

Pension Fund Committee

Meeting to be held on 22 March 2013

Electoral Division affected: 'All'

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

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Executive Summary

In accordance with its policies on promoting corporate social responsibility in the businesses in which it invests the Fund works through PIRC as its Governance Adviser and the Local Authority Pension Fund Forum (LAPFF) to both ensure that shares are voted in accordance with sound governance principles and influence companies' behaviour.

This report provides the latest quarterly update for the Committee on the work undertaken on the Fund's behalf by PIRC and the engagement activity undertaken by LAPFF.

The attached report from PIRC (Appendix 'A') covers the period 1 October to 31 December 2012. The Fund has voted on 193 occasions and has opposed or abstained in 38% 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 attached engagement report from LAPFF (Appendix 'B') also covers the period 1 October to 31 December 2012.

Recommendation

The Committee is asked to note the report.

Background and Advice

Shareholder Voting and Governance

PIRC, 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 31 December 2012 is presented at Appendix 'A'. This report not only provides details of the votes 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 31 December 2012 is summarised below:

Region	Voting action:				Total
	For	Oppose	Abstain	Withheld	
UK	42	9	6	-	57
Europe	4	3	-	-	7
USA	23	13	1	7	44
Japan	-	-	-	-	-
Rest of World	51	24	10	-	85
Total	120	49	17	7	193

The period October to December is relatively quiet with 193 ballots cast compared with 1,908 and 330 respectively in the two prior quarters. The Fund has voted for 62% of shareholder resolutions and has opposed or abstained in 38% of resolutions. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition.

Remuneration remains a significant theme, and the Fund opposed the approval of the Remuneration Report for a number of well known companies such as Hays, where remuneration was considered excessive and performance criteria insufficiently challenging. Within the US, pay structures proposed by Oracle and Microsoft were opposed, and several appointment resolutions were opposed where directors were not deemed to be sufficiently independent.

As well as continuing to focus upon promoting the election of truly independent directors, PIRC has also opposed appointments where capacity issues may exist from potential over-commitment.

This quarter's PIRC report also makes reference to changes announced by the Financial Reporting Council (FRC) to its governance and stewardship codes. Governance changes relate to the tendering of external audit contracts, effectiveness assessments of external auditors, consistency of annual reports with financial statements, boardroom diversity policies, and explanations where companies choose not to follow Code provisions. Stewardship changes include clarification of stewardship responsibilities for asset managers and asset owners, management of investor's conflicts of interest, and the encouragement of verification of stewardship activities.

PIRC are also closely following events at Rio Tinto who made a significant announcement in January 2013 relating to an expected \$14 billion asset write-down (impairment charge) relating separately to its aluminium and Mozambique coal interests. Two senior executives stepped down by mutual consent as a result. PIRC are concerned about how far the alleged mistakes will impact the company's development and coming to terms with the resulting financial challenges. PIRC are encouraged by the relatively prompt move by the Board to act, however the aluminium loss is so large it can only be regarded as absolute investment failure. Currently, the Pension Fund has no equity holdings in Rio Tinto Group, but has an interest through fixed income bond holdings.

Shareholder Engagement through LAPFF

Lancashire County Pension Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), which exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest.

Members of the Committee may be interested to note the attached engagement report from LAPFF (Appendix 'B') which covers the period 1 October to 31 December 2012.

It sets out details of their activities in influencing governance, employment standards, reputational risk, climate change, finance and accounting, and Board composition, and provides a slightly different and wider perspective than the PIRC report.

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