	AGM	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

US Voting Record

US AGM Record



US EGM Record

There where no EGMs during the last period in the clients portfolio.

US Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 8: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	ACCENTURE PLC	09 Feb 12	AGM	2012-01-25
2	APPLIED MATERIALS INC	06 Mar 12	AGM	2012-02-21

US Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 9: Upcoming Meetings

	Company	Meeting Date	Type
1	L-3 COMMUNICATIONS HOLDINGS INC	24 Apr 12	AGM
2	PNC FINANCIAL SERVICES GROUP INC	24 Apr 12	AGM
3	eBAY INC.	26 Apr 12	AGM
4	PFIZER INC.	26 Apr 12	AGM
5	BAKER HUGHES INC	26 Apr 12	AGM
6	FLIR SYSTEMS INC.	27 Apr 12	AGM
7	AT&T INC.	27 Apr 12	AGM
8	EMC CORP.	01 May 12	AGM
9	LABORATORY CORP. OF AMERICA	01 May 12	AGM
10	CONSOL ENERGY INC.	01 May 12	AGM
11	WISCONSIN ENERGY CORP.	03 May 12	AGM
12	SPRINT NEXTEL CORP.	15 May 12	AGM
13	PRINCIPAL FINANCIAL GROUP	22 May 12	AGM
14	THERMO FISHER SCIENTIFIC INC.	23 May 12	AGM
15	KRAFT FOODS INC-A.	23 May 12	AGM
16	INTERPUBLIC GROUP OF COMPANIES INC	24 May 12	AGM

Japanese Reporting Timetable Q1 2012

There were no meetings held by the client during the period.

Reported Meetings

There were no meetings held by the client during the period.

Japanese Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

Global Corporate Governance Review

Climate affects asset allocation

A follow up report by Mercer showed that over half of the institutional investors who participated in the 2011 groundbreaking *Climate Change Scenario-Implications for Strategic Asset Allocation* survey have already undertaken or plan to mitigate risks associated with climate change.

Of the 12 investor participants, with almost $2 trillion in assets under management, more than half now include climate change considerations in future risk management and/or strategic asset allocation processes, reported Mercer. Additionally, half of participants have already or plan to amend their actual asset allocations and 80% have or will increase their engagement on climate change with companies and policy makers. One-third of participants have also taken pre-emptive tactics or plan to allocate more to “climate sensitive assets” – identified in the first report as real estate, infrastructure, private equity, sustainable equities, efficiency/renewable and commodities. Climate risks within climate-sensitive asset classes have already or will be reviewed by half of participants.

Mercer’s report, *Through the Looking Glass*, was issued at the Investor Network on Climate Risk Meeting and Investor Summit on Climate Risk and Energy Solutions.

Developments in diversity policy

Some developments took place on the board diversity front in both the UK and Australia.

Figures from BoardWatch showed that 15 UK-listed companies have met Lord Davies’ recommended 25% female director target, pushing total female board member representation in the FTSE100 to 14.9% (up 2.4%) and FTSE250 to 9.2% (up 1.4%). Similarly, data on the Australian Securities Exchange (ASX), compiled by the Australian Institute of Company Directors, showed 65 women (or 13.5%) now comprise ASX200 directorships. Though this is a substantial increase for the ASX200, the numbers are still quite low compared to male appointments.

Some believe the increase of female appointments in Australian-listed companies has much to do with new ASX200 diversity guidelines that require companies to reveal the number of female staff in both board and senior management positions, reported The Age. It also comes on the heels of the Australian government warning of possible gender quotas if large listed companies don’t increase the number of women their boards. This response says a lot about the impact indexes can have in changing company behaviour by simply amending listing rules to require listed companies to disclose their diversity policies.

Deloitte backs sustainable boards

Stop viewing sustainability as “just good corporate citizenship.” So said consulting firm Deloitte in its recently published white paper entitled *The Sustainable Board.* Instead, boards should start making it an integral component of the overall business strategy.

In the paper Deloitte claimed that the number of boards that include sustainability in their business decision making strategies is, however, on the rise. This change is chiefly due to a growing awareness and demand among the general public and that companies have begun to view sustainability as a means to enhance performance and reputation, mitigate risks, and foster innovation and growth. This substantial shift reflects a changing landscape, added Deloitte. Leading businesses have begun to look to sustainability as a competitive advantage and a driver of innovation.

Safety tops Chinese ESG risks

A study by Chinese consultancy group SynTao revealed that occupational health and safety comprises

almost half of environmental, social and governance (ESG) risks.

It found the majority of company incidents are most linked to social issues (65%) and less so to governance (22%) and environment (13%). The report compiled company data between 2010 and 2011, which showed over 40% of all ESG incidents were occupational health and safety related. Corruption and fraud came in second (21%) and environment and industrial hazard third (13%). Of the companies examined for the report, PetroChina, Sinopec and Foxconn had the most exposure to ESG risks.

Novo Nordisk topped clean list

Danish healthcare provider Novo Nordisk topped the 2012 Global 100 list of leaders in clean capitalism.

The pharmaceutical firm scored top marks in energy production, carbon productivity, and pay equity (CEO remuneration is just 15 times that of the average worker). As well, it is the only pharmaceutical company within the Global 100 that links CEO remuneration to corporate performance on clean capitalism KPIs. Further results showed the United Kingdom hosts the majority of the world's most sustainable companies (22), followed by Japan (11) with France and the US tied for third place (8). For the first time this year's indicator included employee turnover – a key indicator of a company's management of human capital.

SHARE 2011 Key Votes Survey

Canadian private sector pension managers have taken a harder line with boards that do not align executive remuneration to shareholder interest, according to SHARE in its twelfth annual survey.

The Key Proxy Vote Survey, which reviewed the voting records of 32 investment managers and proxy voting agencies, found that over one third of 2011 votes were on executive remuneration, with most participants taking a much firmer stance compared to previous years. It also found that, as a group, firms involved in the survey tended to vote against management more frequently than in favour on remuneration related proposals. In addition, results from the survey showed that an investor led challenge against pay disparity earned support from just one in every three surveyed firms that voted on this type of proposal. This suggests that few firms are calling "market norms" like pay inequality between executive pay and average salaries into question, said SHARE.

Mercer said managers fail on ESG

Since 2008, investment consultant Mercer has been rating the environmental, social and corporate governance (ESG) activities of investment managers. In its latest edition, Mercer found that with just 9% of fund managers integrating ESG factors, there is considerable room for improvement within the investment industry.

UNPRI signatories outperformed most other fund managers with 72% earning Mercer's top ranking. In contrast, just 11% of US-based managers received high-ranks from Mercer. 60% of US-based managers scored the lowest ranking compared to Asia-Pacific and emerging markets that had the highest rate of ESG integration. In fact, the analysis showed that, once again, US managers are "lagging across all of these [ESG] issues with little indication of intention to improve."

Mercer rates managers by categorising managers into four groups with ESG1 being the highest rating and ESG4 being the lowest. To earn the top rating, the investment team must show demonstrable evidence of marketing-leading capabilities in incorporating ESG factors and active ownership in some or all of the following: generation of investment ideas; construction of portfolios; implementation of active ownership practices; and demonstration of the degree of firm-wide commitment to ESG issues.

Australia pushes pay clawback

New reforms by the Australian Government will require listed companies to disclose detailed information on clawbacks in their remuneration reports.

The reforms will require listed companies to disclose to shareholders through the remuneration report the steps they have taken to clawback bonuses and other remuneration where a material misstatement has occurred in relation to the company's financial statements. If the company has not clawed back any remuneration, the board will be required to provide a detailed explanation to their shareholders. If shareholders are not happy with the explanation they can vote against the remuneration report and potentially spill the board.

The “two strikes” rule enables shareholders to vote whether to convene a general meeting to spill the board if a company remuneration report receives “no” votes of 25% or more at two consecutive AGMs. A study by law firm Blake Dawson on remuneration during the 2011 proxy season of S&P/ASX 200 listed companies revealed that approximately 5% of companies listed on the exchange received a first “strike” on their remuneration reports.

ASIC wants better pay disclosure

The Australian Securities and Investment Commission (ASIC) called on the country’s largest companies to improve disclosure of their remuneration arrangements.

A review of 50 remuneration reports of ASX300 listed companies found disclosure could be improved in respect of the board's policy on the nature and amount of remuneration of the key management personnel; the non-financial performance conditions in short-term incentive plans; why performance conditions have been chosen, and the terms and conditions of incentive plans.

Sustainability needs advocates

A panel of over 600 sustainability experts agreed that socially responsible investors and activists continue to play a major role in pushing forward corporate change.

The Sustainability Survey 2012 found that respondents from corporate, government, non-governmental, academic/research, service/media and other organisations, overwhelmingly agreed that society needs activists to achieve meaningful progress on the sustainability front. It also noted that tactics that directly impact business value drivers like boycotts are the most effective tools to move market forces. Almost half of respondents expect criticism through online social media to increase over the next 3 to 5 years.

More pressure on board diversity

Despite some progress, the technology sector remains the final frontier in terms of enabling women to push through the glass ceiling according to a new study.

In fact, of the 254 American and European technology companies analysed by Thomson Reuters researchers for the study *Women in the Workplace*, the technology sector was the least transparent - only nine companies published information on the number of female employees, including at management levels. However, the research found that other traditionally male dominated sectors like finance and energy were making significant strides towards placing women in the upper echelons of management. During the period under review, 2005-2010, the finance sector demonstrated the most progress, increasing the number of women managers by 5%, with the percentage of female managers now at 33%. Healthcare also remained one of the sectors to offer the best opportunities for women. When comparing American companies to European companies, Thomson Reuters found that it is easier for women to break glass ceilings at American corporations but European corporations are the most transparent in terms of gender equality.

ACSI pushes News Corp reform…

A group of Australian institutional investors and super funds called on Rupert Murdoch to separate his dual role of chairman and chief executive at News Corp.

The Australian Council of Superannuation Investors (ACSI), with A$300 billion funds under management, met with News Corp's independent executive Rod Eddington to discuss a possible reorganisation of the media conglomerate's board structure, reported the Australian Financial Review. "Most investors understand that in the Australian and the UK market, it's normal to have those roles separated," said ACSI CEO Ann Byrne.

The Council has been urging the global media company to improve its governance since last year when the coalition called on members to vote against a number of News Corp's executive directors at the 2011 AGM.

Private equity faces ESG scrutiny

A review of private equity (PE) firms' actions on responsible investment revealed that their environmental, social and governance activities are set to increase over the next five years despite only a handful having ESG policies in place, with UK institutional investors in prime position to influence change.

PWC's report, *Responsible investment: creating value from environmental, social and governance issues*, found the two key drivers for ESG matters in the PE industry are: investor concern and risk management. The 17 PE house respondents said progress has been made in areas of measurement, reporting and evaluation but much more work is needed to embed rigorous, systematic measurement, monitoring and reporting on ESG strategy, action and value created. Participants added that lack of internal capacity and expertise prevented meaningful progress on ESG issue management, resulting in a focus on "a sub-set of portfolio companies" as opposed to a "portfolio-wide approach."

PWC also noted a contrast between US and European PE house approaches. US-headquartered PE houses tend to focus primarily on releasing value through eco-efficiency initiatives, while European-headquartered houses more commonly integrate a more robust range of environmental and social issues into their decision-making processes.

Slow progress on board diversity

The global pace of board diversity remains incremental, said US-based GMI in its latest women on board survey.

GMI's survey reported some historic firsts – women now hold more than one in ten board seats, the percentage of all male boards decreased and the percentage of companies with at least three women on the board has risen. As a group, the global statistics showed that women in industrialised economies hold 11.1% directorates, 63.3% of companies have placed at least one of them on their board and 10.5% of companies have no less than three female directors. A snapshot of emerging economies showed a somewhat bleaker view for women at the top: as a group, just 7.2% of women hold directorates, 44.3% of companies have at least one female representative on their board and 6.3% of companies have at least three female directors. However, when the market blocks are removed and countries are viewed on an individual basis, a different picture of board diversity emerges.

Aside from France and Australia, which have made significant strides due to legislation and an amendment to the corporate governance code, respectively, few industrialised countries and even less emerging economies have put steps in place to help women break glass ceilings. The UK has been vocal in its discontent for European Commissioner Viviane Reding's proposed gender quotas. Yet, with surmounting evidence as reemphasised in GMI's survey showing most countries and companies continue to be reluctant about make meaningful change, perhaps quotas are the only way forward, even if only temporarily.

More reporting on sustainability

An increasing number of companies are reporting on their sustainability performance, according to the Global Reporting Initiative's latest report.

An increasing number of companies integrating sustainability into their business plan coupled with a

growing interest among executives has led to the uptick in reporting, GRI said. This new trend has extended to developing markets with Brazil showing the largest growth by location (68% increase in registered reports since 2009). The biggest increase in Europe came from Switzerland (59%), Canada in North America (53%), China in Asia (9%) and South Africa in Africa (52%). Other notable trends included much more increased reporting by small to medium sized enterprises.

Canadian RI guide published

Canadian 'clean capitalism' magazine Corporate Knights issued its 2012 Responsible Investing Guide.

The 10th annual guide aimed to assist investors by ranking funds based on their fusion of social, environmental and financial values. Based on the results, best SRI mutual funds were Meritas International Equity in the Equity Funds category, NEI Canadian Bond in the Bond Funds category and IA Clarington Inhance in the Balanced Funds category.

Corporate lobbying a global issue

The "cash for access" story that broke in the UK pointed to a global issue for investors to grapple with – the acceptable extent of corporate influence on politics.

Already some have noted that recent decisions, such as scrapping the 50p top rate of tax and opposing a financial transactions tax are beneficial to some donors. Prime Minister David Cameron has denied outright that his party's position on policy issues was affected by the views of significant donors. However, in order to fend off criticism of secrecy, the Government, after initially refusing, has published a list of dinners with donors held by Cameron at Number 10 and Chequers since the 2010 election.

But whilst events in the UK are an embarrassment, and all the main parties have problems managing the influence of donors, as always, the US puts us in the shade. For example, look at the way that critics o f President Obama's health-care law have upped the ante on funding for anti 'ObamaCare' ads. Bloomberg reported that groups led chiefly by the US Chamber of Commerce and pro-Republican campaign organisations, eager to influence the American public's view of the Affordable Care Act, (as the Obama legislation is termed) have flooded America's airwaves with over $204 million of negative ads.

Since its enactment two years ago, the biggest spenders on the ads have been the US Chamber of Commerce ($6.3 million), Crossroads ($2.8 million) and the over 60's conservative group-American Association of Retired Persons ($2.4 million). The influx of negative ads came just ahead of the law being sent to the US Supreme Court to determine its constitutionality.

Given the huge role of corporate spending in politics across the Atlantic, it is not surprising that US investors are in turn starting to look at what they can learn from the UK. Following the requirement that PLCs put requests for authority to donate to political parties to a shareholder vote, such donations have almost all disappeared. Such a reform in the US could have an impact. But the vote is no panacea, as events demonstrated. If investors believe that corporate influence on politics is a problem then other strategies need to be developed.

Global Voting Charts

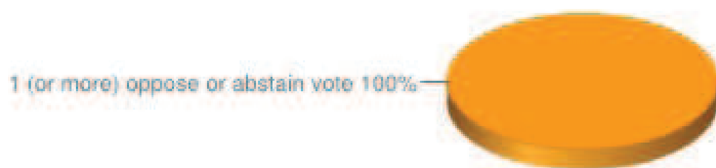
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	30
Oppose	7
Abstain	5
Withhold	5
Withdrawn	0
Total	47

Meetings	AGM	EGM	Total
Total Meetings	5	3	8
1 (or more) oppose or abstain vote	5	1	6

Global Voting Record

Global AGM Record



Global EGM Record

Global Voting Timetable Q1 2012

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 10: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	CCR SA	16 Jan 12	**EGM**	2012-01-06
2	ARIBA INC	20 Jan 12	AGM	2012-01-06
3	SHAW GROUP INC	25 Jan 12	AGM	2012-01-16
4	ESCO TECHNOLOGIES INC	02 Feb 12	AGM	2012-01-23
5	PETROBRAS-PETROLEO BRASILIER	19 Mar 12	AGM	2012-03-07
6	BANK SARASIN & CIE AG	26 Mar 12	AGM	2012-03-08

Not Voted Meetings

Table 11: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	PETROBRAS-PETROLEO BRASILIER	27 Jan 12	**EGM**	Non voting shares
2	PETROBRAS-PETROLEO BRASILIER	28 Feb 12	**EGM**	Non voting shares

Global Upcoming Meetings Q2 2012

List of meetings scheduled to be held throughout the period by Global companies currently in the fund's portfolio.

Table 12: Upcoming Meetings

	Company	Meeting Date	Type
1	DOLLAR GENERAL	01 May 12	AGM

Asian Voting Timetable Q1 2012

There were no meetings held by the client during the period.

Asian Upcoming Meetings Q2 2012

There are no upcoming meetings for this region.

PIRC Summary Report Appendices

UK

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

European

Analysis for "Oppose" and "Abstain" votes for resolutions at European meetings for companies held by the fund during the period.

US

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

Global

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Global meetings for companies held by the fund during the period.

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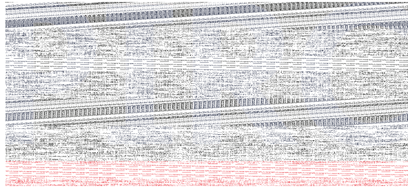

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Appendix 'B'

Lancashire Council

Proxy Voting Review
October 2011 – December 2011

January 2012

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UK Corporate Governance Review

Goodwin Plc AGM 12th October

We had significant governance concerns at smallcap Goodwin.

The board comprised seven executive directors and no non-executive directors. The chairman and the managing director are both members of the Goodwin family and jointly held 44.39% of the Company's share capital. An additional 13.90% was held by other members of the Goodwin family. There was no audit, remuneration or nomination committees in place. In addition, both the executive chairman and the managing director were not stand for re-election. In our view the current composition represented a serious governance concern as it did not ensure an adequate level of independence on the board and ultimately did not guarantee that the board decision making process reflected the interest of all shareholders.

We recommended that shareholders oppose the report and accounts.

Reinshaw Plc AGM 13th October

Lack of independent representation on the board and board committee were concerns at smallcap Reinshaw.

We had significant concerns about the governance of the Company. The board was headed by combined chairman and chief executive Sir David McMurtry, who is a co-founder and had a 36% controlling shareholding. This represented an excessive concentration of power on the board in our view. In addition, together with the other co-founder and executive director John Deer, who had a 17% shareholding, Sir David McMurtry was in position to control the Company.

In addition, less than half of the board was not considered independent according to our guidelines with further concerns relating to Sir McMurtry's nomination committee chairmanship. In our view, the current composition of Renishaw's board and nomination committee did not ensure an adequate level of independence on the board and ultimately did not ensure that the board's decision making process reflected the interest of all shareholders.

We recommended that shareholders oppose the report and accounts.

We also recommended that shareholders oppose the election of Sir David McMurtry, chairman and chief executive. Holding combined roles at the head of the Company (together with the other co-founder and executive director John Deer), McMurtry was a majority shareholder and in a position to effectively control the company.

We also recommended shareholders oppose the appointment of auditors KPMG. Consultancy related non audit fees amounted to £439,000 and were more than 100% of the audit fee in the year under review and on a three year aggregate basis, which raised independence concerns over the external auditors.

Telstra Corp AGM 18th October

Remuneration was an issue at Australian telecoms giant Telstra Corp.

The board was seeking shareholder approval for its remuneration report in accordance with Section 250R of the Australian Corporations Act 2001. Under the Corporations Act, the vote is advisory and therefore not binding.

Non-executive directors (NEDs) received set remuneration, inclusive of superannuation within an aggregate annual fee pool of A$3,000,000 and the total remuneration was well within the pool for the year under review.

Total remuneration comprised fixed remuneration, short-term incentives and long-term incentives. It

was not clear if pay elsewhere in the Company was considered while determining executive pay. All participants in the fiscal 2011 Short Term Incentive (STI) plan, including the CEO and Senior Executives, had a significant portion of their target STI tied to customer satisfaction objectives. We noted that during the year, the Company amended its STI targets to reflect accounting impacts and the effect of the natural disasters on Telstra's performance that increased the outcome of the STI from 39.1% of potential maximum to 46.5% of potential maximum (the potential maximum being 200% of salary). The Company had also introduced a STI deferral program for its senior executives with a risk of being clawed-back unless the director departs with a 'permitted reason.' However, the Company had not disclosed any quantifiable targets or achievement against them and we were unable to assess how challenging they are.

The LTI was based on two performance conditions: Relative Total Shareholder Return (RTSR) and Free Cashflow Return on Investment (FCF ROI) over a period of three years with an additional one year holding lock. Under the LTI executives were also awarded options and restricted stock. 50% of the LTI grant was provided through options that were subject to a relative total shareholder return (RTSR) measure and vested following a three year vesting period. This performance hurdle was based on comparing the Company's TSR growth against a peer group of international telecommunications companies over the relevant period. 25% of vesting occurs when TSR is at the 50th percentile of the comparator group, which increases in a straight line to 100% vesting at the 75th percentile of the comparator group. The remaining 50% of the LTI grant was provided through restricted stock that is subject to Free Cashflow Return on Investment (FCF ROI) targets over three years. Target and stretch performance targets were disclosed for this portion of the award and 50% will vest on the achievement of target level performance and 100% of this portion of the award will vest at stretch levels of performance. A proportionate amount will be available for achievement between these two levels.

It was noted that the Company granted a sign-on bonus for Gordon Ballantyne and a sign-on bonus for Brendon Riley during the year. We did not consider the payments of such golden hellos in line with best practice.

Contracts were six months rolling and termination payments did not exceed one year's base salary.

We had concerns that the Company had not disclosed quantifiable performance targets and achievement against them for its STI plan and maximum levels of remuneration at the Company had the potential to be excessive. The Company's LTI plan also had the potential to vest in full upon a change in control, which we did not consider best practice. Due to these concerns, we recommended opposition.

Kofax Plc AGM 3rd November

Remuneration and board independence were issues at software and computer services company Kofax.

Maximum award levels under the bonus and the LTIP were not disclosed. Performance targets and the vesting scale under the LTIP were not clearly disclosed either.

The Company operated the LTIP in the year under review. However, since the maximum award levels and performance targets under the scheme are not clearly disclosed, challenging the level of the targets was not possible. The vesting scale was not clear and although the Company used two performance conditions, they were not operated in a concurrent manner. The performance conditions used were company specific and thus made it difficult for PIRC to assess as there were no brokers' forecasts available.

Base salaries for executives increased by 4.4% along with an increase of 10.5% in annual bonus compensation. Non-executives did not receive a rise in fees during the year. The chief executive received an additional LTIP award of 50,000 shares. The Company did not provide a rationale for this nor did it disclose if performance criteria were attached. Combined remuneration was considered excessive during the year under review and average salaries were at the top of the sector.

Contract notices did not exceed 12 months but termination payments (if any) were not clearly stated and there was no evidence that mitigation will apply.

We therefore recommended shareholders oppose the remuneration report.

Senior independent director Bruce Powell was standing for re-election. He was not considered

independent as he had been on the board for over nine years. Moreover, there was overall insufficient independence on the board.

PIRC had therefore recommended shareholders oppose his re-election.

Redrow Plc AGM 3rd November

Board independence was a concern at household goods and home construction company Redrow.

The board was calling for the re-election of senior independent director Alan Jackson. He was not independent according to PIRC guidelines as until July 2010 he was chairman of Luminar where Debbie Hewitt was a non-executive director. We also noted that Mr Jackson missed an audit committee meeting during the year. Ms Hewitt was also running for re-election and therefore we had similar concerns over her aggregate time commitments. For these reasons, and due to lack of independent board representation, we recommended shareholders oppose the re-election of both directors.

Hays Plc AGM 9th November

Remuneration was an issue at Hays.

The EPS target was not considered sufficiently challenging in light of brokers' forecasts. We noted the reduced weighting of the cash conversion for FY 2011 as compared to the previous year. Also, the Company reported that it set its EPS targets using market consensus at a range of +/- 4% around the consensus forecast EPS as the starting point for the three-year cycle. It was unclear why the Company would consider a range that includes a target that was slightly below the consensus EPS, i.e. up to -4% below. Furthermore, it was unclear as to what the Company considers to be a “cycle.”

It is considered best practice that two or more performance measures be used in a concurrent fashion. The TSR targets were equally considered unchallenging. Variable pay was potentially excessive in PIRC's view as were the awards made during the year. Average salaries were high for the comparator group. HAYS PLC switched from Cumulative EPS + Cumulative Cash Conversion in FY 2008, to Total Shareholder Return in FY 2009, and back to Cumulative EPS + Total Shareholder return in FY 2010. These radical changes to the performance criteria had not been adequately justified in our opinion, which raised concerns about the overall policy surrounding the long-term incentive plan and its intrinsic link to the Company’s long-term objectives.

Disclosure of remuneration and pension arrangements was acceptable. The Company provided an expected breakdown between fixed and performance based elements of remuneration. There was evidence that pay elsewhere in the Company was considered in relation to executive remuneration. Performance targets and maximum awards were adequately disclosed for the long-term incentive schemes.

Bonus measures were described and targets relative to consensus were given, except for the personal objectives criteria. The Company had stated that key shareholders were consulted in respect of the changes to executive remuneration policy, which we welcomed.

We also noted that the Company had excluded IT capital expenditure in its calculation of cumulative cash conversion, and no justification was provided for such a treatment.

Directors had one year rolling contracts that allow for compensation that represents one year's salary and contractual benefits. The Company considered that directors have a responsibility to mitigate their loss. The remuneration committee also had discretion to pay a predetermined sum in lieu of notice. PIRC does not consider it acceptable for unearned bonuses or other awards to be included in compensation payments and noted that past practices of the Company with regard to termination provisions were not in line with best practice.

We recommended that shareholders oppose the remuneration report.

Dunelm Group Plc AGM 17th November

Independent representation on the board and remuneration were issues at Dunelm.

Executive Deputy Chairman Will Adderley was Chief Executive from 2006 until February 2011 and was a controlling shareholder with 34.7% of the company's issued share capital. He also sat on the nomination committee, which contravenes best practice. PIRC did not think that the Chairman, deputy or otherwise, should maintain executive responsibilities. Further, there was insufficient independent representation on the Board. We recommended shareholders oppose his re-election

The Company could have provided further disclosure to better demonstrate the processes in place for determining and subsequently assessing overall levels of director pay in relative terms. The Company did not disclose the peer group used for determining either salaries or annual bonuses. The corollary of this was that peer group performance was not presented in the body of the report. Personal performance measures and targets were not fully disclosed and the application of both financial and non-financial KPIs was poorly illuminated, if at all. Expected values of LTIP awards made during the year were not provided but were determinable based on the information that was.

The LTIP only uses a single, absolute performance criterion, which should have been complemented with another relative criterion applied in concurrent fashion. Further, the performance range used for the annual bonus would also have been lowered. Both the maximum target and maximum award were to be increased for LTIP awards made going forward from RPI+12 to RPI+15 and 120% to 150%, respectively. However, existing LTIP performance hurdles were to be reduced for awards that had already been made and mature from 2011, which was unacceptable. The lowering of performance measures for incentive awards was particularly alarming given maximum awards under the annual bonus were increased last year, and the proposed increase in maximum awards under the LTIP.

Mr Wharton received sign-on bonuses equal to some 288% of salary. These include £150,000 cash and a non-performance based option award of ordinary shares equal to some £1,000,000. This was considered inappropriate. There was the potential to allow unvested LTIP awards to be exercised upon change of control. Whilst mitigation was applied, the Company dismissed the suitability of clawback provisions.

We recommended that shareholders oppose the remuneration report.

Hargreaves Lansdown Plc AGM 25th November

Remuneration was an issue at Hargreaves Lansdown.

Disclosure was considered basic as there was no explanation of the Company's liabilities on termination payments. Bonus payments ranged between 126% to 181% of salaries during the year, which were not considered to be overly excessive. However, our primary concern surrounded the operation of the long-term plans that had no performance conditions or maximum award limits. This highlighted concerns over excessive payments. During the year the chief executive was awarded options worth 12.7 times his base salary. This put average CEO pay at the top of the comparator group.

We recommended that shareholders oppose the remuneration report.

Separately, we also recommended that shareholders oppose the annual report and accounts. The final and special dividend payments had not been put forward for shareholder approval, which was considered a material omission.

Close Brothers Plc AGM 17th November

Remuneration was an issue at Close Brothers.

Overall disclosure, particularly in relation to annual bonus arrangements, was very complex. The Company advised PIRC that the relative complexity arose following the adoption of the new 2011 FSA Code on Remuneration. Whilst we appreciated the effort to adopt the new code and the Company's efforts to justify the complexity of the existing awards, the operation of the annual bonus scheme remained confusing. The expected values of awards made under the LTIP were not disclosed and the TSR element of the LTIP was measured in absolute terms, which would appear to preclude comparator group performance. The Company explained that it did not have any obvious direct comparators thus making relative return based TSR a poor proxy for performance.

The SMP applied the same performance criteria as those set for the LTIP, which effectively rewarded directors twice for achieving the same results. Executives were required to accumulate holdings in the Company, which represented some 200% of salary. Further, directors were required to mitigate their loss.

EPS targets for the LTIP were not challenging based on brokers' forecasts. The levels of actual combined awards made during the year were excessive. Further, the potential level of combined remuneration was wholly excessive and offered directors the opportunity to earn about 700% of salary based on the operation of cumulative incentive awards. This was compounded, in terms of the nominal amounts, by increases made to executive salaries going forward, which in the case of Stephen Hodges, represented a 17% year-on-year increase.

We recommended that shareholders oppose the remuneration report.

BSkyB Plc AGM 29th November

The role of the chair and a lack of independent representation on the board were issues at BSkyB.

Chairman James Murdoch was not independent upon appointment as he was the former chief executive of the Company, and son of Rupert Murdoch, the ultimate controlling shareholder, through News Corporation. James Murdoch was serving as deputy chief operating officer and director at News Corp. PIRC did not support the appointment of a chairman linked to the controlling shareholder.

In addition, James Murdoch's involvement in the News Corp phone hacking inquiry raised concerns over whether he was fit to fulfil the role of chairman at the Company. His testimony before the Department of Culture Media and Sport Select Committee relating to his knowledge of phone hacking had been queried by former colleagues, though he had subsequently denied these allegations. The Company, in the corporate governance section of this year's annual report, stated that he had a duty as chairman to 'enhance the Company's public standing and image overall.' Mr Murdoch's involvement in the phone hacking inquiry increased the risk that the Company's 'public standing and image overall' would have been damaged. In our view that undermined his ability to continue to fulfil the role of company chairman at that time.

Furthermore, there were questions of whether Mr Murdoch's service as a full-time US-based executive at News Corp and his involvement in the ongoing phone hacking inquiry left sufficient time to devote to the leadership of BSkyB's Board. Mr Murdoch continued to hold two other demanding non-executive positions outside of the group.

Based on these concerns, an oppose vote was recommended.

We also recommended shareholders oppose the re-election of a number of non-executive directors.

David DeVoe was not independent as he served as a director and CFO of News Corp, the controlling shareholder. In addition, he had served on the board for more than nine years.

Arthur Siskind was not independent as he was an advisor to the controlling shareholder and had been on the board for more than nine years.

Thomas Mockridge was not independent as he was the CE for the European Television division of News Corp, the controlling shareholder. On 15 July 2011, he took the role of chief executive officer of News International, following the resignation of Rebekah Brooks over the phone hacking scandal.

There was insufficient independent representation on the board in our view. Therefore we recommended that shareholders oppose the re-election of all three directors.

MWB Group Holdings plc AGM 13th December

We had significant governance concerns at smallcap MWB Group Holdings.

With regard to board composition, excluding the Chairman, the majority of the board was constituted by executive directors. Further to this, only one of the two non-executives on the board was considered to be independent. As a result, there was insufficient independent representation on the board. The Chairman, Mr Sanderson, was also chair of the Nomination Committee, which contravened principles of best practice. Finally, the Chief Executive and co-founder of the Group, Mr Balfour-Lynn, owned 10% of

the issued share capital and, along with the other executive directors, was a member of a concert party that holds some one third of issued capital. Given the insufficient level of independent representation on the board, this posed a potential risk to the interests of minority shareholders.

As a result of the above noted concerns, it was recommended shareholders oppose the report and accounts.

We also recommended that shareholders oppose the remuneration report. The Company did not disclose either the price of awards at the grant date or expected values for long-term incentive. There was insufficient disclosure to determine and, subsequently, assess any breakdown of the intended distribution of aggregate incentive awards for individual directors. Individual caps were not accounted for and it was not explicitly stated how much individual directors were entitled to earn as part of the Revised Incentive Scheme (RIS). The RIS replaced the previous Bonus Plan, which was approved at an EGM in January 2010.

However, serious concerns surrounded the operation of these revised arrangements. Namely, the application of a single, absolute performance measure, linking potential rewards to the value of Gross Cash Returns to Shareholders. Whilst this was in keeping with the Group's planned realisation plan, this absolute measure should have been applied concurrently in conjunction with a second relative performance measure. Furthermore, changes to the targets had been accompanied by a simultaneous time extension to the performance period from 31 December 2010 to 31 December 2016. The Company had not provided sufficient rationale as to why, with targets having not been met, existing awards were not simply allowed to expire. The lengthening of the performance period did mitigate some of the concerns surrounding the excessiveness of the maximum awards available. However, this also made it difficult to meaningfully assess directors year-on-year performance. Despite reductions to annual salaries made during the year, serious grievances with the balance between performance and reward remained, as individual directors potentially stood to earn a maximum of between 3.5 and some 39 times base salary, based on the even distribution of the aggregate limits. Finally, as part of the 1997 Concert Party, executives stood to significantly benefit from any future gross cash returns to shareholders to the tune of more than one third of the total distribution.

Spirit Pub Company Plc AGM 16th December

Remuneration was an issue at Spirit Pub Company.

Cash payments and share awards, along with pension payments and entitlements had been clearly disclosed. Expected values of share previously awarded had not been estimated by the company. The company did not clearly describe the link between its remuneration structure and its objectives. The intended balance of the fixed versus the variable portion of the total package was another area where the company should have elaborated. One third of the bonus was to be deferred into shares, subject to clawback provisions, which was welcomed.

The performance targets had been disclosed only for the company's long term incentive. The criteria for the annual bonus remained vague and were described as "Group Financial Performance" and "Personal targets". The past targets had also not been discussed, showing how the present bonus awards were calculated. The bonus had an underlying profit performance underpin, which we welcomed, however this threshold had not been disclosed.

The company operated a short term incentive plan (Annual Bonus) and a Long Term one (2011 LTIP). It also had some legacy plans from Punch Taverns in which no future awards were to be made. The potential aggregate awards under the bonus and the LTIP were considered excessive, as were the awards for the year under review. Based on brokers' forecast and the maximum levels regarding the LTIPs, the EPS targets chosen for the company were considered challenging, however the TSR targets were not. It was also noted that, although the company reported a net loss, it rewarded the previous CEO a full bonus of one year's salary and had stated that it would award a grant of shares to the new CEO, representing 200% of his annual salary. The rationale behind such practice was elusive and had not been commented on by the company in its Remuneration report.

Contracts were on a 12 month rolling basis. There were no provisions for termination payments on a change of control and a statement of mitigation had been made.

An oppose vote was recommended.

UK Corporate Governance Review

Pressure builds on News Corp

There were increasing calls for reform of the board of News Corp from institutional investors in response to the hacking scandal that had engulfed the company.

The powerful Australian Council of Superannuation Investors (ACSI) issued its voting advice to members. It recommended that they oppose the election of both James and Lachlan Murdoch, along with fellow directors Arthur Siskind, Andrew Knight, David De Voe and Natalie Bancroft. ACSI CEO Ann Byrne said the board was responsible for the ethical tone throughout News Corp.

Other hacking developments included the news that James Murdoch's PR adviser had resigned, and that former News of the World chief reporter Neville Thurlbeck was to take News International to an employment tribunal. Thurlbeck had intimated that he was willing to name those at News International with knowledge of illegal activity.

More worrying for News Corp and its shareholders was the growing sense that, far from being over, the hacking scandal may yet have further shocks in store. Labour MP Tom Watson told his party's conference that he believed that The Sun would also be shown to be implicated in phone hacking. Watson had also stated that that computer hacking may be the next phase of the scandal.

ABI reports on pay and boards

The Association of British Insurers (ABI) had released an updated version of its Principles of Executive Remuneration and a report on Board Effectiveness.

In the first revision since 2007, the UK trade body for insurance companies underlined its views on executive remuneration with five key principles: the role of shareholders, role of the board and directors, remuneration committee, remuneration policies and remuneration structures. The revised principles warned of excessive pay and have, for the first time, introduced "clawback provisions" as a means to "prevent executives receiving rewards that were undeserved." ABI emphasised the pivotal role non-executive directors play in determining executive pay, adding that shareholders should take an active approach without micromanaging companies.

The report on Board Effectiveness works as a best practice guide for UK companies by setting out its views on three main areas: board diversity, succession planning and board evaluation. ABI believes increased company focus and transparency on these issues can help ensure an effective board and contribute to the success of the company.

Where the pay debate goes next

We noted that widening the membership of remuneration committees appeared to be a popular reform proposal. Was it indicative of a wider shift in views in how executive pay works, and should be constructed?

Let's consider some of the points that seemed to be widely accepted in the debate. First, most agreed that executive remuneration has become overly complex, both in terms of its structure and the way that it is reported, principally to shareholders. This raised questions both about the extent to which directors can really be incentivised by such arrangements, and the ability of shareholders to exercise meaningful oversight.

Second, there was growing scepticism about 'performance-related' reward. Actually this scepticism affected both aspects of tying rewards to performance. First, there was a continuing concern that the linkages between reward and performance are weak, and only really kick in on the upside. Executives

make out like bandits in the good years, but do not fall too far, even in the depths of a major financial crisis. Big payouts for median on-target performance are the most obvious manifestation of this.

But there was an emerging question about whether performance related rewards actually served to motivate directors above and beyond what they would do anyway. This was not to dispute that companies need to pay to secure the services of executives. Rather, that once they are in the job it seems a bit ludicrous to argue that tweaking their targets, or increasing the percentage of salary available as a bonus is likely to elicit a significantly greater effort. The ever upwards march of executive reward, driven largely by the performance-related element, implied that directors must have been delivering seriously sub-optimal levels of effort previously. Again, it seemed a bit unlikely.

In fact, as we've written previously, there is plenty of academic evidence that would suggest that tying rewards to performance is probably a pretty hopeless idea unless the task concerned is simple, measurable and the individual contribution easily identifiable. It was not obvious that this applied to running public companies. In addition, incentives appeared to work best when the individual concerned was not motivated to do the job concerned. Again, we hoped that wasn't the case for most directors.

Finally, of course, it was the explosion in performance-related reward that has played a major part in the growing pay gap in the UK and other markets. The executive class is detached from the working population as a whole. A director of a big company whose employment is terminated for doing a poor job can end up with a payout greater than some will earn in their working life. Particularly in the current environment this is incredibly divisive.

But there is a growing sense that business knows there is a problem too. We've found chairs of remuneration committees of large PLCs who believe pay has got out of control, and that the performance-related element of reward plays no valuable role. There is, for example, some sympathy with the view that reward for directors should be stripped right back to salary and bonus. The problem that companies have is the fear that institutional investors remain obsessed with performance-linkage and will not give them the space to move.

Taken together, these various emerging themes seem to us to point to a fairly obvious conclusion. Since no-one seems to gain from the complexity of existing remuneration policies (except perhaps pay consultants) some form of radical simplification looks likely to find support from a number of the key players. It seems worth a shot to us.

FRC Code adopts diversity policy

UK-listed companies are now required to disclose annually their boardroom diversity policy, including gender, according to an announcement by the Financial Reporting Council (FRC).

Under the revised provision listed companies must report on any measurable objectives that the board has set for implementing policy and the progress made to achieve the objectives. A revision to the Code also included board diversity, including gender, as one of the factors to consider when evaluating its effectiveness, add the FRC.

Companies will have until 1 October 2012 to comply.

FTSE100 firms exploit tax havens

An inquiry into tax dodging revealed that 98 businesses out of the FTSE100 own a combined total of 8,942 tax haven-registered companies.

In fact, just two companies, Fresnillo and Hargreaves Lansdown, didn't use tax havens to avoid paying taxes. ActionAid's report, Addicted to tax havens, found a quarter of all businesses set up by FTSE100 companies are located in Jersey (600+), Cayman Islands (400) and Luxemburg (300) - jurisdictions generally known as tax havens.

ActionAid called on the UK government to close loopholes that allow multinationals to siphon profits out of developing countries and into tax havens. Tax avoidance by Britain's largest companies is forcing developed countries to bear the "brunt of debilitating loses," added ActionAid. The report found that advertising giant WPP uses more tax havens than the entire FTSE100 with the 'big four' banks following

closely behind. Barclays alone was found to have 174 companies in the Cayman Islands.

Fit and proper: an investor issue

Whilst all the focus was on News Corp itself, the company also faced a battle on a second front in respect of BSkyB.

One of BSkyB's biggest shareholders, Franklin Templeton, told the FT that it believed James Murdoch should stand down as chair. Other investors, who were not willing to be named, struck a similar not, arguing that Murdoch had failed to extricate himself from the hacking scandal. The intervention was particularly significant because Franklin Templeton rarely makes public statements of this kind.

The bigger issue lurking here was Ofcom's consideration of whether BSkyB was a 'fit and proper' organisation to hold a broadcasting licence. BSkyB itself had not, of course, been implicated in the hacking scandal, but Ofcom's remit runs wider. The regulator published an FAQ in July that made clear that it would "take account of News Corporation's conduct in assessing whether BSkyB was and remained fit and proper as a licence holder, as well as the conduct of BSkyB itself." We understood that Ofcom can also take account on individual behaviour in this regard.

Another point that seemed to have escaped public attention was that Ofcom wrote to the DCMS committee once the hacking scandal broke in July to ask to be kept updated on investigations and to be provided with "any further information that may assist us in the discharge of our duties."

This, we suspected, may be beginning to worry investors. At some point the DCMS committee will report on the hacking inquiry, and that report could make comment on James Murdoch's testimony and the challenges to it from Tom Crone and Colin Myler. It was not difficult to guess how some committee members would come down on this question. If, and it is just an 'if', the committee reaches an unfavourable conclusion about James Murdoch's role this could become a bigger factor in Ofcom's assessment.

We believe it is these types of calculations that are beginning to harden some investor thinking about the current chair. Perhaps the risk of Ofcom finding BSkyB is not 'fit and proper' is low. But it was clear that two significant factors that increased that risk are the News Corp shareholding and the fact that the chair is still embroiled in the hacking scandal. We may now be reaching a point where mainstream investors consider that the risk he brings to the board outweighs the benefit.

FTSE100 directors pay up, again

A strong recovery in bonuses had pushed up average FTSE100 director pay, according to research firm Incomes Data Services.

Findings showed that FTSE 100 director pay rose 49% last year, taking their average per annum total earnings to just under £2.7 million. The median increase was a less racy 16%, suggesting some enormous awards at the top end were pulling the average up significantly. Total earnings include fixed pay, salary and benefits, bonus value earned during the year, both cash and deferred, long term incentive plan (LTIP) awards and any nominal gains made from exercising share options cashed-in throughout the year. Of these, the IDS survey found that a 23% increase in FTSE 100 directors' LTIPs and bonus payments made up for a 3.2% growth in base salary over the last year. CEOs fared slightly worse last year, averaging a 43% increase in total earnings. Though nothing to scoff at, financial directors, on average, saw a 34.1% increase.

FTSE100 constituents might, in turn, retort that shareholders don't generally seem to have a problem with what they get paid. In 2010 the average vote against a FTSE100 remuneration report was just 5.6%, and no companies in the index were defeated. Despite an uptick in opposition this year, with WPP, for example, receiving a vote of almost 42% against, once again there have been no defeats. And, as we've noted before, companies tend to believe that "a win is a win".

This was important, because, faced by evidence such as the IDS survey, politicians may conclude that Something Must Be Done. But strengthening shareholders' powers, as some suggested, will not be

enough on its own. Whilst it is often argued that remuneration is solely a matter for shareholders, it is important to recognise that there are usually two agency relationships involved. Directors are, in theory, the agents of the shareholders, but those casting a large number of votes at company meetings, asset managers, are also agents of pension funds, for example. So it is typically not the case that those voting are voting on the use of their own capital.

Asset managers also work in a sector that is not too shabbily paid itself, so amounts of money that draw gasps from Joe Public may be seen as understandable, if not entirely justifiable. And where asset managers run portfolios of hundreds of companies, they may not be able to engage with all of them effectively. For all these reasons it may be that they will never take a particularly tough line on executive reward.

Therefore if policymakers are tempted to have another crack at investor oversight of remuneration, they also need to be thinking about how to toughen investors up. A simple reform would be to require asset managers to disclose their full voting record (many still don't). That way those managers that still support the large majority of remuneration-related resolutions can be held accountable by their own principals.

The church speaks out on pay

A number of recent developments suggested that the Church of England appeared to be increasingly restive about executive pay and ethics in the City.

The Church has struggled to find an appropriate way of responding to the Occupy London demonstrators (holding camp in front of St Paul's Cathedral). However, this was clearly in part because the Church is itself concerned by issues the protestors have raised, such as the ever-growing pay gap. The Bishop of London, Dr Richard Chartres, called on shareholders to "step up their oversight on executive pay," at an investor meeting according to Responsible Investor.

Separately, the Archbishop of York, John Sentamu, suggested that, to attack high pay, in the future the Queen's honours should not be given to "those who have already rewarded themselves most handsomely." He said this would require people to choose between two forms of honour and prestige. He also suggested that there could be employee representation on company boards.

The Saint Paul's Institute also had released a survey, Value and Values: Perceptions of Ethics in the City Today, which revealed that an overwhelming majority of financial service professionals believe that City bond traders, FTSE chief executives and stock brokers are paid too much. 70% of them also thought teachers are paid too little. It also found that 75% of City professionals agreed that the gap between the rich and poor in the UK is too big and that salary and bonuses are the most important motivating factors in 2 out of 3 survey participants. Enjoyment came in at a distant second, according to the report.

The Church of England had also offered its position on the Christian ethics vs. capitalism conundrum. Through a series of questions and answers CoE Archbishops proffered preliminary thoughts to guide faith based investors on ethical and theological reflection in regard to economic issues.

Sharman report undermined IFRS

The publication of the Sharman Inquiry report dealt a devastating blow to International Financial Reporting Standards (IFRS).

We welcomed the fact that key parts of its analysis had been cited in the Sharman Report, which included explicit criticism of IFRS. The report recognised that the IFRS accounting exaggerated the capital of Northern Rock by erroneously including the capital of separate Granite Master Trust, but excluded the claims on the capital of the bank by Granite. The report read: "A number of investors raised specific concerns about the consolidation of Master Trusts into the balance sheets of stand-alone legal entity accounts of banks under IFRS. They believe that this practice resulted in capital in those trusts being treated as equity of the bank and that this masked the risk of a "margin call" under covenants granted to the trust by the sponsoring bank."

We also held that, if prepared on a going concern basis, the accounts, and the auditors, should take

account of the business model. The report read: “The going concern assessment should focus on the risks the entity takes and faces that are critical to its success or which could cause its business model to fail.”

We also pointed out the weakness in IAS 1 on going concern. PIRC believes that this is not only relevant to the collapse of certain banks, but the precarious business model and financing model of Southern Cross plc. The report read: “The FRC should engage with the IASB to seek amendments to IAS 1 to accord with the resulting position in the Code and FRS 18.

Cameron: diversity can tackle pay

More female board representation could help tackle excessive executive pay, the Prime Minister David Cameron claimed in a House of Commons debate on remuneration for FTSE100 directors.

His response followed Labour Democrat Simon Hughes' question on whether or not the Prime Minister was “committed to the transfer of power over pay from the boardroom to the shareholders.”

Cameron said: “I think [women] would have a thoroughly good influence,” to decrease the typical “rotating list of men patting each other's backs and increasing the level of remuneration,” he added.

Separately, in an opinion piece in The Times, Labour frontbenchers Chris Leslie MP and Chuka Umunna MP suggested that greater shareholder engagement can play a positive role in corporate governance, including executive pay.

Bonus link to risk-taking queried

Research questioned claims that UK financial sector bonuses and risk exposures are linked.

A detailed analysis of bonus arrangements of the top 40 UK-based financial services firms' CEOs by Nottingham University's business school instead suggested payouts were predominately influenced by a firm's profitability and the amount of targets on which the awards were based. In light of the recent financial crisis, bonuses were widely condemned by both political leaders and regulators.

However, what did emerge from the study was that “payouts were principally influenced by firms' profitability and the number of targets on which awards were based,” according to Professor Alistair Bruce, one of the authors. These findings, claimed Bruce, suggested real risk management, such as increasing banks' capital requirements in terms of capital ratios, is needed rather than modifying pay structure incentives. He also noted the difficulty in imposing effective discipline within the UK financial sector, pointing to the possible correlation between tougher regulation and an upward adjustment in base salaries. He added that recent trends in changes to bonus structure may have more to do with obfuscation than transparency.

Murdoch at the select committee

There was no killer blow dealt to James Murdoch in front of the select committee in November, but the bad news kept on coming.

Essentially Murdoch sought to turn the allegation that he misled Parliament, because he understood the implications of the Gordon Taylor settlement, back on his accusers. Former News International legal manager Tom Crone and former News of the World (NOTW) editor Colin Myler told the committee in September that Murdoch understood that the details of the case revealed that more than one journalist had been hacking phones. Murdoch in turn claimed that Crone and Myler's evidence was incorrect (which, inevitably, drew a further rebuke from Crone).

However, in claiming that he was never told and never asked about details such as what was in the “for Neville” email, or the legal opinion used to inform the response in the Taylor case, Murdoch exposed himself to charges of incompetence. On this point he was attacked by Conservative MPs on the committee Damian Collins and Philip Davies.

The only new revelations came from Labour MP Tom Watson. He revealed that he had spoken to former NOTW chief reporter Neville Thurlbeck, of “for Neville” email fame. According to Watson, Thurlbeck

said he had conversations with Tom Crone both before and after the crucial meeting with James Murdoch. Thurlbeck said that Crone told him that he had shown Murdoch the email. Circumstantial evidence, but it does tilt the balance further against the News Corp and BSkyB director. Watson also revealed that he had been contacted by police to inform him that his computer may have been hacked.

If Murdoch at least held the line on Thursday, by Friday the story moved on once more. First, two investor groups – the Association of British Insurers and the Local Authority Pension Fund Forum – raised concerns about Murdoch's chairmanship of BSkyB. The company in turn wrote out to shareholders setting out the reasons why the board backed him.

On Friday evening a Daily Mail story appeared alleging that police may question Murdoch following the discovery of new email evidence. On Saturday evening Andrew Neil, former editor of The Sunday Times, tweeted: "Source close to R Murdoch tells me emails discovered in India… potentially 'devastating' for James…" Make of that what you will.

Pay growth invites intervention

Financial service professionals' juxtaposition of morality and greed has left a void that can only be filled by external intervention, claims CCLA's Dr James Corah in a submission to St Paul's Institute.

While on the one hand financial service professionals believe bankers, stock brokers, FTSE 100 chief executives, lawyers and city bond traders earn too much, 2 out of 3 City workers say monetary incentives are their chief motivators. This, said Corah, exemplifies the need for "governments, shareholders, and bodies such as St Paul's Institute to constantly monitor the balance between motivation and reward." Corah pointed to the inherent flaws of a system where executive packages are determined by benchmark (even if the comparator group resides on the other side of the globe) rather than on individual successes. This has caused a "ratchet" of perpetually increasing median levels of executive pay.

Pay Commission issues challenge

The High Pay Commission's final report should be required reading for anyone with a serious interest in the oversight and reform of executive pay.

As we have argued frequently in the pages of PIRC Alerts over the past couple of years, the pressure for radical reform of executive pay is mounting and ideas that until recently would have been beyond the pale now seem relatively modest. The Commission's report demonstrates just how far the debate has moved and leaves threads hanging that others will surely tug at. The Commission's press release on the report listed six key recommendations –

- A radical simplification of executive pay
- Putting employees on remuneration committees
- Publishing the top ten executive pay packages outside the boardroom
- Forcing companies to publish a pay ratio between the highest paid executive and the company median
- Companies to reveal total pay figure earned by the executive
- Establishing a new national body to monitor high pay

To take the first two proposals alone, they both pull away from dominant ideas about executive remuneration in recent years – that carefully-designed incentive schemes are needed to motivate directors to do the job, and that pay is a matter only for boards and shareholders. In stark contrast, the Commission believes that remuneration policy design has created complexity that serves no purpose, and that other stakeholders need to be involved in remuneration policy if pay is to be kept under control.

The idea of radical simplification should have gone down well with shareholders, who often complain about the impenetrable nature of remuneration reports. Employee reps on remuneration committees will be far less popular, as evidenced by a quick review of submissions to the Coalition's first stab at short-termism. But this is an area where public policy may move ahead of the centre of gravity in the institutional investor community because of the frustration at the failure of many shareholders to oppose

more than a fraction of pay policies in a given season.

In fact, digging a little deeper in the Commission's report there is a thread of argument that questions the extent to which shareholder oversight of remuneration is likely to be effective. Again, the significance of this point seemed lost on some in the investment community. If we don't make shareholder oversight work in respect of pay, it will inevitably lead to questions about other aspects of governance

Finally, the Commission's recommendation that a standing body to analyse top pay should be set up was a clear sign that this issue is not going away any time soon.

TUC: investors back bankers' pay

Institutional investors gave overwhelming support to UK bank remuneration policies in 2010, according to the TUC's annual fund manager voting survey.

Results from the ninth annual survey, which included the remuneration reports from all five major UK-listed banks, revealed that remuneration was the most frequent topic of engagement and the issue over which most respondents opposed company management.

However, bank remuneration reports received the highest level of support of those featured in the survey. An analysis of the fund manager voting also revealed that there was a significant divide in voting stances with four respondents supporting over 70% of resolutions and five respondents supporting less than a third, analogous to previous years.

The survey showed an increase in voting record disclosure, with 13 respondents now fully disclosing, compared to only nine last year. Although several fund managers continue to limit voting disclosure to votes against and abstentions or headline statistics, the TUC views this improvement in voting disclosure as good news for pension trustees and pension scheme members. While some attributed the uptake in disclosure to the Stewardship Code, the TUC report, however, claimed that the Code has done little to influence institutional investor voting stances on pay.

Investors push for board diversity

A group of seven major institutional investors spearheaded by the 30% Club had joined together to push the diversity envelope at FTSE 100 companies.

Together the group was working towards increasing awareness of the investment case for more diversified boards, encouraging all investment firms to engage on the issue of board diversity with chairmen and management teams and to consider the issue when voting on the appointment and re-election of board members. Jupiter's head of sustainable investment and governance, Emma Howard Boyd, was leading the initiative that included big names like Aviva Investors and Railpen.

The launch of the initiative came in the wake of November figures that showed female board membership among the FTSE 100 remained relatively low at 14.6%. 12 FTSE 100 boards continue to have no female representation, although it was a significant improvement compared to 21 in 2010.

Shifting terms of the pay debate

It's rare that PIRC finds itself shocked at something in corporate governance policy, so we doffed our collective caps to the Institute of Directors this week.

The IoD published its response to the BIS discussion document on executive pay. The line that had us picking our jaws up off the floor was the recommendation that there should be "engagement of remuneration committees, on a voluntary basis, with employee representatives as part of the remuneration setting process."

This didn't go as far as we would, but it was certainly a further demonstration that the parameters of the debate over executive remuneration are shifting dramatically. Even a year ago the idea that employees should have any say in remuneration policy would have been seen as cranky. Now it is in a government consultation document and a weak version of the idea was supported by one of the leading business lobby groups.

Similarly the IoD backed the idea of making votes on remuneration policy binding, rather than advisory. Notably, this took the IoD beyond the position of the investor representative bodies such as the ABI and NAPF. In fact binding votes on remuneration reports seemed to be some people's Big New Idea. After years of being told this is impractical or could be legally difficult to administer due to contractual terms, now it is being seriously proposed as part of the solution. Once more we see that what was considered 'radical' only a couple of years ago is now being seriously entertained.

Again, PIRC supports the idea of binding votes, but they won't make a significant difference unless shareholders (and that means mainly asset managers) show that they are willing to exercise challenge more often. And that in turn may require that they can be held accountable, which makes the reluctance to push for mandatory voting disclosure a bit odd.

The question we posed is whether the investment community is keeping pace with the changing nature of the debate. If the IoD is willing to float radical ideas, why do the investor representative bodies simply repeat historical policy positions ad nauseam? What is the seemingly dormant Institutional Investor Committee for if not to provide leadership on questions just such as this?

Ex-IMA chair blasts bank lobbying

Lobbying by banks is dishonest and potentially damaging to the economy, according to Robert Jenkins, former Investment Management Association chair and member of the interim Financial Policy Committee.

In a speech, Jenkins sough to provide insight into the myopic vision of banks and their uses of lobbyists to singlehandedly undermine "pundits, public and politicians." With the employment of fear mongering and obfuscation tactics, bank lobbyists have been trying to convince the public that increased regulation is the thread that will unravel the financial industry. This, said Jenkins, is "intellectually dishonest and potentially damaging."

Regulatory measures like Basel could be abandoned without changing the banking landscape- though doing so would erode any remaining confidence in the banking system, added Jenkins. What banks can do to strengthen their balance sheets and leave the economy unscathed is cut bonuses, curtail intra-financial risk-taking and raise term debt and equity – something most bank executives are reluctant to do.

UK board diversity improving

There was a marked improvement in board diversity at top UK companies, according to Spencer Stuart.

The proportion of boardrooms opening their doors to foreign directors rose by 33%, finding that nearly half of FTSE 100 CEOs (40%) and 27% of chairman are now non-UK nationals. However, gender diversity progress remained incremental. The report found that the number of female board appointments increased by a mere 0.8% compared to last year. Though it found that female non-executives comprised 17.5% compared to 14.4% last year, this number still falls far short of Lord Davies' recommendation. This, said Spencer Stuart, can be attributed to a thin pipeline of female senior executives that has resulted in an inadequate supply of female non-executives to meet the 2015 requirements.

Other emerging trends suggested an increase in risk committees (19) within the financial sector and a near doubling (46%) of boards using outside facilitators for their annual elections. It also found that more CEOs were sitting on external boards while the number of CFOs doing so had declined to 27% from 41% last year. This year's highlights also included essays on corporate governance in the UK, chairman succession planning and female director trends in Europe.

LAPFF links accounting to crisis

Flawed accounting standards were a significant factor in the financial crisis, according to the Local Authority Pension Fund Forum (LAPFF).

LAPFF said International Finance Reporting Standards (IFRS) caused UK and Irish banks to overstate their solvency and directly contributed to banking losses of more than £150 billion. LAPFF

published a study into the failures of UK and Irish banks during the financial crisis. It found that IFRS had a negative impact on financial governance and regulatory oversight. It also led to a 'misdiagnosis' of the initial phase of the banking crisis, attributing the problem to one of liquidity rather than solvency.

The report entitled, UK and Irish banks capital losses – post-mortem, argued that, in practice, IFRS has run contrary to the 'true and fair' view in accounting, and has painted a false picture of the solvency of financial institutions. The Forum's analysis suggested that UK and Ireland were at risk because they adopted IFRS more comprehensively than other parts of the EU.

Pension funds and stewardship

An optimistic headline stat from the National Association of Pension Funds (NAPF) suggested that schemes are starting to back stewardship, but was it a true picture?

The NAPF's annual Engagement Survey found that of the 40 funds that responded, 55%, or 22, had signed up to the Stewardship Code, while 20% committed to doing so in the future. A quick read of the asset owner statements on the FRC's Stewardship Code revealed that so far 27 pension funds had produced a public statement. So it looked like the NAPF's survey respondents overlaped considerably with existing Code signatories. That likely meant first that they are predominantly bigger schemes, and second that the numbers were probably boosted by local authority pension funds, who account for the majority of scheme signatories to date.

Unfortunately, there is still a long way to go.

FSA report signals important shift

Hostile bank takeovers should be banned or require regulatory approval, according to the Financial Services Authority's long-awaited report in the failure of RBS.

The recommendation, along with suggestions that the liability of directors of banks for bad decisions should be changed, seemed to point to a further shift away from a significant reliance on market oversight to ensure financial institutions are not wrecked by their own management. The report also acknowledged that there was a failure in the capital adequacy regime, adding significant weight to growing criticism of International Financial Reporting Standards (IFRS) and the contributory role they played in the crisis.

The idea of a requirement for regulatory approval for hostile takeovers was particularly interesting as it was a clear indication that the FSA believed that potentially self-destructive systemically risky deals would not be stopped by the owners of banks. A blanket ban on hostile bank takeovers would be a significant change to the market for corporate control in the financial sector. Meanwhile, the proposal to make directors "strictly liable" for bad decisions (intended to make it easier for the regulator to bring enforcement actions against them) would surely change the nature of the accountability of management.

These were not insignificant issues, and should be seen in the context of an argument (mistaken in our view) frequently made that the threat of regulatory intervention comes principally from Europe. There was a great deal of huffing and puffing in the UK investment community about the EC Green Paper on financial institutions but it's worth noting that it did not recommend any changes to the market for corporate control. Nor did it suggest that regulators might get a say – ahead of shareholders – on whether a given takeover should proceed.

Importantly, the FSA report also tacitly agreed that the picture of the capital position of RBS provided by IFRS was misleading and that some market participants were correct to not accept it. Under IFRS poor loan quality is disguised, and this inflated the strength of RBS. The FSA said: "Trading losses are recognised immediately under fair value accounting. As a result, major losses on credit securities are recognised even if the securities are not yet in actual default. Loan impairments, in contrast, are only taken on evidence of borrower delinquency or default."

However, some investors took a more sceptical view of the quality of much of the RBS loan book and, the FSA admitted, they were subsequently proved right. In contrast to the picture that had been provided under IFRS, the FSA noted that during the financial crisis, the market simply did not believe, on a forward-looking basis, that RBS had enough capital to cover the potential losses.

The FSA said: "The anticipation that large loan loss provisions might arise, and extreme uncertainty about the potential scale of those losses was, however, highly relevant to the collapse in confidence in RBS in autumn 2008. …RBS was particularly affected because of market concerns that its loan portfolio might be of relatively poor quality. This perception of relatively poor loan quality… was confirmed post facto by the scale of RBS's provisions in 2009 and 2010."

The language in the report corresponded very closely with recent criticism of IFRS, most notably in the 'post-mortem' of UK and Irish banks published by the Local Authority Pension Fund Forum. We expected to see reform of accounting standards attract increasing shareholder interest next year.

Finally, the report would also have been uncomfortable reading for Shadow Chancellor Ed Balls as it was critical of the "light touch" regulatory regime adopted by the previous Labour government. Whilst Labour underwent a Damascene conversion to tougher standards once the financial crisis hit, it remains the case that the banking failures took place on its watch, and under a regulatory regime that it defended immediately prior to the crisis. The FSA was clearly not unaware of the political dynamics of the financial crisis and has helpfully handed a stick with which to beat the opposition.

Senior bank execs to reveal pay

Banks will be required to disclose reward structures for the eight most senior below-board executives, under proposals issued by the Treasury.

The disclosure of the eight highest-paid non-board executives' remuneration will affect banks with funds in excess of £50 billion operating in the UK. The disclosures were intended to assist shareholders in holding boards to account; improve the quality of board oversight of remuneration policy and its links to risk management; and enhance public scrutiny of board oversight of risks to financial stability from remuneration decisions. The Government has said that these additional disclosures will be provided on an unnamed basis to avoid any impact on competitiveness and privacy. However, banks will have to provide details about top-level employee pay, split up into fixed, variable, deferred variable, long-term incentive scheme vesting, pension accruals, joining benefits and severance benefits. Feedback is due by February 2012 when the consultation ends.

However, the proposals still fell short of the Walker Review recommendations that remuneration for those earning of more than £1m should be disclosed. This would have captured more individuals and thus provided more data for shareholders.

Annual elections now the norm

Three quarters of FTSE350 companies now require their entire board to face election every year, according to PIRC analysis.

Having crunched the numbers for the year so far, of the 320 companies in the FTSE350 where we have data, at least 237 (74%) have introduced annual elections. Amongst the FTSE100 alone at least 82 have introduced annual elections. We believed that compliance would increase even further in 2012.

The reform was not without controversy, and the Financial Reporting Council took something of a risk in introducing it in the Corporate Governance Code last year. Some investors have said that the boardroom coup at Eurasian Natural Resources early this year was only possible due to annual elections, although two of the directors deposed would have faced election this year in any case. In addition, cases like BSkyB indicate the value in shareholders being able to vote on the re-election of a director in the same year that a major issue of concern arises.

FTSE backs free float increase

FTSE Group announced its intentions to increase the minimum free float requirements for the FTSE UK Index Series to 25% starting 1 January 2012.

The policy committee confirmed the decision after respondents to the market consultation showed a clear preference for the move. The consultation was undertaken after concerns amongst some index users

about the quality of the governance of some constituents with limited free floats. The new FTSE requirements relate to the UK Listing Authority (UKLA) rules on premium listings. The UKLA allows exceptions for premium listing for companies with less than a 25% free float provided that they appear sound in terms of liquidity. However, FTSE has said that it will not allow for such exceptions thus forcing firms like Eurasian Natural Resources Corporation, Essar Energy and Fresnillo to increase their free float within 24 months if they wish to remain in the All-Share.

PIRC welcomes FTSE's move but we believe that the bigger problem is the UKLA rules. An increasing chunk of the FTSE100 now have controlling shareholders, which is likely to increase the governance risk of investing in the UK's most high-profile index. Invoking "Caveat emptor" is not a strong enough argument to defend this erosion of governance standards.

UK Voting Analysis

Table 1: Top Oppose Votes

	Company	Type	Date	Resolution	Proposal	Funds Vote	Oppose %
1	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	9	Re-election of James Murdoch	Oppose	17.42
2	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	16	Approve the Remuneration Report	Oppose	14.58
3	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	13	Re-election of Arthur Siskind	Oppose	10.06
4	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	4	Re-election of David F. DeVoe	Oppose	8.07
5	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	8	Re-election of Thomas Mockridge	Oppose	5.59
6	ASSOCIATED BRITISH FOODS PLC	AGM	09 Dec 11	12	Issue shares with pre-emption rights	For	4.93
7	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	20	Meeting notification related proposal	For	4.03
8	ASSOCIATED BRITISH FOODS PLC	AGM	09 Dec 11	2	Approve the Remuneration Report	Oppose	3.24
9	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	6	Re-election of Nicholas Ferguson	For	2.70
10	BRITISH SKY BROADCASTING GRP	AGM	29 Nov 11	10	Re-election of Jacques Nasser	Abstain	2.50

Note: Levels of opposition percentage represent opposition votes cast as a percentage of all votes cast either in favour or against a resolution.

Table 2: Votes by Resolution

Resolution Type	For	%	Abstain	%	Oppose	%	Withdrawn	%	Total
All Employee Schemes	0	0	0	0	0	0	0	0	0
Annual Reports	2	50	0	0	2	50	0	0	4
Articles of Association	0	0	0	0	0	0	0	0	0
Auditors	0	0	2	100	0	0	0	0	2
Corporate Actions	0	0	0	0	0	0	0	0	0
Corporate Donations	1	100	0	0	0	0	0	0	1
Debt & Loans	0	0	0	0	0	0	0	0	0
Directors	13	68	2	10	4	21	0	0	19
Dividend	2	100	0	0	0	0	0	0	2
Executive Pay Schemes	0	0	0	0	0	0	0	0	0
Miscellaneous	2	100	0	0	0	0	0	0	2
NED Fees	0	0	0	0	0	0	0	0	0
Non Voting	0	0	0	0	0	0	0	0	0
Say On Pay	0	0	0	0	0	0	0	0	0
Share Capital Restructuring	0	0	0	0	0	0	0	0	0
Share Issue/Re-purchase	6	100	0	0	0	0	0	0	6
Shareholder Resolution	0	0	0	0	0	0	0	0	0
Undefined	0	0	0	0	0	0	0	0	0

UK Voting Charts

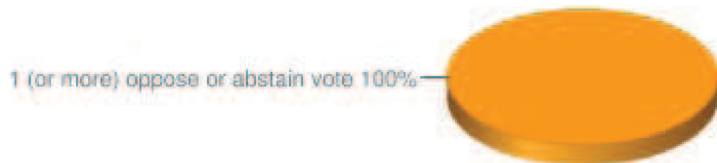
These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	26
Oppose	6
Abstain	4
Withdrawn	0
Total	36

Meetings	AGM	EGM	Total
Total Meetings	2	0	2
1 (or more) oppose or abstain vote	2	0	2

UK Voting Record

UK AGM Record



UK EGM Record

There where no EGMs during the last period in the clients portfolio.

UK Voting Timetable Q4 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 3: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	BRITISH SKY BROADCASTING GRP	29 Nov 11	AGM	2011-11-14
2	ASSOCIATED BRITISH FOODS PLC	09 Dec 11	AGM	2011-11-29

UK Upcoming Meetings Q1 2012

List of meetings scheduled to be held throughout the period by UK companies currently in the fund's portfolio.

Table 4: Upcoming Meetings

	Company	Meeting Date	Type
1	WH SMITH PLC	25 Jan 12	AGM
2	ITE GROUP PLC	26 Jan 12	AGM
3	IMPERIAL TOBACCO GROUP PLC	01 Feb 12	AGM
4	COMPASS GROUP PLC	02 Feb 12	AGM
5	GRAINGER PLC	08 Feb 12	AGM
6	PARAGON GROUP OF COS PLC	09 Feb 12	AGM
7	DOMINO PRINTING SCIENCES PLC	15 Mar 12	AGM
8	BEAZLEY PLC	23 Mar 12	AGM

AIM UK Market Voting Timetable Q4 2011

There were no meetings held by the client during the period.

AIM UK Market Upcoming Meetings Q1 2012

There are no upcoming meetings for this region.

Fledgling UK Market Voting Timetable Q4 2011

There were no meetings held by the client during the period.

Fledgling UK Market Upcoming Meetings Q1 2012

There are no upcoming meetings for this region.

European Corporate Governance Review

Tobin Tax to become reality?

The Tobin Tax edged closer to reality as the European Commission (EC) presented a proposal for the financial transaction tax to Member States.

The decision to go forward with the so-called “Robin Hood” tax was based on the need to ensure a fair contribution from the financial sector and an EU level framework to strengthen the EU single market. The new law would place a tax on all transactions on financial instruments between financial institutions when at least one party to the transaction is located in the EU, noted the EC in a press release. Derivative contracts would be charged 0.01% and shares and bonds at 0.1%, raising approximately € 57 billion. It will come into effect 1st January 2014 should it pass.

The tax has received no support from the City and banks have already warned of a possible exile. In a letter to the Financial Times, former chairman of the Financial Services Authority Howard Davies warned of “further damage to transatlantic relations” since US Treasury Secretary Tim Geithner has said the US will reject the tax. However, with Bill Gates throwing his weight behind the measure US opposition could soon change.

Eurosif pension fund survey

The first European-wide survey of corporate pension funds found that 56% now have a responsible investment policy, revealed the pan-European network think-tank European Sustainable Investment Forum (Eurosif).

Of the 169 pension fund respondents, 60% believe environmental, social and governance factors affect the fund’s long-term performance. 66% of pension funds from the Corporate Pension Funds and Sustainable Investment survey said a sustainable and responsible investment (SRI) policy is a fiduciary duty. In this context, according to Eurosif, a number of pension funds, in their own estimation, are not meeting their fiduciary duty.

Participants ranked governance as the most important ESG factor followed by social and environmental. No clear trends emerged as to why funds failed to have an SRI policy. SRI policies were most commonly applied to equity and bonds with real estate/property in third place.

Turning to SRI implementation methods, the report showed most pension funds used a combination of voting, negative screening and integration. Although methods vary by country, the use of negative screening proved the most common method. The majority of pension funds delegate SRI policies to fund managers (62%) and in-house management (49%). Although some European legislature requires pension funds to disclose their SRI policy and activities, most are not externally revealed.

Lawson backs EC on audit reform

Former Chancellor of the Exchequer and leading Eurosceptic Lord Lawson commended European commissioner Michel Barnier’s position on auditing in the leaked audit reform paper.

In very similar language to Lawson, Barnier proposed a number of initiatives to reform the audit industry across the European Union from top to bottom such as mandatory audit rotation. However, it was his more radical suggestion calling for audit firms to halt non-audit services- something mostly banned in the US under the Sarbanes-Oxley financial reform but not yet widespread in the EU -that gained most attention and a warm welcome from Lawson.

Should his proposal pass, audit firms would be forced to redesign their business models.

Another shared concern the commissioner’s document revealed was why auditors gave a clean bill of health to the banks just before governments bailed them, reported Accountancy Age.

European Commission rejigs CSR

The European Commission (EC) has redefined its definition of corporate social responsibility (CSR) to include a greater emphasis on "shared value."

This was the first time the Commission had updated its definition of CSR in ten years, making it more in line with internationally recognised frameworks like the Organisation for Economic Co-operation and Development and the ISO 26000 Guidance Standard on Social Responsibility.

The aim of the Commission was to strengthen European Union global leadership on CSR by encouraging companies in the EU to consider externalities like broader society and climate change matters into their core business strategies as well as their annual reports. The Commission deemed disclosure of such non-financial information vital to company longevity and reduced risk for shareholders along with other stakeholders. Of the eight CSR areas covered, one proposal the Commission was considering was a requirement on all investment funds and financial institutions to inform all their clients about any ethical or responsible investment criteria. The EC believes this approach could foster renewed public trust in enterprises. These modifications are part of Europe's 2020 strategy for smart, sustainable development and growth.

Currently, only 15 of 27 EU Member States have national policies that promote CSR. The Commission will continue to work with Member States, enterprises and other stakeholders to monitor progress ahead of a review meeting scheduled for mid 2014.

RI lacks definition says Novethic

Though European asset owners have begun to incorporate environmental, social and governance (ESG) risks into their asset management criteria, few agreed on the definition of responsible investment.

According to Novethic's second annual review of over 250 European asset owners, European investors, in general, tend to view responsible investment as a "triptych" that includes issuer selection based on ESG criteria, a focus on their sustainable development practices and ethical exclusions. The study found that ethical exclusions varied significantly across Europe with over 75% of German, Dutch, Danish and Swedish investors making reference to this practice while less than 40% of French or UK respondents did.

43% of respondents ranked the exclusion of companies or sectors because of the ESG risks they represent second, particularly in Nordic countries like Denmark (73%) and Finland (75%) but less so in France (28%). Evidence in the study also found that between 2010 and 2011, contributions to sustainable development and long-term risk management were two of the major motivators to incorporate ESG criteria – a clear sign that investors recognise the importance of ESG analysis to financial analysis, said Novethic. In fact, over half of respondents agreed that all issuers should be subject to ESG analysis to gain a better understanding of risks and opportunities, added Novethic. According to the survey, few investors were influenced by major issues like BP's Gulf of Mexico disaster or the explosion of the nuclear power plant in Fukushima.

German regulator criticises IFRS

The International Financial Reporting Standards (IFRS) is too "complex" and largely "subjective" said Deutsche Prüfstelle Für Renchnungslegung (DPR), the German financial reporting enforcement panel.

In a letter to the International Accounting Standards Board, the German accounting regulator claimed the complexities of the IFRS led to a number of incorrect financial statements with error rates as high as 26%, reported Bloomberg. The standard, which is mandatory in the European Union, uses a "values" based strategy rather than hard numbers, noted DPR.

Sweden gets tough on bonuses

A second round of interventions by the Swedish Financial Supervisory Authority, Finansinspektionen (FI), found that the number of financial companies demonstrating deficiencies in their bonus structures had increased.

Both Nordea Bank AB and Nordea Investment Management AB were cited by the FI for not deferring parts of their variable remuneration to risk-takers as required under regulation. Consequently, each was issued a remark and must pay administrative fines of SEK 3 million. The FI began investigating the bonus structures of financial institutions earlier this year following an assignment from the Swedish government to report on the implementation of European Union recommendations among the financial services sector. The survey found that of the 41 companies reviewed, less than half had sufficiently adapted to the remuneration regulations.

France bursts soap bubble

Four major international consumer brands were exposed for price fixing laundry soap in France for nearly a decade, French watchdog Autorité de la Concurrence revealed.

The cartel, which included leading household brands Proctor & Gamble, Henkel, Colgate-Palmolive and Unilever, were found to have set the prices to “stifle competition,” despite already controlling over 90% market share.

The members, using code names, met in secret talks around Paris where they would determine prices and promotion policies, reported the Autorité de la Concurrence. According to the Financial Times, the investigation began after an employee at Unilever disclosed an anti-competitive agreement to the company’s legal department, thus prompting Unilever to submit a leniency application. The move gave Unilever immunity from the €361.3 million fine.

European Voting Timetable Q4 2011

There were no meetings held by the client during the period.

European Upcoming Meetings Q1 2012

List of meetings scheduled to be held throughout the period by European companies currently in the fund's portfolio.

Table 5: Upcoming Meetings

	Company	Meeting Date	Type
1	NOVARTIS AG	23 Feb 12	AGM
2	ROCHE HOLDING AG	06 Mar 12	AGM

US Corporate Governance Review

Performance and 'Say on Pay'

A disconnect between pay and performance was the leading reason why investors voted against executive compensation, according to a study by the Council of Institutional Investors (CII).
Commissioned by CII, Farient Advisors analysed what motivated investors to vote against say-on-pay (SOP) at companies where the proposal failed to earn majority support at 2011 annual meetings in light of the inaugural year for the Dodd-Frank Wall Street Reform and Consumer Protection Act.
Poor pay practices (57%) ranked second followed by poor disclosure (35%) and inappropriately high level of compensation for the company's size, industry and performance (16%) among the 37 companies where SOP failed. Farient suggested investors should not use total absolute shareholder return as the only criteria to determine which company pay plans merit the most scrutiny and that assessing performance-adjusted pay, particularly performance-adjusted value of equity, is more appropriate than the grant date value of equity incentives.
Companies that failed to win majority support for SOP were advised to engage with key investors about executive remuneration, how it aligns to company performance and the "magnitude" of remuneration amendments in response to performance.

AFSCME backs auditor rotation

The American Federation of State, County and Municipal Employees (AFSCME) backed mandatory auditor rotation in a letter in to the Public Company Accounting Oversight Board (PCAOB).
In the letter responding to the PCAOB's Concept Release on Standards Related to Reports on Audited Financial Statements AFSCME president Gerald W. McEntee stressed that some of the Board's objectives could not be fully realized in the absence of mandatory auditor rotation due to long auditor-client relationships that are likely to impair auditor independence.
AFSCME also suggested four areas to improve the auditing report's usefulness to investors: estimates and judgements; financial statement and audit risk; unusual transactions, restatements and other significant changes; quality of accounting policies and practices.
Occupy Wall Street goes global
What began as a loosely organised grassroots movement in New York's financial district, Occupy Wall Street had grown and spread to other American cities, and similar protests were planned overseas.
The leaderless resistance movement said they represent the 99% who will no longer tolerate the social and economic inequality, corporate greed and the influence of corporate money and lobbyists on government of the 1%. While the number of major labour unions and congressional progressives throwing their weight behind the nascent movement steadily increased, some sympathy also came from the most unlikely of places.
In a C-Span interview, chairman of the Federal Reserve Ben Bernanke said, "They blame, with some justification, the problems in the financial sector for getting us into this mess, and they're dissatisfied with the policy response here in Washington. And at some level, I can't blame them."
Similar protests were planned worldwide.

Staff owned chain wins CSR prize

Florida-based supermarket Publix Super Markets won the top spot in the 2011 corporate reputation and social responsibility rankings.

The employee-owned chain beat out heavy weight contenders like Google and Amazon. The consumer survey was conducted by the Boston College's Center for Corporate Citizenship in conjunction with the Reputation Institute. Data was collected from US consumers and analysed to capture public perception of companies in three key areas: citizenship, governance and workplace. Of the 285 companies analysed, 50 made the 2011 CSR Index. The results suggested an overall drop in ratings of companies' social responsibility while, at the same time, consumer demand had increased.

Wall Street want their bonuses

A perpetual shaky global economy and predictions that more financial doom was still to come had done very little to squash Wall Street's outlook on bonuses.
More than 60% of Wall Street employees expected their bonus to rise or remain the same as last year revealed a survey by eFinancialCareers. While still a majority, the number had dropped compared to 2010 when 71% of survey participants thought their bonus would stay the same or increase from 2009 levels.
The survey attributed the decline in bonus expectations, in part, to employees at large banks (38%) who believed that their bonuses would decrease. Over half of respondents (52%) attribute recent layoffs and reduced bonuses to the Dodd-Frank Act.

US pay consultants league table

Legislative changes under Dodd-Frank transformed pay policies by allowing shareholders to vote on pay packages. This had kept remuneration in the spotlight.
In this context, Equilar, a provider of executive compensation data, published its 2011 Consultant League Table Report on executive compensation consulting engagements and, for the first time, success in say-on-pay votes. Key findings from the report showed Frederic W. Cook and Co. held the top position for engagement among the Russell 3000 Index (14.2%), the Fortune 1000 (20.9%) and the S&P 1500 (16.2%).The consulting firm with the highest percentage of new engagements went to Pearl Meyer & Partners (15.3%) followed by Towers Watson (12.7%). Total Rewards Strategies received the highest average percentage of votes in favour of clients' pay packages (95.7%) while Radford held the highest median percentage of those votes (97.2%).

Newsweek's greenest companies

Overwhelmed by the complexities in doing right by the environment while trying to remain economically robust, few companies have integrated sustainable solutions into their business model.
Nowhere is this more prevalent than the US. While burdened with an ominous economic forecast and a paternalistic government reluctant to take any meaningful steps towards 'green' legislature, the majority of corporate America has found taking the road most travelled the surest bet.
Results from Newsweek's 2011 survey of the 500 Greenest US and global companies supported this accusation whereby just one US Company, IBM, won a place in the global top ten. Notwithstanding tighter government regulations, European companies stood in stark contrast by earning four places in the top ten alone.
Environmental-research firms Trucost and Sustainalytics collaborated with Newsweek to assess companies' environmental footprint; management; and disclosure. German reinsurance company Munich Re claimed the top spot among the global companies with IBM coming in first in the US company comparison.

CEO pay targeted

In demonstration of its dissatisfaction with compensation practices, The California State Teachers' Retirement System (CalSTRS), the second largest pension fund in the US, sent 122 individual letters to

CEOs.

The $146 billion pension fund had, at this point, issued twenty two personalised letters to CEOs from a variety of industries, including retailer Abercrombie Fitch and oil and gas driller Nabors Industries. In the letter, CalSTRS provided an explanation for why it voted against the company's pay plan during the 2011 proxy season. The aim of the letter initiative was to open a platform for discussion between the pension fund and the companies in which it invests ahead of the 2012 proxy season. At this point, none of the recipients have responded.

Although most pay packages were rejected for similar reasons, CalSTRS preferred to contact each company individually to address specific concerns rather than issuing "form letters," added Anne Sheehan, CalSTRS director of corporate governance.

CalSTRS warned that if its concerns were ignored and companies refused to modify their pay practices, there is a strong possibility it will vote down company remuneration packages again. With holdings in 3,500 to 3,600 companies headquartered in the US, CalSTRS is a force to be reckoned with.

Starbucks galvanizes US lending

Starbucks chairman and CEO Howard Schultz joined forces with Opportunity Finance Network (OFN) to launch a project aimed at helping small businesses, social enterprises and individuals in the US who struggle to get finance.

Create Jobs for USA, akin to a microlending programme, pools donations from Starbucks customers, employees, and concerned citizens into a "nationwide fund for community business lending." To deliver the programme, the Starbucks Foundation sought out non-profit Community Development Financial Institutions (CDFIs), specialised in underserved communities. Donations could be made online or at Starbucks since 1 November. Donors who contribute $5 or more will receive a red, white and blue wristband with the message "Indivisible."

Starbucks, assuming the role of "middleman," agreed to pay for all costs involved, including the wristbands, as well as an upfront $5 million donation. Every $5 donation will result in $35 in financing to support community business.

Ceres water risk management tool

Investors now have a tool by which they can cut through corporate 'greenwash' to see how companies are truly responding to water risk management.

Ceres Aqua Gage, the first ever water risk tool, introduced a new framework and methodology that enables investors to assess how companies are managing their water risks. Ceres, the US-based coalition of investors, environmental groups and other public interest organisations, created the roadmap to enhance water stewardship in collaboration with the World Business Council for Sustainable Development and the Investor Responsibility Research Institute as well as 50 investors, companies and public interest groups.

The tool was launched in conjunction with Ceres' new report entitled The Ceres Aqua Gauge: A Framework for 21st Century Water Risk Management." The report found that even accelerated water efficiency and improved water resource management efforts at companies have done little to thwart intensifying water pressures. "Water risks are urgent today and, given population and climate trends, can only grow increasingly more so," said Ceres president Mindy Lubber.

A step-by-step framework to help companies develop robust water strategies is included in the report. As well, the report has identified the following four areas of activity as key: measurement, governance and management, stakeholder engagement and transparency and disclosure.

CBO highlights US wealth divide

After-tax household income in the US was more equal in 1979 than 2007, according to a study on wealth distribution by the Congressional Budget Office (CBO).

After-tax income comprises income after federal taxes and government transfers to Social Security and Unemployment Insurance have been deducted. While real average household income grew in the US by 62% in the years under review, only the top 1% has benefited, claimed CBO. The top earners (1%) saw their after-tax income grow by 275% while the bottom 20% of the US population's (the lowest earners) after-tax income increased by just 18% since 1979. The after-tax income grew for the second highest earning 20% by 65%. For America's middle class, who comprise 60% of the population, real average growth was just under 40%. CBO found that an increase in concentration of market income (before government taxes and transfers) favouring higher income households, due to a greater share of market income in 2007 (50%) than 1979 (60%), was a major contributing factor to the uneven distribution of after-tax income. The market share for all other quintile declined.

CBO said the two main factors behind the shift in wealth distribution were an increase in concentration of each source of market income (labour, business, capital gains, capital income, and other income) and a change in the composition of that income (the share of income from business and capital gains increased while share of income from labour and capital decreased).

The boardroom of the future

In a briefing on boardrooms of the future, Professor Richard W. Leblanc gave a glimpse into how he believes board changes will reshape corporate governance, reported CorpGov.net.

He predicted that the "unprecedented intrusion" into companies' governance practices will increase the democratisation of governance by which shareholders will nominate and elect directors (based on their accomplishments and track records) via electronic voting directly on company websites. Women will comprise nearly half of boards with the number of CEOs declining in approximately five to seven years. Directors will be independent experts and board tenure will not extend beyond nine years. An Office of the Board, comprised of independent staff, will be established at the request of the directors. Shareholder-directors will determine executive compensation, which will be fully risk-adjusted and linked to performance.

CPA exposes political spending

Investors seeking to evaluate an S&P listed company's political spending policies and practices now have a tool at their disposal.

The Center for Political Accountability in collaboration with Zicklin Center for Business Ethics Research has designed the CPA – Zicklin Index to rank companies in the S&P 100 based on their disclosure and accountability for political spending. Corporate political spending has been a major concern for US shareholders and other stakeholders since the Supreme Court's decision to allow companies to donate unbridled sums to political candidates. Data taken from the Index has shown three-fifths of the largest publicly traded US companies disclose their corporate political spending, have adopted board oversight or have outright prohibited corporate political spending. While this depicted significant progress, political spending at some big name corporations like Nike and Walt Disney remains opaque.

Separately, a constitutional amendment was introduced by a number of US Democratic Senators that would hand over control of corporate political spending to Congress. Should it pass, three-quarters of the states would have to comply within seven years. Corporate political spending is set to top the US shareholder agenda for the forthcoming proxy season.

Action on political expenditure

Increased transparency has done very little to curb US corporate political expenditure found a landmark study commissioned by the Investor Responsibility Research Center (IRRC).

Sustainable Investments Institute, which commissioned Corporate Governance of Political Expenditures: 2011 Benchmark Report on S&P 500 Companies , claimed that evidence of clear inconsistencies between companies' stated political expenditure policies and what is actually spent emerged from the study. It found that while 57 of S&P 500 companies stated that they will not make political contributions, research into federal and state records revealed just 23 of these did not contribute to political parties, proving otherwise. Further research showed that the largest 40% of companies spend approximately $915 million of $1.1 billion while the average S&P 500 company spends $144 for political purposes per million dollars of revenue. Of the industries reviewed, utilities and health care companies spent the most.

Trends from the report also found a 10% increase in corporate oversight of indirect spending policies since last year. While half the largest 100 companies have incorporated these policies, only 14% of S&P 500 companies offered a numerical report on the percentage of trade association dues spent for political purposes. The research noted a 7% increase among the S&P now identifying who at the company is responsible for making political expenditure decisions.

Model proxy access proposal

The United States Proxy Exchange issued a model shareowner proposal for proxy access.

The non-profit shareholder organisation created the model proposal to assist shareowners with their votes under Securities and Exchange Commission Rule 14a-8 "to ensure that long-term shareowners have a reasonable, but not necessarily easy, means for including board nominations in the proxy materials those corporations distribute – so called proxy access." Alternative ways for both large and small shareowners to qualify were included.

WPP funds Republican senator

WPP was linked to hefty political donations for one of the most austere Republican senators, Jeff Sessions.

The Independent reported that Washington-based research group The Center for Responsive Politics listed WPP as the sixth-largest donor for Sessions' 2005-2010 electoral cycle. Total donations for Sessions affiliated with WPP amounted to $35,900, of which $34, 400 came from individuals linked to WPP and another $1,500 from political action committees (PACs). It also revealed that WPP spends a total $840,000 in US lobbying.

Sessions has long been considered radical even among US conservatives for his strong backing for the Tea Party movement. However, he has also received financial backing from other major US corporations like Boeing and telecommunications giant AT&T. In the wake of the landmark case Citizens United, which allowed US-listed corporations to inject limitless contributions to a political party, corporate political donations are set to be one of the biggest governance topics in the upcoming US AGMs.

US exec pay continues to rise

While the majority of Americans faced hardship, a study revealed that US CEO remuneration at large companies rose by 36.5% last year.

A breakdown of the results showed that total realised remuneration for all CEOs included in the survey grew by 27% and increased by 13% in total annual remuneration. Improved company performance played no part in the increase in awards found the GovernanceMetrics International's (GMI) 2011 Pay Review. Instead, growth in CEO pay was chiefly attributed to a substantial increase in the number and value of cash bonuses. The cost of perks, which were supposed to be in decline, had also increased, noted GMI.

The four largest remuneration pay-outs went to exiting executives, two of whom worked in the health care industry. The highest paid CEO, also from the health care industry was John H. Hammergen of McKesson Corporations whose total realised remuneration in 2010 was a staggering $145, 266, 971 (£93,644,968).

Results were drawn from an analysis of over 2,000 proxy statements from the Russell 3000 and S&P 500.

Little progress on board diversity

The US corporate landscape has changed very little in terms of diversity over the past six years found the InterOrganization Network (ION).

In fact, the alliance of 14 US women's business organisations found numerous examples of missed opportunities for company boards to fill vacancies with females – only 87 of a possible 542 board positions were extended to women. The report entitled, Gender Imbalance in the Boardroom: Opportunities to Change Course, also noted that women comprised just 16.1% of board seats at Fortune 500 companies in 2011.

US Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	0
Oppose	2
Abstain	1
Withhold	0
Withdrawn	0
Total	3

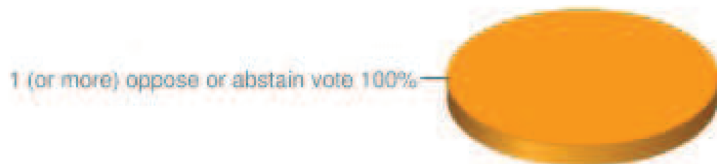
Meetings	AGM	EGM	Total
Total Meetings	0	1	1
1 (or more) oppose or abstain vote	0	1	1

US Voting Record

US AGM Record

There were no AGMs during the last period in the clients portfolio.

US EGM Record



US Voting Timetable Q4 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

There were no voted meetings held by the client during the period

Not Voted Meetings

Table 6: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	MEDCO HEALTH SOLUTIONS INC.	21 Dec 11	**EGM**	Voted by Newton

US Upcoming Meetings Q1 2012

List of meetings scheduled to be held throughout the period by US companies currently in the fund's portfolio.

Table 7: Upcoming Meetings

	Company	Meeting Date	Type
1	APPLIED MATERIALS INC	05 Mar 12	AGM

Japanese Reporting Timetable Q4 2011

There were no meetings held by the client during the period.

Reported Meetings

There were no meetings held by the client during the period.

Japanese Upcoming Meetings Q1 2012

There are no upcoming meetings for this region.

Global Corporate Governance Review

Investors want CC policy increase

A coalition of 285 investors with over $20 trillion in assets called on governments and international policy makers to increase their efforts in the fight against climate change.

The statement and report, which were issued to the G20 and other governments ahead of the Durban United Nations Framework Convention on Climate Change in November/December, were based on findings in the report that underscore the importance of “investment-grade policy which will enable institutional investors to allocate capital towards climate change solutions, including appropriate government incentives to compensate for heightened risk and sufficient scale of technology deployment.” The criticalness of long-term policy stability was also emphasised in the report.

Despite doubling of investor support since November 2008, levels of low-carbon technology and infrastructure investments remain far lower than the $500 billion per year necessary to maintain global temperatures below 2 degrees Celsius. The target was set by the International Energy Agency and was agreed on at last year’s meeting in Cancun.

What was the largest ever joint investor statement urging policy action on climate change was coordinated by the US-based Investor Network on Climate Risk, the European Institutional Investors Group on Climate Change and the Australian and New Zealand Investors Group on Climate Change, along with the United Nations Environment Programme Finance Initiative and the Advisory Council of the Principles for Responsible Investment.

Firms back Integrated Reporting

More than 40 multinationals agreed to become guinea pigs for the International Integrated Reporting Committee’s (IIRC) Pilot Programme initiative.

The programme attracted influential heavy weights like Microsoft and Coca-cola as well as Russia’s State Nuclear Energy Corporation ROSATOM. Over the next two years, the companies will work with peer group organisations to exchange knowledge and experience that will help build the integrated reporting (IR) Framework. The objective of the Programme is threefold; encourage organisations to innovate in their reporting practices; inform the future evolution of reporting and investor practices; and drive convergence in international reporting guidance.

ACSI research on corruption

While more countries are adopting stringent anti-corruption policies, little progress had been made at large Australian companies according to research commissioned by the Australian Council of Superannuation Investors (ACSI).

ACSI’s research suggested that the number of ASX100 companies operating in a sector or country considered high-risk for corruption increased to 75% in 2011, up from 56% in 2006. These companies also fell behind the top 100 companies in the UK, US and Europe in prohibiting the giving and receiving of bribes. It also found 40% of the 126 ASX200 companies operating internationally have no public policy forbidding bribery or facilitation payments.

The report Anti-corruption and Bribery Practices in Corporate Australia: A review of the S&P/ASX200, offers an insight into the bribery and corruption practices across ASX200 companies. Comparison of the largest 100 companies anti-bribery policies in Australia, the UK and UK were also provided in the report.

Olympus chair goes over payouts

Olympus' president and chairman Tsuyoshi Kikukawa resigned over allegations in respect of payments worth hundreds of millions of dollars tied to past acquisitions.

The pay-outs, including $687 million in payments made to a financial adviser for the $2 billion purchase of British medical equipment maker Gyrus, fell under Kikukawa's ten year reign as head of the company. They were largely unknown until Olympus fired British chief executive, Michael Woodford. Woodford claimed he discovered the payments in question after taking over as president in April and had confronted Kikukawa about the transactions. Since his departure, he has taken the case to the US Federal Bureau of Investigation and to the UK's Serious Fraud Office. Olympus set up a committee, including a former Japanese supreme court justice, to investigate past M&A deals.

Olympus clearout continues

The casualties piled up at Olympus as the company sought to steady itself in the wake of damaging allegations about past payments and reporting.

Since former chief executive Michael Woodford blew the whistle on questionable payments by then Olympus president and chairman Tsuyoshi Kikukawa, two more Olympus board members were dismissed over alleged involvement. The board announced its decision to remove director and executive vice president Hisashi Mori for his involvement in the deferral in posting of company losses since the 1990s. In addition, standing corporate auditor Hideo Yamada, also involved, declared his resignation. Although the company has agreed to third party investigation, it had, at this point, failed to release its fiscal second-quarter earnings despite threats of delisting by the Tokyo Stock Exchange. Olympus shares fell 80% since October when news of the fraudulent acquisitions first emerged.

Responsibility reporting beds in

A global study confirmed that corporate responsibility (CR) reporting has become the de facto law for companies.

KPMG's International Survey of Corporate Responsibility Reporting 2011 is a survey of corporate reporting practice trends of the Global Fortune 250 to date. A review of 3,400 companies worldwide reveals that CR reporting has now been undertaken by 95% of the G250, with the top 100 companies (N100) in each country surveyed reporting 64% overall, an 11% increase since 2008. Of the 34 countries and 15 industry sectors reviewed, nearly half claimed that their CR initiatives led to increased financial gain. While the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines are utilized by 80% of the G250 and 69% of the N100, and fast becoming the de facto reporting standard, the need for consistency and accessibility to material data was highlighted in the report. The UK and Japan led the group under review with reporting at 100% and 99%, respectively.

Unions launch global vote probe

To encourage pension fund trustees to become proactive in their voting, the Global Unions Committee on Workers' Capital (CWC) issued the Proxy Review 2011.

The project identified trend-setting shareholder votes on environmental, social and corporate governance (ESG) matters deemed relevant for pension investors with global equity portfolios. Key proxy votes at large multinationals like Rio Tinto, Apple and JP Morgan Chase from a small sample of countries, including Canada, the UK and the US, were provided to enable pension trustees to evaluate how such votes were cast on their behalf and to ensure that the votes cast adhere to standards determined by their respective pension funds.

The intended audience of the report is primarily employee and trade-union trustees; however, the CWC hoped the global focus of the project will be of interest to other trustees who are concerned with responsible investment issues.

GRI sustainability database

Investors, analysts and other stakeholders interested in accessing data on the sustainability and environmental, social and governance (ESG) transparency of more than three thousand companies across the globe now have a tool at their disposal.
The Sustainability Disclosure Database, a new sustainability performance hub of the Global Reporting Initiative (GRI), provides users with a myriad of sustainability data from thousands of company reports. Information gained from the sustainability database will enable users to evaluate and compare companies' sustainability strategy and performance, long-term viability and impacts on society and nature, said the GRI. "We may be witnessing the most important transformation in corporate transparency and disclosure in recent decades," added José Luis Blasco Vázquez, partner in charge of climate change and sustainability services at KPMG for EMA region.

Companies ignoring water risk

The reality of near term detrimental water –related impacts has done little to influence boardroom behaviour, found the latest report by the Carbon Disclosure Project (CDP).
Conclusions drawn from the 2011 report showed that while boardroom oversight of climate change has increased to 94%, just 57% of the 190 publicly listed companies that participated in the survey reported board-level commitment to water related issues. That said, over half (59%) of respondents reported that they were already exposed to flooding, scarcity and reputational damage – all consequences of water risks. Of these risks, 64% occur in near term direct operations and 66% will arise in the supply chain within the next four years. While the urgency is high, the amount of boardroom attention given to water-risk is surprisingly low, said the CDP.
According to the CDP, 63% of respondents admitted that water mitigation does present commercial opportunities, with water efficiency, revenue from new water-related products or services and improved brand value being the most cited. The results revealed that energy companies have significantly high levels of risk (72%) but have the least board oversight of policies, strategies, or plans (36%). Key trends from the report also suggested that the biggest water risk facing businesses in their direct operations is water stress or scarcity (41%), followed by flooding (24%), reputational damage (23%), and higher compliance costs (21%).

Cayman Islands jumbo directors

An investigation by the Financial Times proved tax havens are not the only lucrative business in the Cayman Islands.
Through its investigation, the FT identified a system by which hedge funds can purchase independent board directors for $5,000 - $30,000 per year. The enquiry also revealed that at least four independent directors appointed via this process hold over 100 non-executive directorships each, 14 have over 70 and one has been listed on 567 boards, most of which were hedge funds.
In the wake of the financial crisis critics have been pushing for increased transparency about the appointments of these directors although this information is not typically disclosed by the Cayman Islands Monetary Authority despite the Cayman's being home to two-thirds of the hedge fund industry. While these directors defend their numerous appointments, results from a survey of hedge fund investors by Carne Global revealed that 58% of respondents thought an individual should hold no more than 30 directorships.

Canadian proxy disclosure

Toronto-based Canadian Coalition for Good Governance issued its latest addition of proxy circular disclosure.
The 2011 best practices include updated guidance for reporting issuers on effective disclosure related to corporate governance and executive compensation. For the majority of shareholders, according to CCGC,

a company's proxy circular is the main communication link with the board. As such, the disclosure assists with shareholder assessment of board performance and its ability to work with management as well as understanding corporate strategy and a company's risk management strategy.
The report stressed the need for plain language disclosure. CCGC defines plain language as "issuer disclosure of all the information shareholders need in a manner that is understandable and user-friendly, regardless of its complexity." This, said CCGC, will enable both existing and potential shareholders to understand regulatory fillings in a "quicker and shorter space."

Fosters chair backs annual polls

Foster's chairman David Crawford expressed his support for annual boardroom elections, reported the Herald Sun.
Should the measure be adopted it would mean the end of automatic three year reigns for independent directors as they would all be required to stand for annual elections. Though this rule has received sharp criticism in the UK (opponents believe it would lead to board destabilisation) Crawford said it's just a matter of time before it becomes common practice among Australian companies. Proponents like Crawford and Vas Kolesnikoff of Australian Shareholders Association said that it will increase accountability at annual elections by increasing good corporate governance. Although annual elections are not yet officially forced in the UK, the Code does recommend it as best practice.

Climate bonds initiative

A screening tool for 'green' investors and governments was launched by the Climate Bonds Initiative.
The Standard aids in the transition to a low-carbon economy by offering bonds known as 'Climate Bonds' that provide investment opportunities in renewable energy generation projects. Over the course of the coming year, the Standard will address the eligibility criteria as well as the traceability and types of bonds that can be certified. The investor backed initiative seeks to develop a tripartite agreement between industry, investors and government under the Climate Bonds concept. The CBI claimed that these bonds will "provide for large scale issuance of long-term debt to overcome medium term investment barriers to achieving economies of scale in low-carbon industry sectors."
Proponents believe the Climate Bonds will enable the growth of "green debt" by offering institutional investors the opportunity to invest in long-term low-carbon investments.
Deloitte global diversity survey
Figures from Deloitte's latest global study showed that though the pace of change has increased, companies still have a long way to go to bridge the boardroom diversity gap.
The country by country breakdown presented in Women in the boardroom once again demonstrated that countries like Norway and France, where legislative measures have been put in place, yield the highest number of female board members, 31.9% (largest ASA company boards) and 20.8% (CAC 40), respectively. Of the countries where no quotas have been instilled, those with the highest number of female board members are the US with 15.7% women serving on Fortune 500 boards, Canada with 12.9% women serving on 131 listed companies and FTSE 100 where 12.5% women serving on UK-listed company boards. Italy had the least female board appointments serving on listed companies (3.7%) of all the countries included in the study, followed by India (4.8%).

Olympus board set to walk

The scandal at Olympus has culminated in the entire board promising to step down after an external investigation uncovered 13 years' worth of fraudulent activities by the camera maker's senior management.
After announcing his own departure at a press conference, company president Shuichi Takayama said that all other executives responsible for hiding the £1.08 billion losses would leave soon after issuing their second-quarter earnings. An extraordinary meeting of shareholders, expected to take place in February,

would be the earliest possible date for the boards' departure, according to reports.
The announcement came after the publication of a 200-page report by an internal investigative panel that stated that "The core part of management was rotten and the parts around it were also contaminated by the rot." Senior executive director Makoto Nakatsuka was found to have helped former employees, internal auditor Hideo Yamada and vice president Hisashi Mori, key figures in the scheme, with the cover up. Ousted chief executive Michael Woodford, who exposed the fraud, offered to return.

Aus RI funds eclipse benchmark

Responsible investment funds in Australia surpassed their benchmarks, according to the Responsible Investment Association Australasia (RIAA).
Australian funds with responsible investment policies grew at a much faster rate compared to other mainstream funds over one, three, five and seven years as well as across all 12 categories included in the latest report by the RIAA. This growth was attributable to an in increase in the level of environmental, social and governance integration by fund managers into their investment process and due to a higher amount reporting their funds under management. Responsible investment in core areas like community finance and responsible investment portfolios of charities rose by 8% in 2010-2011.

Diversity: a cross border concern

Companies in the Far East have a long way to go to achieve boardroom diversity, according to CSR Asia.
In Malaysia and Singapore women comprise just 7.8% and 6.4% of board director positions in PLCs, respectively. Of these, many are appointed due to familial ties to the main shareholder or as executive directors. Rarely are women offered independent non-executive positions, added CSR Asia. The Malaysian Securities Commission chairman Tan Sri Zarinah Anwar recently announced that a 30% target could be integrated into Bursa Malaysia's listing rules next year. But most markets are not making progress.

MNCs increase focus on climate

Awareness of climate change risks at global corporations has reached a tipping point, claimed non-profit climate change campaign group.
According to Climate Counts, a significant portion of multinationals now consider sustainability reporting and risks associated with climate change part of the "new normal." Results from the review showed that 1 7 of the 20 largest companies, which represent 21% of the US Gross Domestic Product, have demonstrated "strident" approaches to climate leadership – a 54% improvement since the 2007 review.
The aim of the Climate Counts review, spearheaded by New Hampshire organic yogurt maker Stonyfield CEO Gary Hirshberg, is twofold: to offer consumers a user friendly method for making informed purchase decisions and to offer companies an environmental peer benchmark review. Unilever took the top spot, unseating former three year champion Nike that came in third position. AstraZeneca scored second and Siemens won fourth place.
The scorecard rates companies on a 100-point scale, categorising them into stuck, starting and striding. 136 companies across 16 sectors were measured by how well they are preparing for a low-carbon future b y committing to emissions reductions. Electronics represented the highest scoring sector while toys/children's equipment fared the worst.

Global Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	1
Oppose	0
Abstain	9
Withdrawn	0
Total	10

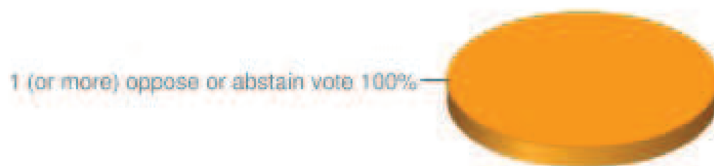
Meetings	AGM	EGM	Total
Total Meetings	0	2	2
1 (or more) oppose or abstain vote	0	2	2

Global Voting Record

Global AGM Record

There were no AGMs during the last period in the clients portfolio.

Global EGM Record



Global Voting Timetable Q4 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 8: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	CCR SA	25 Nov 11	EGM	2011-11-17

Not Voted Meetings

Table 9: Meetings not voted in quarter

	Company	Meeting Date	Type	Reason Not Voted
1	PETROBRAS-PETROLEO BRASILIER	19 Dec 11	EGM	Non voting shares

Global Upcoming Meetings Q1 2012

There are no upcoming meetings for this region.

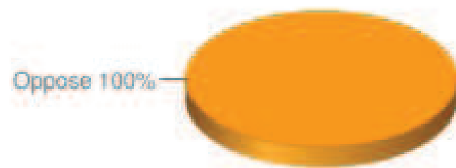
Asian Voting Charts

These graphs include meetings where the client held a voting entitlement exercisable by PIRC according to portfolio details communicated to PIRC prior to execution of the vote.

Total Resolutions	
For	0
Oppose	2
Abstain	0
Withdrawn	0
Total	2

Meetings	AGM	EGM	Total
Total Meetings	0	1	1
1 (or more) oppose or abstain vote	0	1	1

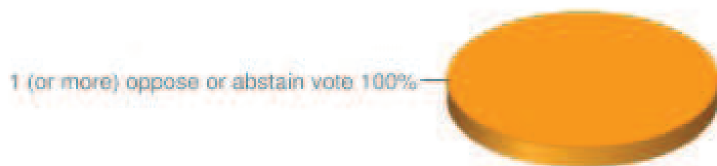
Asian Voting Record



Asian AGM Record

There were no AGMs during the last period in the clients portfolio.

Asian EGM Record



Asian Voting Timetable Q4 2011

List of meetings held throughout the period in the fund's portfolio.

Voted Meetings

Table 10: Meetings voted in the quarter

	Company	Meeting Date	Type	Date Voted
1	GOME ELECTRICAL APPLIANCES	05 Dec 11	**EGM**	2011-11-28

Asian Upcoming Meetings Q1 2012

There are no upcoming meetings for this region.

PIRC Summary Report Appendices

UK

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at UK meetings for companies held by the fund during the period.

US

Analysis for "Oppose", "Withhold" and "Abstain" votes for resolutions at US meetings for companies held by the fund during the period.

Global

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Global meetings for companies held by the fund during the period.

Asian

Analysis and final proxy results on "Oppose" and "Abstain" votes for resolutions at Asian meetings for companies held by the fund during the period.

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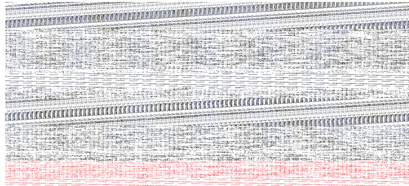

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Pension Fund Committee
Meeting to be held on 25 May 2012

Electoral Division affected:
'All'

Internal audit annual report 2011/2012, including the audit plan 2012/13
(Appendix 'A' refers)

Contact for further information:
Rachel Tanner, 01772 534904 County Treasurer's Department
rachel.tanner@lancashire.gov.uk

Executive Summary
A copy of the internal audit annual report for the Lancashire County Pension Fund is attached at Appendix 'A'. Based on the internal audit work undertaken during the year we are able to provide substantial assurance over the internal control environment for the pension fund and pension administration.

The report also sets out the plan of work to be undertaken by the county council's internal audit service for the coming financial year in respect of the pension fund. The plan amounts to a total planned resource of 75 days.

Recommendation

The Committee is requested

1. to consider and note the annual report 2011/12.

2. to consider and approve the audit plan for 2012/13.

Background and Advice

The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 requires the Internal Audit Service to provide a written report to those charged with governance which includes an opinion on the overall adequacy and effectiveness of the organisation's control environment. This report presents our opinion based upon the work we have performed during 2011/12 for the Lancashire County Pension Fund.

The audit plan is intended to provide assurance to the Pension Fund Committee and to the chief executive and leader of the council who are jointly required to sign an annual governance statement (AGS), incorporating a statement of internal control. As the county council is responsible for the administration of the pension fund, including the provision of systems, controls and governance, the AGS also embraces the activities of the pension fund.

Lancashire County Council

Consultations

In deriving the audit plan the internal audit team has:

- Discussed with senior management the risks and related controls associated with the pension fund and

- Made its own assessment of the risks facing the pension fund.

The information derived from these consultations has been incorporated into the audit plan.

Implications:

Risk Management

As set out in the report.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Directorate/Ext
CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom	2006	Rachel Tanner County Treasurer's Department X 34904

Reason for inclusion in Part II, if appropriate:

N/a

Appendix 'A'

Lancashire County Council: Pension Fund

Internal Audit Service

Annual report for the year ended 31 March 2012, including the proposed internal audit plan 2012/13

Contents

1. Introduction 1

2. Assessment of internal controls 1

3. Internal audit work undertaken 4

4. Internal audit plan 2012/13 4

5. Scope, responsibilities and assurance 6

6. Summary of findings 7

1 Introduction

1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the adequacy of the organisation's control environment. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom requires the head of internal audit to provide a written report to those charged with governance, timed to support the Annual Governance Statement, which includes an opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, including the control environment. This report presents our opinion based upon the work we have performed.

1.2 This report covers the period 1 April 2011 to 31 March 2012.

Acknowledgements

1.3 We are grateful for the assistance that has been provided to us by staff in the County Treasurer's Department in the course of our work.

2 Assessment of internal controls

Overall opinion

2.1 Based on the internal audit work undertaken during the year we are able to provide **substantial** assurance over the internal control environment for the pension fund and pension administration.

2.2 It is our opinion that there is a generally sound system of internal control which is adequately designed and controls are being consistently applied in the majority of areas reviewed, although there are some areas where control needs to be strengthened.

2.3 Management responses to the findings from our work have been positive and indicate that action has or will be taken where issues have been identified. Whilst recognising there are a small number of control issues which need to be addressed, our detailed findings identify good areas of effective control.

Key issues and themes arising during the period

2.4 The level of change managed by the teams involved with the pension fund has been significant again this year, with the transfer of the pension payroll to the Altair system, the transfer of the global custody arrangements to Northern Trust, the introduction of the pension fund bank account, in addition to the introduction of the new investment strategy. Given this situation, it is particularly pleasing to report that adequate and effective internal control arrangements have continued to

be maintained within the systems operated during 2011/12. The findings of the individual reviews are briefly set out in the following paragraphs.

2.5 We are able to provide substantial assurance over the pensions administration procedures operated during the year which included consideration of the:

- transfer of the payment of pensions to the Altair system;
- authorisation of new members;
- retirement calculations;
- death grant calculations;
- employee and employer contributions to the scheme and
- transfers into and out of the scheme.

We have made one recommendation to ensure the appropriate cancellation of tasks within the Altair system, in order that performance statistics can be fully relied upon.

2.6 In relation to pension fund assets and investments our work has encompassed four reviews consisting of the new global custodian arrangements with Northern Trust, the new investment strategy, the new bank account arrangements for the pension fund and third party assurance reports produced for three of the investment managers.

2.7 The audit work we performed for the new global custodian allows us to provide substantial assurance over the internal control environment. We were satisfied that investment balances were satisfactorily reconciled from the previous custodian to Northern Trust on the transfer of the service. In addition, information on investment activity was received from the global custodian and from investment managers on a regular basis, and was accurately reconciled within the Treasury and Investment Team during the year.

2.8 We have made one recommendation to ensure that invoices for management fees are received on a regular basis.

2.9 Our review of the new investment strategy focused specifically on the role of the Investment Panel in making individual investment decisions during the year rather than simply placing funds with investment managers.

2.10 In particular we reviewed that :

- The composition of the Investment Panel is consistent with the agreed terms of reference;
- Investment opportunities are presented to the Panel and discussed in detail;

- A detailed due diligence report is compiled for each investment opportunity, signed off by the Deputy County Treasurer and debated by the panel;
- Only investment opportunities that receive unanimous support of the Investment Panel professionals are approved by the Treasurer to the Fund; and
- Decisions to invest, and the reasons for doing so, are clearly presented at the next meeting of the Pension Fund Committee.

2.11 We are able to provide substantial assurance over the systems operated. There were no areas identified that would have a major impact on the achievement of the pension fund's objectives. We have made one recommendation to further enhance the governance arrangements in this area.

2.12 A separate bank account was set up for the pension fund in April 2011, in accordance with the requirements of Local Government Pension Scheme Regulations 2009. Our review of the arrangements introduced in 2011/12 allowed us to provide full assurance over the controls in operation in this area. In particular we noted:

- Reconciliation procedures are fully documented and reconciliations had been undertaking accordingly during the year;
- There is a system in place to identify the required cash transfers from the council's bank account to the pension fund account. Transfers were undertaken correctly and regularly during the year and
- An appropriate segregation of duties was in operation between individual members of staff transferring funds, creating journals and reconciling the pension fund bank account.

2.13 Our review of the third party assurance reports produced for three of the fund manager's systems enabled us to provide full assurance on the control environment in operation within these fund managers' systems.

2.14 The re-tendering of the fund's property management contract has been delayed due to other priorities during the year; consequently we were not able to undertake the intended review of the procurement arrangements for this contract.

Fraud/ special investigations

2.15 There were no days used in the investigation of suspected financial irregularities in relation to the pension fund.

National Fraud Initiative (NFI)

2.16 In addition to the planned audit reviews we have also undertaken work relating to the National Fraud Initiative (NFI). As part of the county council's duty to protect public funds, the Audit Commission requires all local authorities to participate in the NFI. Previously this has been a two-yearly exercise that matches electronic data held by public sector organisations to highlight potentially fraudulent activity. One of the tests included relates to identifying pension claimants that may have died or may have additional employment affecting their pension.

2.17 The 2010/11 NFI exercise identified 2,256 matches for Lancashire, an increase of 407 matches on the 2008/09 exercise. Your Pension Service (YPS) has processed approximately 75% of these matches to date and has identified overpayments to the value of £92,000 for 32 claimants. YPS is currently in the process of pursuing these overpayments.

2.18 We will be undertaking this exercise on an annual basis in the future, in order to ensure that any overpayments are identified and recovered at the earliest opportunity.

Implications for the Annual Governance Statement

2.19 On the basis of our work during 2011/12, we are aware of no internal control weakness that requires disclosure in the Annual Governance Statement.

3 Internal audit work undertaken

3.1 Work carried out during 2011/12 was in accordance with the audit plan presented and approved by the Pension Fund Committee in April 2011. Details of the assurance provided, and key issues identified for each of the areas covered are set out in the ‘Summary of our Findings and Assurance’ table attached at page 8. This shows that 82 days were spent on delivering the audit plan against planned audit activity of 110 days.

3.2 This work has been undertaken with regular liaison with the council's external auditors to minimise any duplication in planned coverage.

3.3 A number of areas of work were completed on or just after the end of the financial year. Two reports were still in draft (global custodian arrangements, and pension administration) at the time of writing this report. As all reports have been discussed with the appropriate managers, we feel it is appropriate to include our opinion for these reviews in the summary of findings.

4 Internal audit plan 2012/13

4.1 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA.

4.2 The plan again focuses on two distinct areas which cover the governance and management of the pension fund's assets and pension administration. The audit reviews identified under each of these areas is explained in more detail below.

Pension Fund

4.3 We have included audit resources again within the 2012/13 plan to review that arrangements for investing pension funds are in accordance with the approved investment strategy. We will again consider the arrangements for making investment decisions through the Investment Panel as well as reviewing the arrangements for monitoring the performance of funds placed with investment managers. (25 days)

4.4 The county council is upgrading a number of its financial systems from April 2012. As part of this project, the pension fund has been established as a separate organisation with a separate general ledger within the overall Oracle environment. We intend to review the adequacy and effectiveness of these new accounting arrangements. (10 days)

4.5 Our work will continue to take maximum advantage of existing management assurance processes and reports, and follow an approach in line with guidance issued by the Society of County Treasurers and CIPFA. This will involve using statutory reporting from the investment managers and custodian in the first instance. These documents will be used to gain assurance over the external investment management activities where appropriate. (5 days)

Pension administration

4.6 We propose to focus this year's work on testing the effectiveness of the key controls we have documented over the last two years, in addition to specifically reviewing the ICT control arrangements operated for the Altair system. (25 days)

Follow Up

4.7 Audit resources have been identified to ensure that all reviews are followed up and our findings are re-assessed as the actions previously agreed with management are implemented. (5 days)

General Management

4.8 An allocation of 5 days has also been made to cover other management and tasks in support of the internal audit service to the pension fund:

- Attendance at meetings;
- Liaison with the Audit Commission; and
- Central reporting.

4.9 The proposed plan amounts to 75 days.

5 Scope, responsibilities and assurance

5.1 Details of the scope of our work, and management's and internal audit's responsibilities regarding systems of risk management, internal control are explained in pages 9 and 10. This sets out the basis of our assessment and limitations on the assurance that we can provide.

Access to this report and responsibility to third parties

5.2 We have prepared this report solely for Lancashire County Council, and the Pension Fund Committee. As you are aware, this report forms part of a continuing dialogue between the Internal Audit Service, the Treasurer to the Fund, and the Pension Fund Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.

5.3 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

6 Summary of findings

Overall summary and assurance provided

6.1 We have set out in the table on page 8 below a brief summary of each review undertaken during this year. This sets out the planned and actual days we have spent on each review, and a summary of the assurance we have been able to provide in relation to each system or operational area of your business. The key issues/comments encapsulate the significant issues and areas where key recommendations were made. They reflect the findings at the time the work was carried out.

6.2 We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

6.3 ***System adequacy***: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

6.4 ***System effectiveness***: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

6.5 It is therefore possible that a system would, if operated as intended, provide adequate control over its inherent risks, but that lapses in controls in practice leave the system exposed to risk.

6.6 It is also possible that a system may be inadequate in its design, but is nonetheless operating as intended, albeit with inbuilt weaknesses that mean that the control objectives cannot be met.

6.7 Ideally, a system will be adequately designed to achieve its control objectives, and operated effectively in practice.

6.8 The table below indicates briefly with simple ticks (✓) and crosses (x) our overall assessment of each system we have reviewed during the year and the assurance you may take from its operation in supporting effective internal control.

Summary of our findings and assurance

Review area	Audit days			Assurance		Key issues / Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Audit Areas						
Pensions administration – manual controls	25	32	7	✓ Substantial assurance	✓	The draft report was issued in April 2012. We have received confirmation from management that the report and the recommendation made have been accepted.
Global custodian	20	12	(8)	✓ Substantial assurance	✓	The draft report was issued in April 2012. We have received confirmation from management that the report and the recommendation made have been accepted.
New investment strategy	30	12	(18)	✓ Substantial assurance	✓	The final report was issued in May 2012, following confirmation from management that the report and the recommendation made have been accepted.
New bank account	10	11	1	✓ Full assurance	✓	The final report was issued in February 2012.
Third party assurance reports	5	4	(1)	✓ Full assurance	✓	The final report was issued in May 2012. The three fund managers we reviewed were Legal and General, UBS and Newton. We noted that in all three cases, the expected key controls were in place and assurance was provided on them in the reports.
New investment manager (procurement arrangements)	15	3	(12)	-	-	The days relate to initial discussions and preparatory work. The retender of the property fund contract has been delayed due to other priorities during the year.
Planning and management	5	8	3	-	-	This time relates to the production of the annual plan and report, planning/ progress meetings and general advice.
Total Days	**110**	**82**	**(28)**			

Summary of our findings and assurance

1. Scope, responsibilities and assurance

Approach

1.1 In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

1.2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot therefore be held responsible for internal control failures.

1.3 However, we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.

1.4 Internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

1.5 Internal audit's role includes assessing the adequacy of the risk management processes, key internal control systems and corporate governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.

Basis of our assessment

1.6 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken during the period in accordance with the plan approved by the Pension Fund Committee. We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Limitations to the scope of our work

1.7 No limitations have been placed on the scope or extent of the work we carried out during the year by the management or staff of the County Treasurer's Department.

Limitations on the assurance that internal audit can provide

1.8 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.

1.9 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Audit assurance levels

1.10 The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is adequately designed to meet the service objectives and is effective in that controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, adequately designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service's objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ has resulted in failure to achieve the service objectives.