

## **Pension Fund Committee**

Meeting to be held on 28 November 2014

Electoral Division affected: None
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### **Shareholder voting and engagement**

(Appendices 'A', 'B', and 'C' 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 in accordance with current voting guidelines and the engagement activity undertaken by LAPFF.

The attached report from PIRC (Appendix A) covers the period 1 July 2014 to 30 September 2014. The Fund has voted on 318 occasions and has opposed or abstained in 39% 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.

In addition, PIRC have provided a review of the proxy voting activity since 1 January 2014, which provides a summary of the votes cast and details of the types of resolution being voted upon. This is attached as Appendix B.

The attached engagement report from LAPFF (Appendix C) covers the period 1 July 2014 to 30 September 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**

It is recommended that:

1. The Committee note the report.

## Background and Advice

### 1. Shareholder Voting and Governance

- 1.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests, and challenging companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice.
- 1.2 The Fund's approach is part of its overall investment management arrangements and its intention to be a good asset owner for which its approach is developing. There are two main areas of responsible investment that the Fund focusses upon: **voting globally** and **engagement through partnerships**.

### 2. Global shareholder voting

- 2.1 PIRC, who act as the Fund's proxy and casts the Fund's votes at shareholder meetings, 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.
- 2.2 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.
- 2.3 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.
- 2.4 PIRC's quarterly report to 30 September 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.
- 2.5 The Fund's voting record using PIRC as its proxy for the three months ended 30 September 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	0	0	0	0	0	0	0	0
REST OF THE WORLD	1	63	23	38	2	0	0	0
ASIA	2	14	9	4	1	0	0	0
NORTH AMERICA	6	64	34	18	3	9	0	0
UK	6	120	94	16	10	0	0	0
EU	3	57	25	27	5	0	0	0
JAPAN	0	0	0	0	0	0	0	0

### ANALYSIS OF UK ALLSHARE VOTING RECOMMENDATIONS

Resolution Type	For	Percentage %	Abstain	Percentage %	Oppose	Percentage %	Total
Annual Reports	5	83.33	0	0.0	1	16.67	6
Remuneration Reports	3	50.0	1	16.67	2	33.33	6
Articles of Association	0		0		0		0
Auditors Appointment	1	16.67	5	83.33	0	0.0	6
Directors	49	85.96	3	5.26	5	8.77	57
Dividend	5	100.0	0	0.0	0	0.0	5
Executive Pay Scheme	0	0.0	0	0.0	2	100.0	2

2.6 The Fund was party to 318 resolutions during this period, of which 58% resulted in positive votes for shareholder resolutions and 39% 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 9 within the period, just over 3%.

2.7 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.

Lancashire County Pension Fund voting details 1 July 2014 - 30 September 2014

Company	Date	Type	Country	Sector	Holding (£)	Resolution Count	For	Oppose	Abstain	Withhold
EXPERIAN PLC	16/07/2014	AGM	United Kingdom	Professional Services	4,416,318	18	11	5	2	0
EMS-CHEMIE HOLDING AG	09/08/2014	AGM	Switzerland	Chemicals	3,396,994	11	6	3	2	0
SMUCKER (JM) CO.	13/08/2014	AGM	United States	Food Products	2,204,324	7	2	3	2	0
XILINX INC.	13/08/2014	AGM	United States	Semi-conductors	6,870,881	12	6	6	0	0
SAINSBURY (J) PLC	09/07/2014	AGM	United Kingdom	Food and Staples Retailing	867,280	20	18	2	0	0
NASPERS LTD	29/08/2014	AGM	South Africa	Media	22,238,924	63	23	38	2	0
FEDEX CORPORATION	29/09/2014	AGM	United States	Air Freight and Logistics	6,612,763	19	12	6	1	0
HERCULES TECH GROWTH CAP INC	08/07/2014	AGM	United States	Capital Markets	1,360,426	3	2	1	0	0
RYANAIR HOLDINGS PLC	25/09/2014	AGM	Ireland	Airlines	14,491,593	18	9	7	2	0
SINGAPORE POST LTD	04/07/2014	EGM	Singapore	Air Freight and Logistics	2,844,283	2	1	0	1	0
DIAGEO PLC	18/09/2014	AGM	United Kingdom	Beverages	29,847,181	22	16	4	2	0
SSE PLC	17/07/2014	AGM	United Kingdom	Electric Utilities	2,267,252	18	16	0	2	0
SINGAPORE POST LTD	04/07/2014	AGM	Singapore	Air Freight and Logistics	2,844,283	12	8	4	0	0
GREENE KING PLC	10/09/2014	AGM	United Kingdom	Hotels Restaurants and Leisure	2,396,150	17	13	2	2	0
COMPAGNIE FINANCIERE RICHEMONT SA	17/09/2014	AGM	Switzerland	Textiles, Apparel & Luxury Goods	15,509,369	28	10	17	1	0
NATIONAL GRID PLC	28/07/2014	AGM	United Kingdom	Multi-utilities	2,942,406	25	20	3	2	0
MEDTRONIC INC	21/08/2014	AGM	United States	Health Care Equipment & Supplies	9,876,194	17	9	1	0	7
NIKE INC.	18/09/2014	AGM	United States	Textiles, Apparel & Luxury Goods	4,953,361	6	3	1	0	2
						318	185	103	21	9

- 2.8 As mentioned at the June meeting of the Committee, PIRC have collated a review of proxy voting outcomes for the 2014 season and this is attached as Appendix B. The Managing Director of PIRC, Alan MacDougall, will be in attendance at the meeting and will be referring to this report as part of his presentation regarding shareholder voting and engagement and the effectiveness of the work undertaken by PIRC for the Fund.

### **3. Shareholder Engagement through LAPFF**

- 3.1 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.
- 3.2 Members of the Committee may be interested to note the attached engagement report from LAPFF (Appendix C) which covers the period 1 July 2014 to 30 September 2014.
- 3.3 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.

### **4. Securities Litigation**

#### **United States**

- 4.1 The Fund has appointed Barrack, Rodos and Bacine (BR&B) and, more recently in addition, Robbins Geller Rudman and Dowd (RGRD) to provide securities litigation (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.
- 4.2 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.
- 4.3 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.
- 4.4 Details of current potential cases as at 30 September 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

### United Kingdom

- 4.5 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.
- 4.6 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. An update was provided to the previous Committee in September 2014, and no significant developments have occurred since then.

### 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 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**

N/A