



CIPFA Pensions Network Workshops
Responsible Investment, Shareholder
Rights & Pooling

The voice of responsible shareowners

Introduction

Presentation to CIPFA Pensions Network Workshops
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Regulated by the Financial Conduct Authority

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Current Issues 1

- **Focus on Boards of Directors:** Board independence and competence under greater scrutiny (Sports Direct). May lead to extending controlling shareholder regime to include shareholder resolutions?
- **Diversity:** Voluntarism may have reached its limits. Role of 30% Club important but female board members should lead cultural shift with company management and workforce.
- **Executive Pay - Quantum:** A new idea for shareholder committees from Chris Philp MP to break the executive pay quantum log jam? Requires much greater stewardship commitment by shareholders. Remit, resources and membership crucial issues. New focus on Quantum.
- **Company Taxation:** Now an investor issue. Lack of risk strategies and transparency requires active policy and CBCR. Tax havens must go.
- **Human Capital reporting;** ‘The IIRC’s vision is to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking’.

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Current Issues 2

- **Carbon Risk Strategies:** If funds do not adopt new strategies to carbon risk and 2 degree scenarios, investment risk may intensify, but disinvestment could undermine capital value.
- **Reliable Accounts:** The LAPFF focus on whether shareholders are being misinformed about the real assets and liabilities on company balance sheets, following its investigation of IFRS and the ‘true and fair’ view in the Company’s Act.
- **Political change and CG Reform:** Post-Brexit context for PM’s radical ‘Big Society’ approach may herald significant reform proposals for employee reps on public company boards; possible additional stakeholder reps too. At the same time House of Commons BIS select committee enquiry into corporate governance reform.
- **Pay at the Bottom and Precarious Work:** Sports Direct has also been the trigger for a greater scrutiny on low pay at work and the ‘zero hours contracts’ challenge. Maybe more shareholder resolutions?

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New Guidance on Investment Strategy 1

- **Funds retain full fiduciary responsibility, pools must be accountable to funds:** must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.
- **Managing the ESG investment considerations:** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.
- **Certain Investment Strategies ‘Inappropriate’:** ... using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.
- **Wider remit on integrated reporting policies:** May also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

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New Guidance on Investment Strategy 2

- **Funds may pursue ‘Social Investments’:** Investments that deliver social impact as well as a financial return.
- **Managing social impact and social return:** In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.
- **Challenges:** Pooled investments means challenge to fund level policies on proxy voting; split fund voting will be the new demand. Heightened monitoring of asset manager ESG competence and capability and client responsiveness. Support for shareholder resolutions requires organised AM processes to reflect client wishes. Director nominations likewise.

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New Guidance on 'ESG Narrative' 3

– The importance of the 'narrative':

Long term investment interests – high standards of governance and RI – poor governance impacts Shareholder Value – Stewardship for long term success of companies – effective monitoring on the 'full agenda' – Engagement can identify problems – hand in hand with proxy voting – enables long term shareholders to exert positive influence - promote strong governance, manage risk, increase accountability and drive improvements on ESG - encourage best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers - Administering authorities should become Signatories to the Stewardship Code – Now: Regulation 7(2)(f) requires every administering authority to formulate a policy that increases awareness and promote engagement to reflect their stewardship responsibilities.