

# QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2015



**LGPS seminar**

*(Left to right) Cllr Kieran Quinn (LAPFF Chair), Cllr Denise Le Gal (Surrey Pension Fund), Cllr Rob Chapman (Hackney Pension Fund) and Brian Bailey (PIRC Chair).*

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

ST Engineering quits cluster munitions in part due to LAPFF engagement

LAPFF contacts all FTSE350 companies regarding IFRS 9

Co-filing strategic resilience resolutions with Rio Tinto, Anglo American and Glencore

Corporate Tax Transparency Initiative engagement begins next phase

# Achievements

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

In December, 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). More information on the conference and a selection of the presentations are available [here](#).

## ST Engineering quits cluster munitions in part due to LAPFF engagement

In 2014, the Forum engaged with nine aerospace and defence companies, including ST Engineering, about the sale and production of cluster munitions. This quarter, the Forum received a letter from ST Engineering stating that the company is 'no longer in the business of designing, producing and selling anti-personnel mines and cluster munitions or any related components.' The company specifically referred to LAPFF's influence on the company in reaching this decision, showing the benefits of the Forum's positive engagement approach.

## LAPFF contacts all FTSE350 companies regarding accountancy regulation and standards

In November, [LAPFF wrote to all FTSE 350 companies](#) indicating that they should disregard guidance and statements from the Financial Reporting Council in order for directors to meet their legal obligations. The letters were [widely reported](#) and LAPFF is in the process of collating and analysing the responses. In December, LAPFF published '[Sorry, Wrong Number](#)', which sets out how central figures in the accounting profession have consistently argued that the law was different to what the legislation provided; a clear example of regulatory capture. A copy of this paper was enclosed in a letter LAPFF recently sent to Lord Hill, the Commissioner for Financial Stability, Financial Services and Capital Markets Union at the European Commission.

In LAPFF's paper 'Banks Post Mortem – Follow Up' (December 2013), LAPFF set out how IFRS had caused the failure of the Basel capital adequacy regime for British banks. Explicit admission of this was finally given by the CEO of the Prudential Regulatory Authority, Andrew Bailey, during questioning by Steve Baker MP at the Treasury Select Committee on 15th December 2015 into the role of the accounts audited by KPMG in the failure of HBOS. [In a recent article commenting on this issue](#), the Daily Mail called for the FRC to be disbanded.



### 'Carbon transition management: how should investors respond?' Climate change panel (LAPFF conference)

(Left to right) Mark Campanale (Founder, Carbon Tracker), Matthew Knight (Director of Strategy and Government Affairs, Siemens), Dawn Turner (Head of Pension Fund Management, Environment Agency Pension Fund), Cllr Cameron Rose (Lothian Pension Fund, LAPFF Vice Chair) and Tom Harrington (Senior Investment Manager, Greater Manchester Pension Fund).

## LAPFF hosts seminar on developments in the Local Government Pension Scheme

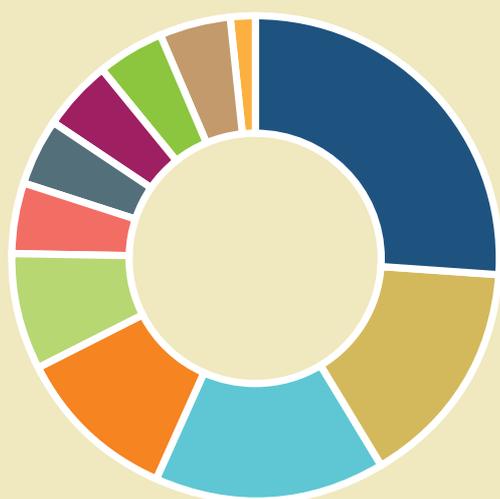
Following the Chancellor's announcement of proposed reforms to the LGPS over the summer, LAPFF hosted a seminar on 23 November open to all local authority pension funds on the proposed changes. Bob Holloway, from the Department for Communities and Local Government, started the discussions by describing the proposals and responding to numerous questions from the floor. This discussion was followed by a number of presentations from LAPFF member funds discussing their perspectives on the proposed reforms. At the LAPFF conference, LAPFF facilitated further discussion on the recently launched government consultation on the proposals.

## Three more pension funds join LAPFF

In the final quarter of 2015, the Cambridgeshire Pension Fund, The City and County of Swansea Pension Fund, and the Gloucestershire Pension Fund all joined LAPFF, bringing the total number of member funds up to 68. We look forward to welcoming all new member fund representatives to LAPFF meetings in 2016.

# Company Engagement

## ENGAGEMENT TOPICS



Climate change	17
Reputational risk	10
Tax	10
Employment standards	7
Other	5
Environmental risk	3
Governance (general)	3
Human rights	3
Social risk	3
Incentivising executives	3
Finance & accounting*	1

\*In addition, LAPFF wrote to the Chairs of each of the FTSE350 companies regarding reliable accounting, and received 44 written responses

## HOLDINGS-BASED ENGAGEMENT

In November, LAPFF attended the **BP** SRI day, particularly keen to hear about the impact of the [strategic resilience resolution that LAPFF funds co-filed earlier this year](#). The company stated that the resolution has had a positive impact in bringing focus to, and making public, existing work that the company was undertaking on climate change resilience. The company noted a number of steps that it is taking to mitigate its climate change impacts, including: calling on governments to implement a carbon price; increasing the use of natural gas; developing a material renewable business in biofuel and wind; improving energy efficiency; and contributing to research and development.

In November and December, LAPFF also participated in two investor meetings with **Shell**. At the first of these meetings, LAPFF vice-chairman, Ian Greenwood, discussed with the Vice President of Safety and Environment, Rupert Thomas, the impact of politics on the oil price and the importance of communicating climate change science simply and clearly to investors. LAPFF also asked about the impact of the strategic resilience resolution on company disclosure practices. The company indicated that it would be disclosing information, signposted by the various aspects of the resolution, next year. At the second meeting, with the Chair of Shell, Chad Holliday, the focus was on the proposed BG acquisition, with Shell also confirming its increasing focus on integrated gas, in anticipation of declining demand for coal.

Towards the end of November, Cllr Barney Crockett and Cllr Cameron Rose met with the CEO of **SSE** plc. The aims were to gain an understanding of: the company's succession planning process; whether or not it was looking to 'decouple' profits from energy use; and its adoption of progressive tax and living wage policies. There was a discussion around the merits of home efficiency versus decoupling profits from carbon production, as well as carbon capture and storage. With regard to the living wage, the Company is an early adopter of this standard and a leader in the sector.

In December, LAPFF met with **Toyota**, one of the most significant Japanese companies that the Forum has engaged with, and in which 30 LAPFF funds hold shares. Cllr Cameron Rose led the meeting and discussed a number of issues ranging from the recent VW scandal and product recalls, to renewable energy and board diversity. It was a very productive meeting and has laid the groundwork for further meetings in the future.

## PROMOTING GOOD GOVERNANCE

LAPFF attended the **Sky** plc AGM in November, in order to ask the board about the concentration of 21st Century Fox representatives on the Sky board. Notwithstanding that two 21st Century Fox representatives stepped down from the Sky board, the appointment of John Nallen, 21st Century Fox's Chief Financial Officer, increased the proportion of 21st Century Fox representatives on the Sky board to 25 per

cent. The Chair did not provide a detailed answer, but suggested that these board members were helpful given that Sky purchases content from the US. This board make-up remains problematic, however, in the face of [anti-trust litigation](#) against Sky.

Following tax expert Richard Murphy's analysis of company responses to LAPFF's Corporate Tax Transparency Initiative (CTTI) questionnaire, LAPFF has now invited some of the responding companies to meetings in order to better understand their tax processes. This selection of companies includes those whose survey responses suggested both good and bad tax practices and is particularly timely given the OECD's publication of the final [Base Erosion and Profit Shifting \(BEPS\)](#) package of reform, in October. In addition, UNPRI has recently issued guidance for investors with some straight forward questions to ask companies about their tax practices.

During October, LAPFF had a call with other members of the [Investor Clinical Trials Initiative](#) regarding engagement meetings with Roche, Astrazeneca, Bayer, Novartis, AbbVie, and Johnson & Johnson. The companies are at varying stages of disclosing clinical trials data, but are overwhelmingly opposed to disclosing historical data. This opposition stems from a concern about public backlash as data standards were raised about twenty years ago. A new European Union [Clinical Trials Regulation](#) is due to come into force in around May 2016, and an AllTrials research report is due to be launched in January 2016. Therefore, developments in clinical trials transparency could be forthcoming during 2016.

## PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

LAPFF also had a further meeting with the **Equality and Human Rights Commission**, following Cllr Mary Barnett's participation in the Equality and Human Rights Commission Inquiry roundtable in the previous quarter. The latest meeting addressed LAPFF's experiences of recruitment and appointment of board directors. In particular, the meeting highlighted that directors are drawn from a very limited pool, which often excludes or overlooks female candidates, and that head-hunters can play a very negative role in exacerbating this issue. LAPFF has previously engaged with FTSE100 companies on board diversity, and will be extending this engagement to FTSE350 companies during the course of 2016.

On the back of a [LAPFF voting alert issued in September](#) of this year, LAPFF has written to **Sports Direct** to follow up on concerns about the company's use of zero hour contracts. There continue to be concerns that Sports Direct's use of these contracts leads, amongst other things,

to low pay, uncertain hours, and a large amount of stress on employees unsure of whether they will have enough hours to earn a sufficient living. Public pressure on the company on this issue is building and, in December, the [Chair of Parliament's Public Accounts Committee called for an investigation](#) into low pay and working conditions at the company. The company's recent statements on employment issues are currently being scrutinised.

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Engagement with **Rio Tinto** progressed during the fourth quarter, including a meeting with the Chair, Jan du Plessis, attended by LAPFF Executive Committee member Rodney Barton. The proposed strategic resilience shareholder resolution was discussed, which requests reporting on various elements of company actions in the face of the carbon transition, including how the company manages its portfolio of assets to be resilient to future energy scenarios.

At least a dozen member funds are currently co-filing similar resolutions with two other diversified mining companies, Anglo American and Glencore, for the 2016 AGMs. This engagement is co-ordinated with other investor members of the Aiming for A Coalition which, earlier this year, co-filed strategic resilience resolutions with Shell and BP. These resolutions obtained support from both boards and 98% of voting shareholders. Building on this success, asset managers such as Aviva Investors and BNP Paribas Investment Partners, who publicly supported the BP/Shell resolutions, have now taken the next step of co-filing on the 2016 resolutions. Co-filing investors now represent total assets under management of USD 6.5 trillion.

LAPFF Executive Committee member, Jane Firth, attended the **BHP Billiton** AGM in October. Ms Firth welcomed the company's recent report '[Climate Change: Portfolio Analysis](#)', but queried the company's membership of industry associations, particularly the Minerals Council of Australia, whose position on climate change appears regressive and inconsistent with the company's stated policies. Jac Nasser, the Chair, responded that, as the largest company in Australia, it is important to be part of industry associations in order to advocate across a broad range of issues over the longer-term. The Forum has also joined other investors in engaging with BHP Billiton on the effects of the mining dam that collapsed in Brazil in November and as part of the UN PRI investor group, to consider the company's impacts as a result of its fracking business.

Following on from LAPFF's letter, with other investors, to the Roundtable on Sustainable Palm Oil, LAPFF has co-signed a letter to **President Joko 'Jokowi' Widodo** of

**Indonesia**, expressing concern about peatland degradation and deforestation in Indonesia and supporting the President's efforts to adopt regulatory reform in this area. 60 investors signed the letter in total, representing USD 2 trillion AUM. The letter was drafted by Green Century Capital Management and supported by the advisory committee of UN PRI's sustainable palm oil investor working group.

LAPFF also co-signed a letter to the UK Financial Reporting Council (FRC), drafted by ClientEarth and Sarasin & Partners. The letter sets out investors' expectations that fossil fuel dependent companies should address climate-related risks in the newly introduced 'viability statements' in their annual report.



**Investor engagement panel – LAPFF conference**

(Left to right) Cllr Kieran Quinn (LAPFF Chair), Paul Hackett (Smith Institute) and Martin Gilbert (CEO, Aberdeen Asset Management). The panel session was titled: 'Investor engagement: does it work?'

**MEDIA COVERAGE**

**Climate Change**

FT: [Investors put pressure on miners over Paris climate deal](#) [subscription only]

Reuters: [Investors put pressure on miners to respond to climate change](#)

**Governance**

The Guardian: [Sky investors challenge appointment of another Fox board member](#)

**Human rights**

Coventry Telegraph: [Coventry council pension fund pressures weapons firm to stop making banned cluster bombs](#)

**Reliable accounts**

FT: [HBOS review offers the chance to expose the flaws in our accounting system](#) [subscription only]

Investment & Pensions Europe: [LAPFF presses FTSE companies to ignore 'illegal' FRC guidance](#)

The Times: [Disgruntled investors attack FRC](#) [subscription only]



Reuters: [UK pension funds urge firms to disregard certain regulator guidance](#)

Financial Director: [True and fair remains at heart of battle over bank accounting rules](#)

Investment & Pensions Europe: [Pensions Accounting – Is it Enough?](#)

Investment & Pensions Europe: [LAPFF trades blows with EU accounting adviser in IFRS 9 row](#)

**Tax**

Investor Daily: [Investors urge G20 to reform global tax system](#)

## NETWORKS AND EVENTS

LAPFF and the Smith Institute hosted a party fringe meeting in Scotland, at the **SNP party conference** in October with the theme: **'The Banks are Back: What Should Scotland's Response Be?'** This event followed very successful party fringe meetings with similar themes at both the Labour party conference and the Conservative party conference.

The LAPFF chair, Cllr Quinn, spoke on a panel at **'Managing Value At Risk for Portfolios From Climate Change: the financial implications of COP 21'**. Christiana Figueres, Executive Secretary of the UN Framework Convention on Climate Change, was one of the key note speakers.

Cllr Quinn also spoke at the **CIPFA National Housing Conference**, describing the role of pension funds in funding infrastructure projects and Manchester's innovative approach to investment and housing.

LAPFF fielded three speakers for a Socially Responsible Investing event hosted by Camden Pension Fund. Presentations were given on LAPFF's engagement approach, reliable accounts and engagement on carbon risk.

A LAPFF representative also spoke on the Forum's UK Corporate Tax Transparency Initiative (CTTI) work at a seminar focussing on Multinational Tax Avoidance and the case of Chevron Corporation, sponsored by the International Transport Workers' Federation (ITF). The meeting also heard from Richard Murphy (founder of the Tax Justice Network and director of Tax Research LLP), who is advising LAPFF on its CTTI work.

Other events and meetings attended by LAPFF representatives during the quarter include:

'A briefing on **'Understanding Modern Slavery Reporting'**, hosted by Ergon Associates, which considered the Modern Slavery Act 2015 reporting requirements, which came into force in October.

A community meeting, hosted by the London Mining Network and attended by Cllr Greening, to consider the negative community impacts of **BHP Billiton's Cerrejon Mine** in Colombia.

**CDP's UK Results Event**, with speakers from the Environment Agency Pension Fund, SSE and Travis Perkins and **Carbon Tracker Initiative (CTI)**'s pre-launch of its 'Energy Demand Assumptions' research report.



*Cllr Quinn attends a Conservative party fringe meeting*

A **Tax Avoidance Event**, hosted by Share Action and Christian Aid, at which John Cridland, Director General of the Confederation of British Industry, suggested that if companies cannot explain their tax practices in two or three minutes at their AGMs, they should re-write their tax plans.

**Human Capital Reporting Event**, hosted by Helen Morrissey, founder of the 30% Club on board diversity, and of which LAPFF is a member. At the event, Professor Alex Edman argued that companies with good human capital management outperform their peers by two to three percent a year, although these effects may take four to five years to take hold.

Launch of AMNT's **Red Line Voting**, which seeks to enable pension schemes to direct their fund managers to engage and vote on their investments on specific issues, as prescribed by the Red Lines.

## LAPFF PUBLICATIONS

As members may be aware, following LAPFF members' responses to the 2015 Communications Survey, it was decided that the LAPFF quarterly newsletter ('View From The Forum') should be merged into the Quarterly Engagement Report (QER), as an online publication. This is the first QER since that decision was made and, as such, takes on a slightly different format and content to previous editions. LAPFF offers its warm thanks to Keith Bray, LAPFF Forum Officer, who was responsible for the newsletter which was an informative and well-read publication, particularly helpful in drawing in new members. We also thank him for his assistance in merging that newsletter with the current QER and for his ongoing assistance in shaping this publication.

## Q4 2015 ENGAGEMENT DATA

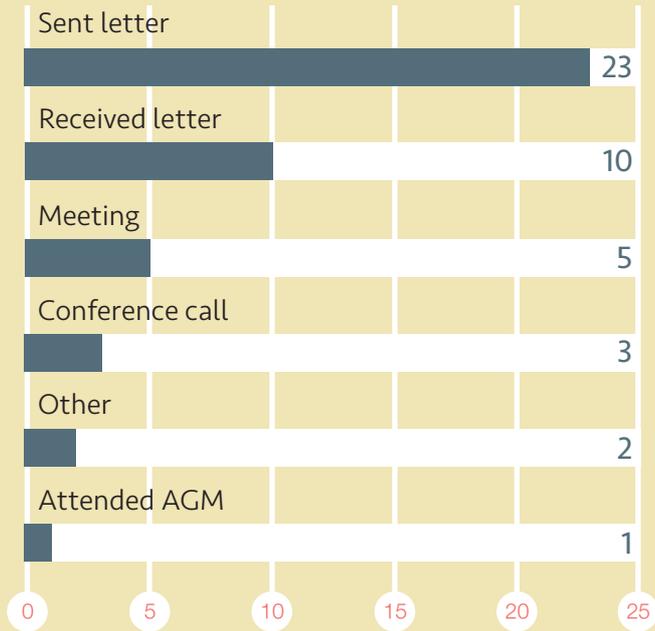
	<b>Company</b>	<b>Topics</b>	<b>Activity</b>	<b>Outcome</b>	<b>Domicile</b>
1	<b>Toyota</b>	Environmental Risk/ Employment Standards/ Climate Change/Governance	Received letter/ meeting	Dialogue	Japan
2	<b>BHP Billiton</b>	Social Risk/Climate Change/ Environmental Risk	Conference Call/ Attended AGM/ Sent Letter/ Received Letter/ Conference Call	Moderate Improvement	UK/Australia
3	<b>Rio Tinto</b>	Climate Change	Sent Letter/ Meeting/Conference Call/Sent Letter	Moderate Improvement	UK/Australia
4	<b>Johnson Matthey</b>	Climate Change	Sent Letter	Dialogue	United Kingdom
5	<b>Sports Direct</b>	Employment Standards	Sent Letter	Dialogue	United Kingdom
6	<b>Hays</b>	Employment Standards/ Incentivising Execs	Other/Received Letter/Sent Letter	Dialogue	United Kingdom
7	<b>AIA Group</b>	Governance (General)	Sent Letter	Dialogue	China
8	<b>Barclays</b>	Finance & Accounting	Sent Letter	Dialogue	United Kingdom
9	<b>Singapore Technologies</b>	Human Rights	Received Letter/ Sent Letter	Substantial Improvement	Singapore
10	<b>BP</b>	Climate Change	Other	Moderate Improvement	United Kingdom
11	<b>Prosegur</b>	Employment Standards/ Human Rights	Sent Letter	Dialogue	Spain
12	<b>Shell</b>	Climate Change/ Environmental Risk	Meeting	Dialogue	UK/Holland
13	<b>SSE</b>	Employment Standards/ Governance (General)	Meeting	Dialogue	United Kingdom
14	<b>Centrica</b>	Climate Change	Sent Letter	Dialogue	United Kingdom
15	<b>Morrisons</b>	Reputational Risk/Tax	Sent Letter/ Received Letter	Dialogue	United Kingdom
16	<b>Dixons Carphone</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
17	<b>Next</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
18	<b>ITV</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
19	<b>Admiral</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom

## Q4 2016 ENGAGEMENT DATA

	<b>Company</b>	<b>Topics</b>	<b>Activity</b>	<b>Outcome</b>	<b>Domicile</b>
20	<b>L&amp;G</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
21	<b>M&amp;S</b>	Reputational Risk/Tax	Sent Letter	Dialogue	United Kingdom
22	<b>Sky</b>	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Dialogue	United Kingdom
23	<b>Direct Line Insurance</b>	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Substantial Improvement	United Kingdom
24	<b>Tesco</b>	Reputational Risk/Tax/Other	Sent Letter/ Received Letter	Dialogue	United Kingdom
25	<b>P&amp;G</b>	Climate Change	Sent Letter	Dialogue	United States
26	<b>EDF</b>	Climate Change	Sent Letter/ Received Letter	Satisfactory	France
27	<b>Experian</b>	Other	Received Letter	Dialogue	United Kingdom

In addition, LAPFF wrote to the Chairs of each of the FTSE350 companies regarding reliable accounting, and received 44 written responses

### COMPANY ENGAGEMENT ACTIVITIES



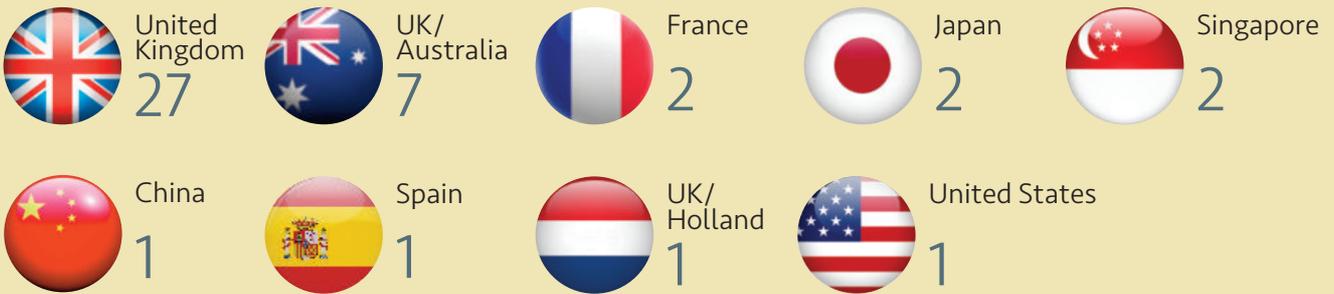
### TOTAL NUMBER OF COMPANIES ENGAGED WITH



### OUTCOMES



### COMPANY DOMICILES



### POSITION ENGAGED



## LOCAL AUTHORITY PENSION FUND FORUM 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
- 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
- Rhondda Cynon Taf
- Somerset County Council
- Sheffield City Region Combined Authority
- Shropshire Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Teesside 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