



Local Authority
Pension Fund
Forum



APPENDIX A

Protecting Shareholder Value

The role of the LAPFF

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Agenda

1. About the LAPFF
2. Corporate Governance and Corporate Social Responsibility
3. Approaches to activism
4. Some engagement results
5. The future with LGPS Pools

The Role of the LAPFF

The Forum is a voluntary association of LGPS funds which seeks to **protect and enhance the value of its members' shareholdings** by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value the Forum is a voluntary association of LGPS funds which

- seeks to optimise LGPS pension funds' influence as shareholders to promote high standards of Corporate Governance and Corporate Social Responsibility
- facilitates commissioning of research and policy analysis of issues relating to areas of concern more effectively than individual members
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues
- provides a forum to consider any issues of common interest to all pension fund administrators and trustees (e.g. the pooling of investments and the use of collective investment vehicles (CIV's))

LAPFF - Membership

Currently 72 Local Authority pension funds

- 27 English Counties
 - 22 London Authorities
 - 8 English/ Metropolitan/Unitary Authorities
 - 4 Scottish Authorities
 - 8 Welsh Authorities
 - 2 Passenger Transport Authorities
 - The Environment Agency
- £200 billion in value (Strength in numbers)
 - **Membership open to all LGPS pension funds**

LAPFF – Members as at 19 September 2017

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

LAPFF – our structure

MEETINGS

- 4 Business Meetings a year, Annual General Meeting
- Each member Fund has one vote at meetings, irrespective of size, but decisions usually taken by consensus
- Forum Executive
- Annual Conference (members receive two complimentary places)

PUBLICATIONS

- Trustee guides, monthly bulletins, quarterly engagement reports & annual report , website (www.lapfforum.org)

CONTRACTS

- PIRC contracted to supply research, advice and assistance to LAPFF
- Forum Officer – liaison with prospective members and members. (Part-time)

The LAPFF has been granted Special Interest Group (SIG) status by the Local Government Association (LGA)

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Boardroom structures
- Directors' remuneration
- Appointment of and role of auditors
- Accounting standards (particularly as applied to banks)
- Environmental issues (e.g. Greenhouse gas emission, Mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks

Boardroom structures

- Separation of Chair of Board from Chief Executive (e.g. M&S)
- Independence of non- executive directors
- Senior independent director
- Recruitment and appointment of directors
- Induction and professional development
 - Institute of Directors — **IoD Chartered Director qualification**
(supported by LAPFF)

Directors' remuneration

- Supportive of appropriate rewards for success
- Opposed to 'Fat cat' pay deals rewarding poor performance
- Opposed to excessive rewards which are disproportionate to performance (e.g. Barclays where more was paid out in bonuses than was paid out in dividends to shareholders despite unimpressive performance)
- Promotion of transparency

Appointment of and role of auditors

- Risk of conflict of interest from other relationships with company
- Ratio of fees for consultancy work and audit fees
- Independence of audit committees

Accounting standards as applied to banks

- Banks accounts were signed off by auditors as representing a 'true and fair view' of their financial position.
 - Shortly afterwards they needed to be bailed out by public money
 - HBOS needed £40.8bn
 - RBS needed £51bnand shareholders suffered major losses.
- Are accounting standards fit for purpose?**

Approaches to shareholder activism

- Leave it to fund managers
- Use a consultant
- Do it yourself (time consuming and ineffective)
- Collaboration (e.g. by membership of the
LAPFF)

Approaches to shareholder activism

- Collaboration improves effectiveness immeasurably (Strength in numbers)
- Engagement with companies preferable to confrontation
- Effectiveness of 'screening' (i.e. dis-investing from particular companies) is questionable

Some engagement results

YOUR M&S

The logo for News Corporation, featuring a white globe icon to the left of the text "News Corporation" in a white serif font, all set against a dark blue rectangular background.

News Corporation



- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- The resolution was supported by 37.7% of M&S shareholders.
- Marc Bolland appointed as Chief executive – M&S share price rises 5.5% on news of appointment.
- Marc Bolland subsequently took over as Chief Executive in May 2010 and Robert Swannell took over as chairman in January 2011 and spoke at LAPFF 2011 Conference



- LAPFF co-filed a resolution seeking an independent chair
- The culmination of intensified engagement over the past year
- Meetings held with investors and advisers to build support
- Vote in favour: 30.5%
- Excluding Murdoch votes: 67%

Financial Reporting Council

Accuracy of bank accounts

- Ongoing correspondence and meetings with Sir Win Bischoff(former Chairman of Lloyds Banking Group)
Current Chairman of the Financial Reporting Council.
- LAPFF liaison with an investor coalition including the Universities Superannuation Scheme (USS), Railpen Investments and several leading investment fund managers

Shell & BP

Carbon Management

- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focusing on carbon management, strategy and disclosure.
- **For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. At the recent BP and Shell AGMs the resolution received votes of 98% and 99% in support.**

Benefits of LAPFF membership

Improved effectiveness

- **72 member funds**
- **Assets of £200 billion**
- **Strength in numbers**
- **Improved information flow/intelligence about Corporate governance/Corporate Social Responsibility issues**
- **More scope for collaboration**
- **Co-ordination of campaigns**

Benefits of LAPFF membership

Value for money

- Research costs spread over 72 Forum member funds
- Annual Subscription £8460 pa (or £8250 pa for those that sign up for three years)
- Saves officer time and cost in researching issues
- Forum for discussion and networking about any related local government pension fund issues.

Where are we now?

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Much more to do

The future with LGPS Pools ?

- LAPFF to remain a Fund based organisation. Funds are the asset owners.
- Building 3-way relationship with the new LGPS Pools and funds

LAPFF Chairman has met with Cross Pool Group and Executive has agreed that the Pools be offered the same membership terms as Administering Authorities and that the fee payable for Pools will be the same as paid by Administering Authorities

Four Pools have 100% membership of LAPFF (Northern; Wales; LPP; Borders to Coast

Another Pool (Central) expected to have 100% shortly – just one more fund to join LAPFF

A further Pool (Brunel) has seven out of ten funds as LAPFF members and Pool Chair is a LAPFF Deputy Chair.

- More collaboration with other institutional investors nationally and internationally - more effectiveness

Protecting shareholder value

Acting together - achieving more

