

Lancashire County Pension Fund

Compliance with the UK Stewardship Code - July 2013

Context

The UK Stewardship Code, which has been prepared by the Financial Reporting Council, sets out the principles of effective ownership by investors. In so doing, the Code assists institutional investors to better exercise their stewardship responsibilities.

The Financial Reporting Council encourages Institutional investors to report their compliance with the Code. This document summarises the approach of the Lancashire County Pension Fund to corporate governance and compliance with the Code.

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Lancashire County Pension Fund takes its responsibilities as a shareholder seriously.

The Fund believes that good corporate governance and the informed use of voting rights are an integral part of the investment process that will improve the performance of the companies in which the Fund is invested.

Various policy documents are produced which identify how we meet our Stewardship responsibilities including our Statement of Investment Principles and Governance Compliance Statement.

In practice the Fund's policy is to apply the Code both through its arrangements with asset managers and through membership of the Local Authority Pension Fund Forum (LAPFF).

The Fund seeks to use its position as a shareholder to actively encourage good corporate governance practice in those companies in which it invests. It does this by contracting the Pensions & Investment Research Consultants Limited (PIRC) to provide a global service for a standard voting policy and casting of votes along with the provision of company research and reporting tools.

Principle 2 – Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Lancashire County Pension Fund encourages all its fund managers to have effective policies in place to address potential conflicts of interests. The need to avoid conflicts of interest is also highlighted in our investment manager mandates and contracts with external parties.

Should a conflict arise the investment manager must notify the Fund and the ultimate decision would be made by the Fund's Investment Panel, in consultation with the Chair of the Pension Fund Committee as required.

In respect of conflicts of interests within the Fund, Committee members and officers are required to make declarations of interest at the start of all meetings. A public register of interests is also maintained for all Councillors.

Principle 3 – Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to the appointed fund managers, and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on engagement activities.

Lancashire County Pension Fund contracts with PIRC who provides a global service for standard voting policy and casting of votes along with the provision of company research and reporting tools. In addition the Fund receives an 'Alerts' service from the Local Authority Pension Fund Forum, which highlights corporate governance issues of concern at investee companies.

Principle 4 – Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

As highlighted above, responsibility for day to day interaction with companies is delegated to the fund managers, including the escalation of engagement. Their guidelines for such activities are anticipated to be disclosed in their own statement of adherence to the Stewardship Code.

Occasionally, the Fund may choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum. When this occurs, the Investment Panel will decide whether to participate in the proposed activity, consulting with the Chair as necessary.

Principle 5 – Institutional investors should be willing to act collectively with other investors where appropriate.

Lancashire County Pension Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies.

The Fund seeks to achieve this through membership of the Local Authority Pension Fund Forum and National Association of Pension Funds (NAPF), which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 – Institutional investors should have a clear policy on voting and disclosure of voting activities.

Lancashire County Pension Fund contracts with PIRC who provides a global service for a standard voting policy and casting of votes. The Pension Fund Committee have reviewed and agreed to adopt the voting guidelines of PIRC. These voting guidelines are regularly updated and publicly available on their website. PIRC provide a proxy voting service for all our global equity managers.

Principle 7 – Institutional investors should report periodically on their stewardship and voting activities.

Lancashire County Pension Fund annually reviews and updates its Statement of Investment Principles, which sets out the Fund's approach to responsible investing. The activity undertaken by PIRC and the Local Authority Pension Fund Forum is regularly made available to Committee.