

PENSIONS BOARD

Monday, 13 March 2017 at 10.00 a.m.

SUPPLEMENTAL AGENDA

This meeting is open to the public to attend.

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For further information including the Membership of this body and public information, see the main agenda.

**5. PRESENTATION FROM LAPFF - ENGAGEMENT,
APPROACH AND PRACTICE**

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LAPFF Engagement: Approach and Practice

London Tower Hamlets 13 March, 2017

**Tessa Younger and Paul Hunter, PIRC
Research and Engagement Partner to LAPFF**



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About LAPFF

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



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What LAPFF Does

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



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**LAPFF Workplan
Engagement Work streams**

- Capital Market Regulatory Reform
- Reliable Accounts
- Share Buybacks
- Beneficial Ownership
- Corporate Tax Transparency
- Anti-Corruption
- Mergers & Acquisitions
- Holdings Based Engagement
- AGM attendance
- Carbon and Environmental Risk Management
- People & Investment Value
- Executive Pay and Employment practices





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Communications

- LAPFF actively communicates with member funds and stakeholders
 - Provides members with a monthly **e-bulletin** covering recent engagement work and recent news on responsible investment
 - Drafts a **quarterly engagement report** which covers engagement over the quarter including who has been engaged and outcomes of engagement work
 - Communicates with parliament through the LAPFF-backed **Local Authority Pension Fund APPG**



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Communications

- LAPFF actively communicates with member funds and stakeholders
 - Holds fringe events at the **party conferences** to discuss the work of the Forum
 - Proactively engages with the **media**
 - Responds to **consultations**
 - Promotes the work of the LAPFF through **social media**
 - Speaks at and attends **seminars and networking events**



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Diversity

- Diversity is important to the future success of companies, not least because it helps avoid ‘group think’.
- Focus on diversity in the boardroom
- Gender diversity is a necessary but not sufficient attribution to achieve diversity of thinking
- LAPFF is a member of the 30% Club



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Diversity

- But the Forum also engages on board diversity in terms of ethnic and international minorities as well as on thinking styles and experience
- LAPFF engages with companies on case-by-case basis through a range of means:
 - Asking questions at AGMs
 - Direct company engagement
 - Issuing voting alerts
 - Responding to consultations





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Shareholder engagement: what it is, why we do it

- Aim to encourage companies to adhere to high standards of corporate behaviour, ultimately to ensure they are well-run and deliver sustainable shareholder returns
- Engagement is conducted face to face by trustees, Councillors and Officers of the funds themselves
- 60% of LAPFF engagements are with company chairs
- Collaborative engagement is seen as an important element of improved stewardship



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Shareholder engagement

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

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

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



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Effectiveness of LAPFF engagement

- Two-thirds of meetings with board directors
- All engagements assessed on outcomes
- Time is a factor...
- ... as is persistence



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



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The engagement versus divestment debate

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



- LAPFF original member of investor coalition which co-filed resolutions to resource company AGMs for reporting on:
 - asset portfolio resilience to International Energy Agency scenarios including the ‘two degree scenario’
 - operational emissions management
 - public policy positions relating to climate change
 - low-carbon energy Research & Development and investment strategies
 - strategic Key Performance Indicators and executive incentives



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Strategic Resilience Resolutions, the new normal



- 2015, BP and Shell boards advised support. A UK first, reflecting positive long-term engagement with chairs & senior management
- Resolutions received a vote of over 98% in favour at both AGMs
- In 2016, resolutions filed at Glencore, Rio Tinto, Anglo-American AGMs. All boards advise voting 'for', resolutions received 96% or more support.
- Sets the precedent that nearly every significant institutional investor in the world has now voted for disclosure of a low-carbon business strategy



- Continued engagement with these and other UK and European companies including Total
- Total has issued 'Integrating Climate into our Strategy' report and is the most progressive oil company in aligning strategy to a two degree scenario
 - 20% of portfolio to renewable energy in next 20 years
 - \$7.4 billion R&D investments including cleantech
 - \$ 1.1 billion stake in battery company



Two-degree business model less risky



- The business model for many oil and gas companies appears to assume demand will follow past trends, rising steadily for the foreseeable future
- Analysis shows two degree business model less risky than 'business as usual' for oil and gas companies
- For oil and gas companies, LAPFF focuses on value at risk, particularly from high cost projects and supports returning capital to investors where appropriate



- A tilt towards low carbon companies and assets across the portfolio
- Active carbon risk management to reduce exposure, alongside company engagement and an increased allocation to low carbon investment opportunities
- Divesting specific companies simply due to carbon exposure could reduce exposure to companies that are building significant portfolios of renewable energy assets and those with strong energy transition plans



Looking ahead: Executive Pay

- Studies show an inverse relationship between high executive pay and shareholder returns
- UK government green paper on corporate governance reform
- LAPFF has called for companies to put forward a maximum level of annual pay for senior executives that would be approved by shareholders





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Looking ahead: Executive Pay



- The three yearly **policy** pay vote is binding
- This year most companies will put their pay policies to the vote and LAPFF has been engaging with companies in the run up to this
- LAPFF has identified ten companies widely held by members with high remuneration report oppose votes in 2016
- The Forum will be issuing voting alerts on these company AGMs to members



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Questions, comments, feedback?

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