

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**LAPFF ANNUAL CONFERENCE 2019****Purpose of the Report**

1. To report on the Local Authority Pension Fund Forum (LAPFF) Conference 2019.

Information

2. The 24th LAPFF Conference entitled 'Corporate Resilience – Challenges to Shareholders' was held between 4 and 6 December 2019 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 Cllr Parry Tsimbiridis and Keith Palframan (Group Manager – Financial Services). Details of the main sessions are set out below.
3. It should be noted that the views set out are those of the presenters, not of LAPFF or the Nottinghamshire Pension Fund.

Day one

4. ***Update on the Investor Tailing Dams initiative: Adam Matthews, Director of Ethics & Engagement, Church of England, Community representatives: Monica Dos Santos & Marcela Nayara Rodrigues, Leticia Soares Peixoto Aleixo, Business and Human Rights Resource Centre, Julia Mello Neiva, Senior Researcher, Business & Human Rights Resource Centre, Estel Blay, Catapult (space technology on the social and environmental impact of mining activities) (Moderator: Cllr Rob Chapman, LAPFF Executive)***

Adam discussed the engagement activity in relation to mining companies in South America and the failures of tailing dams which had caused the deaths of hundreds of people. A number of investor interventions have been progressed including a push for a new global standard, greater disclosure requirements, the need for a global database, better and more consistent company reporting and finally the need to align insurers and investors on the proposed interventions. Monica and Marcela gave emotive accounts of their experiences and the horrific impact of the dam collapses in Bermadinho and Samarco and tragic loss of life. Marcela highlighted the issue of mental health in the communities including those of her own family. This included the minimal access to psychiatric help which is controlled by the mining companies. Estel discussed the ability for satellite-based technology to help monitor and manage tailings dams.

5. ***Controlling food waste and plastic in production and packaging: Mark Little, Head of Sustainability, Sourcing & Waste Policy, Tesco PLC Tony McElroy, Head of Packaging Campaigns, Tesco PLC (Moderator: Cllr Glyn Caron, LAPFF Executive)***

Mark discussed the work Tesco are doing under their Little Help plan to reduce food waste 1/3 of all food produced is currently wasted while 1 in 9 people in the world go hungry. Tesco have sent no food to landfill since 2009 and want to help halve global food waste by 2030. Tony discussed their customer focussed ethos and steps taken to reduce plastic and packing waste. He discussed their 4 R's approach – remove, reduce, reuse and recycle. Tesco expect to have 1bn fewer items of plastic going through stores in 2020

6. ***LAPFF Engagement Round-up 2019: Aaron Brenner, Senior Analyst, UFCW, Cllr Rob Chapman, LAPFF Executive, Cllr John Gray, LAPFF Executive (Moderator LAPFF Chair, Cllr Doug McMurdo)***

Aaron gave a case study on Amazon and the risks and concerns for investors. Motions raised by investors are increasing and getting a greater share of the (non Jeff Bezos) votes. Investors can help by supporting shareholder resolutions, meeting stakeholders and affected workers and through direct engagement. Rob discussed LAPFF's engagements with housing companies and the work of Climate Action 100+. John provided first-hand experience from recent engagements. Some positive movement with RyanAir with a change of position on board independence and recognition of unions. Sports Direct is not as positive; concerns over auditors not signing accounts, family members in key senior roles and going back on a proposal to have John take an observer role at the next Board meeting.

Day Two

7. ***National Grid's net zero commitment: Sir Peter Gershon CBE, FREng, Chairman, National Grid (Moderator: Rodney Barton, LAPFF Executive)***

Sir Peter outlined the work National Grid are doing to transition to net zero by 2050. The UK has reduced emissions by 44% since 1990 but a significant change in the energy system is required, including: acceleration of electrification, heat decarbonisation pathways (80% still use gas for heat), carbon capture technology, and clean transport and energy transition. More investment is needed in infrastructure and the skills to develop these solutions

8. ***Just Transition: Nick Robins, LSE, Grantham Institute, Chris Huhne, Engaged Tracking Index Limited (Moderator: Tom Harrington, LAPFF Executive)***

Nick spoke about energy transition and the need for investors to help drive support for climate action. The Just Transition statement sets out the need to adopt sustainable development goals in an integrated way and the impact on workers, communities and citizens. Transition pathways should include social metrics with investors taking action to drive thinking on investment strategy, corporate engagement, capital allocations and policy advocacy. Chris discussed the difficulty in carbon pricing and the sequence of policy reforms required to transition. Key messages were that total carbon risk matters, there is greater evidence of positive returns from green investing and there is more regulatory pressure that will help drive this.

9. ***Informed not inflamed: a realistic approach to the energy transition: Cllr Barney Crockett, Lord Provost of Aberdeen and President of the World Energy Cities Partnership, Kingsmill Bond, Carbon Tracker, Murray Worthy, Global Witness (Moderator: Cllr M Tauqeer Malik, LAPFF)***

Cllr Crockett discussed his experiences in Aberdeen and the challenges in engaging with oil and gas companies; many are state owned and some are moving from public to private equity ownership. He noted that reduced costs in renewables are helping to drive change but commitment to carbon capture is required to help achieve targets. Kingsmill touched on the shifts we have seen in the costs of renewable energy in the last 5 years; it is often the most economical option with emerging economies leapfrogging developed nations in its use. Policy action is speeding up the shift to renewable.

10. *Employees on the Board: Martin Gilbert, Chair, Aberdeen Standard Investments interview with Cllr Barney Crockett*

Martin discussed employee board representation with Cllr Crockett and the audience. He provided some background on FirstGroup and the importance of having employees on the board. He viewed the employee role as working with the other non-executive directors to help engage with management. He noted that these are challenges for employee board reps around working relationships with colleagues and maintaining the balance between company and independent representation.

11. *Cyber security/social media abuse: Seyi Akiwowo, Glitch, Iain Drennan, Head of International Team, Tackling Exploitation and Abuse Unit, Home Office (Moderator: Rachel Brothwood, LAPFF Executive)*

Seyi discussed the importance of digital self-care and self-defence and the work of Glitch in trying to help combat online abuse. She highlighted the roles that technology companies can play in preventing on-line abuse and the lack of awareness on reporting abuse and the policies of these companies in dealing with reports. Chandni discussed the rise of internet usage - 3bn people now on-line around ¼ of whom are children. She gave a frank account of the increase in child sexual exploitation and implications for this as more developing countries gain internet access - 53% of abuse material being of children under the age of 10. They discussed the role of organisations such as the Internet Watch Foundation.

12. *Media standards: Dan Evans, former journalist at Trinity Mirror (Moderator: Cllr John Gray, LAPFF Executive)*

Dan discussed the phone hacking scandal and the culture and working practices of tabloid newspapers throughout the period to 2011. He explained the nature of the legal proceedings and his views on the way in which newspapers were able to control the flow and access to information. He referred to the recent actions of Harry and Meghan which he believes will drive further investigations and change in the industry.

13. *How to spot failing companies: Tim Steer author of 'The signs were there' the clues for investors that a company was a heading for a fall' (Moderator: Abigail Leech, LAPFF Executive)*

Tim went through a number of high-profile corporate failures or unexpected reductions in shareholder value, and highlighted items in the financial accounts that could or should have drawn attention to issues that existed prior to the collapse. He noted that the value of many balance sheet items are subjective and can be manipulated e.g. long term contracts and stock. He suggested investors and their advisors should be paying more attention to financial accounts and should be asking questions where things are not clear.

14. *Management remuneration: Andrew Smithers author of 'Productivity and the Bonus Culture' Sandy Pepper, Professor of Management Practice, London School of Economics (Moderator: Cllr Andrew Thornton, LAPFF Executive)*

Andrew presented his view that the way senior management is paid damages the economy. He highlighted that shareholders appear to have received no benefit from the massive rise in the pay of senior executives and the high proportion of their total remuneration that comes from option and bonuses. He suggested higher basic pay and fewer bonuses.

15. *After the FRC what next?: Tim Bush, PIRC Limited, Natasha Landell Mills, Sarasin & Partners*

Tim provided an update on the PIRC campaign to replace the Finance Reporting Council and his satisfaction that the Government had accepted the recommendations of the Kingman Review which will see the FRC replaced with the Audit, Reporting and Governance Authority (ARGA). Natasha cautioned that this may take some time.

16. *Climate Change Accounting: Richard Murphy, Corporate Accountability Network (Moderator: Natasha Landell Mills, Sarasin & Partners)*

Richard presented his proposal that all companies should be required to provide in full, and upfront, its cost of transition to be a net zero-carbon emitter, as the worldwide climate emergency will require them to be. The costs must reflect current technology and supply chains should be considered in the calculations. Offsetting would not be allowed. As a result, the price of carbon would not be involved in the calculation. The question would be a simple one of whether or not a company would know how to achieve this goal, and what the cost might be.

Day Three

17. *Gender Diversity Panel: Deborah Gilshan, 100% Club, Clare Payn, Legal & General Investment Management, Representing the 30% Club, Dr Nisha Long, Head of cross border research, Citywire (Moderator: Cllr Yvonne Johnson,, LAPFF Executive)*

There has been significant progress in working towards gender diversity at board level at FTSE 100 companies, but progress is still slow in the FTSE 250 and beyond. The use of aspirational targets (not quotas) has been effective. In the investment community the problem is more acute with a very small number of female investment managers who tend to look after smaller portfolios of niche asset classes.

18. *ArcelorMittal: The journey towards carbon neutrality: Alan Knight, General Manager Corporate Responsibility, ArcelorMittal (Moderator: Cllr Rob Chapman, LAPFF Executive)*

Steel is in practically everything and already has a better track record in carbon reduction than many other metals. However, the process of making steel is carbon intensive. One of the main features of steel is that it is highly reusable, but recycling steel is not sufficient to meet demand and likely never will be. Arcelor Mittal is experimenting with the likes of carbon capture (where the carbon is distilled into ethanol to make plastic or jet fuel) and using waste wood/plastic/hydrogen in place of coal. There is a significant cost to moving to less efficient methods. They compete against companies not making these changes, so they may find themselves uncompetitive; policymakers need to embrace change. The industry is trying to build a 'Responsible Steel' hallmark to encourage companies to purchase steel made in a more environmentally friendly way to encourage the entire industry to clean itself up.

19. ***Rt Hon John Bercow former Speaker of the House of Commons***

A loquacious, garrulous, grandiose and eloquent presentation from the former Speaker on his time in Parliament, highlighting the role of the Speaker in the House of Commons and in the management of staff and budgets supporting the Houses of Parliament.

Statutory and Policy Implications

20. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment 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 Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.
- 2) That Members consider if there are any actions they require in relation to the issues contained within the report

Keith Palframan

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For any enquiries about this report please contact: Keith Palframan

Constitutional Comments (KK 30/01/2020)

21. The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee

Financial Comments (KP 30/01/2020)

22. There are no financial implications arising from this report

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None.