

**D**R DANIEL SUMMERFIELD ASSESSES HIGH-value investments in some of the world's largest companies for the UK's Universities Superannuation Scheme and advises USS as a major investor to encourage good corporate governance at those companies. In his role as Co-Head of Responsible Investment for USS's Investment Management, he has an unusually detailed perspective on the deal-making landscape and the future of M&A across the transatlantic region. He spoke to Brunswick recently about his outlook and USS's role as an active shareholder.

USS is a steward of pension savings for hundreds of thousands of people in the field of higher education in the UK. As such, it is frequently in the position of encouraging or resisting changes to corporate governance and other aspects of a company's operation, to facilitate the best value and least risk for its portfolio. Recently, the fund has become a force in the fight to preserve open markets against a rising tide of protectionism in Europe and the US.

Summerfield offers France's 2015 Florange Law as an example of how even well-meaning regulation can go wrong. The law is named after the French town where, after a successful hostile takeover, ArcelorMittal tried to close down two blast furnaces, only to be met with government threats to nationalize the plant. Enacted as a reaction to the incident, the law gives companies the ability to fight off hostile bids by granting long-term shareholders additional voting rights. In effect, however, Summerfield says the law does little to stem short-termism while it hinders new long-term investment.

"Sounds good in theory," Summerfield says, "but in practice, it doesn't have the desired effect. We believe in the principle of one share, one vote."

#### What are the themes that you saw emerging in 2017 that will continue for 2018?

European markets are at a precipice. As a UK pension fund, we're going to have to remain an investor in Europe, irrespective of Brexit. We're based in the UK, but we'll continue to focus on the markets in a very objective way. We've become much more global. That's a reflection of politics and the state of the markets.

We believe in the importance of good stewardship of our assets and we have guiding principles when we invest. Among those are shareholder rights and the equal treatment of

shareholders, both under threat on both sides of the Atlantic. What we are looking for comes down to two things: first, transparency – what's being done with the capital we're putting into companies or entities. Secondly, we look for appropriate shareholder protections for the capital we are putting at risk. If we have those two, that gives us a reduced investment risk and provides a lower cost of capital to issuers – a win-win situation.

Now we are seeing increased protectionism within certain markets – governments and regulators are more inclined to intervene. France's support for Alstom is an example. Back in 2016,

# ONE SHARE, ONE VOTE

the French government spent about €500 million (\$612 million) on high-speed trains that the country arguably didn't actually need. Those trains were built to run at 320 kms an hour but are running on existing regional tracks, where the maximum speed is maybe 200 kms an hour, at best. That was six months ahead of the elections, after Alstom said jobs were at risk because of a lack of orders.

There's always been an element of state intervention, obviously. We accept that. But it's been growing recently. The Netherlands, in particular, has made various attempts to try to prevent hostile takeovers and shareholder activism. The government, in place since October 26, is looking at various proposals that we would view quite negatively. This type of intervention just wasn't there before.

We look very carefully at the standards and protections afforded to us as shareholders before we invest in a company in a particular market. We would be concerned if the state intervened to the extent that open markets and the free flow of capital, which we view as absolutely essential, are impacted.

**DR DANIEL SUMMERFIELD** exercises the influence of one of the UK's largest pension funds on the global corporate stage. He talks to Brunswick's **NICK COSGROVE** about standards, open markets and shareholder protections



PHOTOGRAPH: GARETH WONG

There is a risk this could take root in the UK as well. The National Security and Infrastructure Investment Review contains options for short-term and long-term reform. The secretary of state would be able to make a special national security intervention in an acquisition of significant influence by any foreign investor. They are looking at sectors such as civil, nuclear, defense, energy, telecoms and transport.

So you can see where this is potentially going, and the risks that could arise if they expand it too far. Unless we're very specific in the UK, we're sending out a signal that the state could intervene, which would create more uncertainty.

In addition, there is a potential risk that, to attract new listings to markets in a post-Brexit world, we begin to dilute the high standards associated with a premium listing. That would be a step backward.

Short term, there is an economic benefit to allow more companies to IPO within the UK. Medium to long term, there is a risk of lower standards and less protection for shareholders and ultimately, higher cost of capital for companies.

#### DANIEL SUMMERFIELD

Dr Daniel Summerfield is Co-Head of the Responsible Investment Team of the Universities Superannuation Scheme (USS), one of the UK's largest pension funds. Previously, he was the corporate governance executive at the Institute of Directors. He was also project director of the Independent Director initiative, a joint venture between the IoD and Ernst & Young.

#### Has US-style shareholder activism in Europe made things easier or harder for you?

I don't think it's had much of an impact. But it's an interesting development, isn't it? Shareholder activists, who were largely focused on the American market, are now coming over to Europe, where in the past they concentrated on their home market.

Sometimes they're aligned with our views and sometimes they're not. Not all activists are the same. Sometimes they are in it for short-term gains and at other times, for medium- to long-term gains. We're more aligned with those looking at the long-term strategy of a company and doing it in a constructive and confidential way.

#### Will such activism grow in 2018?

I think so. There is a role that activists can play in terms of unlocking some of this value. They see Europe as a potential new area of growth.

#### What other themes are you looking at with regard to M&A for the coming year?

Cybersecurity is a key risk and an ever-increasing one for companies. This needs to be on the board's agenda. When a company is considering an acquisition, it will want to make sure in advance that the target company has all the requisite IT infrastructure in place.

Environmental standards is another area to consider. We're led to believe that one of the reasons Nippon Paint walked away from Axalta was because some environmental standards were deemed not to be in line with Nippon's expectations. [Nippon Paint ended its bid for Axalta Coating Systems after the US company, backed by its biggest shareholder, Warren Buffett's firm Berkshire Hathaway, rejected Nippon's \$9.1 billion offer.] Environmental, social, governance – these are the new areas to consider in M&A, not just financials.

Culture and human capital also need to be part of that equation. There hasn't been much regard given to the cultural alignment of acquirer and acquisition. And that comes with a human capital dimension.

Good companies and good acquirers in the past have taken these issues into account. But it's not on the radar for many others. Are they on the radar of the investment banks that act as intermediaries? I'm not convinced.

**NICK COSGROVE**, a former BBC business presenter, is a Partner in Brunswick's London office. He specializes in M&A, financial, media and crisis communications.