



**Local Authority
Pension Fund
Forum**



LAPFF Engagement: Approach and Practice

East Sussex Pension Fund
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About LAPFF

- 71 UK public sector pension fund members, combined assets of approximately £175 billion
- Mission:
 - ‘to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies’*
- Longer-term approach: ensure returns are financially and environmentally sustainable



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About LAPFF

- Annually agreed research and engagement work-plan
- Executive Committee meets quarterly
- Quarterly Business Meetings
- Supported by PIRC and Forum Officer



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Holdings Engagement	LGPS	Reliable Accounts	M&A	Tax	Carbon Risk	People, Pay & Investment Value	Consultations
Spoke at thirteen AGMs in Q2	Held inaugural meeting of All-Party Parliamentary Group on LGPS	European Parliament approves Economic Affairs Committee report citing the LAPFF legal position on IFRS	Published M&A trustee guide	Issued the Corporate Tax Transparency Initiative Question Bank to FTSE 100	Helped to draft strategic resilience resolutions co-filed at Rio Tinto, Glencore and Anglo American receive 96-99% votes	Discussed living wage and adopted new LAPFF living wage policy	Responded to Task Force on Climate Disclosure Consultation
Contributed through engagement to Singapore Technologies decision to drop cluster munitions work	Covered the infrastructure implications in LGPS seminars for members	Obtained second opinion from George Bompas QC on inconsistency of IFRS standards with legal meaning of true and fair view	Posed questions on M&A at company engagement meetings, including AstraZeneca and Hays	Commissioned tax expert Richard Murphy to draft a report summarizing the survey responses	Engaged with companies, including AGM attendance, on carbon risk with Shell, BP, BHP, Rio Tinto, Anglo, Glencore and Total, among others	Presented paper on human capital policies approved by LAPFF members in April	Submitted consultation response to Hong Kong stock exchange on carbon reporting
Issued voting alert on Sports Direct and its poor governance and work place arrangements	Continued seminars and consultations with members on LGPS pooling arrangements	Contacted FTSE 350 regarding the second Bompas Opinion	Proposed engagement with Rentokil on M&A strategy	Met with survey non-responders to determine best way forward	Tinto, Anglo, Glencore and Total, among others	Joined TUSO effort to ensure Carillion and Interserve are upholding appropriate labour standards in Qatar	Submitted consultation response on human rights reporting
Continued engagements on executive pay with, among others, Nestlé and Hays	Held latest seminar on Responsible Investment, Shareholder Rights and Pooling	Engaged with FRC on viability statements and climate risk	Analysis on Sainsbury's intended acquisition of Argos, as 'live' test of the Trustee Guide.	Attended tax risk events on behalf of LAPFF	Glencore, ENI and Total publish enhanced climate reporting following engagement	Undertook company engagements on blacklisting with Carillion and Kier Group	Submitted a range of consultation responses on IFRS/audit considerations



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The engagement versus divestment debate

- Shareholders that engage with individual companies seek to exercise 'voice', rather than choosing to 'exit' completely.
- With no holdings, investors are poorly placed to influence companies
- Engagement is more than voting, but voting remains a vitally important element of engagement



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Shareholder engagement: what it is, why we do it

- Engagement is conducted face to face by trustees, Councillors and Officers of the fund's themselves
- Aim to encourage companies to adhere to high standards of corporate behaviour, ultimately to ensure they are well-run and deliver sustainable shareholder returns
- Collaborative engagement is seen as an important element of improved stewardship



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Shareholder engagement

A focus on effective outcomes, c.f. Lord Myners

“Shareholders cannot micromanage the companies in which they have holdings... but ... where they identify problems, they should actively engage with the company to ensure that they are tackled”

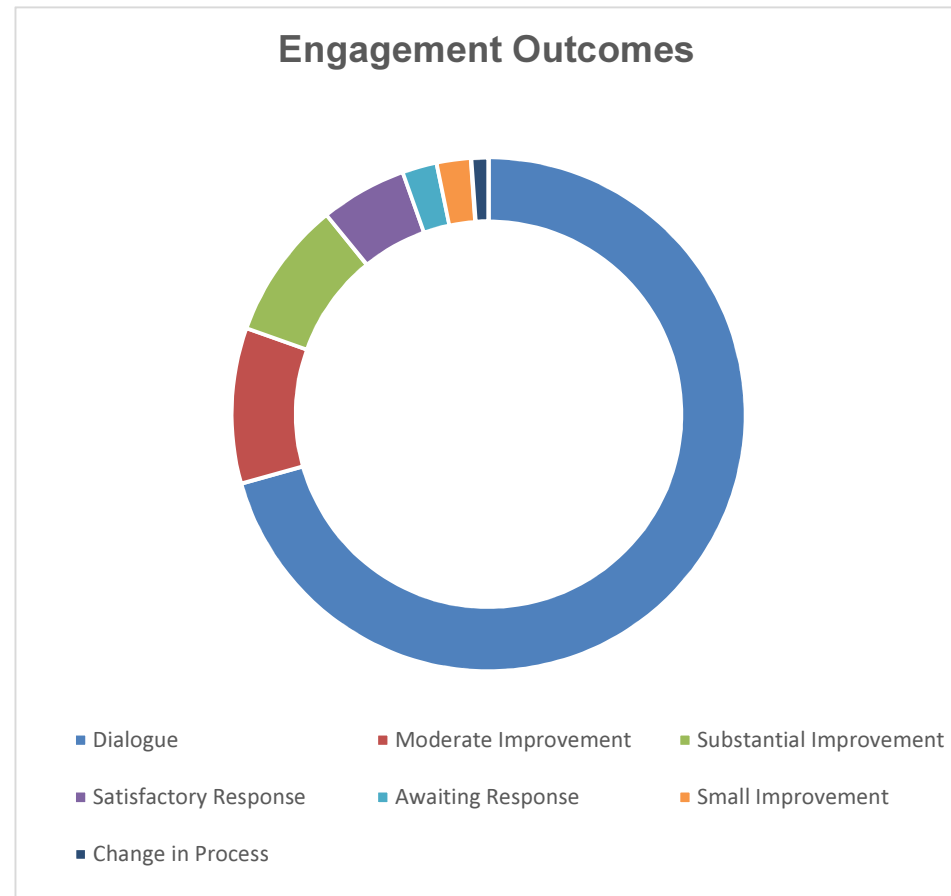
“Intervention requires persistence and a thick skin, perhaps raising issues repeatedly over a period of time with firmness until concerns are addressed. Merely meeting senior management and expressing polite reservations about strategy is not sufficient, if it is not effective.”



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Effectiveness of LAPFF engagement

- Over 70% of meetings with board directors
- All engagements assessed on outcomes
- Time is a factor...
- ... as is persistence



Current LAPFF initiatives: Executive Pay

- 2016 - a new shareholder Spring?
- Votes of over 50% at a number of companies including BP, Smith and Nephew
- WPP and Standard Life, 33% and 22% oppose votes respectively
- New approach outlined by UK government



- LAPFF a member of the 'Aiming for A' investor coalition since its inception in 2012
- Resolutions filed to BP & Shell's 2015 AGMs asked for reporting on
 - ongoing operational emissions management
 - asset portfolio resilience to International Energy Agency scenarios
 - low-carbon energy Research & Development and investment strategies
 - strategic Key Performance Indicators and executive incentives
 - public policy positions relating to climate change

Strategic Resilience Resolutions



- Prior to the AGMs, both boards advised shareholders to support. This is a first in the UK and reflects the long-term positive engagement with both company chairs and senior management
- Resolutions received a vote of over 98% in support at both AGMs
- Has set a precedent that nearly every significant institutional investor in the world has voted for disclosure of a low-carbon business strategy

Engagement, resolutions and outcomes

- In 2016 after continued engagement, BHP issued a report setting out low carbon scenario
- Resolutions filed at Glencore, Rio Tinto and Anglo-American
- All three boards advised shareholders to support the resolutions and they received 96% support or more
- Continued engagement with UK and European companies including Total

Two-degree business model less risky



- The business model for many oil & gas companies appears to assume demand will follow past trends, rising steadily for the foreseeable future
- Analysis shows two degree business model less risky than ‘business as usual’ for oil and gas companies



Tax Transparency

- Responsible tax payment has risen in prominence as a significant governance issue for investors
- LAPFF has been engaging with the FTSE 100 via its Corporate Tax Transparency Initiative questionnaire
- Subsequent company meetings are fleshing out next steps for companies to report more fully on their tax practices
- LAPFF has commissioned tax expert, Richard Murphy, to consult on this engagement. Outcomes are starting to feed into ideas for overcoming this disclosure barrier



- LAPFF has recently undertaken new research on human capital management
- This builds on prior LAPFF research indicating that HCM is an important element of business strategy
- The latest research suggests that there is a strong link between HCM and shareholder value... we're just not sure yet how that link works



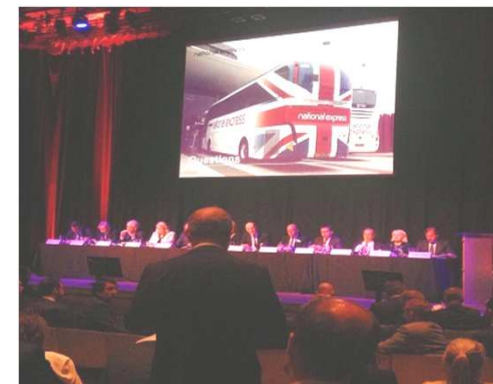
- Areas covered under LAPFF's HCM work include:
 - Diversity: Halfords
 - Labour Standards
 - Living wage: SSE
 - Zero hour contracts: Sports Direct
 - Employment Standards in the Supply Chain
 - Corporate dualism: National Express
 - Qatar: Carillion and Interserve



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Labour standards at National Express

- Cllrs Greening and Wilkinson attend the 2014 AGM to speak to a resolution co-filed by LAPFF funds on workplace rights in the US
- In 2015 LAPFF funds file shareholder proposal calling for independent review of labour issues at US school bus subsidiary
- Almost a quarter of independent shareholders fail to back the company; the highest level of support for a shareholder resolution on employee rights





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Questions, comments, feedback?

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