

ABERDEEN CITY COUNCIL

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COMMITTEE: PENSION COMMITTEE  
DATE: 15 JUN 2015  
REPORT BY: HEAD OF FINANCE  
TITLE OF REPORT: CORPORATE GOVERNANCE AND SRI  
REPORT NUMBER: PC/JUN15/CORPG

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1. PURPOSE OF REPORT

To review the Pension Fund's Corporate Governance and Social Responsible Investment activity for the three month period ending 31st March 2015.

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, and gives reassurance to those with an interest in the Fund.

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 Pension 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 Mar 2015 the Fund voted at 21 meetings.

Our Quarterly Voting Report is attached in Appendix 1

The most contentious areas were:

#### **Directors**

- Independent Directors who the company claim as independent but who have spent over 9 years on the board and can no longer be classified as such.
- Concerns over aggregated time commitments
- Against the chair of the Nomination Committee, for not adhering to the Davies recommendation of setting a target for female Board representation by 2015.

#### **Annual Reports**

- No Vote on the Dividend or Dividend Policy has been put to the shareholders to vote on.

#### **Non-Voting**

- The figures given for Non-Voting Abstain and Oppose on page 8 are incorrect. The error occurred because the resolutions were original Non-Voting but were subsequently amended to Voting.  
Non Voting resolutions are normally admin items, times, venues for meetings etc.

### **5.2.2 LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)**

LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 64 local authority pension funds from across the country with combined assets of over £160 billion. The Forum provides a unique opportunity for local authority pension funds to discuss investment issues and participate in shareholder engagement.

#### **Mar 2015 Business Meeting**

At the LAPFF business meeting held on the 24<sup>th</sup> Mar the following topics were discussed.

- **Quarterly Engagement Report**

A report on LAPFF's engagement for the quarter ending Mar 2015 can be found in Appendix 2, Other LAPFF Collaborate Initiatives are listed in Appendix 3

- **Achievement -BP and Shell Resolution**

LAPFF members filed a resolution at both BP and Shell's AGM's asking for the their annual report's from 2016 to include further information on:-

- Ongoing operational emissions management
- Asset portfolio resilience to the International Energy Agency's (IEA's) scenarios
- Low-carbon energy research and development and investment strategies
- Relevant strategic key performance indicators and executive incentives
- Public policy positions relating to climate change.

In an unprecedented move both company's advised shareholders to vote in favour of this resolution.

- **Corporate Tax Transparency Initiative (CTTI)**

CTTI is an initiative led by the LAPFF whose aim is a general improvement in corporate governance, transparency and disclosure standards around taxation issues.

LAPFF wrote to all FTSE 100 companies with a short list of questions seeking transparency and disclosure around taxation issues. Once the replies have been collated direct engagement with company will commence in Q3 of 2015.

### **5.2.3 UNITED NATION'S PRINCIPLES FOR RESPONSIBLE INVESTMENT**

The Fund is a member of an engagement group working on a collaborative engagement proposal for more Sustainable Stock Exchanges (SSE). This is looking to improve the quality of disclosure by companies on their environmental, social and corporate governance (ESG) performance and for this to be a listing requirement for stock exchanges.

The latest Project is to provide a SSE Model Guidance on Sustainability Reporting. Our Fund is now a member of the Advisory Group for this Project.

The purpose of this is to

- To create an application-oriented, voluntary technical tool to help stock exchanges in communicating to their listed companies on the issue of sustainability reporting.

- To assist the majority of stock exchanges who currently do not provide any guidance to their listed companies but may wish to. (A preliminary study shows only 11 out of 55 exchanges analyzed have sustainability reporting guidance for their listed companies.)
- The Model Guidance will be a general guidance that exchanges are encouraged to customise to their own markets, adding additional material as they see fit.

#### Features of the Model Guidance

- The Model Guidance will identify key steps in the reporting progress, including different roles played by management, board members and other relevant actors.
- The Model Guidance will be a general guidance that exchanges are encouraged to customise to their own markets, adding additional material as they see fit.
- The Model Guidance will include a mix of short case studies/examples on how companies have implemented different steps in the reporting process (varied examples by industry and level of reporting experience), as well as how exchanges and other experts in the field suggest approaching the process.
- The Model Guidance will be a complementary document to support exchanges existing work. It will avoid constraining exchanges into a particular reporting framework or set of indicators. Rather, it will offer a resource tool to assist exchanges to make the best use of existing reporting frameworks.

#### 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  
 LAPFF Collaborate Initiatives Appendix 3

#### 8. REPORT AUTHOR DETAILS

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