

Pension Fund Committee
Meeting to be held on 25 May 2012

Electoral Division affected: 'All'

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

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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.

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:				Total
	For	Oppose	Abstain	Withheld	
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 oversight and lack of independence.

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

N/a