

WIRRAL COUNCIL
CABINET
14 APRIL 2011

SUBJECT:	MERSEYSIDE PENSION FUND: SHAREHOLDER VOTING
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	COUNCILLOR JEFF GREEN
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide a summary of the Merseyside Pension Fund policy on the exercise of shareholder voting rights, in response to the resolution passed by Council on 14 February 2011 (Item 95).

2.0 RECOMMENDATION

- 2.1 That Members note the policy on responsible ownership which is contained in the current Statement of Investment Principles.

3.0 REASON/S FOR RECOMMENDATION

- 3.1 The Council resolution called on the Merseyside Pension Fund (MPF) to 'pursue a policy of restraint and social responsibility in relation to the pay and bonuses of senior executives of the companies that it invests in.' MPF already has, in effect, such a policy in place, as expressed in the commitment to responsible ownership.
- 3.2 MPF consulted with the Merseyside Councils in preparing the Statement of Investment Principles. The Statement is published on the MPF website, which also contains reports on responsible ownership activity.
- 3.3 MPF retains Pensions Investment Research Consultants (PIRC) as the corporate governance research and shareholder voting provider, to assist in exercising all shareholding voting rights in a consistent manner. Based on PIRC advice, MPF exercises votes over the remuneration report presented to shareholders for approval at UK company AGMs. In 2010, MPF voted against the remuneration report at the AGMs of its ten largest UK shareholdings. MPF has consistently voted against the remuneration report at the AGMs of UK banks; a track record that pre-dates the banking crisis of 2008.

- 3.4 MPF uses membership of the Local Authority Pension Fund Forum (LAPFF) to join with other local authority pension funds to maximise shareholder influence whilst promoting social responsibility and good corporate governance at the companies in which MPF invests. LAPFF has reported on its activity in its Annual Report 2010, which is included as an appendix to this report. MPF is a leading and long-standing member of this organisation and the Chair of Pensions Committee serves on the Executive Board (as have two previous Chairs).

4.0 BACKGROUND AND KEY ISSUES

- 4.1 Merseyside Pension Fund has a long-standing commitment to the values of stewardship, in relation to its conduct as an asset owner. MPF considers the responsibilities of stewardship to be part of the fiduciary duty to stakeholders. In 2007, MPF became a signatory to the United Nations Principles for Responsible Investment: stewardship is one of the cornerstones of the responsible investment policy. In 2010, MPF was one of the first UK pension funds to sign the Financial Reporting Council (FRC) Stewardship Code, the first code of its kind in the world. A statement of compliance with the Stewardship Code has been published on the MPF and FRC websites.
- 4.2 The MPF investment strategy is partly based on the view that environmental, social and governance factors can materially affect long-term investment performance. In this context, good corporate governance is about ensuring that the interest of company directors and management is aligned with that of the company itself and its shareholders. Corporate social responsibility is about aligning the interest of a company with that of its stakeholders in the wider society in which it operates. Excessive executive pay (at boardroom level and below) is one of the most contentious issues in corporate governance because it is perceived to be a misalignment of interests.
- 4.3 The UK shareholder voting guidelines, developed by PIRC and adopted by MPF to guide voting policy, seeks to address three main areas of contention over executive remuneration: **Pay for performance** (long-term incentive schemes, bonuses, salary increases and pension contributions); **Reward for failure** (notice periods and golden parachutes); **Inequitable treatment of different stakeholders** (employees, shareowners and directors).
- 4.4 LAPFF has taken the view that the practice of linking executive remuneration and reward to solely financial measures (such as earnings growth or improvements in the share price) leads to short-termism and inadequate risk management. A significant element of LAPFF's engagement work has been to look at alternative approaches to incentivizing executives, for instance, by looking at non-financial drivers of results and reward such as risk management.

5.0 RELEVANT RISKS

- 5.1 The perceived failure to properly align the interests of company management and long-term shareholders is held by many to have been a contributing factor in the global financial crisis.

6.0 OTHER OPTIONS CONSIDERED

- 6.1 Other options have not been considered, but the Statement of Investment Principles is subject to regular review by the Pensions Committee.

7.0 CONSULTATION

- 7.1 MPF consulted with scheme employers in preparing the Statement of Investment Principles. The four other Merseyside Councils are represented on the Pensions Committee, as are the non-local authority employers and the trade unions.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1 There are none.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

- 9.1 There are none.

10.0 LEGAL IMPLICATIONS

- 10.1 There are none.

11.0 EQUALITIES IMPLICATIONS

- 11.1 There are none.

12.0 CARBON REDUCTION IMPLICATIONS

- 12.1 There are none.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

- 13.1 There are none

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APPENDICES

Local Authority Pension Fund Forum, Annual Report 2010

REFERENCE MATERIAL

<http://mpfmembers.org.uk/content/responsible-investment>

Statement of Investment Principles – November 2010

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Council	14 February 2011
Pensions Committee	16 November 2010
Pensions Committee	23 March 2010