

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**LAPFF CONFERENCE 2016****Purpose of the Report**

1. To report on the Local Authority Pension Fund Forum (LAPFF) Conference 2016 held in Bournemouth.

Information and Advice

2. The LAPFF Conference 2016 was held on 7th to 9th December 2016 in Bournemouth. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills, the conference was attended by Councillor John Wilkinson and Keith Palframan (Group Manager – Financial Strategy & Compliance). The theme of the conference was Protecting Portfolio Value.
3. **Infrastructure Investment Panel – Are funds getting it right?**
Susan Martin, CEO, LPP, Paddy Dowdall, Assistant Director, Greater Manchester PF, Andrew Imrie, Lothian Pension Fund, Spencer Clunie, CEO Ancala Partners

The panel reviewed the benefits and problems with infrastructure investment. Good infrastructure investment brings diversity and income streams and assist funds deficit reduction plans. However those on the panel undertaking significant infrastructure investment highlighted the need to have a deal pipeline, a consistent approach, to have a flexible and decisive investment committee and to be aware of the time it takes to develop relationships. Lothian Pension Fund has 36 funds, run by 18 managers.

4. **Impact Investment Panel – Investing4Growth – are funds making a difference?**
Brian Bailey, PIRC Ltd, Shamez Alibhai, Cheyne's Social Property Impact Fund, Ian Greenwood, West Yorkshire PF, Mark Lyon, East Riding PF, Lance Mysyrowicz, Partner Boost & Co, Michele Giddens, Partner Bridges Ventures, Iain Richards, Columbia Threadneedle

Presentations and panel discussion on the opportunities open to Funds to invest in projects aimed directly at economic growth and meeting social need. This included schemes focussed on investing in social housing, SME and start-up companies, health, well-being and social care provision, education and skills investment and local regeneration. All extremely worthy notions but, as was stressed, the need for due diligence and attitude to risk (as with all fund investment) remains paramount.

5. **Perspectives on the City**

Jonathan Reynolds MP, Shadow City Minister

Jonathan gave his views on a year that has brought some huge changes. He covered the active stewardship role of Pension Funds and the spotlight on corporate governance. He hoped that something similar to the US requirement to report the ratio of median salary to CEO salary would become mandatory in the UK. He noted the move to pooling and that Pension Funds need new sources of yield to generate the income they require. He supports long term infrastructure investment, if it can be delivered in a form suitable for pension funds. He felt that the voice of the shareholder is becoming louder.

6. **Share buybacks: good money after bad? Are investors' funds being wasted?**

Rodney Barton, WYPF, Anthony Hilton, City Editor Evening Standard

Entertaining speech by the City Editor of the Evening Standard, Anthony Hilton, on the growing use of share buy-back schemes which over the last 20 years has grown to represent a significant use of company funds. Hilton presented both the benefits and pitfalls of such schemes but made it quite clear that in his view this practice, once deemed illegal, was generally to be frowned upon. He argues that such schemes destroy value, distort earnings, foster inequality, conceal changes of ownership, encourage short-termism and increased fragility. Stressed the importance of being aware of the attitude of individual fund managers to such schemes.

7. **Buy backs Panel:**

Jane Firth, SYPA, Martin White, UK Shareholders association and Tim Bush, PIRC Ltd

A discussion on the issues raised by the previous speaker, with the view that buy backs are too prevalent and more distributions should be by way of dividends. Share based pay incentivises the increase in buy-backs and generally resolutions proposing them provide no justification.

8. **Mergers and acquisitions**

Jim O'Loughlin, PIRC Ltd, Robert Teitelman, author of 'Bloodsport: when ruthless dealmakers, shrewd ideologues and brawling lawyers toppled the corporate establishment.'

Robert presented his view on Mergers & Acquisitions (M&A). In the 1970's M&A were rare and there were few if any hostile takeovers. This changed in the 80's with a view that M&A deals drive efficiency and effectiveness. Robert contended that there is no way of assessing if M&A deals are a success or failure. He asked questions of the situation today. Is the system healthy?, are shareholders engaged?, is the system rigged ? He feels corporate governance is in crisis, with passive investing meaning less shareholder engagement, governance by numbers and governance for the few. He felt the shareholder model is not about to collapse as it sort of works, but we need to trade some efficiencies for including some wider social issues in decisions, but how?

9. **Human capital management – company and investor perspective**

Jim O'Loughlin, PIRC Ltd, Rachel McEwen, Director of Sustainability, SSE plc, Luke Hildyard, PLSA

Unexpectedly interesting presentation by the Director of Sustainability of SSE, Rachel McEwen, who had headed intensive research into the workforce of SSE, both quantitatively and qualitatively, with the aim of, "Understanding the Worth of the Workforce" Stressing the importance of "looking beyond the numbers", it was stressed that whilst subjects such as the gender pay gap are relatively straightforward to analyse, an examination of how to encourage women into an organisation soon develops into examining how best to encourage women to remain in the organisation and to progress up the organisation. The analytical aspect of her work devised a system that determined that in SSE each employee had an "average human capital" of £173,000 and that by using such metrics, it was possible to develop sustainable human resources policies. It was the depth of such attention that funds should seek out in the companies in which they sought to invest.

10. Directors' pay: the challenge of quantum

Councillor Denise Le Gal, Chair, Surrey PF, Luke Hildyard, PLSA

Luke expressed the view that currently the system was self-fulfilling. People at the top of companies are asking for high pay and getting it, with little or no review of the impact. 20 years ago a CEO might be on 40-45 times the average pay for the organisation, now that ratio stands at 130 – 150 times. He supported mandatory publishing of this pay ratio and a move to simpler remuneration packages (cash). A green paper is due out mid-February on the Governments proposals, although some of the mooted ideas are not likely to appear (employee representation on the remuneration committee).

11. Are the activists winning?

Councillor Doug McMurdo, Chair, Bedfordshire PF, Owen Walker, FT, author of Barbarians in the Boardroom

A presentation led by Owen Walker of the Financial Times. Given the involvement work done by LAPFF over the years – an increasingly important strand of their work – this discussion seemed highly topical. Examples were given of activists involving themselves in specific companies for a variety of motives ranging from a determination to take over the running of a company to the use of activism to sustain or increase the value of a company. The corporate scandals of the turn of the century led to a desire for greater active oversight of companies based in the main to bring about change.

12. Redefining the responsibilities of the corporation

Councillor Paul Doughty, Chair, Merseyside PF, Seamus Gillen, FCIS, Director Value Alpha

Seamus highlighted 2 recent reviews of corporate governance, the Business, Energy and Industrial Strategy Select Committee inquiry in September, and the Corporate Governance Reform green paper. He commented on recent corporate failures such as falsified accounts at Tesco, the emissions scandal at VW and airbag failures at Takata, all of which lead to large falls in share price. Well governed companies can and do survive, but they also improve if they can show they have learnt from mistakes and dealt with them. Companies with bad corporate governance do not survive. Thus corporate governance is business critical and drives business benefits. He stressed the need for companies to achieve a meaningful implementation of the requirements of s172 of the Companies Act 2006 which

requires companies to have regard to the impact of decisions on employees, suppliers and customer, the community and environment and for having a reputation for high standards of business conduct.

13. Shareholders resolutions: last chance saloon?

Paul Emerton, Old Mutual Asset Management, Luke Primarolo, Regional Officer UNITE, Councillor Kieran Quinn, Chair, LAPFF, Chair, GMPF, Bill Patterson, 50/50 Climate Project

Allied to the presentation on activism, Luke Primarolo (of UNITE) and Keiran Quinn (Chair of LAPFF) reviewed the use of shareholder resolutions to bring about improvements in the operation of companies. Again, based on the premise of improved operation should lead to greater, or more sustainable, value this overview highlighted a variety of interventions by shareholders. Whilst rarely, overtly, victorious, it is clear that the increasing use of such activity is beginning to have a greater impact upon the responsiveness of company managements. Not surprisingly, much detail of the recent shareholder involvement, led by UNITE, in the case of Sports Direct was provided. However, it was stressed that for every such very high profile case, there were numerous other example of successful shareholder pressure, that did not necessarily produce such headlines.

14. LGPS Pooling Panel

Representatives from Welsh Pool, London CIV, LPP, Borders2 Coast Pool, Access Pool, Northern Pool, Brunel Pool, Central Pool

A general discussion covering governance issues as the new operators come into being. Pools seem to be generally similar in their approaches, with an acknowledgement that some issues such as the new Investment Strategy Statement (ISS) offer the opportunity to develop joint approaches which will enable an operator ISS to incorporate the key themes from the constituent authorities.

15. Corporation governance in Putin's Russia

Bill Bowden, CEO, Hermitage Capital, and author of 'Red Notice' revealed his experiences of undertaking investment in Russia since the breakup of the Soviet Union and the emergence of the Oligarchs.

A thought provoking talk covering Bill's experience of working in Eastern Europe and Russia as the Soviet Union collapsed and attempts were made to make shares in state owned assets available to all. He covered his experience of operating as an Asset Manager generating huge profits, but also experiencing massive losses. Ultimately he was forced to sell his shares and move his fund out of Russia. The experience, and the treatment of his company lawyer at the hands of Russian authorities, has left him trying to enact laws in many countries to seize the local assets of individuals who break the law, but are not prosecuted in Russia.

16. Strategic Resilience: the role of shareholders in effecting change

Faith Ward, Environment Agency PF, Tony Hayward, Charmain Glencore, Jeremy Leggett, Chairman Carbon Tracker

Tony went through the Glencore journey with an IPO in 2011 after 40 years as a private business, followed by a merger with Xstrata in 2013 which created one of the largest mining companies in the world. Following engagement with stakeholders, Glencore have introduced

a report covering carbon management, engagement with public policy and an analysis of coal business in the context of climate change. They will report on progress at the 2017 AGM.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

1. That it be noted that attendance at key conferences is part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills.
2. That the report be noted.

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Constitutional Comments (KK 16/1/17)

18. Because this report is for noting only, no Constitutional Comments are required.

Financial Comments (KRP 11/1/17)

19. There are no direct financial implications arising from this report.

Background Papers and Published Documents
None