

## **AGENDA ITEM 5: ITEMS FROM THE PUBLIC**

Statement and questions from Cllr David Willingham, Bristol City Council, with responses to the questions from the Chair, Cllr Paul Fox

### **Statement – Avon Pension Fund Committee 2011-12-09**

I am making this statement both as a member of the Avon Pension Fund, and as a Councillor on Bristol City Council.

I would like to start by thanking Officers at Bath & Northeast Somerset Council for their help and for providing me with information about voting activity of the fund, and to apologise that due to a prior Council commitment, I am unable to be present in person to present this statement.

I doubt that any member of this committee can be unaware of the Occupy protest in Bristol and the current zeitgeist against corporatism. This pension fund holds investments in many of the companies that have allowed their directors' remuneration packages to buck the current economic trend towards austerity.

Whilst in general there is little that Local Authorities can do to tackle corporate irresponsibility and excessive boardroom remuneration; through engagement with these companies, and by voting against excessive director remuneration, this pension fund does have some influence and could voice the frustration of its ordinary members at the extraordinary inflated remuneration packages of directors. The decision is whether you will choose to direct our pension fund to use that influence, or whether the status quo will be allowed to continue by inaction on this matter.

I suspect that most modestly salaried members of the Avon Pension Fund would be extremely angry if they were to discover that their pension fund voted in favour of a directors' remuneration report that saw a director's remuneration package soar to £18,426,105, but this has been allowed to happen!

### **Questions – Avon Pension Fund Committee 2011-12-09**

**Question 1** *It was reported by the BBC that Mick Davis of Xstrata received a remuneration package worth £18,426,105; it also appears that through TT International, the Avon Pension Fund voted to approve the Xstrata directors' remuneration report of 4.5.11. How does the Chair think that ordinary members of the Avon Pension Fund, on ordinary salaries will feel about their pension funds' involvement in approving this astronomical remuneration package?*

#### **Response:**

I recognise this is an important issue and whilst not knowing how all members feel, I can imagine some members would be very concerned about this level

of remuneration and would want to know the Avon Pension Fund (APF or Fund) is looking after their interests as members of the Fund.

The Fund's voting policy is to delegate the voting decision to the Fund's external investment managers. These managers have the knowledge, skills and resources to fully understand the context in which a company operates and therefore are better placed to be able to vote in the best interests of shareholders. In the UK, we request that managers vote in line with the UK Corporate Governance Code issued by the Financial Reporting Council and explain where they don't vote in line with it.

When deciding how to vote on the remuneration report, managers take into account how the remuneration policy is aligned with shareholder interests and the context in which the company operates (i.e. the business model and competitive environment in which it operates). APF's investment managers have voted against remuneration reports proposed by various companies on several occasions.

In addition to voting, the APF can also seek to influence corporate behaviour through engagement with companies. The APF is a member of the Local Authority Pension Fund Forum (LAPFF) which actively engages with companies on behalf of local authority pension funds and uses the combined asset holding to influence company boards.

You will appreciate that the knowledge, skills and resources required to make informed decisions on every voting decision and to undertake effective engagement are considerable and that when the Committee decides on how to allocate its own resources it must take into account the best way of effectively influencing company behaviour whilst fulfilling its fiduciary duty to scheme employers to meet the financial obligations of the Fund.

Specifically in the case of Xstrata, TT provided a response to the Fund explaining that the remuneration report did not contain anything outside their voting guidelines and therefore they voted in favour. The Fund is looking into this as part of the current review of the Fund's Responsible Investment Policy.

The Fund's other investment manager with a holding in Xstrata abstained when voting on the remuneration report because the manager was (and still is) actively engaging with the company on this issue.

**Question 2** *Could the Chair please advise what actions the Avon Pension Fund will take to ensure that its voting record on director remuneration looks less like a corporate love-in, and instead reflects the "efficiency savings", "austerity measures" or cuts, that Councils and their Officers are being forced to make?*

**Response:**

The Fund believes that by having a voting policy that seeks to maximise company value and returns, and by delegating this decision to those who are

best placed to make it, it is acting in a way that minimises the potential financial burden on Employer bodies of meeting future pension benefit payments and therefore fully reflects the current drive for efficiency savings and austerity measures at Councils.

The Fund is also undertaking the following actions:

- The Fund has recently put in place a vote monitoring service that seeks to analyse voting activity at the aggregate Fund level, increasing disclosure and transparency and enabling better analysis of the voting activity undertaken by the managers on the Fund's behalf.
- The Fund is currently reviewing its Responsible Investment Policy including how the Fund can maximise its influence through voting and engagement with management on issues that affect shareholder value. For a Fund of our size, our ability to influence corporate behaviour is limited, thus greater collaboration on issues (for example via LAPFF) could be the most effective way for the Fund to influence corporate behaviour. It is anticipated this review will report to Committee during 2012 and any decision by the Committee will be taken within the context of the fiduciary duty of the Fund to employers to meet future benefits payments.
- You may be aware that there are a number of initiatives that are looking at the issues surrounding executive remuneration such as the Department for Business Innovation and Skills' discussion paper which provides a range of proposals to link executive pay more closely to company performance. LAPFF (of which the Fund is a member) is actively involved in this issue and will be submitting a response on behalf of members. In addition, LAPFF will continue to engage with individual companies on this issue.