# Good Corporate Governance Enhances Long Term Pension Fund Returns

authored by

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Shareholder returns, especially gains that drive benefits to pension fund beneficiaries are realized by making good investments. However, no portfolio can outperform if the underlying investments are comprised of companies that do not prioritize good corporate governance. When left unchecked, corporate insiders sometimes neglect their duties and act in their own best interests, rather than the best interests of the corporations and its shareholders. The wrongful transfer of corporate assets to insiders, excessive executive compensation, and other nefarious activities by corporate insiders destroy shareholder value and are almost always likely to negatively affect stock returns that drive pension benefits in the long term.

Levi & Korsinsky has recovered billions of dollars on behalf of shareholders and corporations challenging egregious acts by corporate insiders. In the last year alone, Levi & Korsinsky has recovered more than $200 million for stockholders in some of the highest profile securities cases in the country.

While highly publicized cases and huge stock drops grab headlines, long term pension fund returns are affected just as much by corporate governance of portfolio companies. Numerous studies have found that good corporate governance is essential for preservation of shareholder value,[1] while bad corporate practices cause negative stock returns.[2]

Levi & Korsinsky has a dedicated research team focused on scrutinizing the corporate governance practices of public companies. When problems are uncovered, shareholders have legal rights to protect themselves. One method is through derivative litigation.

Derivative litigation is an effective means for shareholders to realign the interests of the directors and officers with the shareholders. In such actions, shareholders seek to ensure that corporate executives and board members are held accountable for their wrongdoings. When done properly, successful derivative actions recover money and achieve meaningful governance changes that prevent future wrongdoings that may drag returns in the future.

One common area of managerial abuse is the excessive compensation of executives. Excessive compensation not only enriches executives, but also reflects a disconnect between the interests of corporate executives and shareholders. Lavish compensation upon CEOs is not necessary to attract talent andobtain good returns.[3] To the contrary, when a CEO's compensation is significantly higher than other officers, the company tends to have a lower value, lower profitability, and lower returns following significant corporate events. [4]

At Levi & Korsinsky, we have extensive experience challenging executive compensation and recapturing assets for the benefit of companies and their shareholders. The firm recently represented the Police & Fire Retirement System of the City of Detroit in a derivative suit challenging excessive equity awards issued to the CEO and two top officers of the global footwear giant Skechers USA Inc. In that case a settlement was reached where the equity awards, worth almost $30 million, were canceled and returned to the company. The directors also agreed to make future compensation decisions based on the recommendations of an independent consultant, decreasing the likelihood of similar overcompensation in the future.

Corporate insiders can also siphon off wealth by entering into agreements that waste corporate assets while profiting insiders. In *In re EZCorp Inc. Consulting Agreement Derivative Litig.,* C.A. 9962-VCL (Del. Ch.), Levi & Korsinsky challenged consulting agreements that favored a controlling shareholder with excessive service and licensing fees. The firm obtained a settlement in which $6.5 million was repaid to the company, and the consulting agreements, pursuant to which the company had paid almost $20 million, were discontinued.

*[1] See, e.g., Lucian A. Bebchuk et al., Learning and the Disappearing Association Between Governance and Returns, 108 J. FIN. ECON. 323 (2013)*
*[2] Paul M. Guest& Marco Nerino, Do Corporate Governance Ratings Change Investor Expectations? Evidence from Announcements by Institutional Shareholder Services, 24 REV. FIN. 891 (2020)*
*[3] Joseph Bachelder, CEO Pay Growth and Total Shareholder Return, HARV. L. SCH. F. ON CORP. GOVERNANCE & FIN. REG. (Oct. 12, 2019)*
*[4] Lucian A. Bebchuk, et al., The CEO Pay Slice, 102 J. FIN. ECON. 199(2011)*

Insider trading is another common method by which corporate insiders benefit themselves. In *Pfeiffer v. Toll,* C.A. No. 4140-VCL (Del. Ch.), Levi & Korsinsky sought disgorgement of profits that company insiders reaped through a pattern of insider trading. The firm secured a $16.25 million cash settlement, including a significant contribution from the corporate insiders accused of trading on the inside information.

Sometimes, the corporate abuse is large, at well-known companies, and is not readily apparent to the public. For example, in *In re Google Inc. Class C Shareholder Litigation*, C.A. No. 7469-CS (Del. Ch.), Levi & Korsinsky challenged a stock recapitalization transaction that would divert control of the company from shareholders and towards the insiders. The firm secured a settlement that allowed Google's shareholders to receive payments of $522 million and total net benefits exceeding $3 billion.

By identifying and challenging these improper behaviors by corporate insiders, Levi & Korsinsky provides a significant check on corporate mismanagement, managerial abuse, and wealth destruction, which ultimately increases pension fund benefits.

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Eduard Korsinsky is the Managing Partner and Co-Founder of Levi & Korsinsky LLP, a national securities firm that has recovered billions of dollars for investors since its formation in 2003. For more than 24 years Mr. Korsinsky has represented investors and institutional shareholders in complex securities matters. He has achieved significant recoveries for stockholders, including a $79 million recovery for investors of E-Trade Financial Corporation and a payment ladder indemnifying investors of Google, Inc. up to $8 billion in losses on a ground-breaking corporate governance case. His firm serves as lead counsel in some of the largest securities matters involving Tesla, US Steel, Kraft Heinz and others. He has been named a New York "Super Lawyer" by Thomson Reuters and is recognized as one of the country's leading practitioners in class action and derivative matters.

Mr. Korsinsky is also a founder of CORE Monitoring Systems LLC, a technology platform designed to assist institutional clients more effectively monitor their investment portfolios and maximize recoveries on securities litigation.

Mr. Korsinsky received his LL.M. Master of Law(s) from New York University School of Law in 1997 and his J.D. from Brooklyn Law School in 1995.

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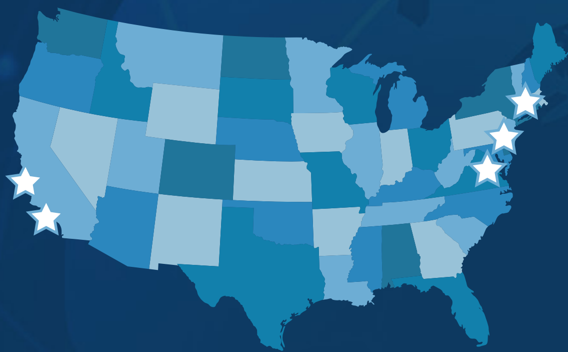

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