**Pension Fund Committee**

Meeting to be held on 5 September 2014

|  |
| --- |
| Electoral Division affected:  None |

**Shareholder Voting and Engagement**

(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 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 April 2014 to 30 June 2014. The Fund has voted on 3,407 occasions and has opposed or abstained in 28% 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 April 2014 to 30 June 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 30 June 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 30 June 2014 is summarised below:

**GEOGRAPHIC VOTING OVERVIEW**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Geographic Region | Meeting | Resolutions | For | Oppose | Abstain | Withheld | Say When on Pay | Non-Voting |
| SOUTH AND CENTRAL AMERICA | 7 | 35 | 16 | 12 | 0 | 7 | 0 | 0 |
| REST OF THE WORLD | 5 | 25 | 17 | 2 | 5 | 0 | 0 | 1 |
| ASIA | 15 | 153 | 86 | 53 | 11 | 0 | 0 | 3 |
| NORTH AMERICA | 123 | 1572 | 858 | 408 | 97 | 208 | 1 | 0 |
| UK | 21 | 437 | 347 | 63 | 27 | 0 | 0 | 0 |
| EU | 48 | 908 | 569 | 194 | 54 | 0 | 0 | 87 |
| JAPAN | 25 | 277 | 245 | 30 | 2 | 0 | 0 | 0 |

**ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Resolution Type | For | Percentage % | Abstain | Percentage % | Oppose | Percentage % | Total |
| Annual Reports | 16 | 80.0 | 1 | 5.0 | 3 | 15.0 | 20 |
| Remuneration Reports | 18 | 90.0 | 2 | 10.0 | 0 | 0.0 | 20 |
| Articles of Association | 1 | 50.0 | 0 | 0.0 | 1 | 50.0 | 2 |
| Auditors Appointment | 9 | 42.86 | 7 | 33.33 | 5 | 23.81 | 21 |
| Directors | 178 | 82.41 | 15 | 6.94 | 23 | 10.65 | 216 |
| Dividend | 17 | 100.0 | 0 | 0.0 | 0 | 0.0 | 17 |
| Executive Pay Scheme | 0 | 0.0 | 0 | 0.0 | 7 | 100.0 | 7 |

The Fund was party to 3,407 resolutions during this period, of which 63% resulted in positive votes for shareholder resolutions and 28% 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 215 within the period, just over 6%. The remaining agenda items (3%) required no vote or were 'not supported'.

‘Not supported’ resolutions in this context refer to what is termed 'slate voting'. Slate resolutions are normally related to director elections, and unlike the UK where each director seeks individual election, on a slate vote shareholders are given the option to vote either for a group of directors proposed by the board or an alternative group proposed by the major shareholders. It is not possible to vote for both slates therefore shareholders have to vote 'not supported' on at least one 'slate'. PIRC’s standard position is to support the slate that provides the board with the greatest proportion of independent directors.

This quarter is a busy time in the shareholder voting 'season', and it is therefore impractical to list details of all of the 244 meetings where votes were made on the Fund's behalf during the period. As mentioned at the June meeting of the Committee, PIRC are collating UK proxy voting outcomes for the 2014 season and will provide a report following the end of the September quarter. This will take into account the overwhelming majority of UK annual meeting voting outcomes and enables PIRC to review voting recommendations provided on behalf of Lancashire County Pension Fund, as well as reviewing market trends and the significance of developments affecting those outcomes.

The expected report will also provide a commentary on the proxy season from the viewpoint of how institutional investors voting outcomes impact on individual company results as well as the impact of highlighting new issues and the broader support for governance changes that investors have been arguing for. In addition it will have a full statistical analysis of the LCPF voting record.

**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 April 2014 to 30 June 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 allmonies 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 30 June 2014 are set out below. :

|  |  |  |  |
| --- | --- | --- | --- |
| 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 |
| Prospect Capital Corporation | 14/09/09 | 06/05/14 | 450.97 |

**United Kingdom**

Unlike class actions within the US jurisdiction, where all relevant recipients benefit from a class action when filed, securities claims in the UK require investors to file their actions individually (i.e. be named as a Claimant on an issued Claim Form) in order to benefit from a successful action. Such actions are therefore much less prevalent.

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

It was previously reported to Committee that confirmation had been received from the UK lawyers instructed in the claim, Stewarts Law LLP (SL), that Lancashire County Council has now been added as a claimant to the claim against RBS. The total number of Claimants in the SL Group is 313. The SL Group’s total subscription value is £1,327,845,708.

There are a number of other separate claimant groups in addition to SL Group. The status of the other claimant groups to the best of SL's knowledge is as follows:

a. The Bird & Bird (“BB”) Group have confirmed to the Court that they have issued claims for 31,561 Claimants who acquired a total of 711,686,650 shares in the Rights Issue, i.e. a total subscription value of £1,423,373,300.

b. There are 30 Quinn Emanuel (“QE”) Group Claimants. Each of these 30 Claimants is an entity associated with the 4 large financial services groups and one pension fund previously identified as being QE’s clients. Together they acquired 665,430,752 shares and therefore they have subscriptions of £1,330,861,504.

c. SL understands that the Leon Kaye (“LK”) Group has issued proceedings for 3,898 Claimants with total subscriptions of 11,642,732 shares, i.e. a total subscription value of £23,285,464.

Based on the figures above, the SL Group would be liable for approximately 32.3% of any adverse costs award made against the claimants on an unsuccessful claim. SL do not currently consider there to be a risk that, as a result of the size of the SL Group Claimants’ subscriptions, the SL Group Claimants will incur an adverse costs risk in excess of the adverse costs cover that the SL Group Claimants have in place because even if RBS’s cost estimate of £41.8m to trial (dated 12 September 2013) is exceeded by 23% overall (the current level of RBS’s overspend on its costs estimate), this would result in RBS’s costs to trial being approximately £51.4m. The Claimants’ liability for these adverse costs should be reduced to around £30.8m - £36m on assessment. Based on the subscription figures identified above, the SL Group Claimants’ share of any adverse costs risk is currently 32.3% of the total adverse costs risk and therefore its current estimated exposure should be, at most, £11.6m (i.e. 32.3% of £36m).

***Key dates***

The table below sets out an update as to the current procedural phase of the litigation (subject to final order of the Court) and notification of the time, date, location and purpose of any forthcoming meetings or hearings that are likely to be relevant to the timetable for the litigation, issues of strategy and/or settlement.

|  |  |
| --- | --- |
| 28 March 2013 | Claim Form issued |
| 26 July 2013 | Claim Form and Particulars of Claim served on RBS |
| 30 July 2013 | Directions Hearing in the RBoSSAG Action (the “First” Case Management Conference (CMC)) |
| 17 September 2013 | Second CMC |
| 15 October 2013 | SL Group filed its “Points of Difference” Particulars of Claim |
| 4/5 December 2013 | Third CMC (part heard) |
| 13 December 2013 | RBS filed and served its Defence |
| 19 December 2013 | Third CMC (concluded) |
| 31 January 2014 | All parties filed and exchanged details of cost incurred to end of December 2013 |
| 7 February 2014 | Claimants served position paper re merits and parameters of split trial on RBS |
| 28 February 2014 | RBS served position paper to address Claimants’ submissions re merits/parameters of split trial |
| 3 March 2014 | Requests for Information (“RFI”) served on RBS |
| 25 March 2014 | RBS served Defence as to causation and quantum. |
| 31 March 2014 | Parties indicated to the Court areas of expert evidence and number of experts |
| 8 May 2014 | RBS Responses to RFIs served |
| 14 May 2014 | **Additional 212 Claimants (including Lancashire County Council) added to Claim Form by way of amendment** / First potential limitation date |
| 27 May 2014 | Reply served on RBS;  Application for a Split Trial issued and served on RBS;  Reply to Defence on Causation and Quantum served on RBS. |
| 3 July 2014 | Fourth CMC. |
| 11 July 2014 | RBS to state whether or not they agree to the form of the Consolidated Particulars of Claim or state any objections and the basis for those objections. |
| 17 July 2014 | Claimants served Consolidated Particulars of Claim on RBS. |
| 28 August 2014 | LK to make payments to Lead Claimant Groups in respect of the Lead Groups’ historic own common costs |
| 12 September 2014 | Each party to exchange a composite statement of costs incurred to 31 August 2014. |
| 14 – 16 October 2014 | Fifth CMC listed, with a time estimate of 2 – 3 days. |
| 31 October 2014 | RBS to file and serve its Amended Defence and Amended Defence on Causation and Quantum. |
| 15 – 17 December 2014 | Provisional listing for Fifth CMC with a time estimate of 2-3 days if October listing is vacated. |
| 19 December 2014 | Claimants to file and serve an Amended Reply and Amended Reply on Causation and Quantum. |

# 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 over-sight and lack of independence.

Involvement in a non-US type of “class action” may result in losses incurred being recovered for the Fund, but should the claim be lost then the Fund may incur related costs which may not be known with certainty at the time of filing.

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 pay the amounts owing to SL under the Conditional Fee Agreement (insofar as not recovered from RBS) and pay a proportion of any sum recovered to the funder from the proceeds of the litigation.

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

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| N/A |  |  |
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