

## Pension Fund Committee

Meeting to be held on 7 June 2013

Electoral Division affected: 'All'
---------------------------------------

## Fund Shareholder Voting and Engagement Report

(Appendices 'A' and 'B' refer)

Contact for further information:

Gill Kilpatrick, (01772) 534715, County Treasurer's Directorate,

[Gill.kilpatrick@lancashire.gov.uk](mailto:Gill.kilpatrick@lancashire.gov.uk)

### Executive Summary

In accordance with its policies on promoting corporate social responsibility in the businesses in which it invest the Fund works through Pensions and Investment Research Consultants Ltd (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 January to 31 March 2013. The Fund has voted on 421 occasions and has opposed or abstained in 26% 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 January to 31 March 2013.

### 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 March 2013 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 March 2013 is summarised below:

**TABLE 1: GEOGRAPHIC VOTING OVERVIEW – MAJOR MARKETS ONLY**

Geographic Region	Meetings	Resolutions	For	Oppose	Abstain	Withheld	Non-Voting
UK	2	41	31	4	6	0	0
EU (ex-UK)	7	120	78	20	9	0	13
USA & Canada	10	113	58	34	6	15	0
Asia (ex-Japan)	3	22	13	1	8	0	0
Japan	2	42	40	2	0	0	0

**TABLE 2: ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS**

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	2	100.0	0	0.0	0	0.0	2
Remuneration Reports	0	0.0	0	0.0	2	100.0	2
Articles of Association	0	0	0	0	0	0	0

Auditors Appointment	0	0.0	2	100.0	0	0.0	2
Political Donations	0	0.0	2	100.0	0	0.0	2
Directors	17	94.4	1	5.6	0	0.0	18
Dividend	2	100.0	0	0.0	0	0.0	2
Executive Pay Scheme	1	33.3	0	0.0	2	66.7	3

The Fund was party to 421 resolutions during this period, of which 67% resulted in positive votes for shareholder resolutions and 26% were opposed or an abstention given. Voting abstention is regularly used by institutional investors as a way of signalling a negative view on a proposal without active opposition. In addition, within certain foreign jurisdictions, shareholders either vote for a resolution or not at all, opposition to these votes is described as vote withheld. These totalled 15 within the period, just under 4%. The remaining agenda items required no vote.

In relation to the **UK**, this quarter's report focuses upon scrutiny by the Competition Commission of the audit market, and calls for the mandatory rotation of auditors. In addition, it reports upon the creation of a shareholder voting group announced by the Trades Union Congress (TUC) along with Unison and Unite. There is also reference to the practice of putting all board members up for annual election, which has been rapidly and widely adopted in the first year following the introduction of the provision for annual elections in the UK Corporate Governance Code.

Within **European** markets, executive pay remuneration is still high on the agenda, in particular calls for tighter restrictions, given recent examples of so-called "golden hellos" and "golden parachutes". In addition, a Danish pension fund announced that it would no longer invest in Walmart because of the company's appalling record on workers' rights.

Within the **United States**, the quarterly report references several shareholder-relevant events involving several major US listed companies including Hewlett-Packard, Exxon Mobil, and Standard Chartered.

### **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 January to 31 December 2013.

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:**

This item has the following implications, as indicated:

### **Risk management**

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.

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