

ABERDEEN CITY COUNCIL

COMMITTEE: PENSIONS COMMITTEE
DATE: 24TH NOVEMBER 2014
REPORT BY: HEAD OF FINANCE
TITLE OF REPORT: CORPORATE GOVERNANCE AND SRI
REPORT NUMBER: PC/NOV14/CGSRI

1. PURPOSE OF REPORT

To review the Pension Fund's Corporate Governance and Social Responsible Investment activity for the three month period ending 30th Sep 2014.

2. RECOMMENDATION(S)

It is recommended that the committee note the report.

3. FINANCIAL IMPLICATIONS

The costs associated with Corporate Governance and Socially Responsible Investment activity are met by the Fund. Good corporate governance is a vital element of effective corporate management leading to good management, performance and stewardship of shareholders money.

4. OTHER IMPLICATIONS

None

5. BACKGROUND

5.1. Corporate Governance

Good corporate governance is a vital element of effective corporate management leading to good management, performance and stewardship of shareholders money. Through its policy of In-house voting and membership of the Local Authority Pension Fund Forum, and the UNPRI, the Fund supports good corporate governance in the companies in which it invests, and challenges companies who do not meet the standards set by their peers or reasonable expectations as measured by best practice.

A report is presented quarterly to the Joint Investment Advisory Committee on the Fund's Corporate Governance and Socially Responsive Investment Activity.

5.2. Quarterly Report

5.2.1 VOTING

During the Quarter to end Sep 2014 the Fund voted at 26 meetings.

Our Quarterly Voting Report is attached in Appendix 1

the most contentious areas were:

Directors

- Insufficient Independence on board
- Independent Directors who have spent over 9 years on the board.
- Poor Attendance

Executive Pay Schemes

- Lack of disclosure with performance targets not being provided
- Vesting period not considered sufficiently long term

Remuneration Reports/Policy

- Poor Disclosure
- Lack of multiple performance indicators
- Targets not sufficiently challenging resulting in excessive payments

5.2.2 LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

At the LAPFF business meeting held on the 8th Oct the following topics were discussed.

- **Quarterly Engagement Report**

A report on LAPFF's engagement for the quarter ending Sep 2014 can be found in Appendix 2

- **Global Tax Transparency – 2014 G20 Meeting**

The Annual G20 Summit is scheduled to take place in November in Brisbane Australia this will give LAPFF an opportunity to:

- Demonstrate institutional investor support for international tax reform and good corporate governance.
- Advocate a sound position on improved transparency and disclosure in reform of international taxation rules.
- Assist in building links and relationships between LAPFF and other organisations on an international policy that affects institutional investors and beneficiaries.

LAPFF Action Plan

- LAPFF will seek to enter the debate with a public statement of support for the international taxation reform in the context of Organisation for Economic Co-operation & Development (OECD) 2013 Action Plan, the November G20 Summit and the specific Action Plan measures that promote improved governance around transparency and disclosure.
- LAPFF will seek to build a coalition of like minded organisations prepared to support such a statement. Endorsement will be sought from mutual based pension funds, governance bodies and representative organisations in the UK, US & Australia to maximize potential impact.
- LAPFF will coordinate the initiative and seek to have an agreed statement for simultaneous international release by the end of October/early November.

5.2.3 UNITED NATION'S PRINCIPLES FOR RESPONSIBLE INVESTMENT

Working Group - Sustainable Stock Exchange

A letter from our working group has been posted out to the Secretary General and all Board members of the International Organisation of Securities Commission (IOSCO).

The letter was endorsed by 97 investors and 21 coalitions and services providers from 18 countries representing combined assets of \$9.3 trillion in AUM.

The letter urges the IOSCO to consider the following

- **Leading dialogue** with regulators and exchange operators to determine a pathway for more consistent ESG disclosure rules to be brought forward in each market;
- **Encouraging the development of disclosure rules** and accountability mechanisms that facilitate meaningful, comparable, and consistent ESG disclosures across markets, without imposing undue compliance or liability risks on issuers.
- **Creating a Task Force** dedicated to improving ESG disclosures market-wide, and whose work would feed into IOSCO's Issuer Accounting, Auditing and Disclosure Committee.
- **Publishing an official statement** explaining the rationale for ESG disclosure, to help issuers and capital market influencers better understand the benefits.

6. IMPACT ON THE PENSION FUND

At a time when companies are facing challenging markets, good corporate governance is key in protecting the Fund's investments.

7. BACKGROUND PAPERS

PIRC Quarterly Voting Report Appendix 1

LAPFF Research & Engagement Appendix 2

8. REPORT AUTHOR DETAILS

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