

# QUARTERLY ENGAGEMENT REPORT


JANUARY TO MARCH 2015




## Local Authority Pension Fund Forum


The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £165 billion, [www.lapfforum.org](http://www.lapfforum.org).

# ACHIEVEMENTS

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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 investor coalition of which LAPFF is part. The resolutions address 'strategic resilience to 2035 and beyond' focussing 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.


- Societe Generale** announced in late 2014 the separation of the roles of Chairman and Chief Executive. LAPFF has met with the company since 2010 to discuss this concern.
- This issue was also raised at a meeting with **Total**, in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capex plans for marginal oil reserves.
- Addressed concerns over the lack of investor rights at the **Roche** AGM and opened engagement with the board of **Sage** on remuneration, at the company's annual meeting.
- Subsequent to collaborative engagement in 2014, **Wilmar** revealed a full mapping of its palm oil supply chain, allowing investors a better understanding of the implementation of its supply chain sustainability practices. Other collaborative engagement outcomes include palm oil trader **Kuala Lumpur Kepong's** announcement that it will begin to use the preferred industry standard definition of High Carbon Stock (HCS) forests and **IOI**, publicly committing to applying its sustainable palm oil policy to its subsidiaries and trading partners.
- The Forum is already planning its fringe meeting programme for the 2015 party conference season on the following dates: *Lib Dems* in Bournemouth, on Sunday 20th September at 6.00pm in the evening fringe; *Labour* in Brighton on Monday 28th September at 1.00pm at the lunch fringe; and *Conservative* in Manchester on Monday 5th October.
- LAPFF is also actively considering the establishment of an All-Party Parliamentary Group on the Local Government Pension Scheme, following the 2015 General Election. This will provide the Forum with a leading voice amongst the new House of Commons and the Lords.
- A meeting with the Forum's third largest European holding, **Novartis**, explored board independence and executive remuneration in the context of new Swiss governance regulation.

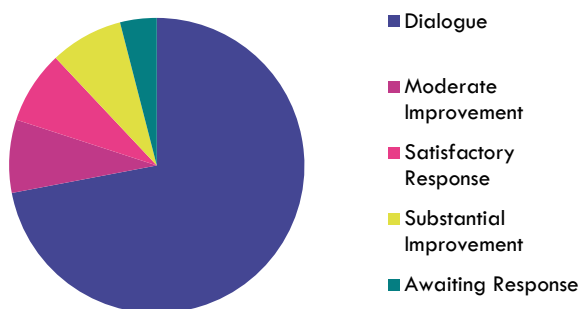

- LAPFF welcomed its newest members, **Suffolk County Council Pension Fund**, **Powys County Council Pension Fund** and **Strathclyde Pension Fund**, taking LAPFF membership to 64 funds.

# ENGAGEMENT SUMMARY

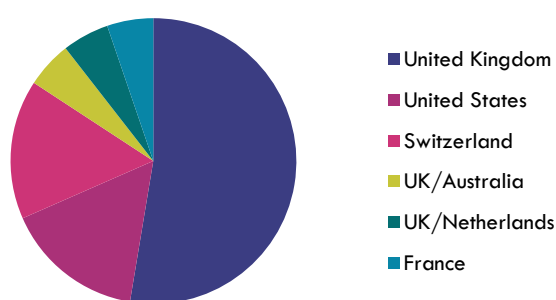
## JANUARY TO MARCH 2015

The Forum engaged with **19 companies** over the period

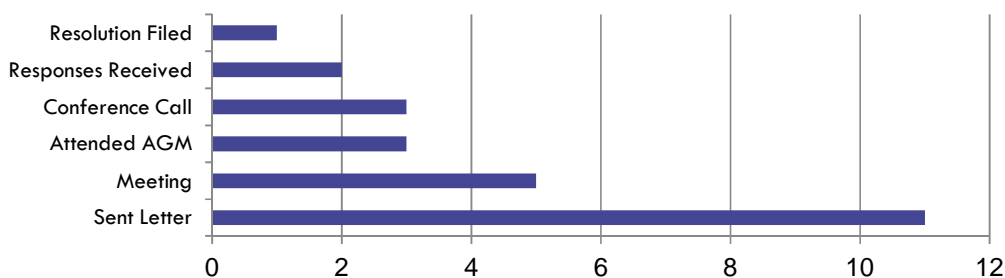
### Outcomes



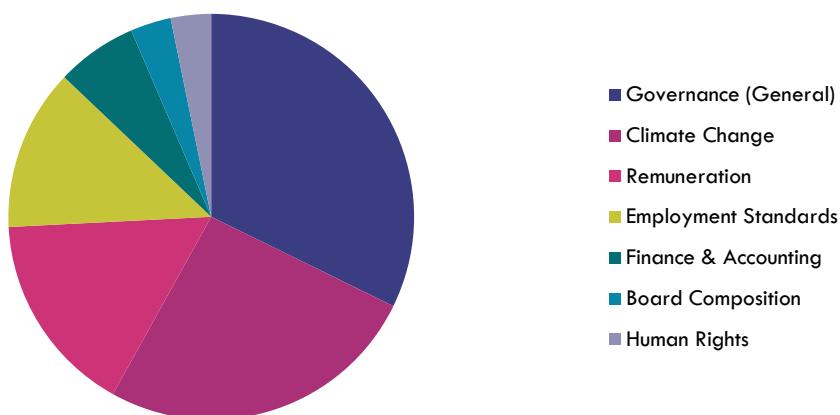
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### Activities



### Topics



# COMPANY ENGAGEMENT

## LEADERSHIP ON KEY CAMPAIGNS

LAPFF co-signed an international investor statement in a letter sent to the Italian government, to express concerns about a proposal that double voting rights be granted to shareholders who have owned their shares for over two years. Although the measure was intended to prevent short-termism, concerns were raised that certain shareholders would benefit at the expense of others as has been the case in France where this approach has been in place for a number of years. Here predominantly controlling shareholders have benefitted, often at the expense of minority shareholders.

Italy has had best practice in this area thanks to the Draghi Law of 1998, which requires a two-thirds majority of votes of special meeting resolutions to allow loyalty shares. The proposed changes called for a simple majority to approve double voting rights. The letter asked the Italian government to allow a sunset clause to set in so that the simple majority rule did not take effect. In early February, the Italian government capitulated to investor pressure and decided to invoke the sunset clause thus scrapping the proposal on double voting rights.



Cllr Toby Simon raised the issue of voting rights at the **Roche** AGM in Switzerland in February. Because of the company structure, being controlled predominantly by family members and Novartis, only one-sixth of Roche shares are in free float and most of the shares are non-voting shares. Cllr Simon pointed out that most institutional investors are excluded from the rights of ownership and influence that should attach to these shares. He requested that the board engage with its controlling shareholders to see if a corporate structure that more closely represents the needs of 21st-century investors could be evolved.

## PROMOTING GOOD GOVERNANCE

### Executive Pay

LAPFF Chairman Cllr Kieran Quinn called for Sir John Sunderland, the Chairman of Barclays' Remuneration Committee, to step down from the board "immediately". The company had made a clear statement ahead of the 2014 AGM that he would be stepping down. However, 11 months later, he was still presiding over remuneration decisions. Cllr Quinn stated in a 9 March LAPFF news release that "[w]e would not expect not to see Sir John as a director for the AGM next month."



Cllr Cameron Rose attended the **Sage** AGM and asked about the company's long-term performance share plan and annual incentive. The company does not currently have malus or clawback provisions

linked to its share plan but assured Cllr Rose that it was working toward best practice in relation to executive remuneration.

LAPFF has also written to Tesco linking the issue of executive remuneration to good governance. It has come to light that the company does not appear to employ ‘malus’ provisions, which has been especially problematic given the departure of staff with apparent roles in the company’s accounting scandal. The Forum also contacted Hays and **Centrica** to seek feedback on its ‘Expectations on Executive Pay’ document.

A subsequent round-table meeting with Centrica’s chairman and a number of board committee chairs was informative on a number of topics in addition to executive pay and included succession planning and carbon management.

Executive remuneration is currently a hot topic in Switzerland, with the final provisions of the new corporate governance law set to be implemented during 2015. As a result, both **Novartis** and **Nestlé** were keen to share with investors their respective approaches to implementing the new law. The ‘Ordinance Against Excessive Pay’, also known as the Minder Initiative, covers board election processes and remuneration. During 2014, provisions came into force to require the election of each board member individually, the direct election of the Chairman and individual members of the compensation committee. As of this year, Swiss companies will have to submit a binding resolution on board and executive remuneration.

A roundtable meeting of shareholders including LAPFF with the chairman of Nestlé explored the implications of the company’s application of these new requirements and cited new areas in which the law could develop. Likewise, representatives from Novartis set out their intended implementation and actions. LAPFF had approached both companies as they are two of the most widely held companies amongst LAPFF portfolios in continental Europe. The meeting with Novartis thus offered the opportunity to explore other areas such as mergers and acquisitions, pay structures, the role of significant shareholders and the approach to drug patents in the developing world.

## Holdings Based Engagement

**AstraZeneca** is another company held by most LAPFF members. The Forum issued a voting alert for the company’s AGM in 2013 over payments to the incoming chief executive but had not previously met directly with the company. The meeting provided an opportunity to explore aspects of remuneration with the company, its approach to mergers as well as other governance and corporate responsibility issues.

## Reliable Accounts

In the wake of revelations that **Tesco** had misrepresented its accounts, LAPFF requested a discussion with the company about a way forward from the company’s accounting deficiencies. This request is part of LAPFF’s broader strategy to push for improved

### Profit and loss account

For the year ended 31 March 2007

	Notes	2006		2005		2004		2003		2002	
		Balance Sheet	Income Statement	Balance Sheet	Income Statement	Balance Sheet	Income Statement	Balance Sheet	Income Statement	Balance Sheet	Income Statement
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Continuing operations</b>											
Revenue	2.1	502.1	-	502.1	736.1	-	724.1	-	-	-	-
Operating costs	4	(405.1)	(18.5)	(405.1)	(620.9)	(6.1)	(602.9)	-	-	-	-
Operating (loss)/profit		(1.7)	(18.5)	(18.5)	115.2	0.2	121.2	-	-	-	-
Income from other financial assets	6	0.1	-	0.1	0.1	-	0.1	-	-	-	-
Profit/(loss)/expense of subsidiary	9	-	235.2	-	-	-	-	-	-	-	-
Interest payable and similar charges	7	(0.9)	-	(0.9)	(27.9)	-	(27.9)	-	-	-	-
Other non-recurring and similar income	7	(0.2)	-	(0.2)	12.2	-	12.2	-	-	-	-
Share of profit/loss/(expense) of joint ventures	11(a)	(24.4)	(2.5)	(24.4)	(6.3)	-	(6.3)	-	-	-	-
Share of profit/loss/(expense) of associates	11(b)	(0.3)	-	(0.3)	(0.3)	-	(0.3)	-	-	-	-
Profit/business taxation	8	32.3	373.9	346.4	156.6	0.1	156.7	-	-	-	-
Taxation	8	(15.1)	16.3	1.2	(12.7)	(1.2)	(12.7)	-	-	-	-
<b>Profit attributable to equity shareholders</b>		<b>17.0</b>	<b>291.1</b>	<b>297.2</b>	<b>32.1</b>	<b>0.1</b>	<b>32.2</b>	-	-	-	-

The notes on pages 45 to 75 form part of these financial statements.



accounting standards.

In February 2015, LAPFF Chairman, Kieran Quinn, signed a joint letter to the Financial Times calling on the UK to favour a position of 'prudence' rather than one of 'neutrality' as the overriding principle in its accounting standards.

## MANAGING ENVIRONMENTAL RISK

### Energy and Environmental Risk

In the first two months of 2015, both **Shell** and **BP** announced their advice to shareholders to support 'strategic resilience' resolutions filed by LAPFF members as part of the Aiming for A coalition. Co-filers also included other pension funds with assets greater than \$15bn, namely three Swedish AP Funds, Connecticut and Ilmarinen from Finland.

Recommendations of support from company boards for resolutions filed by shareholders are unprecedented in the UK and extremely rare in other markets. The resolutions call for disclosures on ongoing operational emissions management, asset portfolio resilience to the International Energy Agency's scenarios, low carbon energy research and development and investment strategies, relevant strategic key performance indicators and executive incentives and public policy positions relating to climate change.

By the end of March, 25 LAPFF funds had publicly declared their voting intentions to support the resolution, bolstered by a significant number of global asset owners and fund managers also making voting declarations. These included CalPERS and the University of California in the US, AXA Investment Managers and Natixis AM from France, PKA Denmark, Robeco from the Netherlands. UK investor support included RMPI Railpen in addition to UK asset managers such as Royal London Asset Management, Jupiter Asset Management, Royal London Asset Management, Aviva Investors, F&C Investments and Schroders.

Such support for active engagement by shareholders on essential disclosure on the strategic approach to carbon management has the potential to set an industry standard. It also highlights investors' interest in the longer-term strategic options for the oil and gas majors.



Similar issues covered in the BP/Shell resolutions were discussed by Cllr Rose with members of the sustainability and legal teams of **Total** as well as transitional fuels and how the company viewed fracking in its business strategy. Discussions on board succession planning and the separation of powers were prompted by the sad loss of the company's Chairman and CEO in a plane crash in late October 2014.

LAPFF also met with representatives of **BHP Billiton** as part of its Aiming for A investor engagement. BHP Billiton had improved from a 'C' to a 'B' rating on the CDP Climate Leadership Index during 2014.

During 2014, LAPFF was part of a coalition encouraging palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. One company contacted was **Wilmar**, which revealed in early 2015 that it has fully mapped its supply chain making public all its suppliers in Indonesia and Malaysia.



Promotion of the Sustainable Palm Oil Manifesto to companies, of which LAPFF was part, led to Malaysian palm oil trader, **Kuala Lumpur Kepong's** announcement in January that it will begin to use the best practice definition of High Carbon Stock (HCS) forests. This commitment should help to further a moratorium on clearing HCS areas and towards a No Deforestation approach. Building on this development, **IOI**, which controls an estimated 10.5% of the global palm oil trade, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

## TARGETING SOCIAL ISSUES

### Employment Standards and Practices



LAPFF's Cllr Richard Greening attended the **Lonmin** AGM, where he asked the Board about the implementation of the recommendations from the South African Human Rights Commission's report from October 2014 to improve labour and community relations in the wake of the company's Marikana mine disaster in 2012. Lonmin endured a debilitating five month strike during 2014, but proposed solutions to the

company's labour concerns have been linked more broadly to its community engagement approach.

Lonmin CEO Ben Megara outlined how the company had engaged with the South African Human Rights Commission to work on a solution, part of which is a Five Point Plan to resolve social investment issues, such as the company's role in promoting education and providing housing for the community in which it operates. In addition to formally recognising the Association of Mineworkers and Construction Union (AMCU) and employing the relatives of Marikana victims, the Bapo ba Mogale community now owns 2.4% of Lonmin's share capital after the company made a royalty payment to the community and allocation to the Bapo trust in line with its commitment to meet South Africa's Black Economic Empowerment requirement.

## THE FORUM IN THE NEWS

### LAPFF Press Releases on the Shell and BP resolutions

<http://www.lapfforum.org/>

BP and Shell shareholder resolutions

[Guardian](#), [Independent](#), [Financial Times](#), [Courier](#), [Investment Week](#), [Professional Pensions](#), [Blue and Green Tomorrow](#), [Fund Web](#), [Forbes](#), [Local Government Chronicle](#), [Investment & Pensions Europe](#)

LAPFF G20 tax transparency

[Responsible Investor](#)

IFRS and Reliable Accounts

[Financial Times](#)

## NETWORKS AND EVENTS

**The LAPFF Chairman, Cllr Quinn** travelled to Scotland to meet with new LAPFF executive committee member Barney Crockett of North East Scotland Pension Fund, as well as visiting Cllr Paul Rooney chair of Strathclyde Pension Fund, who subsequently joined the Forum.

**Novethic Conference:** Cllr Greening addressed a conference on investors, climate and low carbon finance in Paris, setting out LAPFF's position on corporate carbon management. LAPFF also fielded a speaker at the UKSIF 'ownership' day to talk about BP and Shell's support of the Strategic Resilience shareholder resolutions and to encourage further voting declarations.

LAPFF representatives also attended a number of other events including a **30% Club Investor** Group meeting focussed on board refreshment; a Pensions Infrastructure Platform seminar reviewing the platform one year on and talks on Embedding Global Markets relating to the governance role of investors on Human Rights and on environmental protection legal developments relating to Rio Tinto's role in the unrest in Bougainville, Papua New Guinea.



**COMPANY PROGRESS REPORT** (companies not previously engaged with on an individual basis noted in bold)

Company	Topics	Activity/Outcome	Domicile
Total	Carbon management	Meeting/Moderate Improvement	France
BP	Carbon management	Resolution/Substantial Improvement	United Kingdom
Associated British Foods	Board Composition	Letter/Satisfactory Response	United Kingdom
Lonmin	Employment Standards	Attended AGM/Dialogue	United Kingdom
Shell	Carbon management	Resolution/Substantial Improvement	UK/Netherlands
<b>Microsoft</b>	General Governance	Letter/Dialogue	United States
Tesco	Remuneration/Accounts	Letter/Dialogue	United Kingdom
Novartis	General Governance	Meeting/Dialogue	Switzerland
Centrica	Executive Pay	Letter/Dialogue	United
Amazon	Governance/Employment Standards	Letter/Dialogue	United States
Hays	Remuneration	Letter/Dialogue	United
AstraZeneca	Mergers & Acquisitions	Letter/Dialogue	United States
Nestlé	General Governance/ Remuneration	Meeting/Dialogue	Switzerland
Barclays	Remuneration	Letter/Dialogue	United Kingdom
BP	Carbon management	Resolution/Substantial improvement	United Kingdom
BHP Billiton	Carbon management	Meeting/Dialogue	UK/Australia
Morrison	Accounts	Letter/Dialogue	United Kingdom
Roche	Governance	AGM Attendance/Dialogue	Switzerland
<b>Sage Group</b>	Remuneration	AGM Attendance/Dialogue	United Kingdom
Trinity Mirror Group	Governance	Letter/Dialogue	United Kingdom

## Local Authority Pension Fund Forum Members

Aberdeen City Council  
Avon Pension Fund  
Barking and Dagenham LB  
Bedfordshire Pension Fund  
Camden LB  
Cardiff and Vale of Glamorgan Pension Fund  
Cheshire Pension Fund  
City of London Corporation  
Clwyd Pension Fund  
Croydon LB  
Cumbria Pension Scheme  
Derbyshire CC  
Devon CC  
Dorset County Pension Fund  
Dyfed Pension Fund  
Ealing LB  
East Riding of Yorkshire Council  
East Sussex Pension Fund  
Enfield  
Falkirk Council  
Greater Gwent Fund  
Greater Manchester Pension Fund  
Greenwich Pension Fund  
Gwynedd Pension Fund  
Hackney LB  
Haringey LB  
Harrow LB  
Hounslow LB  
Islington LB  
Lancashire County Pension Fund  
Lambeth LB  
Lewisham LB

Lincolnshire CC  
London Pension Fund Authority  
Lothian Pension Fund  
Merseyside Pension Fund  
Newham LB  
Norfolk Pension Fund  
North East Scotland Pension Fund  
North Yorkshire CC Pension Fund  
Northamptonshire CC  
NILGOSC  
Nottinghamshire CC  
Powys County Council Pension Fund  
Rhondda Cynon Taf  
Shropshire Council  
Somerset CC  
Sheffield City Region Combined Authority  
South Yorkshire Pensions Authority  
Southwark LB  
Staffordshire Pension Fund  
Strathclyde Pension Fund  
Suffolk County Council Pension Fund  
Surrey CC  
Teesside Pension Fund  
Tower Hamlets LB  
Tyne and Wear Pension Fund  
Waltham Forest LB  
Warwickshire Pension Fund  
West Midlands ITA Pension Fund  
West Midlands Pension Fund  
West Yorkshire Pension Fund  
Wiltshire CC  
Worcestershire CC

Report prepared by PIRC Ltd. for the Local Authority Pension Fund Forum