

Pension Fund Committee

Meeting to be held on 30 November 2012

Electoral Division affected: 'All'

Fund Shareholder Voting Report

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility, acts as the Fund's proxy and casts the Fund's votes at shareholder meetings.

The attached report (Appendix 'A') covers the period 1 July to 30 September 2012. The Fund has voted on 330 occasions and has opposed or abstained in 33% of votes. PIRC recommends not supporting resolutions where it does not believe best governance practice is being applied. PIRC's focus has been on promoting independent representation on company boards, separating the roles of CEO and Chairman and ensuring remuneration proposals are aligned with shareholders' interests.

The Fund has signed up for portfolio monitoring by the US law firm Barrack, Rodis & Bacine to ensure that the Fund claims and receives all amounts awarded under class actions.

Recommendation

The Committee is asked to note the report.

Background and Advice

PIRC, a leading independent research and advisory consultancy providing services to institutional investors on corporate governance and corporate social responsibility, acts as the Fund's proxy and casts the Fund's votes on its investments 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. The analysis includes a review of the adequacy of environmental and employment

policies and the disclosure of quantifiable environmental reporting. 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 also 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).

PIRC's quarterly report to 30th September is presented as at Appendix 'A'. This report not only provides details of the ballots cast on behalf of the Fund but also provides a commentary on events during the period relevant to environmental and social governance issues.

In addition PIRC 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. This document is available on request.

The Fund's voting record using PIRC as its proxy for the three months ended 30 September 2012 is summarised below:

Region	Voting action:				Total
	For	Oppose	Abstain	Withheld	
UK	195	30	37	-	262
Europe	-	-	-	-	-
USA	12	12	2	5	31
Japan	4	4	-	-	8
Rest of World	9	17	3	-	29
Total	220	63	42	5	330

The period July to September is relatively quiet with 330 ballots cast compared with 1,908 in the prior quarter. The Fund has voted for 67% of shareholder resolutions and has opposed or abstained in 33% of resolutions. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition.

The Fund opposed the approval of the Remuneration Report for a number of well known companies including BT, MITIE, Tate & Lyle, De La Rue, National Grid and Stagecoach, where PIRC did not consider the incentive plans were properly disclosed or aligned with the interests of shareholders or sufficiently challenging.

The appointment of directors was opposed where PIRC considered the director concerned was not independent, had too many other commitments to devote a proper amount of time, or was too closely connected with the failure of a bank.

An example of where the Fund abstained was an extraordinary general meeting called to remove Sir Michael Rake as Chairman of Easyjet. The founder of Easyjet wanted to remove Sir Michael Rake because of his involvement with Barclays when it was found to have been rigging the LIBOR interest rate. The Board of Easyjet were supportive of Sir Michael Rake. PIRC's view was that the case to remove Sir Michael Rake was not convincing. However, it not oppose his removal because it was concerned about his time commitments to other directorships, so it abstained.

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

In its opposition to board resolutions, PIRC has focused on promoting the election of truly independent directors, splitting the CEO and Chairman roles and ensuring directors' remuneration packages are properly aligned with shareholder interests.

The PIRC report also makes reference to the Kaye Review which reported on 23 July 2012. This review looked at the workings of the investment markets and concluded that they are too biased towards short-termism and promoting transactions. The report makes recommendations to promote stewardship and long-term decision making and embed fiduciary duties in the system.

In September, the Fund signed a portfolio monitoring agreement with the US shareholder class action lawyers Barrack, Rodos and Bacine (BRB). BRB is one of the leading US firms that brings class actions against companies on behalf of shareholders where wrong-doing by company managements and directors is alleged. Their role is not only to seek damages from shareholders but also to promote improved governance in the companies affected.

BRB will hold details of the Fund's equity investments and ensure that it lodges claims and participates fully and in any class actions that take place. In the USA, all shareholders benefit from awards made in class actions irrespective of whether they were named as a plaintiff, provided the appropriate claim form is submitted. BRB offers this service free of charge because knowledge of losses helps the firm be appointed lead plaintiff in proposed class actions

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.

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