



# Scottish Borders Council Pension Fund

The voice of responsible shareowners

# Introduction

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Presentation to: Scottish Borders Council Pension Fund

Presentation from:

Ian Jones, Head of Public Policy

Tessa Younger, Engagement Services Manager

Regulated by the Financial Conduct Authority

# Introduction

## Agenda

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- About PIRC
- How we work, product description
- Research process, capacity and approach
- Governance philosophy and approach
- Unique selling points and products

# About PIRC

## Who we are and what we do

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- **Focused on shareowners:** PIRC was set up by pension funds in 1986 to provide research and advice to them.
  - **A dedicated resource:** we operate a large team focused purely on corporate governance and responsible investment issues.
  - **Completely independent:** we are entirely owned by current and former directors of PIRC.
  - **No conflicts:** we only provide services to shareholders, not the companies we research.
  - **An influential voice:** we advise clients with assets of over £1.5trn our views are frequently sought by investors and companies.
  - **Global reach:** we cover any company that our clients hold, whatever the market, currently spanning 62 countries
  - **Company engagement:** we actively engage with companies and give them the opportunity to respond to our analysis.
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## About PIRC

# We believe good governance adds value

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“The balance of academic evidence supports the thesis that good corporate governance adds value.... The benefits gained may be return-enhancing, but may equally be risk-reducing in nature.”

*Remapping Our Investment World,*

Towers Watson

“We believe that active ownership can help enhance long-term shareholder value and are therefore supportive of pension funds being more active.”

*No action, no option,*

Towers Watson

# About PIRC

## What they say about us

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*"PIRC is a firm with a well deserved reputation as a canary in the coalmine of corporate governance."*



*"The investor group which led the so-called Shareholder Spring."*

### The Daily Telegraph

*"[PIRC's comments] on News Corp and BSkyB might have been condensed into just four words: 'We told you so'. For PIRC did indeed tell us so – it has been warning about governance issues at both companies for several years."*



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# How we work

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**PIRC**

# How we work

## Corporate Governance: Service description

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- PIRC provides **global portfolio coverage** of client equity portfolios.
- For UK portfolios, PIRC provides a proxy report **incorporating environmental and social analysis** with its governance coverage and voting recommendations.
- Coverage in any market can be based on a **client's own corporate governance policy and voting guidelines**.
- PIRC delivers reports in a pdf format to a **unique client website**.
- Unique **capital strategies/stewardship** coverage
- Previous year's **proxy results** incorporated into reports
- **Engagement with company recorded** in the report.



# How we work

## Research process

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- **Proprietary research:** All research is undertaken in-house, in line with a standardised process, drawing on various primary sources.
  - **A flexible process:** An internal Policy Forum enables our research staff to decide how to approach new issues, or situations where fine judgment is required.
  - **A structured approach:** Our shareholder voting guidelines underpin the analysis undertaken. We believe that our guidelines-informed approach helps prevent personal/cognitive biases affecting analysis and voting advice. Clients' custom guidelines are implemented by a dedicated client executive.
  - **Going beyond the minimum:** Our guidelines also set out where our view goes beyond existing legal or regulatory requirements.
  - **Company buy-in:** We actively seek company views on draft analysis and recommendations, and send copies of final reports.
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# How we work

## A PIRC report



The front page of a typical proxy report provides an overview of our analysis and voting recommendations

### **PIRC**

BP PLC

UK Governance Service

MEETING DATE	Wed, 17 May 2017 11:30 am	TYPE	AGM	ISSUE DATE	Wed, 30 Aug 2017
MEETING LOCATION	ExCeL London, One Western Gateway, Royal Victoria Dock, London				
CURRENT INDICES	FTSE 100, FTSE EuroFirst				
SECTOR	Integrated Oil & Gas				

#### **COMPANY OVERVIEW**

BP plc is the parent company of the BP group of companies and has its worldwide headquarters in London. The Company finds, develops and produces sources of energy, turns them into products, and buys and sells at each stage of the hydrocarbon value chain in three main businesses - fuels, lubricants and petrochemicals. In renewable energy, BP's activities are focused on biofuels and wind.

#### **MEETING SPECIFIC INFORMATION**

##### **Quorum requirements and voting majority**

Resolutions under extraordinary business have special voting majority requirements. Resolutions 20 to 23 require three quarters of the votes validly cast in order to be approved.

PROPOSALS		ADVICE
1	<b>Receive the Annual Report</b> The Strategic Review is considered adequate. There are adequate environmental and employment policies in place. Quantified environmental data has been published. It is noted that the Company has not provided shareholders with an opportunity to approve dividends paid during the year. Given the lack of opportunity to approve the dividend, shareholders are recommended to oppose.	Oppose
2	<b>Approve the Remuneration Report</b> Overall disclosure is considered acceptable although targets attached to performance shares granted during the year are not clearly sated. The changes in CEO pay over the last five years are considered in line with the changes in the Company's TSR performance. However, the variable pay of the CEO is considered excessive at 400% of salary. Also, the ratio between CEO pay and average employee	Abstain

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Scottish Borders Council Pension Fund

# How we work: Theme: Capital Stewardship

## Looking at how shareholder funds are invested



- **Focusing on capital:** Over the past three years, we have developed our services to include a tighter focus on capital maintenance and the stewardship of capital, i.e. the real wealth of the company as distinct from market derived estimates of it.
- **Revised guidelines:** Our shareholder voting guidelines include detailed commentary on capital stewardship and accounting.
- **Policy work:** We have undertaken extensive research for clients unpicking unreliable accounting practices, and calculating the costs.
- **In our services:** Our proxy reports on companies in key markets now include a capital stewardship section:
- **Into practice:** Concerns about capital and related issues have a significant impact on voting recommendations (annual meetings and extraordinary general meetings), eg illegal dividends

# Capital Stewardship

## The black hole at Barclays



### PIRC

governanceplus  
BARCLAYS PLC

Meeting Date:	Wed, 27 Apr 2011 11:00	Proxy Deadline:	Mon, 25 Apr 2011	Type:	AGM	Issue date:	Tue, 12 Apr 2011
Meeting Location:	Royal Festival Hall, Southbank Centre, Belvedere Road, London SE1 8XX						
Current Indices:	FTSE 100	FTSE EuroFirst	MSCI Europe				
Sector:	Banks						

PROPOSALS	ADVICE
<p><b>1 Receive the Annual Report</b></p> <p>The company's Business Review meets ASB RS guidelines in our view. Adequate environmental and employment policies are in place and quantified environmental reporting is disclosed. Non-EU political donations made by group subsidiary in the year but recipients identified. Total dividend paid in the year of 5.5p (2.5p) comprises 3p interim and 2.5p final and is covered by earnings however no vote is provided in order that shareholders may approve the dividend distribution policy. It is the Group's policy to declare and pay dividends on a quarterly basis. We are further concerned at the linking of distribution policy to executive pay. The company has adopted clawback provisions which become executable if a dividend is not paid. Historically dividend has been decided without introducing the possibility that executives may have to return incentive awards and the new clawback arrangements change this situation.</p> <p>Given the impact on the economy of the global financial crisis and the pivotal role of banks in particular we consider that shareholders should focus on reporting by financial institutions and any misalignment with governance arrangements. In this context we are concerned at the company's statement that the "chief operating decision maker" – for applying IFRS 8 is the executive committee and not the board. The company's segmental reporting note (IFRS 8) states that the "chief operating decision maker" is the executive committee. Given that the objective of IFRS 8 is to segment the business according to how the major capital allocation decisions are taken and then reported, the company's disclosure appears at odds with the schedule of matters reserved for the board which includes approval of financial statements and any significant changes in accounting policies. The segmental reporting is contrary in our view to the intention of Section 393 Companies Act in which it is the directors who are responsible for ensuring that the accounts give a true and fair view. Under section 393 the directors of a company must not approve accounts unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss of the consolidated group. The UK legal environment also provides complementary governance rights to shareholders. Shareholders have the right to dismiss board members and elect directors. Such rights do not extend to all executive committee members.</p>	Oppose

– PIRC, April 2012

– *Barclays has overvalued its assets by at least £6.7bn, and its capital is overstated by that amount.*

– The company persistently denied this including up to the 2013 AGM.

– Prudential Regulatory Authority (PRA), June 2013

– *Barclays needs to raise new capital [the Rights issue is pending] due to overvaluing assets by £8.6bn.*

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# Capital Stewardship Protium



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**PIRC, 2011** Barclays used an off balance sheet vehicle Protium in which to place toxic assets. This seems to have protected Barcap earnings from mark-down-to-market impairment of the assets transferred to Protium. Whilst it appears that the regulator had adjusted for this in terms of group balance sheet risk, the Barcap balance sheet for performance measurement is based on a measure of economic capital ... that does not necessarily correlate with that of the regulator. It would appear that the management of economic profit and the structure of Protium serves the purpose of artificially enhancing the performance of Barcap for remuneration purposes.

**Financial Service Authority (FSA) to Barclays in 2012 (revealed by Treasury Select Committee)** The development of the Protium structure in 2009 which, although not delivering Barclays any regulatory capital advantage and while within accounting rules, was perceived by many external commentators as a convoluted attempt to portray a favourable accounting result.

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# Governance philosophy and approach

# PIRC's Governance philosophy

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- **PIRC's ability to spot emerging issues.** PIRC raises the profile of issues before many in the marketplace have recognised their significance. PIRC has been a market leader on executive remuneration. Our first report on pay, published in 1992, called for a shareholder vote on remuneration.
- **PIRC's independent and critical edge.** PIRC has no corporate conflicts and is unafraid to raise the difficult issues with companies that other investors often shy away from.
- **High quality research:** PIRC's analysis and research is well respected in the market place and provides the fundamental underpin to its policy approaches and voting recommendations.

# PIRC's Governance philosophy (2)

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- **Market influence:** Many of the elements of corporate governance best practice that are now taken for granted at public companies were reforms that PIRC had proposed much earlier.

For example, PIRC called for a shareholder vote on audit committee reports in 2009, this was proposed by the Competition Commission in 2013.

For example: PIRC called for a shareholder vote on executive pay in 1992 and this finally came to pass in the advisory vote and later the binding vote on pay policy in 2013.

PIRC launched the Environmental Investor Code in 1992, now all companies report on their environmental impacts.

- **Unique insights:** Our work on capital stewardship and accounting issues is market-leading.