

Pension Fund Committee

Meeting to be held on 6 June 2014

Electoral Division affected: None

Shareholder Voting and Engagement

(Appendices 'A' and 'B' refer)

Contact for further information:

Andrew Fox, (01772) 535916, County Treasurer's Directorate,
Andrew.fox@lancashire.gov.uk

Executive Summary

In accordance with its policies on promoting corporate social responsibility in the businesses in which it invests, the Fund seeks to influence companies' behaviour and ensure sound governance principles. The Fund achieves this through engaging Pensions and Investment Research Consultants Ltd (PIRC) as its Governance Adviser and also through the Local Authority Pension Fund Forum (LAPFF).

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 2014 to 31 March 2014. The Fund has voted on 535 occasions and has opposed or abstained in 34% 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.

Details of the holdings of the Pension Fund in relation to the meetings held in this period are also given to provide more contextual information regarding the geographical and sector spread of the shareholder interests.

The attached engagement report from LAPFF (Appendix B) also covers the period 1 January to 31 March 2014.

Details of potential class actions in relation to companies in which Lancashire County Pension Fund currently owns shares or has previously owned shares is also set out in the report.

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 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.

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). The Lancashire County Pension Fund is a member of both these organisations.

PIRC's quarterly report to 31 March 2014 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 social and governance issues. It should be noted that if the Fund so wished, it retains the ability to cast a vote which does not accord with PIRC's recommendations.

The Fund's voting record using PIRC as its proxy for the three months ended 31 March 2014 is summarised below:

GEOGRAPHIC VOTING OVERVIEW

Geographic Region	Meeting	Resolutions	For	Oppose	Abstain	Withheld	Non-Voting
SOUTH AND CENTRAL AMERICA	1	3	2	1	0	0	0
REST OF THE WORLD	0	0	0	0	0	0	0
ASIA	3	13	1	0	12	0	0
NORTH AMERICA	18	253	146	82	7	17	0
UK	4	41	36	2	3	0	0
EU	7	184	91	51	25	0	17
JAPAN	2	41	38	3	0	0	0

ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For		Abstain		Oppose		Total
	No.	%	No.	%	No.	%	
Annual Reports	2	100.0	0	0.0	0	0.0	2
Remuneration Reports	1	50.0	0	0.0	1	50.0	2
Articles of Association	1	100.0	0	0.0	0	0.0	1
Auditors Appointment	0	0.0	2	100.0	0	0.0	2
Directors	15	100.0	0	0.0	0	0.0	15
Dividend	2	100.0	0	0.0	0	0.0	2
Executive Pay Scheme	0	0.0	0	0.0	0	0.0	0

The Fund was party to 535 resolutions during this period, of which 59% resulted in positive votes for shareholder resolutions and 34% 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 17 within the period, just over 3%. The remaining agenda items required no vote.

Details of the votes made on the Fund's behalf during the period are set out in the following table, and gives the company name, the date of the meeting, the meeting type (typically Annual General Meeting (AGM) or Extraordinary General Meeting (EGM)), the country of incorporation, primary market sector, the value of Lancashire's holding in each company, and the voting details.

At the previous Pension Fund Committee meeting in March 2014, a question was raised regarding the overall outcomes of the resolutions that PIRC has voted on the Fund's behalf. Producing this information is considered to be an important measure of the effectiveness of voting activity by the Fund. Fund officers have taken this feedback to PIRC as this information has not previously been available to individual Funds and PIRC are currently working on this development. The information will be reported to future meetings of the Committee when it becomes available.

Lancashire County Pension Fund voting details January - March 2014

Company	Date	Type	Country	Sector	Holding £	Resolution						
						Count	For	Oppose	Abstain	Withhold	Withdrawn	Non-Voting
INTUIT INC.	23/01/2014	AGM	United States	Software	2,362,089.21	12	6	6	0	0	0	0
SK HYNIX	21/03/2014	AGM	South Korea	Semi Conductors	3,589,860.98	5	0	0	6	0	0	0
BM&F BOVESPA SA	24/03/2014	AGM	Brazil	Diversified Financial Services	4,876,593.34	3	2	1	0	0	0	0
ROCHE HOLDING AG	04/03/2014	AGM	Switzerland	Pharmaceuticals	22,595,258.66	33	19	14	0	0	0	0
QUALCOMM INC.	04/03/2014	AGM	United States	Communications	8,159,643.21	17	9	7	0	0	0	0
APPLIED MATERIALS INC	04/03/2014	AGM	United States	Semi Conductors	6,582,315.53	15	14	0	1	0	0	0
CAPITOL FEDERAL FINANCIAL INC	21/01/2014	AGM	United States	Thriffs & Mortgage Finance	1,838,292.78	5	1	1	0	3	0	0
BECTON DICKINSON & CO	28/01/2014	AGM	United States	Health Care Equipment & Supplies	2,585,781.33	19	7	11	1	0	0	0
SVENSKA HANDELSBANKEN	26/03/2014	AGM	Sweden	Banks	14,658,329.62	23	15	2	3	0	0	3
DOLBY LABORATORIES INC	04/02/2014	AGM	United States	Electronic Equip, Instru & Components	9,006,101.19	11	5	1	1	4	0	0
CANON INC	28/03/2014	AGM	Japan	Tech. Hardware, Storage & Peripherals	7,404,529.15	25	22	3	0	0	0	0
JYSKE BANK	19/03/2014	AGM	Denmark	Banks	4,813,398.05	45	11	19	9	0	0	6
WALT DISNEY CO.	18/03/2014	AGM	United States	Media	25,505,930.40	15	8	7	0	0	0	0
TE CONNECTIVITY LTD	04/03/2014	AGM	United States	Electronic Equip, Instru & Components	10,589,071.73	30	26	4	0	0	0	0
DEERE & CO.	26/02/2014	AGM	United States	Machinery	4,948,998.65	13	6	6	1	0	0	0
VODAFONE GROUP PLC	28/01/2014	EGM	United Kingdom	Wireless Telecommunication Services	2,370,969.94	4	4	0	0	0	0	0
VODAFONE GROUP PLC	28/01/2014	COURT	United Kingdom	Wireless Telecommunication Services	2,370,969.94	1	1	0	0	0	0	0
SAMSUNG ELECTRONICS CO LTD	14/03/2014	AGM	South Korea	Semi Conductors	20,367,645.25	2	1	0	1	0	0	0
ORION CORP	25/03/2014	AGM	Finland	Pharmaceuticals	1,854,666.86	15	8	0	1	0	0	7
PT BANK NEGARA INDONESIA	06/03/2014	AGM	Indonesia	Banks	2,393,335.31	5	0	0	5	0	0	0
ACCENTURE PLC	30/01/2014	AGM	United States	IT Services	22,962,170.33	17	11	6	0	0	0	0
YAMAHA MOTOR CO LTD	25/03/2014	AGM	Japan	Automobiles	5,669,160.92	15	16	0	0	0	0	0
SCHINDLER HOLDING AG	17/03/2014	AGM	Switzerland	Machinery	9,171,751.43	23	9	11	3	0	0	0
METRO INC -CL A	28/01/2014	AGM	Canada	Food & Staples Retailing	1,777,582.62	20	11	2	0	7	0	0
VISA INC	29/01/2014	AGM	United States	IT Services	32,335,687.51	13	12	1	0	0	0	0
MCCORMICK & CO	26/03/2014	AGM	United States	Food Products	2,099,938.09	12	6	6	0	0	0	0
SHAW COMMUNICATIONS INC-CL B	14/01/2014	AGM	Canada	Media	2,133,386.08	17	10	6	1	0	0	0
WH SMITH PLC	22/01/2014	AGM	United Kingdom	Specialty Retail	3,474,913.62	15	14	1	1	0	0	0
AMDOCS LTD	30/01/2014	AGM	United States	IT Services	2,452,376.66	15	6	8	1	0	0	0
VERIZON COMMUNICATIONS INC	28/01/2014	EGM	United States	Diversified Telecommunication Services	4,950,971.87	3	1	1	1	0	0	0
IMPERIAL TOBACCO GROUP PLC	05/02/2014	AGM	United Kingdom	Tobacco	7,301,686.27	20	17	1	2	0	0	0
FRANKLIN RESOURCES INC	12/03/2014	AGM	United States	Capital Markets	7,367,426.60	14	6	8	0	0	0	0
CARLSBERG AS	20/03/2014	AGM	Denmark	Beverages	7,581,432.25	22	10	3	8	0	0	1
TD AMERITRADE HOLDING CORP	12/02/2014	AGM	United States	Capital Markets	15,408,796.57	5	1	1	0	3	0	0
NOVARTIS AG	25/02/2014	AGM	Switzerland	Pharmaceuticals	4,710,452.14	22	19	2	1	0	0	0
						535	314	139	47	17	0	17

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 2014 to 31 March 2014.

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.

Class Actions

United States

The Fund has appointed Barrack, Rodos and Bacine (BR&B) and, more recently in addition, Robbins Geller Rudman and Dowd (RGRD) to provide class action monitoring with the aim of ensuring that the Lancashire County Pension Fund receives all monies due to the Fund by filing its proof of claim from these cases. These services are at no cost to the Fund.

BR& B and RGRD will identify class actions where the Fund has a potential loss arising from an alleged fraud or a securities law violation. This is achieved through their respective monitoring systems which follows each potential securities case from the beginning to the end by ensuring its filing of the proof of claim so that the Fund may receive its payment.

Occasionally the Fund may be asked to participate in a class action, and/ or to apply to become the lead or co-lead plaintiff, but under US law any shareholder subject to such a loss will be automatically entered into and benefit from a class action without having to file an individual claim.

Details of current potential cases from BR&B as at 31 March 2014 are set out below.

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Company name	Effective class period begin	Effective class period end	Potential loss incurred (\$'000)
Medtronic, Inc	08/12/10	03/08/11	27.71
CenturyLink, Inc.	08/08/12	14/02/13	521.63
Barrick Gold Corp.	07/05/09	23/05/13	411.36
Intuitive Surgical, Inc.	19/10/11	18/04/13	251.54
ITT Educational Services, Inc.	24/04/08	25/02/13	760.06
Weightwatchers International	14/02/12	30/10/13	2,265.97

United Kingdom

Unlike class actions within the US jurisdiction, where all relevant recipients benefit from a class action when filed, class actions within the UK require investors to file their actions individually in order to potentially benefit from a successful class action. Such actions are therefore much less prevalent.

The Committee will recall a current class action relating to the alleged actions of Royal Bank of Scotland (RBS) where, it is argued, investors suffered losses in respect of a subsequent Rights Issue in 2008.

Confirmation has now been received from the UK lawyers arranging the class action that Lancashire County Pension Fund has now been added as a claimant to the claim against RBS.

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.

Involvement in a non-US class action may result in losses incurred being recovered for the Fund, but should a case be lost then the Fund may incur related costs which may not be known with certainty at the time of filing. Applying for lead plaintiff status in the US may incur significant officer time and resources in bringing a potential case to fruition.

Should the claimants in the litigation against RBS fail, then it is possible that LCPF faces having to make a contribution towards RBS costs notwithstanding the insurance in place. The amount of any shortfall following an insurance settlement and the LCPF contribution thereto is impossible to quantify at this stage.

Furthermore, if successful the LCPF will be required to hand over a proportion of any sum recovered to the funder and claimant solicitors.

Local Government (Access to Information) Act 1985

List of Background Papers

N/A