

QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2015



Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of member funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £165 billion.

ACHIEVEMENTS

- Shareholder resolutions on strategic resilience to the **BP** and **Shell** AGMs achieved unprecedented levels of support, with votes in favour of over 98% at BP and nearly 99% at Shell. The success of these resolutions reflects the positive nature of the collaborative 'Aiming for A' group but also LAPFF's own long-term engagement with the companies culminating in twelve funds co-filing and 31 funds pre-declaring support for the resolutions. The resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios, which includes remaining within 2°C limits, and the role exploration, disposals and cash distributions to investors will play in the nearer term.



- A voting alert was issued for a similar resolution to the **Statoil** AGM, which received a correspondingly high level of support. LAPFF continued to highlight these issues with a related voting alert on cash distributions to investors for the **Chevron** AGM, on demand management strategy at **Anadarko** and supporting carbon emission targets at **ExxonMobil**.

- A meeting with the chairman of **Barclays** followed LAPFF's publicly expressed dissatisfaction with Sir John Sunderland presiding over a full year as remuneration committee chairman. The LAPFF chair also raised concerns with the accounts due to the accounting standards being applied.

- A number of LAPFF funds co-filed a shareholder resolution to the **National Express** AGM, requesting an independent assessment of labour relations at the Company's US subsidiary, Durham School Services. Cllr Greening of the LAPFF executive spoke to the motion and almost a quarter of independent shareholders failed to back National Express over labour rights at the AGM, the highest level of support for a shareholder resolution on employee rights.



- LAPFF representatives attended and proposed motions or addressed the board at eight AGMs during the quarter. These included **Rio Tinto**, where Cllr Greening raised tax transparency and carbon management; **British American Tobacco**, where health objectives linked to executive incentives were raised; **Carillion** and **Balfour Beatty**, where blacklisting and labour supply chain issues were raised and **Next** on supply chain standards in Bangladesh.

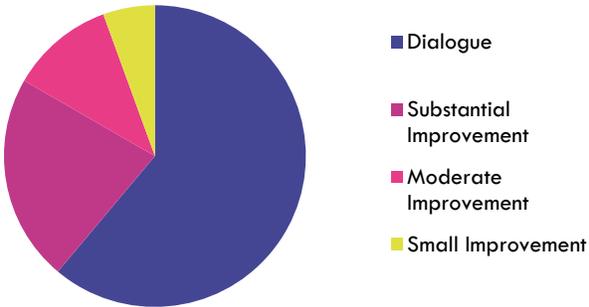
- In late May, **Tesco** announced provisions to claw back bonuses from its CEO and Finance Director. This move came after senior executives, who were in place during Tesco's accounting scandal, left the Company with high payouts. LAPFF had written a letter to Tesco in February concerning a lack of malus provisions in executive remuneration contracts and was pleased with the claw back developments.

ENGAGEMENT SUMMARY

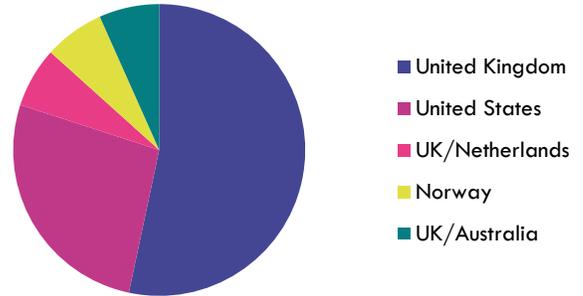
APRIL TO JUNE 2015

The Forum engaged with **15 companies** over the period

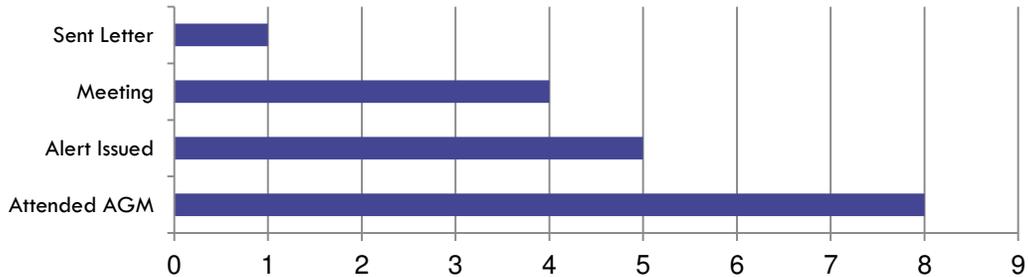
Outcome



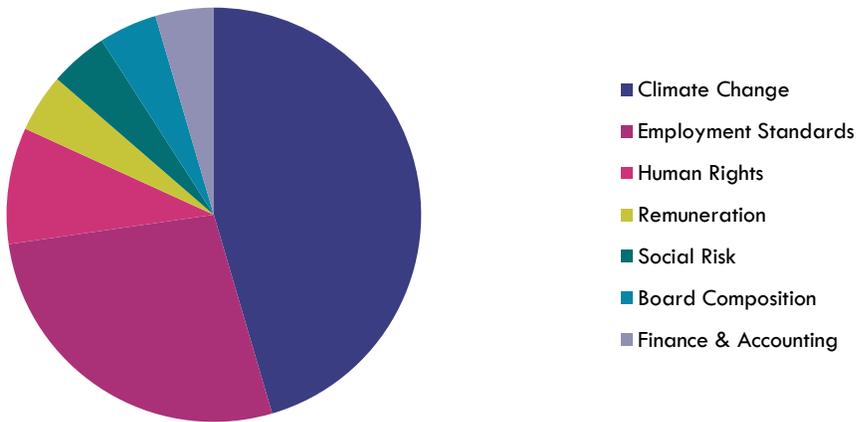
Domicile



Activities



Topics



COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

Attendance at a range of AGMs enabled LAPFF to address boards directly, supporting progress where relevant and highlighting areas of concern to member funds. The **Rio Tinto** AGM was a case in point, where Cllr Greening congratulated the Company on its tax transparency, asked the board to consider replacing the auditors before 2020, and to re-double efforts to seek solutions to the human rights issues raised in local communities. On carbon management, the company was pressed on how it will manage the transition from the use of coal to gas. The response from the chair, Jan du Plessis, was that there should be a greater focus on energy use and efficiency and the development of renewable energy.

International Financial Reporting Standards (IFRS)

The European Financial Reporting Advisory Group (EFRAG) has issued draft endorsement advice on the proposed replacement of the EU International Accounting Standard (IAS) 39 with IFRS 9. LAPFF considers that EFRAG has been lacking objective and transparent legal criteria for assessing the true and fair view principle of the law for IFRS endorsement and as a result has not been following the correct model of 'true and fair view' in endorsing IFRS. LAPFF's full response to the draft endorsement advice by EFRA can be found with other LAPFF consultation responses [here](http://www.lapfforum.org/Publications/consultations) at <http://www.lapfforum.org/Publications/consultations>.

PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF Chairman Cllr Kieran Quinn met with **Barclays**  **BARCLAYS** Chairman, Sir David Walker, and the company secretary, Laurence Dickinson. The meeting was requested by LAPFF following the press coverage expressing LAPFF's dissatisfaction with the fact that Sir John Sunderland had presided over another full year as remuneration committee chairman at Barclays. The week before the 2014 AGM, Barclays had indicated that Sir John was to be replaced as remuneration committee chairman by Crawford Gillies. The timing of this announcement coincided with a likely high level of dissent for the AGM against the 2014 remuneration committee report, i.e. the announcement was taken as the quid pro quo for some investors not voting down remuneration, or opposing Sir John's re-election. LAPFF generated a number of press pieces on this topic and issued a voting alert ahead of the 2015 Barclays AGM to ensure shareholders were aware of this concern. Subsequently, Sir John has left the Barclays Board.

A meeting with the chairman of **ABF** explored developments in supply chain management, carbon reporting and the composition of an effective board.

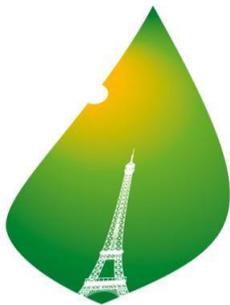
MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

LAPFF's own engagement, and collaboratively with 'Aiming for A' partners, achieved an unprecedented number of global institutional co-filers, board support and high level of vote turnout for the strategic resilience shareholder resolutions to the **BP** and **Shell** AGMs. These resolutions included a request for an assessment of the companies' asset portfolio resilience against the range of IEA scenarios (which include the 2°C scenario) and the role exploration, disposals and cash distributions to investors will play in the nearer term.

The Forum also supported a shareholder resolution to **Chevron** requesting that the board adopt a dividend policy increasing the amount authorised for distribution to shareholders in light of the growing potential for stranded assets and decreasing profitability associated with capital expenditures on high cost projects. A voting alert on a shareholder resolution to the

Anadarko general meeting supported a request for the company to address the risk of stranded assets and demand reductions for oil and gas, including analysis of long and short term financial and operational risks to the company.



COP21 - CMP11
PARIS 2015
UN CLIMATE CHANGE CONFERENCE

In the run up to the much anticipated climate change treaty discussions in Paris in December, LAPFF has co-signed a global investor letter aiming to promote a meaningful climate change agreement at the next Conference of Parties (COP). The letter, addressed to Finance Ministers, asked for two key components for agreement in Paris: a long-term global emissions reduction goal; and submission of short to

medium-term emissions pledges and country level action plans. The ultimate goal is to create policy incentives to invest in low-carbon and climate-resilient activities to prevent an average global temperature increase above 2°C.

Building on LAPFF's 2014 work as part of a coalition that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land, the Forum co-signed a letter pressing the Roundtable on Sustainable Palm Oil (RSPO) to adopt more stringent standards on palm oil production. The letter, organised by the New York State Common Retirement Fund and Green Century Capital Management, urges the RSPO to align the standards it sets for sustainable palm oil production with the industry expectations and best practices for sustainable sourcing.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

Employment standards and human rights have figured prominently at many of the AGMs attended by LAPFF representatives. The labour standards resolution filed at the **National Express** AGM by LAPFF funds and other investors, representing around 2% of share ownership, drew attention to questions over on-going allegations of poor behaviour in Durham School Services. The proposal requested an independent review in order to best resolve these questions. LAPFF issued a voting alert outlining concerns, and Cllr Greening represented the three LAPFF co-filing funds at the AGM. The resulting vote, where nearly one quarter of the free-float voted in favour or abstained, may make this the highest vote for a labour rights shareholder resolution to a UK company.



Other AGM attendance included Cllr Richard Greening asking about blacklisting and labour standards in supply chains at the **Balfour Beatty** AGM. Leanne Clements asked about the same issues at the **Carillion** AGM and LAPFF executive member Jane Firth asked about second and third-tier supplier risks under the Bangladesh Accord at the **Next** AGM. This representation has boosted awareness of LAPFF with the companies in question and with other shareholders who attend, and is helpful in securing meetings with board members.

Social and Reputational Risks

LAPFF members have a significant level of holdings in European pharmaceutical companies, and one issue that has come up in company dialogue is transparency of companies' clinical trials. To support this engagement, the Forum has signed on to an investor Clinical Trial Transparency Initiative, led by BNP Paribas Investment Partners and Broadwaters Advisory Services. The Initiative includes an Investor Statement that highlights the importance of clinical trials in determining the effectiveness and safety of drugs that come to market and a request that companies publish complete and accurate information on trial results so that investors can make fully informed decisions.

As part of its Corporate Tax Transparency Initiative, the Forum has written to the FTSE 100 seeking disclosure on existing tax practices, transparency, reporting, potential risks and assessment of future policy changes. This project leads out of the tax governance reform principles raised in the LAPFF led [Pre-G20 Investor Statement](#).

MEDIA COVERAGE

BP and Shell strategic resilience resolutions

[BBC World Service](#), [Professional Pensions](#), [Investment & Pensions Europe](#),
[The Local \(Norway\)](#), [Lexology](#), [Forbes](#),
[Blue & Green Tomorrow](#), [Local Government Chronicle](#)

National Express 'Independent Review' resolution

[Satellite PR News](#), [PR Newswire](#)

LAPFF G20 tax transparency

[Investors Chronicle](#), [Financial Times](#)

NETWORKS & EVENTS

NAPF Local Govt. Conference: A LAPFF representative presented on a panel on 'How engagement can contribute to long-term investment performance'

CIG Conference: A LAPFF representative presented on LAPFF engagement including the Aiming for A, Shell & BP strategic resilience resolutions

Nikko Research Center, Inc: discussion on Japanese and UK shareholder engagement.

Shell SRI Day: investor briefing and interaction on Shell's SRI activities.

Rio Tinto Pre-AGM meeting: Company employment practices explored by IndustriALL on Rio Tinto

National Express Pre-AGM meeting: - held by UNITE, ITF and Teamsters to brief investors on National Express' employment practices.

ITC call: held regarding Chevron and the Company's Gorgon project in Australia.

COMPANY PROGRESS REPORT

Companies not previously engaged with on an individual basis noted in bold.

Company	Topics	Activity/Outcome	Domicile
Associated British Foods	Supply Chain/ Board Structure	Meeting/Moderate Improvement	UK
Anadarko	Carbon Management	Voting Alert/Dialogue	US
Balfour Beatty	Employment Standards	AGM/Dialogue	UK
Barclays	Executive Pay	Meeting/Small Improvement	UK
BP	Carbon Management	AGM/Substantial Improvement	UK
British American Tobacco	Social Risk	AGM/Dialogue	UK
Carillion	Employment Standards	AGM/Dialogue	UK
Chevron	Carbon Management	Voting Alert/Dialogue	US
ExxonMobil	Carbon Management	Voting Alert/Dialogue	US
Glencore	Carbon Management	Meeting/Dialogue	UK
National Express	Employment Standards	AGM/Dialogue	UK
Next	Employment Standards	AGM/Dialogue	UK
Rio Tinto	Carbon Management	AGM/Dialogue	UK/Australia
Royal Dutch Shell	Carbon Management	Meeting - AGM/Substantial Improvement	UK/Netherlands
Statoil	Carbon Management	Voting Alert/Substantial Improvement	Norway

Local Authority Pension Fund Forum Members

Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cardiff and Vale of Glamorgan Pension Fund
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Haringey LB
Harrow LB
Hertfordshire County Council Pension Fund
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
Lewisham LB

Lincolnshire CC
London Pension Fund Authority
Lothian Pension Fund
Merseyside Pension Fund
Newham LB
Norfolk Pension Fund
North East Scotland Pension Fund
North Yorkshire CC Pension Fund
Northamptonshire CC
NILGOSC
Nottinghamshire CC
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
Sheffield City Region Combined Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC