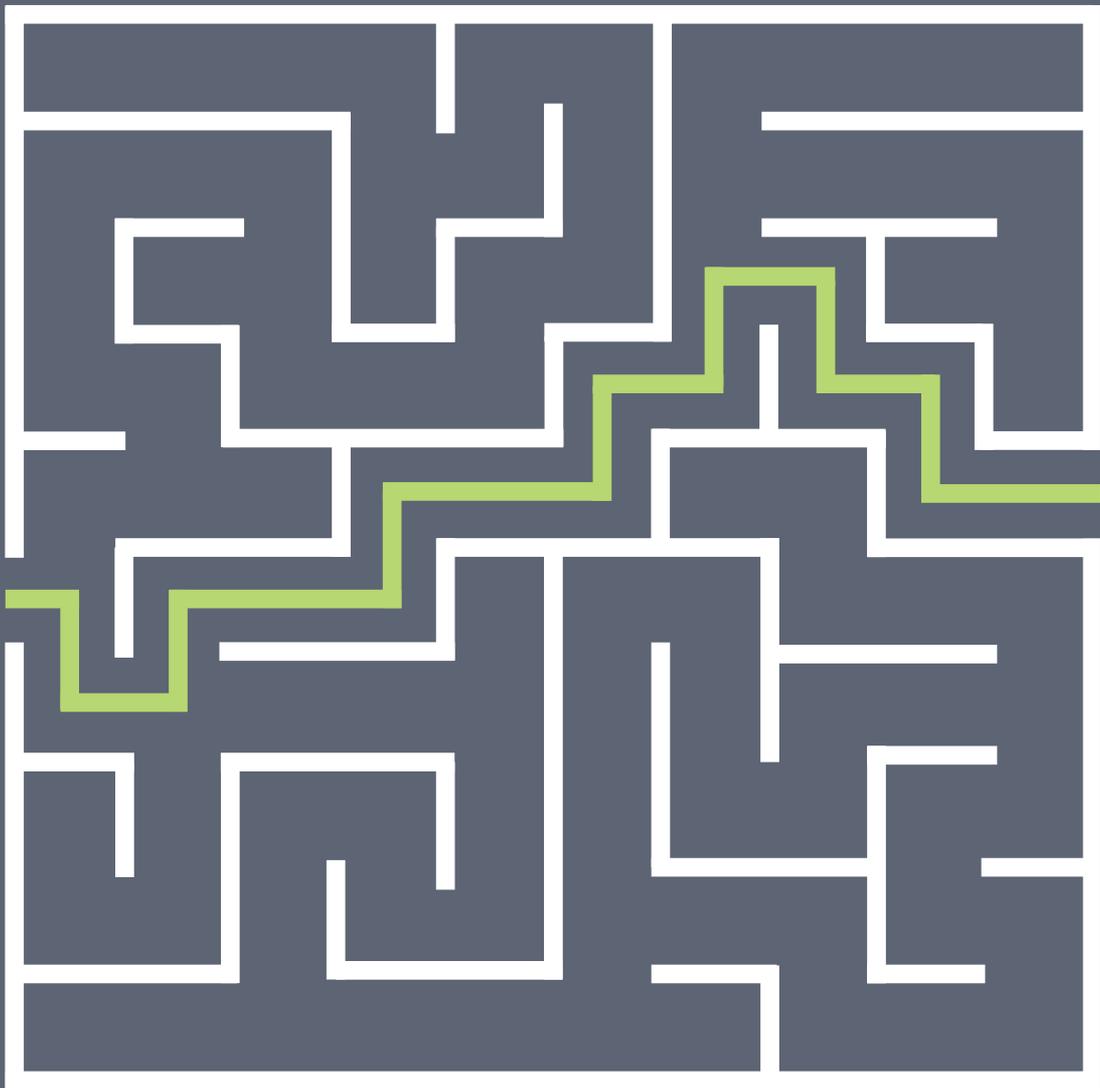


# Annual Report 2016





...2016 has certainly been on the more turbulent side...with UK voters choosing to leave the EU, a change in government, and pooling moving ahead at a cracking pace, local authority pension funds have seen significant structural changes to the economy and political environment in which they operate.



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# List of Members

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire County Council Pension Fund
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Redbridge (London Borough of)
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

# Benefits of LAPFF

LAPFF currently represents the interests of 71 public sector pension fund members with combined assets of approximately £175 billion. Its mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

LAPFF provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement. The Forum undertakes a range of services on behalf of its members, including:

Topics	Examples
Carbon management	Strategic resilience shareholder resolutions
Labour rights	Zero-hour contracts/ precarious work
Supply chain	Qatar 2022 World Cup
Tax avoidance	Tax reporting
Mergers and acquisitions	Trustee guide
Reliable accounts	Bompas I and II opinions
Holding-based engagements	AGM attendance at widely held companies

## Examples of Services for Members

- Company engagement
- Shareholder resolution filing support
- Voting alerts
- Training
- Mentoring scheme
- Investor partnerships
- Consultation responses
- Information on LGPS reform
- Website content
- Member briefings
- E-bulletin
- Investor seminars
- Quarterly engagement reports
- Policy guidance
- Media coverage
- Working groups (women's network)
- Event attendance

For further information on any LAPFF services or publications, please contact Lara Blecher, Engagement Services Executive – [lara.blecher@pirc.co.uk](mailto:lara.blecher@pirc.co.uk)

# Chair's Statement



**Councillor Keiran Quinn**

Chair of the Local Authority Pension Fund Forum

Some years are more turbulent than others, and 2016 has certainly been on the more turbulent side. With UK voters choosing to leave the EU, a change in government, and pooling moving ahead at a cracking pace, local authority pension funds have seen significant structural changes to the economy and political environment in which they operate. LAPFF has been vocal in engaging with the Department for Communities and Local Government (DCLG) on the new regulations stemming from the call for pooling, so when the Guidance for the regulations was issued toward the end of 2016, I was pleased to see they accounted for a number of the concerns LAPFF had expressed. There is more about these developments below.

Much more of my time this year than last has been spent on the LGPS Scheme Advisory Board and on outreach activities: these included visits to fund chairs of both members and non-members in England and Scotland.

Based on this outreach, it has been timely that LAPFF has been instrumental in setting up an All-Party Parliamentary Group (APPG) to help represent LGPS interests in dealing with the plethora of changes taking place. In addition, LAPFF representatives hosted party conference fringe meetings ensuring that the UK's major political parties are aware of member funds' concerns.





While these structural changes have been unfolding, LAPFF has continued its engagement work on a range of environmental, social and governance topics. Executive remuneration, always a 'live' area, created a spike of interest at a number of companies, including BP, on which LAPFF Deputy Chair, Ian Greenwood, featured in a variety of media outlets on overall pay levels.

Likewise, LAPFF executive member, Jane Firth, was approached for a number of television and radio interviews at the Sports Direct AGM, where LAPFF advocated the UNITE shareholder resolution that requested an independent assessment of human capital management at the beleaguered retailer. This resolution garnered 53% of independent shareholder support, and Sports Direct is now taking steps to address criticism around workplace practices at its Shirebrook facility.

LAPFF's close involvement with the strategic resilience resolutions on climate risk reaped similar benefits to those achieved last year at BP and Shell. Resolutions co-filed by member funds at the Anglo American, Glencore and Rio Tinto AGMs were all supported by the respective boards, leading to shareholder votes of no less than 96% in support.

There have also been significant strides made in relation to LAPFF's work on reliable accounts, with more and more companies acknowledging LAPFF's concern with the Financial Reporting Council's interpretation of the legal definition of true and fair view. However, given the UK's changing relationship with the EU, it remains to be seen how these developments connect up to the European-level accounting standards.

More details on all of these areas will soon be available on a new LAPFF website.

It is clear that LAPFF has grown in prominence and has become more effective despite the fundamental structural changes facing its members. Recognition of this fact is reflected by LAPFF's record membership of 71 funds by the end of 2016, up from 65 at the end of 2015. This year, LAPFF has welcomed Cambridgeshire, the Environment Agency, Gloucestershire, Redbridge, Sutton and Swansea into the LAPFF fold. We give our sincere thanks to the Forum Officer, Keith Bray, for his excellent efforts in recruiting new funds.

I would also like to welcome new LAPFF Executive Members, Cllr Mukesh Malhotra (LB Hounslow), Cllr Doug McMurdo (Bedfordshire) and Faith Ward (Environment Agency Pension Fund), all of whom have already contributed a great deal to LAPFF's success this year. A special thank you goes to David Murphy (NILGOSC) for his dedicated work on the LAPFF Executive up to January 2016.

It is likely that the coming year will be as turbulent as the last, with the political and economic decisions taken this past year starting to play out in practice. LAPFF will continue to liaise with all of its stakeholders to ensure that member funds have the tools and information they need to continue their work as smoothly and effectively as possible.

# LAPFF Executive Committee 2016



**1 Chair – Councillor Kieran Quinn**  
Greater Manchester Pension Fund

**2 Deputy Chair – Ian Greenwood**  
West Yorkshire Pension Fund

**3 Deputy Chair – Councillor Cameron Rose**  
Lothian Pension Fund

**4 Executive – Councillor Mary Barnett**  
Greater Gwent Pension Fund

**5 Executive – Rodney Barton**  
West Yorkshire Pension Fund

**6 Executive – Councillor Barney Crockett**  
North East Scotland Pension Fund

**7 Executive – Councillor Paul Doughty**  
Merseyside Pension Fund

**8 Executive – Honorary Treasurer Geik Drever**  
West Midlands Pension Fund

**9 Executive – Jane Firth**  
South Yorkshire Pension Fund

**10 Executive – Councillor Richard Greening**  
London Borough of Islington Pension Fund

**11 Executive – Councillor Denise Le Gal**  
Surrey Pension Fund

**12 Executive – Councillor Mukesh Malhotra**  
London Borough of Hounslow Pension Fund

**13 Executive – Councillor Doug McMurdo**  
Bedfordshire Pension Fund

**14 Executive – Councillor Toby Simon**  
London Borough of Enfield Pension Fund

**15 Executive – Faith Ward**  
Environment Agency Pension Fund

# LAPFF

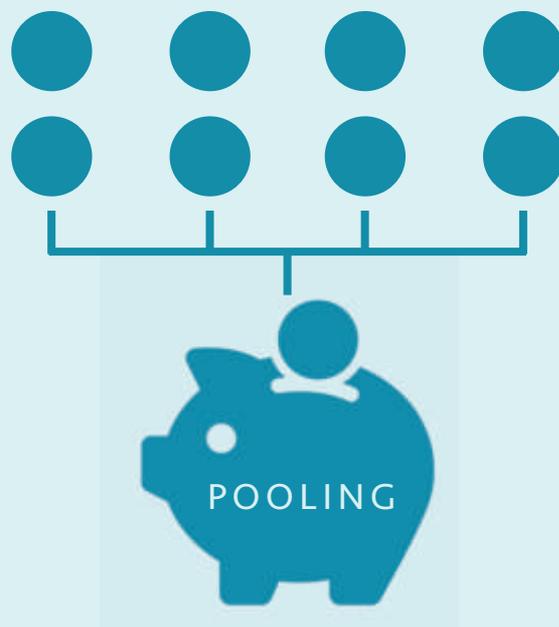
## Policy Engagement

LAPFF has this year extended its reach through an important initiative with the formation of the All Party Parliamentary Group (APPG) on Local Authority Pension Funds. The groundwork having been laid during 2015, this year saw the first formal meeting of the APPG in May, chaired by Clive Betts MP, who is also the chair of the House of Commons Communities and Local Government Committee. Also elected as vice-chairs were Lord Kerlake, Ian Blackford MP, Lord Godard and Mark Prisk MP. It is expected that the Group will meet each Parliamentary session; the Minister responsible for the LGPS, Marcus Jones MP, and Lord Adonis, the Government's independent infrastructure advisor and chair of the National Infrastructure Commission, have been invited for future meetings.

In addition to the APPG, LAPFF has continued its attendance at fringe meeting events during the party political conference season with meetings organised at the Labour, Conservative and Scottish Nationalist Party conferences. Each was well attended with an average of 45 to 50 delegates. Speakers included Cllr Denise Le Gal of Surrey CC pension fund; Tim Thomas, Director of Employment and Skills Policy of the Engineering Employers Federation; Lord Whitty, a member of the APPG; Roberta Blackman-Woods MP, Shadow Housing Minister; Rebecca Long Bailey MP, Shadow Chief Secretary to the Treasury; Ian Blackford MP (Shadow Pensions Spokesperson and Vice Chair, APPG on Local Authority Pension Funds); Andy Johnston (Director, LGIU Scotland) and Cllr Alasdair Rankin (Chair, Lothian Pension Fund).

### Pooling Overview

Throughout the year LAPFF has provided a much needed forum for discussion amongst the English and Welsh funds on pooling. For English and Welsh schemes, the Government's reform challenge set out four key criteria: scaling consolidation through pooling to a £25 billion benchmark target; reducing investment and administrative costs whilst maintaining fund performance and appropriate asset allocation; diversifying accountability and control through non-Member structures; and improving the capacity and capability to invest at scale in infrastructure.





Over the timeline of Government consultation on this agenda, the LGPS community has made extraordinary efforts to adapt and accept that change has to happen. The reform options remain tough: pooling investment strategies and assets is a very new experience for many funds not used to making actual investment decisions themselves. Creating complex legal structures for some pools has increased short-term costs and uncertainties across participating fund staffs. Coupled with operating in uncharted territory, funds have faced steep learning curves, and partnering arrangements within pools are not yet uniformly in operation. For councillors the member role has, as yet, been underplayed in pooling discussions and it will be important in the next period to highlight that role afresh and reinforce their key power of accountability and leadership in the process.

Alongside pooling guidance, Government consulted on a kind of 'deregulation' of Investment Regulations that, whilst welcomed, posed questions over a newly defined 'power of intervention' for the Secretary of State, potentially wide ranging, and implying potential direction over particular investment strategy outcomes. The implications of change for asset managers looks to be equally dramatic. Pooling will reduce fees and income overall. There will be some winners but many losers. In future, more internal asset management will create stiff competition when tendering mandates. Fee reductions for routine indexing mandates may reduce fees to virtually zero via joint procurement although concerns are already surfacing as to how this will affect the quality of services received.

Where accountability for responsible investment (RI) and shareholder rights is placed has been underscored through new investment regulations and guidance. These regulations reflect existing good practice at fund level and further embed RI as a fund level responsibility to which pools must pay attention.

On infrastructure, whatever the outcome of new governance structures for pooling investment assets, there is support within LGPS funds to create an approach that is more effective and more achievable for the LGPS as a whole.

In this process LAPFF has played a crucial role as a forum for discussion and debate throughout the year. Sharing experiences amongst member funds has been vital in sharpening approaches to the challenges of pooling. Each quarterly business meeting has updated member funds on pool progress and several events were organised for more detailed presentations and debates. Each LAPFF Executive meeting debated developments during the year.

With the new LGPS investment regulations and guidance now operative, and final pool submissions having been made to LGPS and HM Treasury, pools await the government responses to their plans.

The publication of the new LGPS Regulations and Guidance has introduced an important new narrative. The Guidance identifies the importance of long-term investment interests requiring high standards of governance and responsible investment. They recognise that poor governance impacts on shareholder value, and the Guidance recognises the value of active stewardship by



pension funds for long-term success of the companies they invest in. Hand in hand with proxy voting, effective monitoring and engagement on the 'full agenda' by pension funds can identify problems. This enables long-term shareholders to exert positive influence, through promoting strong governance, risk management and increasing accountability as well as driving improvements on environmental, social and governance (ESG) issues. This, it argues, encourages the best ways to engage with companies to promote their long-term success, either directly, or in partnership with other investors or through their asset managers. In addition, the new Guidance requests that administering authorities should become signatories to the Stewardship Code. Also, regulation 7(2)(f) requires every administering authority to formulate a policy that increases awareness and promotes engagement to reflect their stewardship responsibilities.

#### **Policy Focus: Reliable Accounts**

This year has seen even more evidence to show that the Financial Reporting Council's position on the 'true and fair view' requirement relating to accounts of companies required by Company Law is incorrect. This includes evidence that the first step in the FRC's misinterpreting the law has been writing the text of the legislation wrongly in key publications. Matters have then reached a head with the suspicion that the FRC was also misrepresenting the position of the government, having been borne out by Freedom of Information (FOI) requests. As a result, LAPFF wrote to FTSE 350 Chairs in September 2015 advising them to disregard the position of the FRC as the safe option, without risk of illegality was to follow the position of LAPFF's Counsel.

So challenged was the FRC after LAPFF's QC had emphatically rebutted its position, the FRC incorrectly reported that the governments' lawyers had disagreed with LAPFF and its counsel. The FRC had even gone so far as to tell Parliament that the governments' lawyers had confirmed that LAPFF's Counsel (Mr Bompas QC) was wrong. The FOI reveals the government having to tell the FRC "we have never said that LAPFF is wrong".

The FOI also reveals deep conflicts in the way that the FRC has gone about its business, including building alliances against the investor IFRS coalition formed with LAPFF taking a leading role, with the very people the FRC is supposed to regulate, the preparers and auditors of accounts. The FRC said this to BIS officials "*Can you get your oppos at the ABI and the IMA this afternoon please to drum up some support [for the FRC position]. And as they will be asked can you brief the Big 4, the ICAEW, the 100 Group and the IASB. We may want investor comments more but let's ensure we get the profession and corporates on side.*" The matter continues.

#### **Policy Focus: Carbon Management Reporting**

LAPFF joined other investment institutions (led by Sarasin & Partners) in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that oil, gas and coal companies should address climate-related risks in the newly introduced viability statements in their annual reports. The Forum also supported a position paper on climate risk reporting in the same vein. The Forum co-signed letters on a range of other issues as well, including the promotion of regulatory reform in Indonesia, supporting sustainable palm oil production, and improving reporting of material sustainability risks in US issuers' SEC filings.



## How Brexit Might Impact LAPFF

The LAPFF Executive has begun to consider the impact of Brexit on LAPFF's areas of focus. Issues around financial regulation and market trading are not dealt with in this Annual Report; the main areas of focus are changes to the source of authority for company law and governance regulation, both of which have been affected by various Directives and Regulations since the UK joined the EU.

The issue of regulatory capture has been discussed by LAPFF a great deal, particularly in view of problems with the UK's governance and financial reporting regulator, the FRC. That body's own governance (it is not constituted by Parliament) is itself in question and is not clarified by Brexit. LAPFF's recent Freedom of Information requests show just how much the FRC position has been subordinated to corporate lobby groups as well as the "Big 4". The proper scrutiny by Parliament of regulatory developments will be key, and the APPG will be an essential part of this. How this happens in the context of Brexit remains to be seen.

## LAPFF Events

LAPFF hosted a range of events, seminars and talks this year, with topics ranging from reliable accounts to responsible investment within the LGPS to carbon management. A few of the events are featured below.

## Seminars

### Developments in the Local Government Pension Scheme, November 2015

DCLG official, Bob Holloway, spoke to LAPFF fund representatives about the way pooling would develop. Panels covered the Scheme Advisory Board perspective on pooling, views of three local government authorities, what collaboration would look like, investment management perspectives, and what success would look like. Since then, matters have progressed quickly, but discussions of this nature have helped to shape the pools and their structures.

### LGPS & Stewardship: Responsible Investment Seminar

On 7 June 2016, LAPFF and PIRC co-hosted a successful seminar entitled '*Responsible Investment, Shareholder Rights and Pooling*' at Martin Currie Investment Management. The seminar highlighted the remaining uncertainties linked to the mandatory pooling of local government pension funds in the UK and Wales, especially in relation to implementing responsible investment (RI) through funds. Some of these uncertainties have since been clarified through regulation, but others remain.

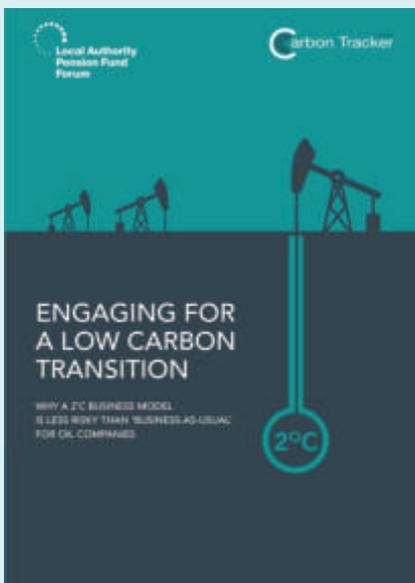


Representatives of four pools – LAPFF member representatives Faith Ward, Cllr Mary Barnett, Cllr Rishi Madlani and Rodney Barton – concluded by setting out the expectations of pools in relation to RI. There were varying positions and approaches from pools on RI, from more proactive to more laissez-faire.

### Report Launch: Engaging for a Low Carbon Transition

Many funds have been presented with the dilemma of calls for divestment, and LAPFF has worked closely with Carbon Tracker, on producing information for funds to guide their strategy for high carbon investments. The report '*Engaging for a Low Carbon Transition*' presents an economic and

financial justification for moving away from investment in coal, oil and gas, highlighting the risk levels of oil related investments and setting out a case for a 'managed decline'. Launched in July, the report sets out how to determine the degree to which investments are 'two-degree' compliant, the implications for shareholder value and provides very practical guidance for engagement with company representatives. The report presents a convincing case for the sector to move beyond 'business as usual'.





### 2015 Annual Conference

LAPFF 20th Annual Conference: '20 Years of Responsible Investment – Where Next?'

In December 2015 LAPFF celebrated both its 25th anniversary, and the 20th anniversary of the annual LAPFF conference.

Over three days, 200 delegates attended sessions ranging from the dynamics of successful boards to responses to proposed changes in the Local Government Pension Scheme (LGPS), to International Financial Reporting Standards (IFRS) 9.

LAPFF is grateful to all of its members who attended and to those who spoke or chaired sessions at the conference, as well as to those who attended from outside of the Forum. These included Martin Gilbert (CEO Aberdeen Asset Management), Daniel Balint-Kurti (Global Witness), Martyn Day (Senior Partner, Leigh Day LLP), Mark Campanale (Founder, Carbon Tracker), Matthew Knight (Siemens), Bob Holloway (Department for Communities and Local Government), Amanda Mellor (Company Secretary, Marks & Spencer), Syed Kamall MEP and Richard Murphy (Director, Tax Research LLP).

A selection of the presentations are available on the LAPFF website in the members section.



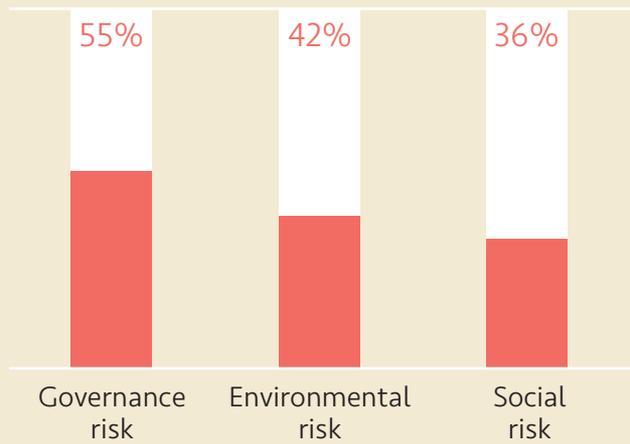
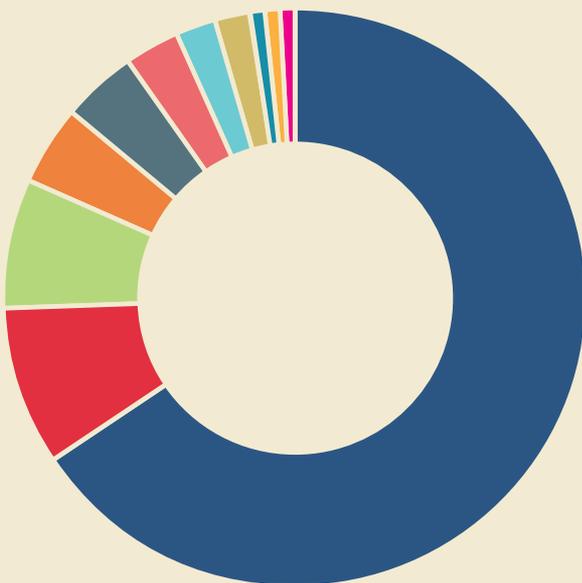
# LAPFF Company Engagement

**137** NUMBER OF ENGAGEMENTS - THESE STATISTICS EXCLUDE TWO MAILINGS TO THE FTSE 350 ON RELIABLE ACCOUNTS

Governance risk was the most frequent engagement area for the reporting period October 2015 – September 2016, with engagement on environmental and social risk the next most common, respectively. Climate change and the required low-carbon transition was by far the largest individual engagement stream. The percentages amount to greater than 100% because engagements often cover multiple topics, and this is reflected in relation to the total number of engagements that took place.

Much of this engagement included AGM attendance.

## Focus on AGMs



**11** DOMICILES OF COMPANIES ENGAGED

## Company Domicile

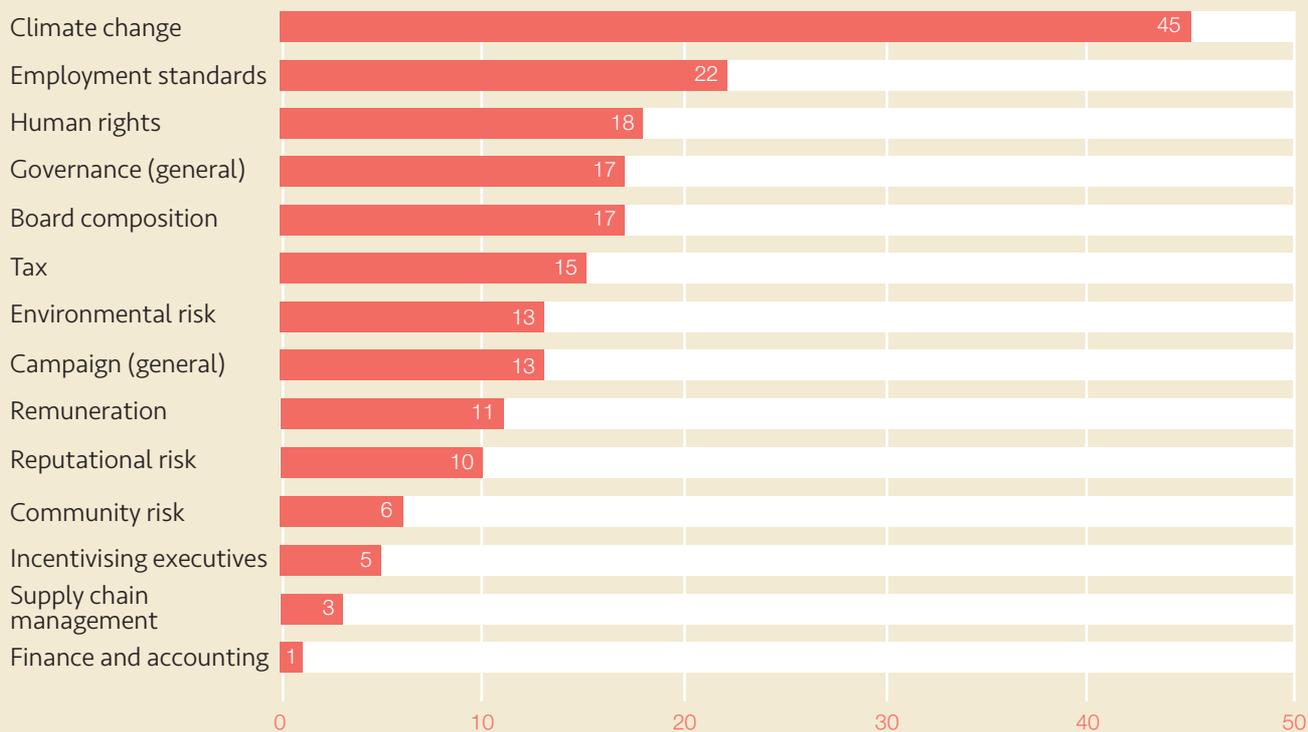
United Kingdom	90
UK/Australia	12
UK/Netherlands	10
France	6
United States	6
Switzerland	4
Japan	3
Singapore	3
China	1
Italy	1
Spain	1

66% of companies engaged are domiciled in the UK

LAPFF attended a record 22 AGMs over the last year, which led to a number of productive follow-on meetings with company or committee chairs.

<b>Company</b>	<b>Topic</b>	<b>LAPFF Attendee</b>	<b>Domicile</b>
BHP Billiton	Climate Change	Jane Firth	UK/Australia
BP	Climate Change/ Incentivising Executives	Ian Greenwood	United Kingdom
Rio Tinto	Climate Change	Rodney Barton	UK/Australia
Unilever	Human Rights/Supply Chain Management	LAPFF Research and Engagement Partner	UK/Netherlands
Anglo American	Climate Change	Cllr Toby Simon	United Kingdom
Tullow Oil	Board Composition	Cllr Mukesh Malhotra	United Kingdom
Carillion	Employment Standards/Supply Chain Management	LAPFF Research and Engagement Partner	United Kingdom
RBS	Remuneration	Cllr Cameron Rose	United Kingdom
National Express	Employment Standards/Human Rights	Cllr Kieran Quinn	United Kingdom
Glencore	Climate Change	Cllr Toby Simon	Switzerland
Next	Employment Standards/Climate Change	Jane Firth	United Kingdom
Royal Dutch Shell	Climate Change	Ian Greenwood	UK/Netherlands
Standard Life	Incentivising Executives	Cllr Barney Crockett	United Kingdom
Total	Climate Change	Cllr Toby Simon	France
Sainsbury	Other	Cllr Doug McMurdo	United Kingdom
BT	Governance (General)	LAPFF Research and Engagement Partner	United Kingdom
British Land	Remuneration	Cllr Doug McMurdo	United Kingdom
SSE	Climate Change/ Employment Standards	Cllr Cameron Rose, Cllr Barney Crockett	United Kingdom
Vodafone	Governance (General)	Cllr Doug McMurdo	United Kingdom
National Grid	Climate Change	Cllr Cameron Rose	United Kingdom
Vedanta	Human Rights/ Environmental Risk	Cllr Richard Greening	United Kingdom
Sports Direct	Employment Standards/ Governance	Jane Firth	United Kingdom

## Engagement Topics



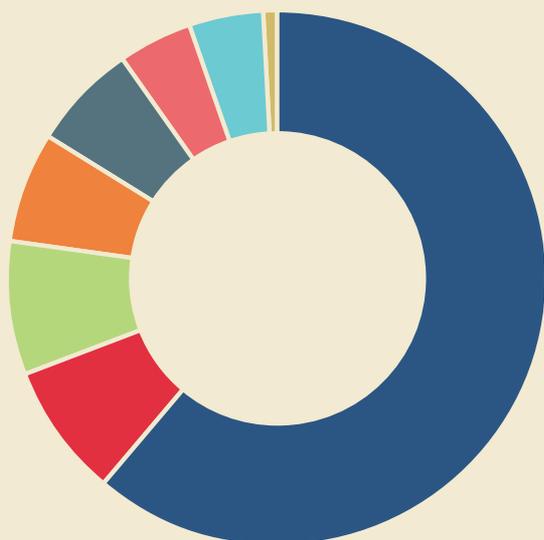
A good proportion of AGM questions related to carbon risk management. These included a question at the **National Grid** AGM, which LAPFF has attended for the last three years. The Forum had consistently raised the issue of the Company reporting its Scope 3 emissions, mainly those associated with sold products, ie, gas and electricity in the US, and so was pleased to see this disclosure in 2016 reporting. LAPFF Executive member, Cllr Toby Simon, travelled to Switzerland and France to attend the **Glencore** and **Total** AGMs, respectively. These engagements on the low-carbon transition were particularly important given the second wave of strategic resilience resolutions filed.

Cllr Simon also attended the **Anglo-American** AGM to speak to the strategic resilience resolutions, and following a request from LAPFF, a representative from the Australian Council of Superannuation Investors (ACSI) flew to Brisbane to propose the resolution at the **Rio Tinto** Ltd AGM. As **BHP Billiton** had planned the imminent release of its report '*Climate Change: Portfolio Analysis*', it had been decided not to file a resolution at the company's AGM. LAPFF attended the AGM to welcome the report but queried the company's membership of industry

associations whose position on climate change might be at odds with the company's stated policies. LAPFF representatives also attended both **BP's** and **Shell's** 2016 AGMs to follow up on the progress made by both companies in relation to the resolution asks.

North of the border, Cllrs Cameron Rose and Barney Crockett attended the SSE AGM to ask in part about carbon management, but also about human capital management. Social risk was raised at a number of other AGMs, including **Vedanta** and **Unilever** where LAPFF asked questions about the companies' respective approaches to human rights, as well as **Sports Direct**, where workplace practices were a top priority for investors. Employment practices were also given scrutiny in questions to **Next**, **National Express** and **Carillion**.

There was no let-up on pressure for companies to justify pay awards, with questions posed to **British Land**, **Standard Life** and **RBS** chairs on the principles behind remuneration awards. This will be ever more pertinent in the 2017 AGM season with pay policy votes coming up for a large number of companies.



### Engagement Outcomes

• Dialogue	84
• Awaiting response	11
• Moderate improvement	11
• Satisfactory response	9
• Substantial improvement	9
• Change in process	6
• Small improvement	6
• No improvement	1

Around 61% of engagements were dialogue. This reflects in part the nature of engagement and in part the fact that LAPFF has chosen to engage with companies facing seemingly intransigent issues. That said, some of these situations, which had seemed intransigent, have shown progress over the course of the year. Improvements have taken place relating to the low carbon transition, such as disclosure by Total and BP related to the asks of the strategic resilience resolutions – as well as encouraging developments at National Express and Sports Direct.

### AGM Voting Alerts

Voting alerts provide LAPFF members with an informed perspective and recommendations on how to vote at AGMs on particular governance or responsible investment concerns. The following alerts were issued during the year

Company	Topic
Anglo American	Low Carbon Transition
ExxonMobil	Low Carbon Transition
Glencore	Low Carbon Transition
Chevron	Low Carbon Transition
Sports Direct	Employment Standards

### Governance Risk

Corporate governance was the area with which LAPFF engaged most over the course of the reporting year, with 55% of engagements falling into this category. The governance-related engagements covered a wide range of topics, including board composition, executive pay, tax transparency, and mergers and acquisitions. Shareholder rights is also a crucial governance area that needs to be addressed with increasing urgency as pooling continues. A final area of particular concern that has arisen over the last

year is how companies use share buybacks, in some cases to misrepresent their financial positions to the market. LAPFF has started to engage with companies to ensure that they are using share buybacks responsibly.

### Board Composition

LAPFF has always believed that a well-balanced board contributes to the stability and long-term growth of companies. Equally, controlled companies and boards can present problems of accountability and adaptability, as suggested by Mike Ashley’s control of the Sports Direct board. Succession planning and board recruitment are persistent concerns, as head hunters and closed networks are used to recruit board members rather than open advertising for candidates. LAPFF would like to see a broader, more thoughtful approach to recruiting for and structuring corporate boards so as to amass the skills and perspectives needed to contribute to shareholder value. This is relevant for Sky, where the Board continues to appoint directors connected to 21st Century Fox and the Murdoch family. LAPFF raised concerns about this approach at Sky’s November 2015 AGM given that Sky was facing US anti-trust litigation: Sky and 21st Century Fox were formerly in one group and a quarter of the new Board were 21st Century Fox representatives.



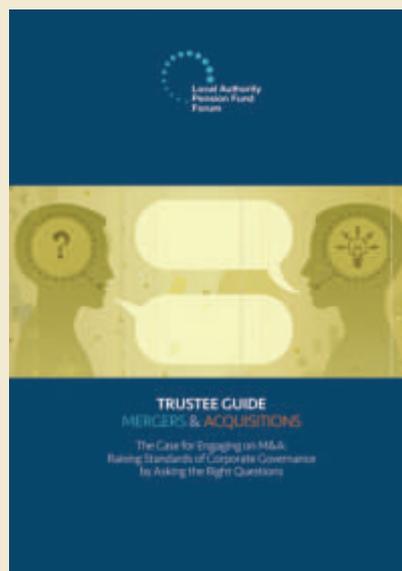
### Executive Pay

There were outcrops of marked shareholder opposition to certain companies' executive remuneration during the 2016 AGM season. Taking a large hit in this area was BP which received a backlash against its pay arrangements at the 2016 AGM. LAPFF Deputy Chair, Ian Greenwood, spoke with the BBC about the inadequacy of the BP executive pay scheme, and it was an issue LAPFF raised at other AGMs, such as British Land and Standard Life. At Anglo American this was in relation to whether the Company adequately reflected its own approach to the required low-carbon transition in the strategic element of its remuneration metrics.

LAPFF also issued a voting alert for WPP, noting the highly excessive pay arrangements for CEO Martin Sorrell. Executive remuneration will face heightened scrutiny during the 2017 proxy season as the majority of UK listed companies will face pay policy votes at their AGMs. LAPFF's consistent engagement in this area will stand the Forum in good stead as it continues to push to redefine the debate on executive pay.

### Corporate Tax Transparency

Following the launch of LAPFF's Corporate Tax Transparency Initiative (CTTI) and a questionnaire on tax transparency and practice sent to the FTSE 100 in the spring of 2015, the Forum followed up with meeting requests to companies deemed to be doing better than their peers on tax transparency. This engagement led to five additional meetings – Direct Line Group, Tesco, ITV, Sainsbury and Unilever – in which LAPFF consultant, Richard Murphy, probed the companies on the obstacles to more robust



reporting on tax. Mr Murphy's line of questioning focused on country-by-country reporting, or the idea that companies should report their profits, people and operations in all countries where they operate and are located as a means of determining if the companies are paying appropriate tax in appropriate jurisdictions. A report on the initial survey results has been published.

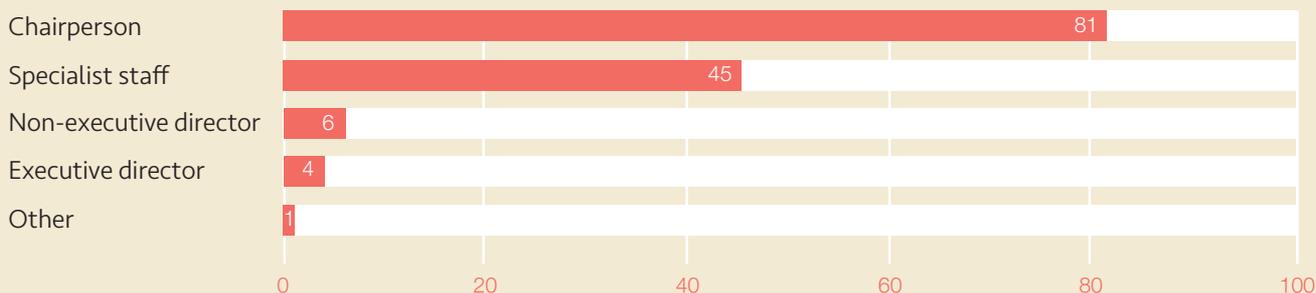
The CTTI has been in line with developments at the Organisation for Economic Cooperation and Development (OECD), which in 2014 released an Action Plan on base erosion and profit sharing, basically the notion that some companies are playing with jurisdictions to avoid paying taxes where they should. LAPFF is now looking to engage with companies that are struggling with tax practices and transparency to a greater extent than their peers; these engagements will be with companies in the financial sector.

### Trustee Guide: Mergers and Acquisitions

LAPFF believes that pension fund trustees have a role to play in raising standards of corporate governance around mergers and acquisitions (M&A) and, by so doing, to extend their stewardship duties to embrace engagements that explore the quality of board-level strategic decision making within investee companies.

LAPFF has long been aware of the critical role that M&A plays in many corporate growth strategies, and sceptical of the degree to which the pursuit of growth via M&A has contributed to shareholder value creation. With M&A activity reaching a record level of over \$5 trillion in 2015, and with evidence emerging that some companies have been getting better at M&A, LAPFF took the

### Position Engaged



59% of the time, LAPFF engaged with company chairs. This reflects LAPFF's growing prominence in the responsible investment space. LAPFF is finding increasingly companies are making the initial approach for meetings; including non-UK domiciled companies.

decision to publish a new Trustee Guide on this subject.

*The Case for Engaging on M&A: Raising Standards of Corporate Governance by Asking the Right Questions* was designed to assist local authority pension fund trustees in assessing the quality of the M&A processes that companies use to inform their approaches to M&A, and in assessing whether proposed M&A deals are likely to create or destroy shareholder value in the long-term.

It updates the Forum's prior guide on M&A (*Which Deals Create Value: Mergers and Acquisitions Through the Lens*), which was published in 2007, and argues the case for analysing M&A as a highly material form of capital allocation. Whilst highlighting the financial risks to members that can emanate from M&A, the Guide also makes the investment case for M&A, and it delineates the Forum's understanding of what good M&A looks like in order to inform engagement on this subject.

In order to further inform its understanding of what a good M&A process looks like, the Forum subsequently undertook an engagement with Rentokil Initial, a highly acquisitive firm that appears to have developed a very robust and disciplined approach to growth via acquisition. A meeting with that company's Senior Independent Director and with its Group Head of M&A confirmed the veracity of LAPFF's model, and drew compliments from the Company in respect of LAPFF's comparative understanding of M&A.

### Corruption

LAPFF is concerned that a number of large companies are currently facing bribery and corruption charges in relation to their practices, including those of employees and business partners, in developing States. Apart from the reputational concerns with these developments, many bribery and corruption laws are extending extraterritorially, meaning that companies might be subject to large fines and penalties for their overseas activities where previously they might not have been. Global Witness, an anti-corruption NGO, has initiated a project to identify beneficial ownership in companies, which could impact LAPFF's work streams. This project has large implications in relation to not just bribery and corruption, but also for LAPFF's tax transparency work as understanding better where companies are located and operate will determine where they pay taxes and how much they are required to pay.

### Shareholder Rights

Shareholder rights are a perpetual concern for LAPFF funds. In addition to initiatives like the Florange Law in France that entrench rights for controlling shareholders, pooling has potentially exacerbated the problem of identifying asset owners and ensuring they have voting rights. There will likely be a need to push asset managers even harder now to ensure that asset owners have their voting preferences heard, particularly in pooled investment vehicles. The government has clarified that, in the case of pooling of LGPS funds, individual funds will have control over environmental, social and governance considerations. However, in order for this to be done effectively, funds will need a clear line of

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**84** OF THE ENGAGEMENTS WERE ONGOING DIALOGUES WITH COMPANIES

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**22** AGMs ATTENDED

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**38** COMPANY MEETINGS (INCLUDING CONFERENCE CALLS)

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sight over which securities they own, as well as the ability to vote their shares. LAPFF continues to work on ways to ensure that funds have this line of sight and the ability to hold asset managers accountable in voting their interests.

### Environmental and Carbon Risk

During the course of the reporting year, LAPFF undertook 58 engagements around environmental and carbon risk, representing 42% of engagement overall. Climate change and carbon management represented the majority – 78% – of engagement in this area.

More so than other areas of engagement, this area saw multiple, intensive engagements with companies. Part of this in-depth engagement related to the strategic resilience resolutions, both with companies receiving the resolutions at their AGMs and those approached about the resolution asks without a resolution being filed at their AGMs. LAPFF has found that an exercise of trust-building has had to take place in order to work with companies on climate change and carbon management, and the extended engagements assist with this relationship-building.

### Carbon Management

In 2016, the focus for shareholder resolutions on climate risk moved to the UK listed integrated mining companies, Rio Tinto, Glencore and Anglo-American. With total assets under management backing the resolutions amounting to £8 trillion, a large number of LAPFF member funds joined investors from the US, Australia and

Europe, to co-file resolutions to the companies' 2016 AGMs supported by LAPFF's continuing participation in the strategic resilience resolution initiative.

As with Shell and BP, all three company boards declared support for the resolutions prior to their AGMs and the resolutions passed with near unanimous shareholder support. At Rio, the resolution received the highest level of support for a shareholder resolution to date in the UK. Meetings have been held with the chairs of all three companies to discuss how the companies are considering the aims of the resolution not only in reporting but to promote disclosure as to the degree to which these issues are integral to strategic business decisions.

### Oil and gas companies

Engagement with BP and Shell has continued. Investor responses have been mixed as to subsequent reporting. For example, there have been concerns that BP's commitment to implement requests in the resolution are stalling; therefore, the company's disclosure of its 'faster transition' scenario was welcomed.

Collaborative engagements with ENI and Total requesting reporting commitments in line with the strategic resilience resolutions were met most positively by Total in the issuance of a dedicated report 'Integrating Climate into our Strategy' at its May AGM. At a meeting with the chair and chief executive, LAPFF was able to progress a proposal of alternative reporting metrics which would facilitate the transition to renewable energy sources.

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**81** ENGAGEMENTS WITH CHAIRS,  
59% OF ENGAGEMENTS

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**60** COMPANIES ENGAGED (A NUMBER  
MULTIPLE TIMES) EXCLUDING TWO  
MAILINGS TO THE FTSE 350 ON  
RELIABLE ACCOUNTS

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For the US oil majors, LAPFF encouraged member funds to make public declarations of support for shareholder resolutions at Exxon and Chevron on assessing the long-term portfolio impacts of public climate change policies and to increase the total amount of capital distributions, given the climate change related risk of stranded carbon assets.

#### *Utilities*

LAPFF has continued to engage with SSE, one of the UK's largest carbon emitters, attending both the AGM and meeting with the CEO, exploring a number of issues including the company's focus on improving home energy efficiency.

Climate risk is clearly relevant across a number of sectors and LAPFF continues to raise these concerns in ongoing discussions with a wide range of companies, those with Toyota providing good insight into their approach to uses of renewable energy. Other concerns, such as tackling corporate involvement in lobbying activities have been progressed through correspondence with a number of companies.

#### **Social Risk**

During the course of the reporting year, LAPFF undertook 49 engagements around social risk, representing 36% of engagement overall. Topics covered under the social risk heading include human capital and employment, human rights, community risk and supply chain working conditions.

It is interesting to note the varied scope of issues affecting social risk, from Board level, executive and employee level considerations through to supply chain and community impacts. This range of factors shows the importance of evaluating companies from a group perspective to assess

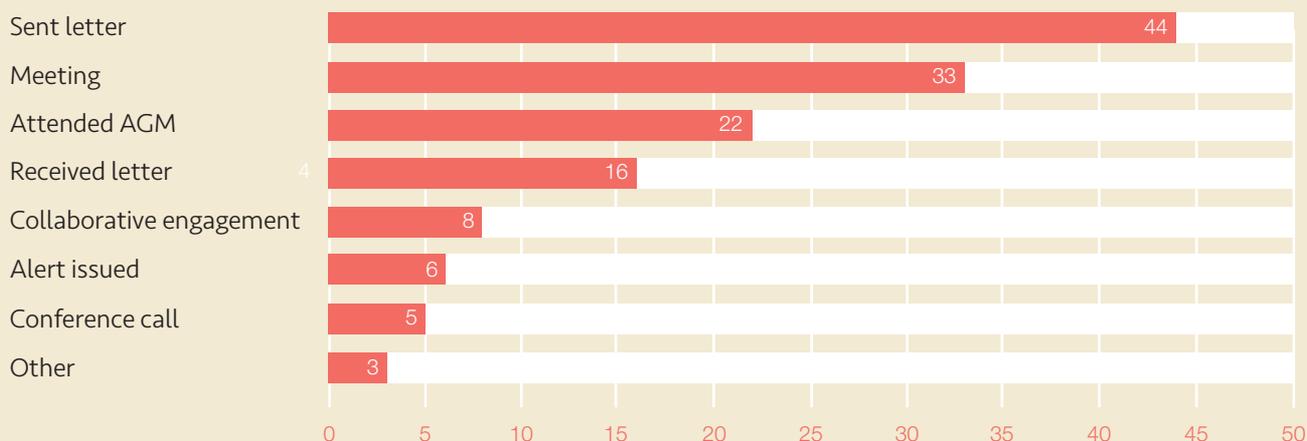
social risk accurately. In other words, looking only at the parent, subsidiary or business partner will provide only part of the story for investors. Understanding how all of these entities are linked and cause or contribute to social impacts will provide a more complete view of social risk.

#### **Human Capital and Employment**

During 2016, LAPFF conducted research into human capital management and re-worked its human capital management policies based on the research findings. Main findings include the suggestion that human capital management has not gained traction as an analytical risk tool for investors to scrutinise companies about their human capital management practices. This is because investors often do not know what to ask companies about their human capital practices. Exacerbating this problem is the fact that when investors do receive human capital data, they often do not know what to do with it or how to interpret it. For example, much of the existing reporting on human capital revolves around quantitative metrics. In relation to human capital, these statistics often add little value or mean nothing in and of themselves; they need to be supported by qualitative analysis to be explained accurately. Therefore, LAPFF has begun engaging with companies seemingly doing well in this area to ascertain what quantitative metrics are important and how narrative reporting can be used to enhance investor understanding of risks related to human capital management.

SSE is an example of a company taking innovative steps to assess and improve its human capital management. LAPFF has been engaging with SSE to understand better how the Company has quantified the contribution of its human capital to its business, and how it supports this information with more qualitative efforts to understand the

## Activity Type



*Correspondence was the most common activity (even excluding the two FTSE 350 reliable accounts mailings that took place during the year). However, the combination of meetings and AGM attendance meant that LAPFF undertook more in-depth engagement nearly 70% of the time. LAPFF is continuing to find that where company meetings have been difficult to procure, AGM attendance can help.*

contributions of its workforce. In contrast, Sports Direct has struggled in this area with the Company's share price tumbling over the last year and a half, and significant shareholder concern was expressed at the AGM over the Company's human capital practices. To this end, LAPFF supported a shareholder resolution requesting that the Company conduct an independent assessment of its human capital management strategy. LAPFF expressed support for this resolution, issuing a LAPFF Alert to its member funds and is working with other investors and stakeholders in challenging the Company to be accountable for its human capital and employment issues.

### Diversity

LAPFF has continued to engage on gender diversity at board level, particularly through its membership in the 30% Club. Although gender diversity on the board has been shown to improve board effectiveness, a number of company representatives with whom LAPFF engaged raised problems they have encountered. These included that they considered it difficult to find women board directors and that in general women progress well in their careers until they reach middle management, at which point they are likely to face predominantly male interview panels, which may unconsciously favour a male appointment. In contrast, other chairs suggested board gender equality was achieved through recruiting the right people for the job, by properly

looking for and assessing candidates' capabilities, and through training, mentoring and sponsorship.

Clearly, there is a range of perspectives and a long way to go on gender diversity. Focus for the 30% Club and LAPFF has been on executive level development of female staff so as to create a pipeline for women to succeed in reaching board level positions. However, LAPFF engagement on diversity has begun to branch out to include gender diversity within companies as a whole, as well as other types of diversity.

### Human Rights

While 16% of LAPFF's social risk engagements for the year covered more traditional human rights topics – cluster munitions, community impacts, and treatment of prisoners – another 37% covered employment standards covered by human rights law. This engagement included labour rights in the supply chain. As part of this work, LAPFF engaged on the Modern Slavery Act (MSA) with Nestlé and Carillion. Work on the MSA will ramp up as companies become required to report under the Act. So far, only 700 of around 12,000 companies required to report have submitted MSA statements, many of them allegedly not compliant with the Act's requirements. However, in line with the LAPFF findings on human capital reporting, there will understandably be a learning curve for companies in how to report on this information.

# Media Coverage



## Reliable Accounts

There was good press coverage of LAPFF's work in this area over the last year. One such example is a Russian piece about LAPFF's concern with IFRS and the FRC's guidance - <http://gaap.ru/news/151262/>

Other reports of LAPFF's work on reliable accounts appeared in the Financial Times, The Times, Investment & Pensions Europe, and through Reuters, among other sources.

## Strategic Resilience Resolutions

The 2016 strategic resilience resolutions to the UK-listed integrated miners, Anglo American, Glencore and Rio Tinto, received good coverage. This built on momentum from engagement and resolutions to Shell and BP in 2015.

The resolutions were covered by the Financial Times and Reuters, among other publications and news outlets.

## BP and WPP

Despite an attendee focus on carbon management, BP faced more vocal challenge at the AGM for its executive remuneration arrangements. LAPFF Deputy Chair Ian Greenwood represented LAPFF on camera regarding BP's pay scheme. WPP's Martin Sorrell also faced tough criticism for his pay package. LAPFF's engagement with both companies was reported in the national press. LAPFF's engagement on executive remuneration was covered by The Guardian, The Independent, The Times and BBC News, among others.

## Sports Direct

Jane Firth (below) of the LAPFF Executive also featured prominently in the media at the Sport Direct AGM this year, speaking about LAPFF's support for a shareholder resolution that called for an independent assessment of the Company's human capital management practices.

LAPFF's Sports Direct engagement was covered by Channel Five News, The Guardian, Yahoo Finance, and the International Business Times, among others.

# Mentoring Scheme

The idea for a LAPFF Mentoring Scheme stemmed from a discussion held at the LAPFF Women's Forum, although it was decided that the scheme should be available to men and women.

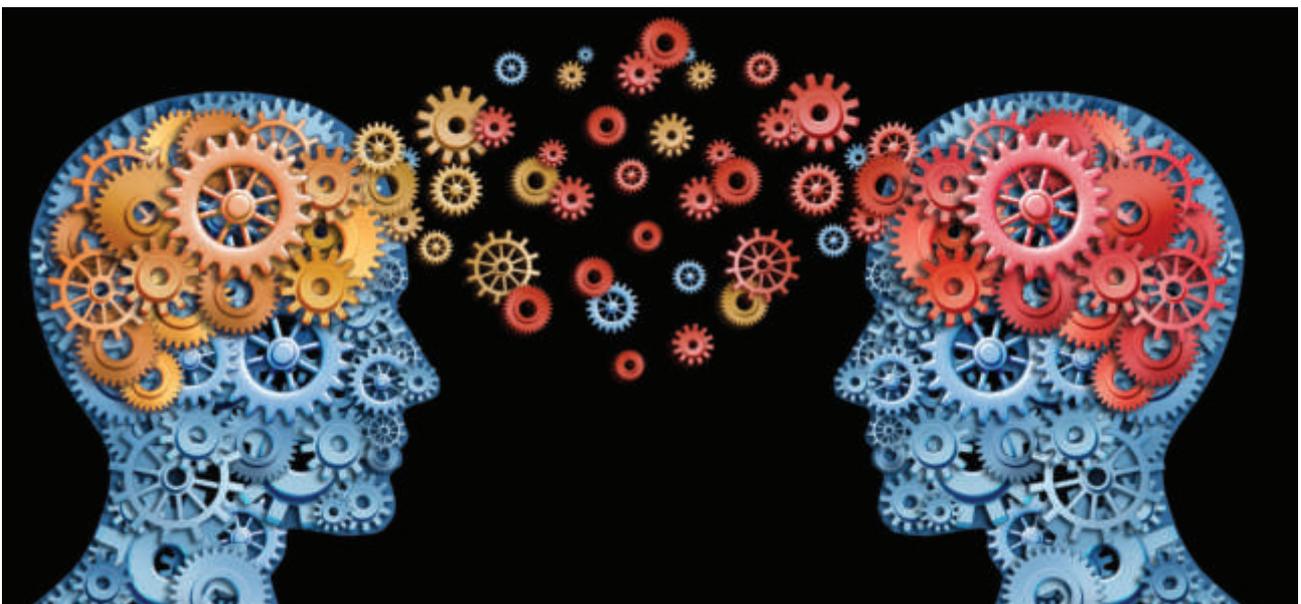
Participants were asked to complete a questionnaire to identify their personality type and working style. Pairings were then determined based on the questionnaire responses and a range of other factors, including whether the participant was a councillor or an officer, job function, and geography.

An initial organising call covered the basics of what makes a good mentoring partnership including that contact should be initiated by the mentee and that there should be regular contact between mentor and mentee. Participants were also encouraged to share past mentoring experiences, what worked and what didn't.

For the first round of mentoring, seven pairings were set. Unfortunately, not everyone interested in the scheme was paired with a mentor or mentee as the numbers in each category did not balance out exactly. We hope to rectify this with the next round of pairings.

Every three months or so, scheme participants were asked for feedback, and there are areas identified for improvement as the next round of pairings is set for the New Year. However, the pairings that were matched worked well overall, and both mentors and mentees gave positive feedback about their experiences and learnings.

If you are interested in participating in the LAPFF Mentoring Scheme, please contact Sara Hove, [sara.hove@pirc.co.uk](mailto:sara.hove@pirc.co.uk)



## List of Companies Engaged

Company	Topic	Activity	Outcome
Admiral Group	Tax	Response received	Small improvement
AIA Group	Governance (General)	Response received	Dialogue
Anglo American	Climate Change	Alert issued/Attended AGM/Meeting	Substantial improvement
Barclays	Finance & Accounting	Sent Letter	Dialogue
BHP Billiton	Climate Change	Conference call/Attended AGM/Collaborative engagement	Substantial improvement
BP	Climate Change	Attended SRI day/Attended AGM/Collaborate engagement/Meeting	Moderate improvement
British Land	Remuneration	Attended AGM	Dialogue
BT	Governance (General)	Attended AGM	Dialogue
Burberry	Employment Standards/ Human Rights	Sent letter	Awaiting response
Carillion	Employment Standards/ Supply Chain Management	Attended AGM	Dialogue
Centrica	Climate Change	Meeting	Dialogue
Chevron	Climate Change	Alert issued	Dialogue
Direct Line Group	Tax	Meeting	Moderate improvement
Dixons Carphone	Tax	Response received	No improvement
EDF	Climate Change	Response received	Satisfactory response
ENI	Climate Change	Collaborative engagement	Awaiting response
Euromoney Institutional Investor	Board Composition	Sent letter	Awaiting response
Experian	Tax	Response received	Dialogue
ExxonMobil	Climate Change	Alert issued	Awaiting response
G4S	Human Rights/ Governance (General)	Collaborative engagement/ Webinar	Dialogue
GKN	Board Composition	Collaborative Engagement	Dialogue
Glencore	Climate Change	Alert issued/Investor roundtable attendance	Substantial improvement
Google	Governance (General)	Collaborative letter	Dialogue
Halfords	Board Composition/ Employment Standards	Collaborative engagement	Satisfactory response

<b>Company</b>	<b>Topic</b>	<b>Activity</b>	<b>Outcome</b>
Hays	Governance (General)/ Employment Standards	Meeting	Dialogue
ITV	Tax	Meeting	Dialogue
Johnson Matthey	Climate Change	Sent letter	Dialogue
Kier Group	Remuneration	Meeting	Moderate improvement
L&G	Reputational Risk/ Campaign (General)	Sent letter	Dialogue
M&S	Climate Change/Supply Chain Management	Meeting	Dialogue
Morrisons	Tax	Response received	Dialogue
National Express	Employment Standards	Meeting	Small improvement
National Grid	Climate Change	Attended AGM	Substantial improvement
Nestle	Employment Standards/ Board Composition	Investor roundtable attendance	Moderate improvement
Next	Employment Standards/ Climate Change	Attended AGM	Satisfactory response
P&G	Climate Change	Response received	Dialogue
Prosegur	Employment Standards/ Human Rights	Sent letter	Dialogue
RBS	Remuneration	Attended AGM	Dialogue
Rentokil	Mergers and Acquisitions/ Governance (General)	Meeting	Satisfactory response
Ricoh	Employment Standards/ Human Rights	Sent letter	Awaiting response
Rio Tinto	Climate Change	Attended AGM/Conference call/Meeting	Moderate improvement
Rolls-Royce	Governance (General)/ Environmental Risk	Sent letter	Change in process
Royal Dutch Shell	Climate Change	Attended AGM/ Investor Roundtable Attendance/SRI day attendance	Satisfactory response
Sainsbury	Tax	Meeting	Small improvement
Singapore Technologies	Human Rights	Response received	Substantial improvement
Sky	Tax	Response received	Dialogue

<b>Company</b>	<b>Topic</b>	<b>Activity</b>	<b>Outcome</b>
Sports Direct	Employment Standards/ Governance (General)	Attended AGM	Moderate improvement
SSE	Employment Standards	Attended AGM/Meeting	Moderate improvement
Standard Life	Incentivising Execs	Attended AGM	Dialogue
Telecom Plus	Board Composition/ Climate Change	Meeting	Small improvement
Tesco	Tax	Meeting	Dialogue
Total	Climate Change	Attended AGM/Meeting	Substantial improvement
Toyota	Climate Change/ Governance (General)	Meeting	Dialogue
Tullow Oil	Board Composition	Meeting	Change in process
Unilever	Governance (General)/ Human Rights	Attended AGM/ Meeting	Small improvement
Vedanta	Human Rights/ Environmental Risk	Attended AGM	Dialogue
Vodafone	Governance (General)	Attended AGM	Dialogue
Weir Group	Board Composition/ Remuneration	Sent letter	Dialogue
WPP	Remuneration	Alert issued	Dialogue

# Member Support

Guidance for members has been produced throughout the year, including an overview of LAPFF’s engagement on carbon risk and climate change; guidance to assist members in responding to the Asset Owner Disclosure Project (AODP) request asking funds how they manage climate risk in their investments; guidance to assist members in responding to requests for divestment on fossil fuel investment and on information requests on trade association lobbying activities.

LAPFF representatives have also addressed various member funds’ pension committees and member consultative meetings throughout the year, providing information on the Forum’s activities and engagement outcomes. A full list of services for members is listed below.

Company engagement	Quarterly Engagement Report	Consultation responses
Voting alerts	AGM briefings and attendance	Website
Investor partnerships	Business meetings and presentations	E-bulletin
Information on LGPS reform	Trustee guides	Media coverage
Member briefings	Working groups	PRI/AODP reporting
Investor seminars	Shareholder resolution filing support	Event attendance
Policy guidance	Twitter presence	Training
Mentoring scheme	Fund presentations	LGPS/Pooling research

For further information on any LAPFF services or publications, please contact Lara Blecher, Engagement Services Executive – [LaraB@pirc.co.uk](mailto:LaraB@pirc.co.uk)







For more information about LAPFF, visit our website at [www.lapfforum.org](http://www.lapfforum.org)

For further information on LAPFF and membership enquiries, contact Keith Bray, Forum Officer [postmaster@keithbray.plus.com](mailto:postmaster@keithbray.plus.com) or 07811 800612 or 01633 255685

Engagement information and data supplied by LAPFF's Research and Engagement Partner [LaraB@pirc.co.uk](mailto:LaraB@pirc.co.uk), PIRC Ltd. [www.pirc.co.uk](http://www.pirc.co.uk)

For more information about LAPFF's Engagement Programme, please contact [Lara Blecher](#).

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West Midlands Pension Fund