

## **Pensions Sub-Committee**

**Thursday, 10 November 2016 at 10:30**

**County Hall, County Hall, West Bridgford, Nottingham, NG2 7QP**

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### **AGENDA**

- |    |  |         |
|----|--|---------|
| 1  | Minutes of the last meeting held on 14 July 2016   | 3 - 6   |
| 2  | Apologies for Absence  |         |
| 3  | Declarations of Interests by Members and Officers:- (see note below)<br>(a) Disclosable Pecuniary Interests<br>(b) Private Interests (pecuniary and non-pecuniary) |         |
| 4  | Investment Performance Review 2015-16  | 7 - 32  |
| 5  | LGPS Scheme Advisory Board Update August 2016 Meeting  | 33 - 38 |
| 6  | Proxy Voting   | 39 - 40 |
| 7  | LAPFF Business Meeting   | 41 - 70 |
| 8  | LGC Investment Summit 2016   | 71 - 76 |
| 9  | Property Inspection Tour 2016  | 77 - 80 |
| 10 | LGPS Central Asset Pool  | 81 - 90 |

### **Notes**

- (1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.
- (2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

- (3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council's Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact David Forster (Tel. 0115 977 3552) or a colleague in Democratic Services prior to the meeting.

- (4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.
- (5) This agenda and its associated reports are available to view online via an online calendar - <http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>

## minutes

Meeting PENSIONS SUB COMMITTEE

Date Thursday 14 July 2016 at 10.30 am

### **membership**

Persons absent are marked with 'A'

### **COUNCILLORS**

Reg Adair (Chairman)  
A Mike Pringle (Vice Chairman)

|   |                  |   |                   |
|---|------------------|---|-------------------|
| A | Chris Barnfather |   | Sheila Place      |
|   | Ian Campbell     |   | Ken Rigby         |
|   | Mrs Kay Cutts    | A | Parry Tsimbiridis |
|   |                  |   | John Wilkinson    |

### **Nottingham City Council**

A Councillor Alan Clark  
A Councillor Nick McDonald  
Councillor Anne Peach

### **Nottinghamshire Local Authorities' Association**

Councillor Richard Jackson – Broxtowe Borough Council  
A Kate Allsop – Executive Mayor Mansfield District Council

### **Trades Unions**

Mr A Woodward  
A Mr C King

### **Scheduled Bodies**

Mrs Sue Reader

### **Pensioners**

Mr S Haggerty  
A Mr T Needham

### **Independent Advisor**

Mr William Bourne

### **Officers in Attendance**

Simon Cunnington (Resources)  
Keith Palframan (Resources)  
David Forster (Resources)  
John Clewes (Resources)  
Sarah Stevenson (Resources)

### **MINUTES**

The minutes of the last meeting of the Sub-Committee held on 5 May 2016, having been previously circulated, were confirmed and signed by the Chairman subject to Councillor Barnfather's apologies being noted.

### **APOLOGIES FOR ABSENCE**

Apologies for absence were received from

Councillor Mike Pringle  
Councillor Parry Tsimbiridis  
City Councillor Nick McDonald  
City Councillor Alan Clark  
Alan Woodward (Union Rep)  
Terry Needham

### **DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS**

None.

### **LOCAL GOVERNMENT TRUSTEES CONFERENCE REPORT**

Mr Clewes introduced the report and highlighted that the conference was geared for a referendum result that stayed In Europe.

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/018**

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

## **NOTTINGHAMSHIRE PENSION FUND TRIENNIAL VALUATION UPDATE – ORAL REPORT**

Mrs Stevenson reported orally that valuations reports are currently 245 out of 272 reports returned for 2015/16. The 27 outstanding are Nottingham City Council's however the issues regarding the City's return over the last three years are being overcome. She reported that the City accounts for 2013/14 have now been loaded and all errors resolved. The account for 2014/15 will be loaded and complete by the 16 July and the 2015/16 18 out of 27 have been returned with the remaining 9 subject errors being corrected.

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/019**

That the oral update be noted

## **ASSET ALLOCATION**

Mr Bourne gave presentation on asset allocation and highlighted the ethos behind decision making with regard to allocations and how a common sense approach is a good philosophy to adopt.

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/020**

That the report on asset allocation be noted.

## **PENSIONS LIFETIME SAVINGS ASSOCIATION LOCAL AUTHORITY CONFERENCE 2016**

Mr King introduced the report and highlighted issues in the report

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/021**

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

## **LGPS CENTRAL SUBMISSION**

On a motion by the Chairman, seconded by the Vice Chair it was:-

### **RESOLVED 2016/022**

That the LGPS Central Submission be noted

## **WORKING PARTY RECOMMENDATIONS**

On a motion by the Chairman, seconded by the Vice Chair it was:-

**RESOLVED: 2016/023**

That the Working Party report be noted

## **EXCLUSION OF THE PUBLIC**

**RESOLVED: 2016/024**

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve the disclosure of exempt information as described in paragraph 3 of the Local Government (Access to Information) (Variation) Order 2006 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

## **EXEMPT INFORMATION ITEMS**

### **EXEMPT APPENDIX LGPS CENTRAL SUBMISSION**

On a motion by the Chairman, seconded by the Vice Chair it was:-

**RESOLVED: 2016/025**

That the Exempt appendix be noted.

## **WORKING PARTY EXEMPT APPENDIX AND REPORT OF THE INDEPENDENT ADVISOR**

On a motion by the Chairman, seconded by the Vice Chair it was:-

**RESOLVED: 2016/026**

1. The recommendations set out in the exempt appendix Strategic changes will be referred to the Nottinghamshire Pension Fund Committee for formal decision if required. Other agreed actions will be implemented as operational matters falling under the responsibility of the Service Director, Finance, Procurement & Improvement exercised by the Senior Accountant (Pensions & Treasury Management) and
2. That the Working Party report and the independent Advisors report be noted

The meeting concluded at 12.05 pm

**CHAIRMAN**

**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****INVESTMENT PERFORMANCE REVIEW 2015/16****Purpose of the Report**

1. To provide information on the Fund's investment performance in 2015/16.

**Information and Advice**

2. The Fund subscribes to performance monitoring services from State Street Global Services (SSGS). Data on asset values, transactions and fund cash flows are submitted to SSGS who then produce individual reports for each subscribing fund as well as average performance data across all subscribing local authority funds (the local authority universe). Elaine Packer from SSGS will be attending the meeting to present information on the Fund's performance for 2015/16.
3. The presentation will cover:
  - Market environment
  - Total fund performance versus strategic benchmark
4. Performance continues to lag the Fund's strategic benchmark largely because of the marked difference between the composition of the strategic equity benchmark and the individual portfolio benchmarks. The former has a much higher weighting to the US market whereas the latter have a heavy weighting to the UK.
5. Changes are being implemented to the portfolio benchmarks, following consideration by both the Working Party and Pensions Sub-Committee, although it was agreed that the Fund should continue to favour UK equities on the basis that long term return expectations are still favourable and volatility is lower due to currency risk. Further consideration will be given to portfolio composition during 2017 as part of a strategic asset allocation review following the outcome of the latest triennial valuation of the Fund.

**Statutory and Policy Implications**

6. 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.

## **RECOMMENDATION/S**

- 1) That the report be noted.

### **Report Author:**

**Simon Cunnington**

**Senior Accountant – Pensions & Treasury Management**

**For any enquiries about this report please contact: Simon Cunnington**

### **Constitutional Comments**

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

### **Financial Comments (SRC 26/10/16)**

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

### **Background Papers and Published Documents**

None



# Nottinghamshire Pension Fund 2015/16 Investment Performance Review

Period Ending March 2016  
10<sup>th</sup> November 2016  
Elaine Packer

# Agenda

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## Section 1 – Market Environment

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## Section 2 – Total Fund Performance versus Strategic Benchmark

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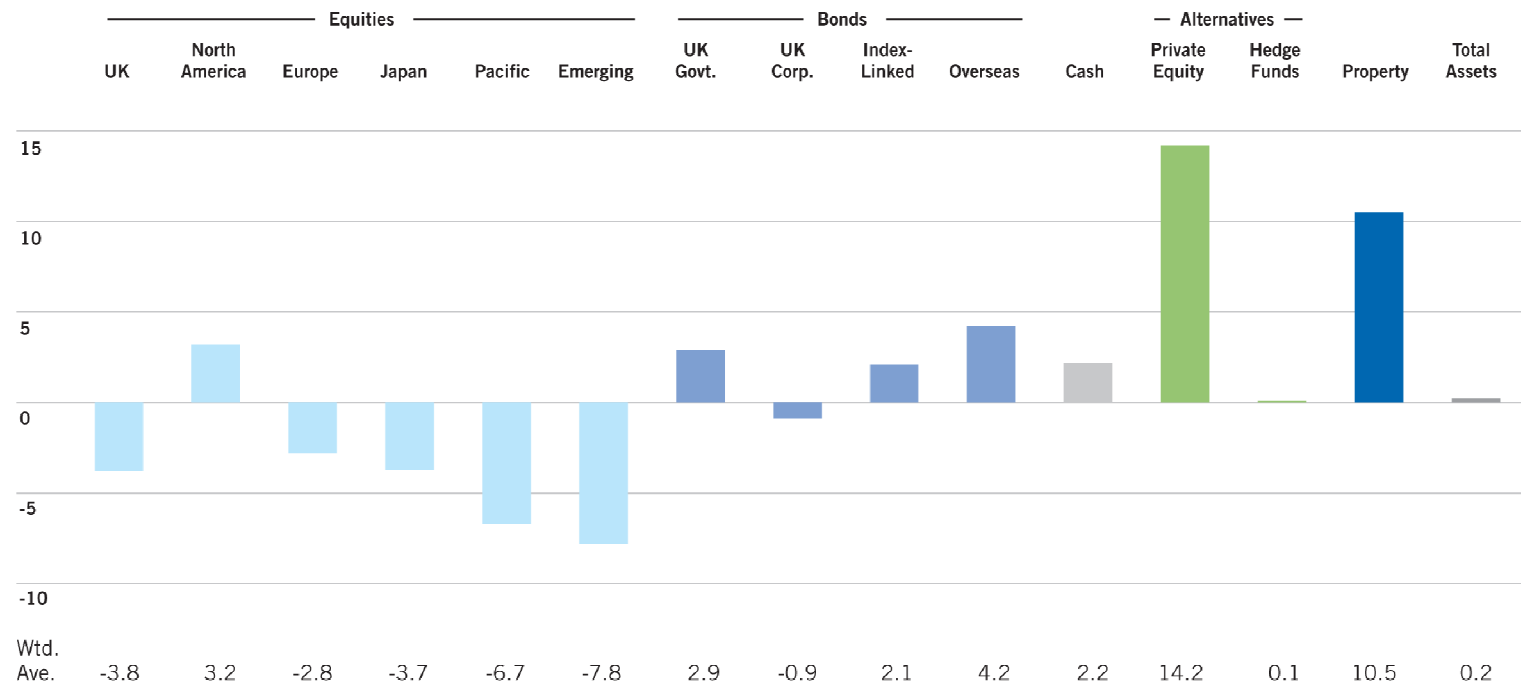
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## Section 1

# Market Environment



# 2015/2016 Returns (%)

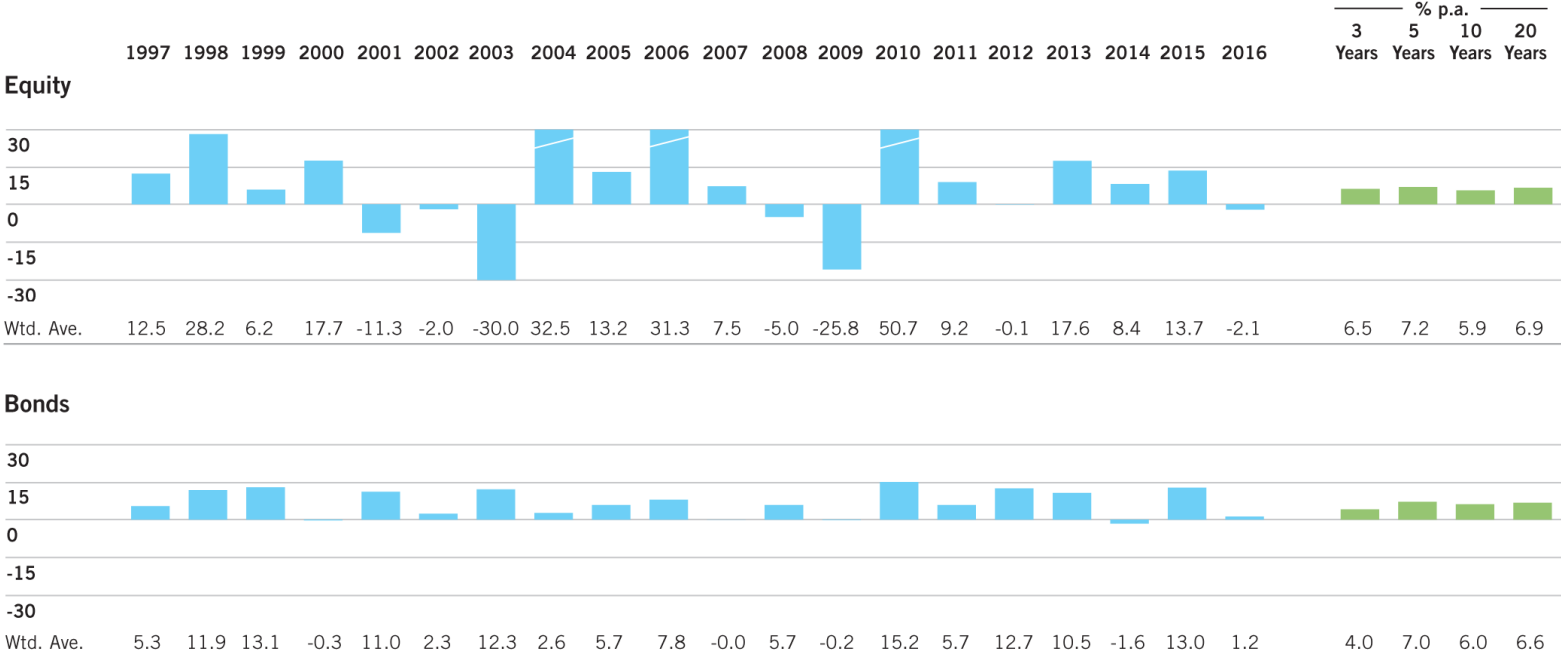


Source: State Street Global Services Performance Services, 2016.

Past performance is not a reliable indicator of future results.

# Long Term Performance

## Annual Returns (%)

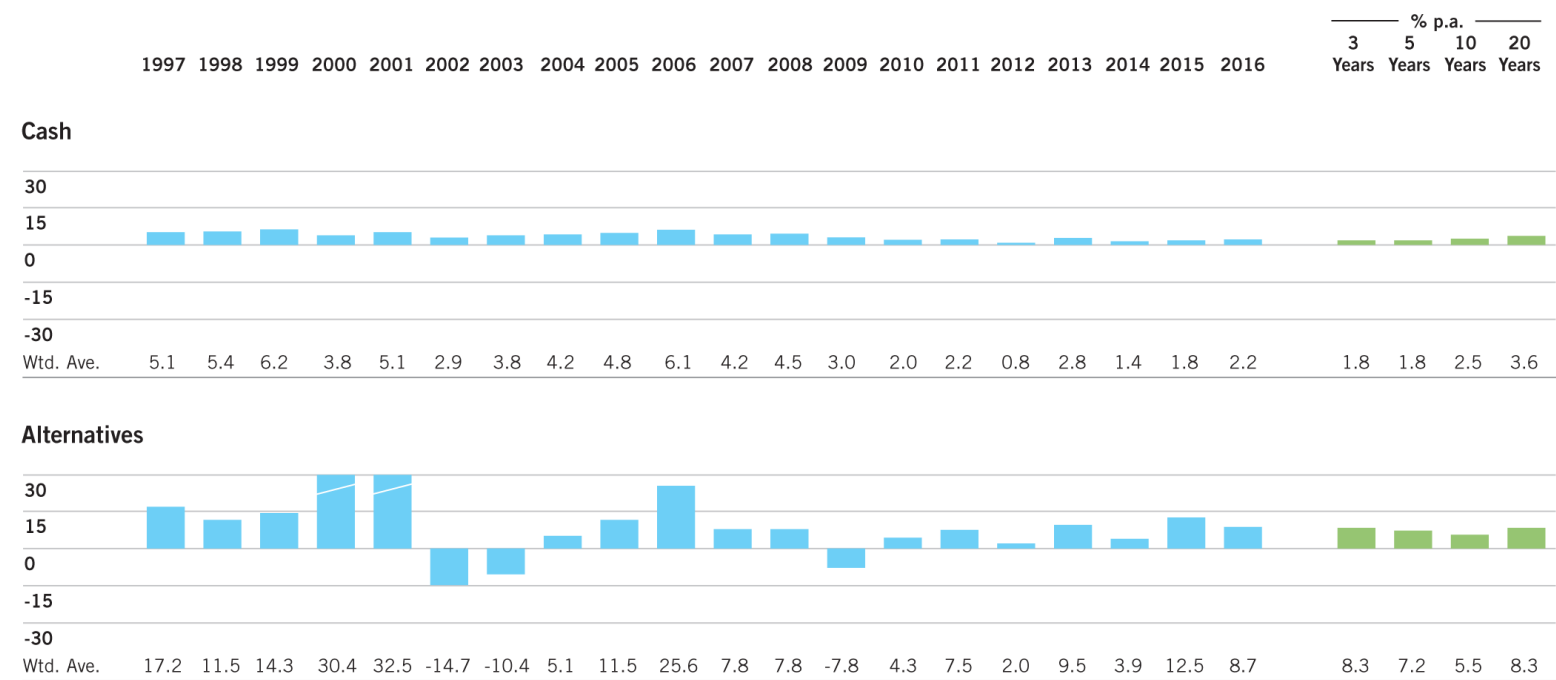


\* Source: State Street Global Services Performance Services, 2016.

Past performance is not a reliable indicator of future results.

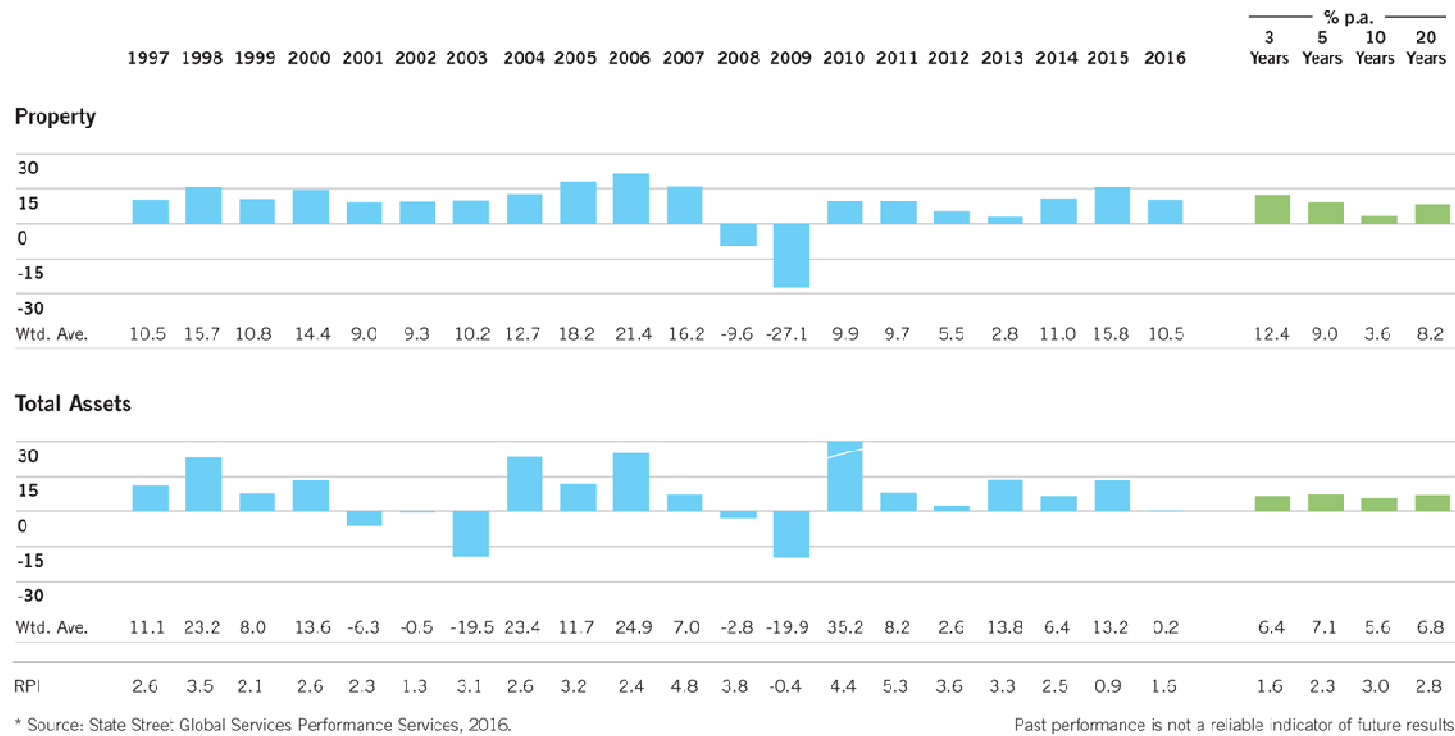
# Long Term Performance

## Annual Returns (%)

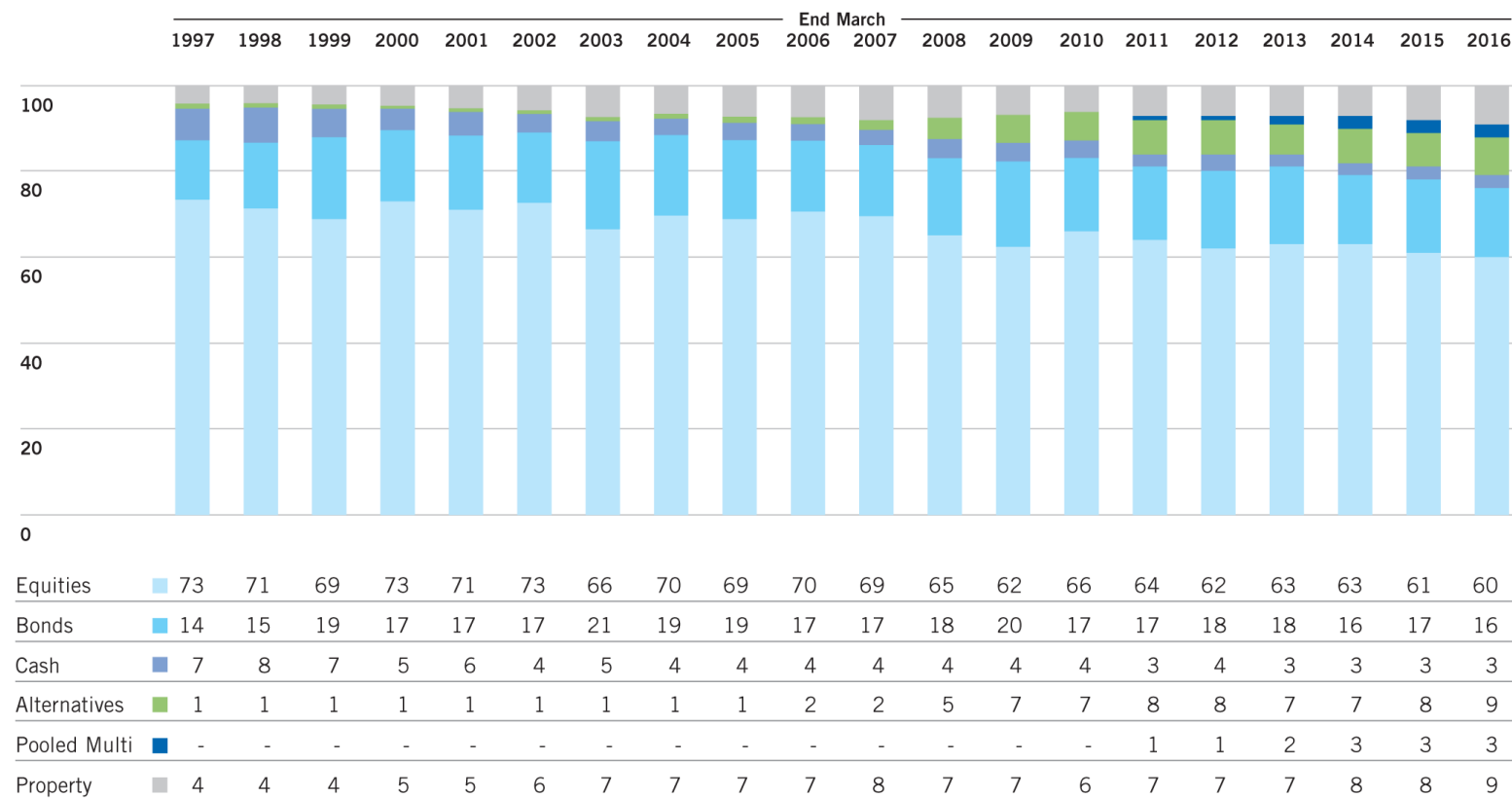


# Long Term Performance

## Annual Returns (%)



# Longer Term Asset Allocation (%)



\* Source: State Street Global Services Performance Services, 2016.

Past performance is not a reliable indicator of future results.

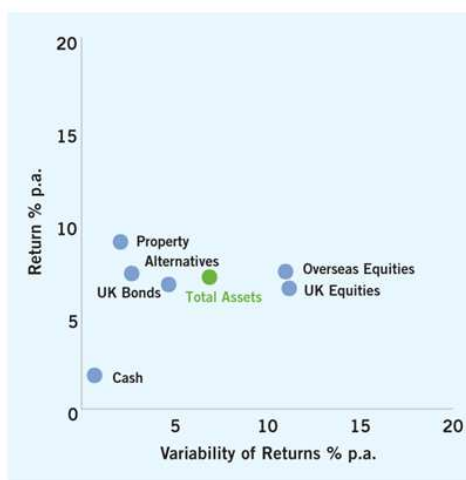


# Regional Equity Performance v FTSE

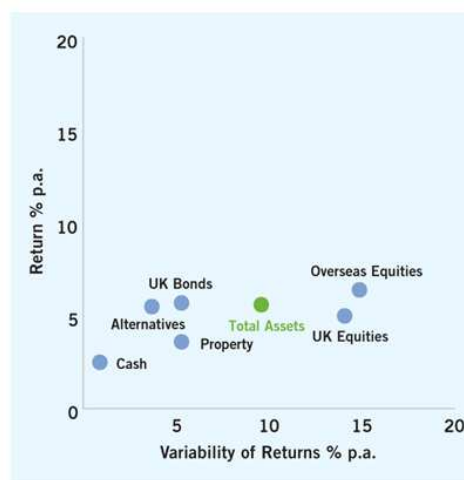
|                              | 1 yr | 3yrs | 5yrs | 10yrs | 20yrs |
|------------------------------|------|------|------|-------|-------|
| LA UK Equity                 | -3.8 | 4.4  | 6.5  | 5     | 6.6   |
| FTSE All Share               | -3.9 | 3.7  | 5.7  | 4.7   | 6.5   |
|                              | 0.1  | 0.7  | 0.8  | 0.3   | 0.1   |
| LA North America             | 3.2  | 12.9 | 12.6 | 7.9   | 7.5   |
| FTSE AW Dev North America    | 3.6  | 12.6 | 12.8 | 8.8   | 8.4   |
|                              | -0.4 | 0.3  | -0.2 | -0.9  | -0.9  |
| LA Europe ex UK              | -2.8 | 6.7  | 5.9  | 5.3   | 7.8   |
| FTSE AW Dev ex UK            | -4.3 | 6.5  | 4.8  | 4.9   | 7.2   |
|                              | 1.5  | 0.2  | 1.1  | 0.4   | 0.6   |
| LA Japan                     | -3.7 | 7.2  | 7.6  | 2.1   | 2.1   |
| FTSE Japan                   | -3.3 | 6.6  | 6.9  | 1.7   | 0.7   |
|                              | -0.4 | 0.6  | 0.7  | 0.4   | 1.4   |
| LA Pacific ex Japan          | -6.7 | 0.2  | 3    | 8.4   | 6.3   |
| FTSE AW Dev Pacific ex Japan | -5.4 | -0.5 | 2.1  | 7.4   | 5.3   |
|                              | -1.3 | 0.7  | 0.9  | 1.0   | 1.0   |
| LA Emerging                  | -7.8 | -0.2 | 0.2  | 5.5   |       |
| FTSE AW Emerging             | -8.9 | -1.8 | -1.5 | 5.7   |       |
|                              | 1.1  | 1.6  | 1.7  | -0.2  |       |

# Long Term Risk and Return

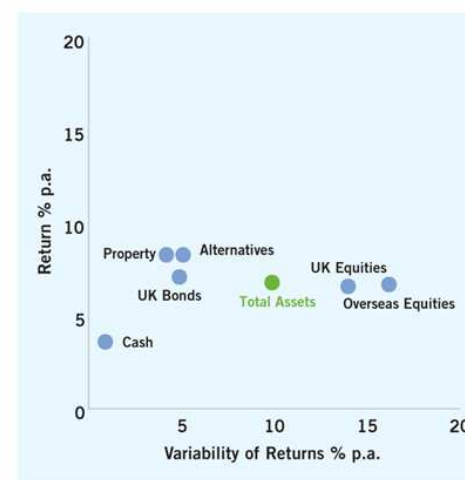
Last 5 Years



Last 10 Years



Last 20 Years



\* Source: State Street Global Services Performance Services, 2016.

Past performance is not a reliable indicator of future results.

# Key Facts

- 2015/16 Local authority Universe contains 88 funds with an aggregate value of £207bn.
- Average fund size £2.4bn (Nottinghamshire £4bn)
- Average fund has 11 investment portfolios (Nottinghamshire internally managed + 3 external managers)
- Average fund has 12% of assets in “Alternatives” (Nottinghamshire 0%)
- Average fund has underperformed its benchmark by 0.1% p.a. over the last 10 years (Nottinghamshire by 0.6% p.a.)

## Section 2

# Total Fund Performance versus Strategic Benchmark

# Fund Structure & Benchmarks

The Fund has a long term objective of achieving and then maintaining sufficient assets to cover 100% of its projected accrued liabilities.

The Pension Fund Committee has defined a range of asset allocation which should allow this objective to be met. The strategic benchmark allocation sits within these ranges and is currently:

|          | %    | Index                  |
|----------|------|------------------------|
| Equity   | 65   | FTSE All World         |
| Bonds    | 17.5 | FTSE UK Gilt All Stock |
| Cash     | 2.5  | LIBID 7 Day            |
| Property | 15   | IPD Annual Universe    |

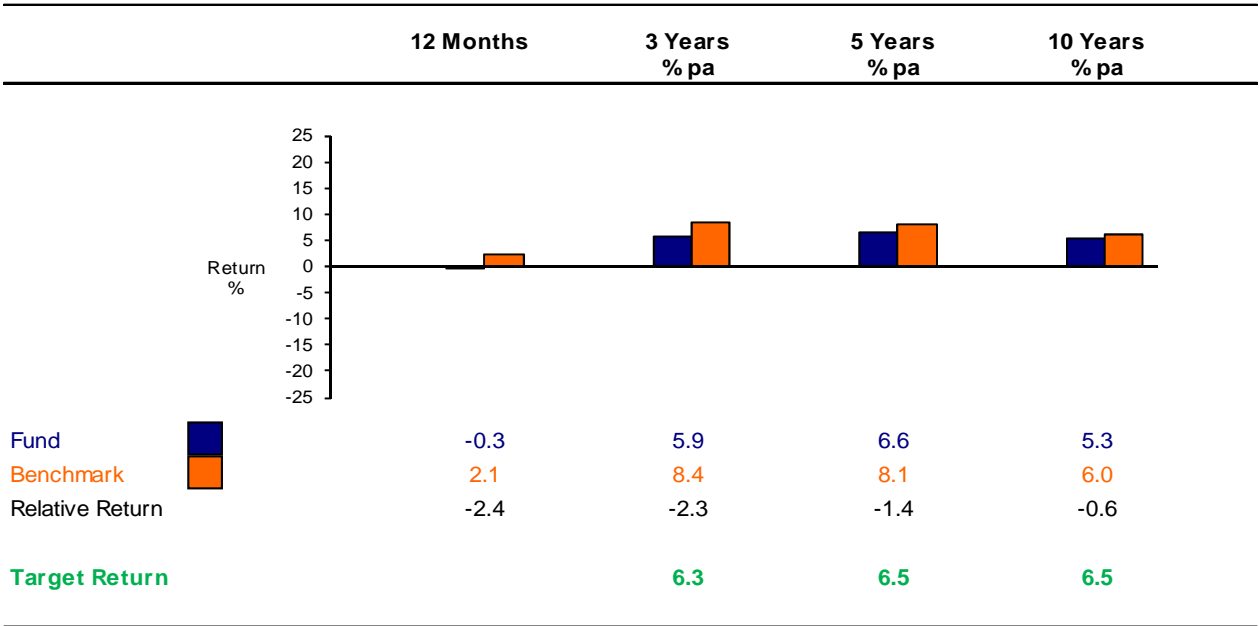
# Total Fund Values

## Fund Value

| Values (GBP)'00 Mandate |             | Value at<br>31/03/2015 | Transactions | Capital<br>Gain / loss | Income  | Value at<br>31/03/2016 | %<br>Fund |
|-------------------------|-------------|------------------------|--------------|------------------------|---------|------------------------|-----------|
| INT GLOB EQ             | Eq Gbl      | 1,616,513              | -32,303      | -82,191                | 35,074  | 1,502,019              | 37        |
| SCHRODERS               | Eq Gbl      | 1,161,491              | -10,305      | -76,162                | 38,667  | 1,075,023              | 27        |
| INT MULTI AS            | Multi Asset | 525,626                | 129,936      | 26,283                 | 3,523   | 681,845                | 17        |
| KAMES                   | Bd Gbl      | 422,779                | 18,738       | -12,010                | 16,443  | 429,507                | 11        |
| ABERDEEN AM             | Prop UK     | 329,340                | -583         | 23,103                 | 14,193  | 351,861                | 9         |
| Total Fund              |             | 4,055,749              | 105,482      | -120,976               | 107,899 | 4,040,256              | 100       |

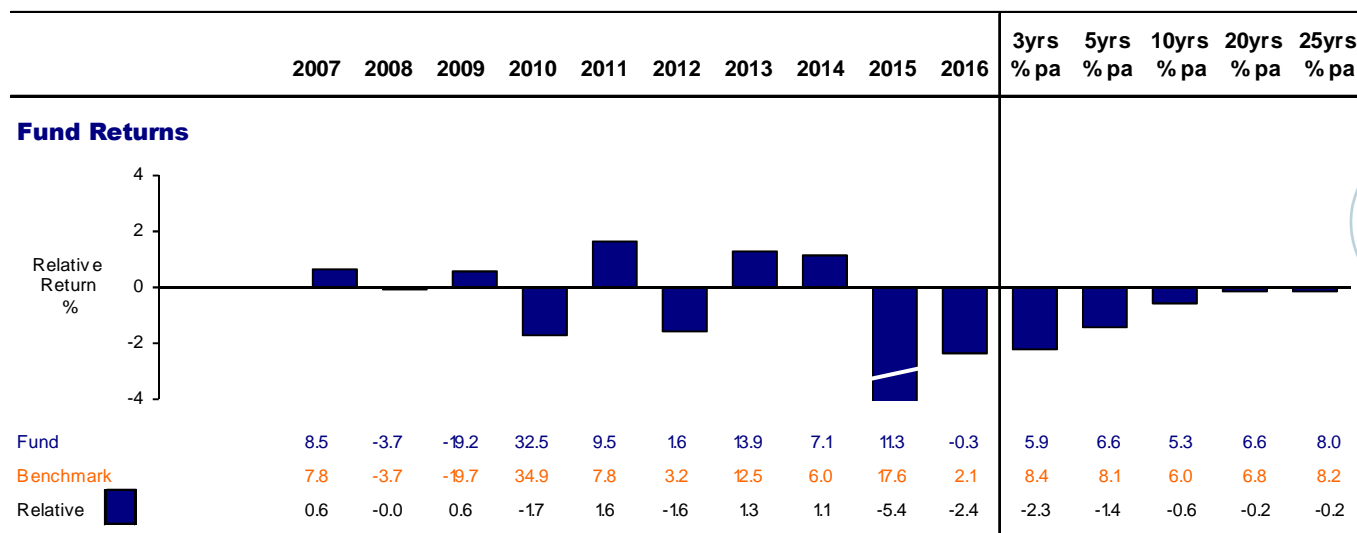
# Total Fund Performance

## Fund Returns



The Target Return is the assumed return from the Fund's actuarial valuation

# Total Fund Performance - continued



Performance has lagged benchmark in the last two years impacting medium term relative numbers



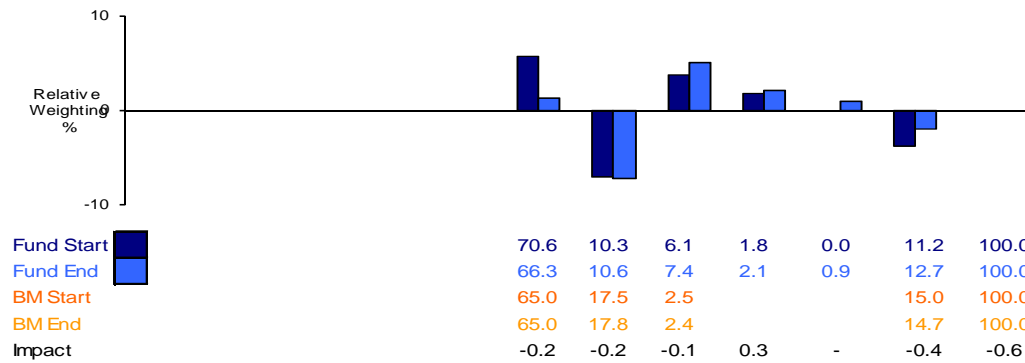
# Latest Year Performance Attribution by Asset Class

## Summary

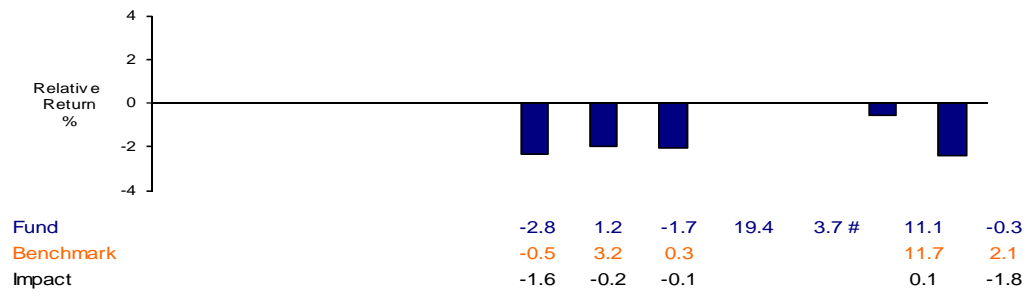
|                      |      |
|----------------------|------|
| Fund Return          | -0.3 |
| Benchmark Return     | 2.1  |
| Relative Performance | -2.4 |
| attributable to:     |      |
| Asset Allocation     | -0.6 |
| Stock Selection      | -1.8 |

|  | Total<br>Equity | Bonds<br>+ IL | Cash | Private<br>Eq | Infrastr. | Property | Total<br>Fund |
|--|-----------------|---------------|------|---------------|-----------|----------|---------------|
|--|-----------------|---------------|------|---------------|-----------|----------|---------------|

## Asset Allocation



## Stock Selection



Equity performance is the largest contributing factor to the underperformance

# Portfolio Performance

|   | M kt Val<br>(GBP 1000) | % of<br>Fund | Latest Quarter | 1 Year | 3 Years | 5 Years | 10 Years | Since<br>Inception | Incept.<br>Date |
|---|------------------------|--------------|----------------|--------|---------|---------|----------|--------------------|-----------------|
| <b>KAMES CAPITAL</b>                      | 429,507                | 10.6         | 3.6            | 10     | 3.6     | 6.5     | 6.2      | 6.2                | 31/3/2000       |
| Nottinghamshire Kames Benchmark           |                        |              | 3.7            | 13     | 4.1     | 6.5     | 6.0      | 5.9                |                 |
| Relative                                  |                        |              | -0.1           | -0.3   | -0.4    | 0.0     | 0.2      | 0.3                |                 |
| <b>INTERNAL MULTI ASSET</b>               | 681,845                | 16.9         | 2.9            | 3.6    | 3.8     |         |          | 5.2                | 30/3/2012       |
| Nottinghamshire Internal Benchmark        |                        |              | 2.2            | 2.7    | 9.0     |         |          | 9.7                |                 |
| Relative                                  |                        |              | 0.7            | 0.8    | -4.8    |         |          | -4.1               |                 |
| <b>SCHRODERS</b>                          | 1,075,023              | 26.6         | 0.6            | -3.5   | 6.0     | 6.8     | 6.3      | 7.7                | 31/3/1987       |
| Nottinghamshire Schroders Benchmark       |                        |              | 0.5            | -2.6   | 5.5     | 6.5     | 5.6      | 7.7                |                 |
| Relative                                  |                        |              | 0.1            | -0.8   | 0.5     | 0.3     | 0.7      | 0.0                |                 |
| <b>INTERNAL GLOBAL EQUITY</b>             | 1,502,019              | 37.2         | 19             | -2.7   | 5.3     | 6.4     | 5.6      | 7.9                | 31/3/1987       |
| Nottinghamshire Internal Global Benchmark |                        |              | 12             | -3.0   | 5.4     | 6.4     | 5.5      | 7.7                |                 |
| Relative                                  |                        |              | 0.7            | 0.3    | -0.1    | 0.0     | 0.1      | 0.2                |                 |
| <b>ABERDEEN ASSET MGMT PLC</b>            | 351,861                | 8.7          | 13             | 11.1   | 15.3    |         |          | 11.9               | 30/3/2012       |
| IPD All Properties                        |                        |              | 11             | 11.7   | 14.6    |         |          | 11.5               |                 |
| Relative                                  |                        |              | 0.2            | -0.5   | 0.6     |         |          | 0.4                |                 |

# The Issue of the Equity Benchmark

|                             | 1 yr (%) | 3 yrs (% pa) |
|-----------------------------|----------|--------------|
| Schroders Benchmark         | -2.6     | 5.5          |
| Internal Benchmark          | -3       | 5.4          |
| Total Fund Equity Benchmark | -0.5     | 8.2          |

|                  | FUND | FTSE AW INDEX | DIFFERENCE |
|------------------|------|---------------|------------|
| UK Equity        | 46   | 7             | 39         |
| North America    | 21   | 55            | -34        |
| Europe           | 15   | 15            | 0          |
| Japan            | 6    | 8             | -2         |
| Pacific ex Japan | 5    | 6             | -1         |
| Emerging Markets | 6    | 9             | -3         |
| Global           | 2    | 0             | 2          |

Both managers  
have benchmarks  
that are different  
from the overall  
strategic  
benchmark

# Latest Year Performance Attribution by Manager

## Summary

|                         |      |
|-------------------------|------|
| Fund Return             | -0.3 |
| Benchmark Return        | 2.1  |
| Relative Performance    | -2.4 |
| <b>attributable to:</b> |      |
| Strategic Allocation    | -    |
| Manager Contribution    | 0.1  |
| Residual                | -2.5 |

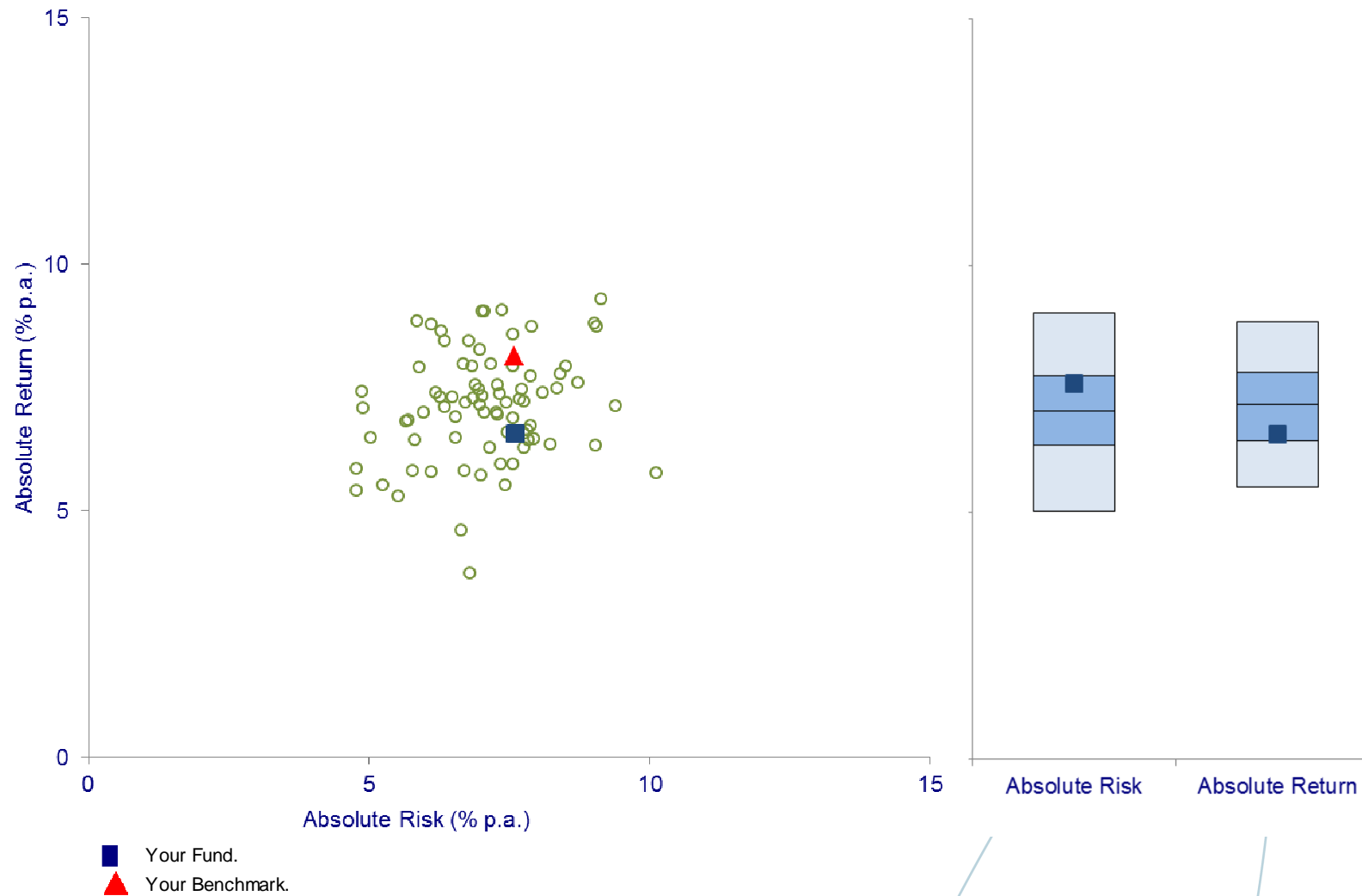
The relative performance can be attributed to the effects of manager contribution and strategic allocation.

## Detail

| Strategic Allocation |              |                                 | Manager Contribution |           |           |
|----------------------|--------------|---------------------------------|----------------------|-----------|-----------|
| Distribution         | Policy       | Investment                      | Weighted             | % Return  |           |
| Portfolio Benchmark  | Contribution | Manager                         | Contribution         | Portfolio | Benchmark |
| 39.9                 | -            | INTERNAL GLOBAL EQUITY          | 0.1                  | -2.7      | -3.0      |
| 28.7                 | -            | SCHRODERS INVESTMENT MANAGEMENT | -0.2                 | -3.5      | -2.7      |
| 12.9                 | -            | INTERNAL MULTI ASSET            | 0.2                  | 3.6       | 2.7       |
| 10.4                 | -            | KAMES CAPITAL                   | -                    | 1.0       | 1.3       |
| 8.1                  | -            | ABERDEEN ASSET MGMT PLC         | -                    | 11.1      | 11.7      |
|                      | -            |                                 | 0.1                  |           |           |

# Investment Risk and Return – Last Five Years

## Absolute Risk & Return



# Overall Conclusions

- A difficult year for markets and the Fund returned -0.3%, 2.4% behind benchmark largely due to below benchmark Equity performance and being underweight in Property.
- The Equity portfolio benchmarks differ significantly to the Equity element of the overall strategic benchmark and this is driving the relative performance.
- Over 5 years the Fund and Benchmark are meeting the assumed investment target however both fall short of target over 10 years.
- Looking at the 5 year Risk Adjusted Return Analysis the higher risk strategy has not been converted into a higher return.
- Over 20 years the Fund has achieved a return of 6.6% p.a. well ahead of RPI at 2.8% p. a. but 0.2% p.a. behind benchmark.

# Contact details for further information

Elaine Packer  
State Street Performance Services  
525 Ferry Road, Edinburgh, EH5 2AW

0131 315 5467  
[elaine.packer@statestreet.com](mailto:elaine.packer@statestreet.com)





**10 November 2016**

**Agenda Item:5**

## **REPORT OF THE SERVICE DIRECTOR – HR AND CUSTOMER SERVICE LOCAL GOVERNMENT PENSION SCHEME**

Update on The Local Government Pension Scheme Advisory Board

### **Purpose of the Report**

1. The purpose of this report is to provide the Pensions Sub Committee with an update on the activities of the National Local Government Scheme Advisory Board.

### **Information and Advice**

#### **Background**

2. The Local Government Scheme Advisory Board is a body set up under section 7 of the Public Service Pensions Act 2013 and the Local Government Pension Scheme Regulations.
3. In 2013 the Board was set up in 'Shadow' or pilot form in order to test the format, terms of reference, membership and committees prior to the formalisation of these items in the LGPS Regulations. On 1st April 2015 the board was established as a statutory body, and the formal membership was confirmed early in 2016 with non-voting members and advisors added in the summer of the same year.
4. The purpose of the board is to be both reactive and proactive, and seeks to encourage best practice, increase transparency and co-ordinate technical and standards issues. It will consider items passed to it from the Department of Communities and Local Government ("DCLG"), the board's sub-committees and other stakeholders as well as items formulated within the board. Recommendations may be passed to the DCLG or other bodies. It is also likely that it will have a liaison role with the Pensions Regulator. Guidance and standards may be formulated for local scheme managers and pension boards.
5. The board will from time to time be asked by the local government minister to develop options for scheme developments for example in 2013 it was asked to assist with the process of reform which led to proposals on investment pooling.
6. As well as responding to requests from government the board can also develop options and recommendations of its own in order to improve the efficiency and effectiveness of

the scheme. This has included recommendations to clarify regulations and initiatives outside of the regulations such as investment cost transparency.

7. Finally the board can play a vital role in providing a route for ideas for development from the various stakeholders in the LGPS and a conduit for feedback from government to those ideas. In doing so it seeks to work closely with existing LGPS forums such as CIPFA Pensions Panel, the LGPS Technical Group and the Local Authority Pension Fund Forum.

## **Work of the Board**

8. The board is currently working on a number of development areas :

- Investment Pooling
- Investment fees – Code of Transparency
- Cost management
- Academies and the impact on the LGPS

The board issue updates and I have attached the August update in Appendix 1 of this report.

The Scheme Advisory Board Website is: [www.lgpsboard.org/](http://www.lgpsboard.org/)

## **Statutory and Policy Implications**

9. This report has been compiled after consideration of implications in respect of finance, equal opportunities, 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.

## **RECOMMENDATION**

10. That the report is noted for information

**MARJORIE TOWARD**  
**SERVICE DIRECTOR – HR AND CUSTOMER SERVICE**

**For any enquiries about this report please contact:**

Jonathan Clewes, Payroll and Pensions Manager on 0115 9773434 or  
[Jon.Clewes@nottscc.gov.uk](mailto:Jon.Clewes@nottscc.gov.uk)

## **Constitutional Comments (GR 25.10.2016)**

As the recommendations of this report are for noting, the contents of this report are within the remit of the board.

**Financial Comments (KP 25.10.2016)**

No Financial implications

**Background Papers****Electoral Division(s) and Member(s) Affected**

All

# Appendix 1

## Latest Board Update - August 2016

### Update from the Chair of the Statutory Board

**To: All members of Scheme Fund Committees and Boards**

Dear Colleagues

The Local Government Pension Scheme Advisory Board (SAB) met on 1 August 2016.

The Board, as you may recall, is a statutory body established to advise the Minister who is responsible for the Scheme and to oversee and support the development of the administration and performance of the eighty-nine funds.

The Board considered and agreed its proposed terms of reference. These will now be sent to the Minister for approval. The Minister will also receive the Board's suggested budget (£384,375) and work plan for 2016/17. The budget will be submitted along with a suggestion that the Board's secretariat, through an additional post, provide support to the DCLG. The purpose of the post would be to ensure the Board's recommendations are given the degree of consideration and research necessary for the effective development of the Scheme.

The Board constituted the Cost Management, Benefit Design and Administration Committee and the Investment, Governance and Engagement Committee - agreeing their **membership** and terms of reference.

A report was considered by the Board on the issues of asset pooling in the Local Government Pension Scheme (LGPS). The Board agreed that the Chair write to the Minister expressing concern over the delay in approving submitted asset pool investment proposals and reinforcing the case for consistency and equality in assessment against the 4 criteria with a degree of pragmatism. It further agreed that the Chair write to the Secretary of State (copy to the Minister) requesting a meeting to discuss the Government's latest approach to infrastructure investment, particularly the issue of cost and/or risk sharing.

A Task Group (Chair, Vice-Chair and Board Secretary) was established by the Board to identify ways of better liaising with and being advised by the investment pools.

In that respect, the Board was pleased that the Chair would be meeting with the officer led Cross Pool Collaboration Group (CPCG) and encouraged closer ties with that group.

The Board also agreed that, following discussions with the CPCG, the Chair write to Chairs of Administering Authority Pension Committees proposing the formation of a Cross Pool Advisory Group at the political level consisting of representatives from each pool. This group would both advise the Board on pooling issues and potentially provide a forum to liaise with members of the Government at the political level.

The Board noted and approved the continuing actions being taken to support LGPS funds to produce transparent and consistent investment fee information that accords with a revised CIPFA accounting standard. A draft template had been produced and was available on the Board's web site.

The Board considered details of the bids received to undertake work on the impact of academy status for all schools. It agreed that the Chair and Vice-Chair be delegated authority to determine the award of a contract. .

Yours sincerely

Cllr Roger Phillips Chairman of LGPS Advisory Board





**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT &  
IMPROVEMENT****PROXY VOTING****Purpose of the Report**

1. The Fund is committed to supporting best practice in corporate governance and has adopted the *UK Stewardship Code* as recommended by the CIPFA *Principles for investment decision making and disclosure*. This report is to inform members of the voting of equity holdings in the second and third quarters of 2016 (calendar year) as part of this ongoing commitment.

**Information and Advice**

2. The *UK Stewardship Code*, issued in September 2012 by the Financial Reporting Council, highlights the responsibilities that institutional investors have with regard to the 'long-term success of companies in such a way that the ultimate providers of capital [in this case, the Nottinghamshire Pension Fund] also prosper'. These responsibilities include, among other things, having a clear policy on voting and on the disclosure of voting activity. The *Code* states that investors "should not automatically support the board".
3. Alongside this the CIPFA *Principles for investment decision making and disclosure* require administering authorities to include a statement of their policy on responsible investment in the Statement of Investment Principles and report periodically on the discharge of such responsibilities. The Fund's statement on responsible investment states that 'the Fund continues to exercise its ownership rights by adopting a policy of actively voting stock it holds'.
4. The Fund retains responsibility for voting (rather than delegating to its investment managers) and votes the majority of its equity holdings in the UK, Europe, US and Japan. Voting is implemented by Pensions Investment Research Consultants (PIRC). PIRC issue Shareholder Voting Guidelines each year and these are the basis of the voting implemented on behalf of the Fund.
5. An overview of the voting activity and analysis of the key issues during the quarters will be published on the Fund website (<http://www.nottspf.org.uk/about-the-fund/investments>) and with the meeting papers on the Council Diary (<http://www.nottinghamshire.gov.uk/dms/Meetings.aspx>).

**Statutory and Policy Implications**

6. 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.

## **RECOMMENDATION/S**

- 1) That the report be noted.

**Report Author:**  
**Ciaran Guilfoyle**  
**Investments Officer**

**For any enquiries about this report please contact: Ciaran Guilfoyle**

### **Constitutional Comments**

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

### **Financial Comments (SRC 14/10/16)**

8. There are no direct 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.

- PIRC – Nottinghamshire CC Pension Fund, Proxy Voting Review, 1 April 2016 to 30 June 2016
- Financial Reporting Council, The UK Stewardship Code, September 2012.



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETINGS****Purpose of the Report**

1. To report on the Local Authority Pension Fund Forum (LAPFF) business meetings held in London on 28 June 2016 and on 18 October 2016.

**Information and Advice**

2. The Local Authority Pension Fund Forum was formed in 1990 to provide an opportunity for the UK's local authority pension funds to discuss investment and shareholder engagement issues. LAPFF currently has 71 members (shown at Appendix A) with combined assets of well over £100 billion and is consequently able to exert significant influence over companies in which funds are invested.
3. LAPFF exists 'to promote the long-term investment interests of UK local authority pension funds, and in particular to maximise their influence as investors to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest'. It also:
  - a. Provides a forum for information exchange and discussion about investment issues.
  - b. Facilitates the commissioning of research and policy analysis of issues in a more effective manner than individual members could achieve.
  - c. Provides a forum for consultation on shareholder initiatives.
  - d. Provides a forum to consider issues of common interest to all pension fund administrators and councillors.
4. The business meetings were attended on behalf of Nottinghamshire Pension Fund by an officer representative.
5. The June meeting began with a brief update on pension fund pooling issues. It was agreed that representatives of the pools will be granted 'observer' status at future LAPFF meetings.
6. An update on LAPFF's engagement work was provided, and in addition an update was given on LAPFF's work concerning the legal definition of 'true and fair view'. LAPFF believes this is not being correctly interpreted by the Financial Reporting Council (FRC), resulting in distributions being made to shareholders undermining the value of a company. BHS was cited as yet another company that had fallen foul of this.

7. A presentation was made at the end by Prof Richard Murphy FCA the Corporate Tax Transparency Initiative on the work the CTTI is undertaking to ascertain companies' views on publishing their own tax data.
8. The October meeting followed a similar format. An update was provided on the research, based on a number of FOI requests, undertaken by LAPFF to highlight how the FRC has misled Parliament, the press and a number of companies regarding the nature of LAPFF's complaint. It still remains the case that FRC guidance allows companies to make illegal distributions of dividends, which in turn puts the ongoing viability of otherwise healthy companies at risk.
9. The October meeting concluded with two presentations. The first, from Faith Ward of the Environment Agency Pension Fund, related to a web-based tool that will shortly be made available to allow investors to track how far companies are along the route of 'transition' (in the first instance of having a good carbon-reduction policy, but later the idea of 'transition' could be broadened to other issues such as boardroom diversity). The second presentation was from John Sharman of the Equality and Human Rights Commission who reported on the extent of diversity in board appointments. Men still outnumber women on boards, although the position has improved in recent years. However, a number of companies are appointing women to boards on the basis of quotas, rather than by encouraging applications from women.

## **Statutory and Policy Implications**

10. 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.

## **RECOMMENDATION/S**

- 1) That the report be noted.

**Report Author:**  
**Ciaran Guilfoyle**  
**Investments Officer**

**For any enquiries about this report please contact: Ciaran Guilfoyle**

## **Constitutional Comments**

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

## **Financial Comments (SRC 19/10/16)**

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

## **Background Papers**

- Draft LAPFF Quarterly Engagement Report Apr 2016 – Jun 2016
- Draft LAPFF Quarterly Engagement Report Jul 2016 – Sep 2016

## Membership of LAPFF as at October 2016

|    |   |
|----|---|
| 1  | Avon Pension Fund   |
| 2  | Barking and Dagenham LB   |
| 3  | Bedfordshire Pension Fund   |
| 4  | Cambridgeshire Pension Fund   |
| 5  | Camden LB   |
| 6  | Cardiff and Vale of Glamorgan Pension Fund                          |
| 7  | Cheshire Pension Fund   |
| 8  | City of London Corporation  |
| 9  | Clwyd Pension Fund  |
| 10 | Croydon LB  |
| 11 | Cumbria Pension Scheme  |
| 12 | Derbyshire CC   |
| 13 | Devon CC  |
| 14 | Dorset County Pension Fund  |
| 15 | Dyfed Pension Fund  |
| 16 | Ealing LB   |
| 17 | East Riding of Yorkshire Council                                    |
| 18 | East Sussex Pension Fund  |
| 19 | Enfield LB  |
| 20 | Falkirk Council   |
| 21 | Gloucestershire Pension Fund  |
| 22 | Greater Gwent Fund  |
| 23 | Greater Manchester Pension Fund                                     |
| 24 | Greenwich Pension Fund RB   |
| 25 | Gwynedd Pension Fund  |
| 26 | Hackney LB  |
| 27 | Haringey LB   |
| 28 | Harrow LB   |
| 29 | Hertfordshire County Council Pension Fund                           |
| 30 | Hounslow LB   |
| 31 | Islington LB  |
| 32 | Lambeth LB  |
| 33 | Lancashire County Pension Fund                                      |
| 34 | Lewisham LB   |
| 35 | Lincolnshire CC   |
| 36 | London Pension Fund Authority                                       |
| 37 | Lothian Pension Fund  |
| 38 | Merseyside Pension Fund   |
| 39 | Newham LB   |
| 40 | Norfolk Pension Fund  |
| 41 | North East Scotland Pension Fund                                    |
| 42 | North Yorkshire CC Pension Fund                                     |
| 43 | Northamptonshire CC   |
| 44 | Northern Ireland Local Government Officers Superannuation Committee |
| 45 | Nottinghamshire CC  |
| 46 | Powys County Council Pension Fund                                   |
| 47 | Redbridge LB  |
| 48 | Rhondda Cynon Taf   |
| 49 | Sheffield City Region Combined Authority                            |
| 50 | Shropshire County Council   |
| 51 | Somerset CC   |

|    |   |
|----|---|
| 52 | South Yorkshire Pensions Authority          |
| 53 | Southwark LB                                |
| 54 | Staffordshire Pension Fund                  |
| 55 | Strathclyde Pension Fund                    |
| 56 | Suffolk County Council Pension Fund         |
| 57 | Surrey CC                                   |
| 58 | Sutton LB                                   |
| 59 | Teesside Pension Fund                       |
| 60 | The City and County of Swansea Pension Fund |
| 61 | The Environment Agency Pension Fund         |
| 62 | Tower Hamlets LB                            |
| 63 | Tyne and Wear Pension Fund                  |
| 64 | Waltham Forest LB                           |
| 65 | Wandsworth LB                               |
| 66 | Warwickshire Pension Fund                   |
| 67 | West Midlands ITA Pension Fund              |
| 68 | West Midlands Pension Fund                  |
| 69 | West Yorkshire Pension Fund                 |
| 70 | Wiltshire CC                                |
| 71 | Worcestershire CC                           |



# QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2016



**Attending the LGPS seminar** (clockwise from top left) Patrick Daniels; Cllr Mukesh Malhotra; a group of delegates; Natasha Landell Mills, David Sheasby, Jeanette Andrews and Cllr Keiran Quinn.

Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling

Launch of the All Party Parliamentary Group on Local Authority Pension Funds

Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Engagement with Total leads to carbon risk reporting and further meetings with the Company

LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

LAPFF attends 13 AGMs during the quarter



# Achievements

## Spotlight on LGPS Pools: LAPFF hosts seminar on responsible investment, shareholder rights and pooling



LAPFF Vice Chair, Ian Greenwood

On 7 June 2016, LAPFF hosted a successful seminar, sponsored by PIRC, entitled 'Responsible Investment, Shareholder Rights and Pooling' at Martin Currie Investment Management. The seminar highlighted the remaining uncertainties linked to the mandatory pooling of local government pension funds in the UK and Wales, especially in relation to implementing responsible investment (RI) through funds. The seminar presentations are available to LAPFF members [here](#).

The day began with David Sheasby of Martin Currie, Natasha Landell Mills of Sarasin & Partners, and Jeanette Andrews of Legal & General Investment Management, speaking about fund managers' approaches to environmental, social and governance (ESG) issues and ESG integration into their work products. All three speakers emphasised the importance of ESG analysis to capital protection and long-term corporate growth. Their questions about the pooling process related primarily to the devolution of power and accountability away from funds to asset managers, including the transfer of responsibility for RI and reduced active management of investments.

Patrick Daniels of Robbins Geller Rudman & Dowd then spoke about legal accountability of companies to shareholders, specifically the way shareholder litigation will work given the new pooling arrangements. He stressed that pooling would not affect the likelihood of claims arising, but that effective data retention and monitoring would be key to the success of shareholder claims.

In a pooling situation, this retention could be difficult if custodians employed by individual funds are different from those used by the pools, which may become the claimants in this litigation. Mr Daniels' recommendation was that the cleanest solution is for pension funds to assign legacy claims to their pools and ensure that the pools have rigorous data protection processes and data control, which are contracted-in to the pools' constitutions, to increase the prospect of successful litigation in the future.

Alan MacDougall of PIRC continued the accountability theme by suggesting that if funds do not maintain ownership line-of-sight for their investments, RI will not be within their control; it will effectively be delegated to pools, notwithstanding the regulatory position that the individual funds are supposed to maintain ultimate responsibility for responsible investment. Therefore, collaboration on RI will be key, including the provision of guidance on how to work with asset managers in this area, particularly with regard to proxy voting policy, director nominations and co-filing shareholder resolutions.

Representatives of LAPFF members across four pools – Faith Ward, Cllr Mary Barnett, Cllr Rishi Madlani and Rodney Barton – concluded by setting out the expectations of pools in relation to RI. The London Collective Investment Vehicle (CIV) was used throughout the day as a source of learnings on developing pools as the CIV has already been up and running for some time.

Despite the uncertainties that pooling continues to present, delegates agreed that it should be seen as an opportunity to maximise, not dilute, the active role that funds have in responsible investment.

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## LAPFF facilitates launch of All Party Parliamentary Group

In May, LAPFF facilitated the launch of an All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Clive Betts MP (*below left*) was elected Chair and Ian Blackford MP (*below right*) was elected vice-Chair. The aim of the APPG is to consider a range of issues affecting local authority pension funds, particularly: the use of pension fund money for infrastructure; corporate governance and shareholder activism; and LGPS reforms. LAPFF Chair, Cllr Kieran Quinn, led the session, along with contributions from Unison, LAPFF member funds, and others.





## Strategic resilience resolutions at Rio Tinto, Glencore and Anglo American get voted through

Over the last twelve months, LAPFF has been heavily involved in engagement with, and filing shareholder resolutions at, **Rio Tinto, Anglo American** and **Glencore**. This spring, all three resolutions were voted in with overwhelming shareholder support, showing the strength of belief amongst the investor community that companies must be transparent about how they are preparing for the transition to a low carbon economy.

LAPFF leads on engagement with Rio Tinto and, in April, the resolution obtained a 99.1% vote in favour, the highest level of support for a shareholder resolution yet in the UK. Later that month, the Anglo American resolution obtained a 96% 'for' vote and, in May, 98% of voting shareholders supported the resolution 'asks' at Glencore. All three resolutions were publicly supported by the companies' boards and members of the LAPFF executive attended each AGM to speak to the resolutions.

These successes follow those of last year, when similar strategic resilience resolutions were co-filed at BP and Shell. A year on, LAPFF is now reviewing how well these companies have implemented the resolution 'asks' in their reporting, amidst continuing engagement with both companies.

## Engagement with Total leads to carbon risk reporting

LAPFF is also pleased to have been part of an investor coalition which has successfully engaged with **Total** on strategic resilience. As a result of this engagement, the Company committed to reporting in line with the requests of the strategic resilience resolutions that have already been filed at oil, gas and mining companies in the UK. This includes reporting on emissions, the International Energy Agency's post-2015 scenarios, research and development, key performance indicators, and public policy positions.

Following this, Total released its dedicated report on this issue '[Integrating Climate into our Strategy](#)' at its AGM in May. LAPFF signed-on to a joint investor statement presented at that AGM, which was attended by Cllr Simon, supporting Total's commitment. LAPFF's question at the AGM was to ask the Chair if Total would consider reporting its energy reserves in kilojoules rather than barrels of oil. As the former is 'resource-neutral' this would be a means to help the Company and the market account for and place value on a range of renewable energy resources beyond oil and gas. The Chair's response was that whilst Total would

continue to publish its reserves in barrels of oil, this proposal would be considered. Cllr Simon subsequently attended a group investor meeting with the Chair and Chief Executive in June, to discuss the new report in detail, and Denise Le Gal attended an event with Total's Vice President on Climate the following day, to discuss that report further.

## LAPFF Vice Chair Ian Greenwood speaks to the BBC on BP remuneration

Following Ian Greenwood's participation at the BP AGM in April to ask the Board about its plans for 2016/17 to make carbon pricing effective, he was then interviewed by the BBC about LAPFF's views on executive pay at the Company, following a 20% increase in remuneration to the CEO on last year. Mr Greenwood stated, in clips that were shown in primetime [BBC news](#) slots, that the CEO's pay 'sent entirely the wrong message' to shareholders and employees, following significant job cuts and the biggest operating loss that BP has ever reported. Over 59% of investors opposed the Remuneration Report at the AGM, which was one of the largest rejections of such a report in the UK to date. LAPFF has now asked BP for a meeting to discuss the Company's approaches to remuneration, ahead of the vote on remuneration policy in 2017.



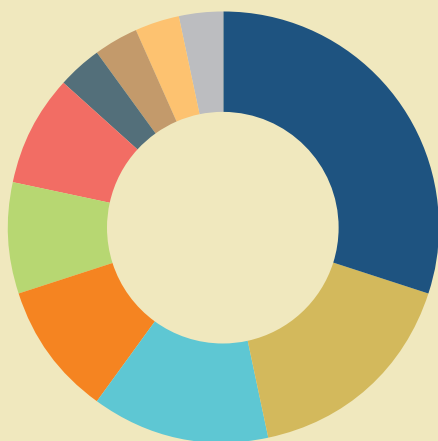
*LAPFF Vice Chair, Ian Greenwood, being interviewed by the BBC on BP remuneration*

## LAPFF attends 13 AGMs during the quarter

It has been a busy and successful quarter for LAPFF, having attended 13 AGMs between April and June, raising issues ranging from remuneration, to climate risk, to supply chain management. A number of these AGMs have brought about opportunities for further engagements with the companies on issues of concern to LAPFF's members.

# Company Engagement

## ENGAGEMENT TOPICS



|                          |    |
|--------------------------|----|
| Climate change           | 18 |
| Human rights             | 10 |
| Employment standards     | 8  |
| Board composition        | 6  |
| Environmental risk       | 5  |
| Remuneration             | 5  |
| Campaign (general)       | 2  |
| Governance (general)     | 2  |
| Incentivising executives | 2  |
| Supply chain management  | 2  |

## PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

Over the last year, LAPFF has been engaging with companies on their approach to diversity. At the **Tullow Oil** AGM, Cllr Mukesh Malhotra asked the Chair how Board diversity, and diversity more broadly, would be strengthened at the Company, particularly through linking pay to key performance indicators. The Chair's response was encouraging and showed a willingness to continue to develop the Company's approach, particularly by considering the need for ethnic diversity, as well as gender diversity, and giving consideration to the fact that Tullow is an African-based business.

Through the 30% Club, LAPFF also met with the Chair of **GKN**. The Company currently only has one woman on the Board, and the meeting explored the challenges the Board faced in addressing gender diversity.

Following on from previous AGM attendance, a LAPFF representative attended the **Carillion** AGM in May to ask about the Company's efforts to implement the reporting requirements of the Modern Slavery Act and transparency in its supply chain in Qatar. LAPFF was then invited to join the launch of Carillion's Sustainability Report that afternoon at which the Chair spoke animatedly about the Company's approach towards sustainability.



In April, LAPFF Executive Committee member Jane Firth met with representatives of **Hays**, to consider a range of issues, including the Company's business model, use of zero hour contracts, remuneration and share buybacks. One concern has been the extent of structural pressure that appears to push the Company towards using workers on temporary contracts.

At the **Next** AGM, Ms Firth asked about supplier audits and a particular case of human trafficking. The Chair responded in some detail. Ms Firth also asked how Next intends to report on water use, and whether it has signed on to the Better Cotton Initiative. Again, further information was provided including on how Next is working to minimise water usage in the UK.

LAPFF also continued its engagement with **Singapore Technologies**, following the [Company's announcement last year](#) that it would cease to design, produce and sell anti-personnel mines and cluster munitions. LAPFF welcomed the Company's request for a meeting on this issue, and gained a better understanding of how the Board was able to take the decision to stop the manufacturing and sales of these munitions.

The **National Express** AGM was, again, highly contentious this year. The Teamsters had proposed a shareholder resolution calling for an independent review of North American school bus operations that was not included on the AGM ballot. At the AGM, the Company advanced various arguments as to why this shareholder resolution had not been included in the AGM agenda. The LAPFF Chair, Cllr Kieran Quinn, asked for clarity from the Company on the particular reasons for failing to accept the resolution this year. This has raised a significant issue about the requirements for co-filing, which LAPFF will follow closely.

LAPFF picked up on executive remuneration at the **Standard Life** AGM this year, with Cllr Barney Crockett querying the bonus payments made to the former Chief Executive whilst on gardening leave. The Chairman, Sir Gerry Grimstone, confirmed that his payments were in line with the terms of his contract. Concerns over the incoming Chief Executive's pay, despite the fact that he voluntarily reduced the ceiling on his long-term incentive payments from 500% to 400%, contributed to a vote of 22.3% against the remuneration report. In addition, LAPFF issued a [voting alert](#) against the remuneration report at WPP, which was followed by a [press release](#). LAPFF's position was reported extensively in national press, as set out in the 'Media Coverage' section of this report. Remuneration was also raised by Cllr Rose at the **RBS** AGM, in asking to what extent particular issues of concern had been taken into account in devising the CEO's pay package. The Company's response was, in part, that shareholders had overwhelmingly supported the pay policy in 2014. At the **G4S** AGM, Cllr Mukesh Malhotra queried the link between remuneration and poor contract performance. The Chair stated that a range of financial and non-financial factors are taken into account when calculating pay, and that the Company's current pay levels are considered necessary in order to attract high quality candidates.



## RELIABLE ACCOUNTS

LAPFF has continued to apply pressure at an EU level to ensure that IFRS 9 is not endorsed until it appropriately reflects the correct legal position on the 'target' of the true and fair view test (i.e. assets, liabilities, financial position and profit or loss), and the 'purpose' of the accounts (creditor and shareholder protection).

In May, the Economic and Monetary Affairs Committee (ECON) of the European Parliament correctly flagged all of the problems that LAPFF has been highlighting with the criteria that the European Financial Reporting Advisory Group (EFRAG) has applied in endorsing IFRS. It is LAPFF's view that whilst EFRAG's amended endorsement advice (issued in November 2015) now superficially refers to the appropriate targets of the true and fair view, it fails to take these targets into account more systemically and

continues to entirely overlook the appropriate purpose of the accounts. ECON's report will go forward as a resolution to the European Parliament for an affirmatory vote.

LAPFF has also been in dialogue with Lord Hill, EU Commissioner, challenging the position adopted by EFRAG in endorsing IFRS 9. Lord Hill has agreed that the IFRS endorsement criteria does need to cover the purpose of shareholder and creditor protection, and that the relevant legal test is the 'true and fair view of the assets, liabilities, financial position and profit or loss'. However, he continues to hold that EFRAG has appropriately applied the criteria in its endorsement advice on IFRS 9. LAPFF has sent a follow up letter to Lord Hill challenging this position.

## HOLDINGS-BASED ENGAGEMENT

This year, LAPFF attended the **Unilever** AGM to find out more about the company's implementation of the 'Unilever Sustainable Living Plan', which it introduced in 2010. Unilever's efforts to integrate sustainability throughout its business model are very rare in the UK, and have attracted a lot of positive intention.

## PROMOTING GOOD GOVERNANCE

A meeting with Global Witness, a non-governmental organisation based in London, gave a better understanding of their research on corruption and corporate transparency. In particular, these discussions related to national investigations into how Shell obtained rights to 'OPL 245', an oil field in Nigeria.

At a recent Shell SRI event, LAPFF asked the Managing Director of The Shell Petroleum Development Company of Nigeria (SPDC), Osagie Okunbor, whether the Company was concerned that the Nigerian government might revoke its OPL 245 licence, following these allegations. Mr Okunbor said there was no evidence to suggest this was the case. LAPFF has sent a letter to Mr Okunbor on this issue, asking for an engagement meeting.

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

LAPFF continued its focussed engagement on carbon risk this quarter. Mr Greenwood attended the BP AGM and Shell UK shareholder meeting to follow-up on implementation of last year's shareholder resolutions. In response to the question on what BP could do to make carbon pricing more effective, the BP Chair reaffirmed a commitment to a carbon price and its membership of the World Bank Leadership Coalition as evidence of this. Meanwhile, at Shell the response to Mr Greenwood's question on carbon pricing was that the Company has been advocating for a carbon price for 15 years and will



continue to advocate on this with governments, including in the UK. The CEO made it clear that the Company will only invest in carbon, capture and storage (CCS) if there is a clear carbon price.

Attending the **Rio Tinto** AGM, Mr Barton proposed the strategic resilience resolution and asked if certain reporting elements could be addressed even more directly in the Company's presentation of its business strategy. Jan du Plessis, the Chair, noted that it was not just about risks but also opportunities for the business and gave several examples. For example, energy comprises about 30% of the costs for aluminium, and with an 80% hydro-electric supply, this gives a competitive advantage.

CLlr Simon attended the AGMs of **Glencore** and **Anglo American**, to support the shareholder resolutions co-filed this year. At Glencore, the strategic resilience resolution took centre stage, with the Board welcoming it, and responding to questions on operational emissions, carbon pricing, stress-testing the portfolio and thermal coal. As a follow-up to this engagement, LAPFF also attended Glencore's SRI day in London, in June. At Anglo American, LAPFF asked how the Company planned to incentivise carbon reductions through pay policies and practices. Positively, the Board offered an engagement meeting to discuss these issues in the run up to the vote on remuneration policy in 2017.

The Shell SRI day in May provided an opportunity to hear from the Company in more detail on how it is preparing for the low carbon transition. Several Shell representatives commented on the significant change over the past year, fuelled by COP 21 and the shareholder resolutions, in approaches to carbon risk and how more companies in the industry are now recognising the need to respond to this. The Company emphasised again its strong belief that carbon pricing needs to be introduced in order to effectively curb carbon emissions, and also stressed its own switch towards natural gas, a 'cleaner' fuel. To continue its engagement with the Company on these issues, LAPFF was one of the signatories to an investor statement that was presented at the Shell AGM in May. This statement commended the Company on its efforts to date, but urged it to continue to push itself further in a commitment to annual reporting on the resilience of the Company's business model to climate change.

LAPFF also signed a letter sent to **ENI**, in May, on strategic resilience, asking the ENI Chair and CEO directly for a public commitment to reporting against the five main 'asks' of the resolutions filed at oil, gas and mining companies over the last two years. This letter takes the same approach as that sent to Total in March, which also received a highly positive response. Following the letter, the Company released its [Sustainability Report](#) with an enhanced section on climate change.



In addition, LAPFF has actively encouraged member funds to make [public declarations of support](#) for strategic resilience resolutions at [Exxon](#) and [Chevron](#) this quarter. At both AGMs, shareholder resolutions called on the Companies to publish annual assessments of long-term portfolio impacts of public climate change policies. These resolutions gained [record support](#), with 38% of voting shareholders supporting at Exxon and 41% at Chevron. In addition, LAPFF encouraged support for another shareholder resolution at Chevron, which asked the Company to increase the total amount of capital distributions, given the climate change related risk of stranded carbon assets.

LAPFF has also continued to engage with the Financial Reporting Council (FRC) on how to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports. Led by Sarasin & Partners and supported by ClientEarth, this engagement aims to set out a pathway to encourage the FRC to be proactive in this area.

Aligned to this, LAPFF supported [a position paper on climate risk reporting](#) which calls on companies to assess and report their climate-related risks within their annual report in the interests of prudent and long-term capital stewardship. In many jurisdictions, to do so is already a requirement for listed companies and the paper sets out why companies and regulators need to do more to ensure that such requirements are properly implemented.

In May this year, LAPFF also submitted a consultation response to the Task Force on Climate Disclosure's Phase I Report. LAPFF's response set out its view that there should be a forward-looking focus on detailed quantitative and qualitative reporting, supported by additional narrative where necessary, across five elements: operational emissions; strategic resilience; research and development; the governance of company policy implementation on climate change and key performance indicators on incorporating the carbon transition into the business model; and public policy. Members can view LAPFF's response [here](#).

## NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

**LAPFF meets with ShareAction:** The LAPFF Chair, Cllr Kieran Quinn, had a positive meeting with representatives from ShareAction to discuss issues that both organisations are interested in, and to better understand each other's work.

**Two Degrees of Change:** This event explored ways of working collaboratively and practically to manage the investment implications of global warming beyond the energy sector.

**'Business and human rights - A five step guide for company boards':** The launch of a new report commissioned by the Equality and Human Rights Commission and authored by Shift, which seeks to assist companies in complying with the UN Guiding Principles on Business and Human Rights.

**'Strategic Litigation on Modern Slavery in Global Value Chains':** A discussion hosted by the University of Notre Dame Law School, on how modern slavery in supply chains can be curbed.

**Living Wages in the Supply Chain:** This event showed that there has been limited progress in dealing with living wages in the supply chain. Living wages need to be seen and understood in the broader context of human resources management to make headway, which aligns with LAPFF's Human Capital Policy.

**Share Action Tax Event:** This event illustrated that tax is becoming a huge issue for investors, and that simple legal compliance is no longer deemed sufficient.

**PRI Fiduciary Duty Event:** A three year project on fiduciary duty is being launched this year. Its aim is to publish a roadmap for full integration of ESG into fiduciary duty and to work with investors and governments to clarify the content of fiduciary duty.

**Cyber Security and Scope: Protecting and unlocking the value of company data:** An event organised by UKSIF to explore the risks and opportunities that data presents to business.

## MEDIA COVERAGE

### Accounting standards

Investment & Pensions Europe: [LAPFF welcomes EC concession on bank accounting concerns](#) (20 May 2016)

Financial Times (Letters): [Accounting rules that put capital protection in peril](#) (18 May 2016)

Investment & Pensions Europe: [Pressure mounts on IFRS foundation, international standards](#) (9 May 2016)

### Remuneration

City A.M.: [More pressure on Martin Sorrell over £70.4m pay package ahead of WPP's AGM](#) (7 June 2016)

Herald Scotland: [Shareholder revolt over WPP chief's £70m pay package grows](#) (7 June 2016)

Pensions Age: [LAPFF tells members to vote down pay packet for WPP's Sir Martin Sorrell](#) (7 June 2016)

Reuters: [UK pension fund group asks members to reject Sorrell's pay](#) (7 June 2016)



Guardian: [Vote against Sorrell pay award, urge pension fund advisers](#) (6 June 2016)

Independent: [WPP boss Martin Sorrell to face pay package opposition from a pension fund group](#) (6 June 2016)

Times: [Sorrell runs into a storm of anger over £70m pay package](#) (6 June 2016)

BBC News: [BP shareholders reject chief Bob Dudley's £14m pay deal](#) (14 April 2016)

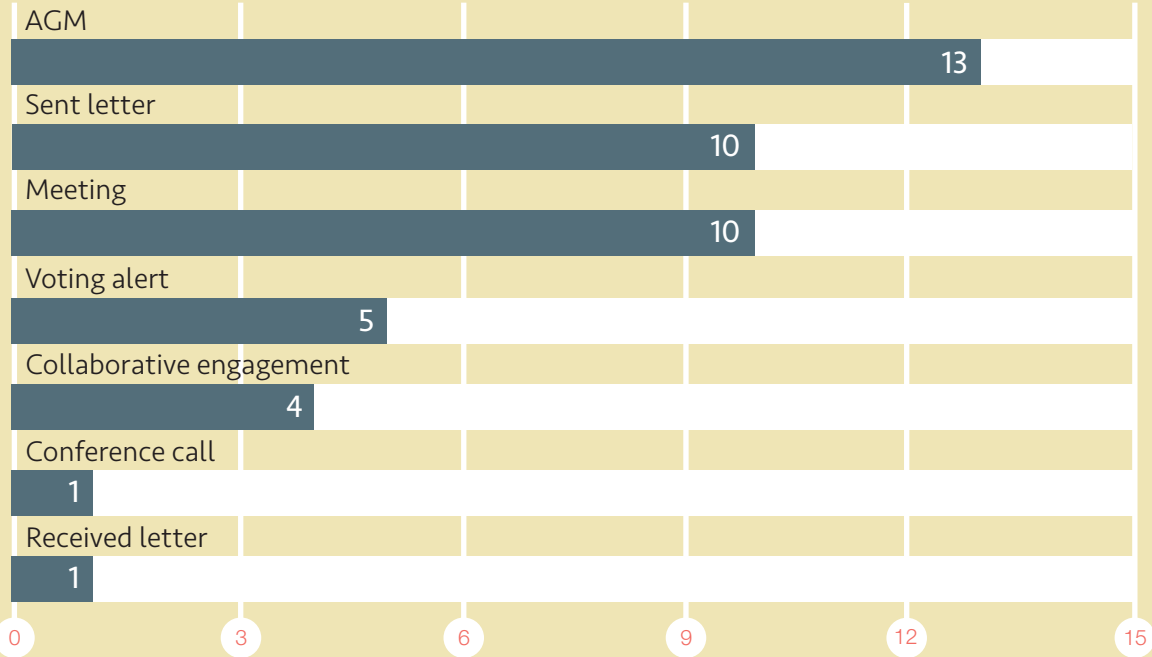
BBC News: [Dudley's pay sends 'wrong message' investor says](#) (14 April 2016)

## Q2 2016 ENGAGEMENT DATA

|    | Company                       | Topics   | Activity/Outcome                        | Domicile       |
|----|-------------------------------|--|---|----------------|
| 1  | <b>Hays</b>                   | Governance (General)/<br>Employment              | Meeting/Dialogue                        | United Kingdom |
| 2  | <b>Centrica</b>               | Climate Change                                   | Meeting/Dialogue                        | United Kingdom |
| 3  | <b>BP</b>                     | Climate Change/<br>Human Rights                  | Meeting/Dialogue                        | United Kingdom |
| 4  | <b>Rio Tinto</b>              | Climate Change                                   | Conference Call/Dialogue                | United Kingdom |
| 5  | <b>Total</b>                  | Climate Change                                   | Sent Letter/Dialogue                    | France         |
| 6  | <b>Singapore Technologies</b> | Human Rights                                     | Meeting/Dialogue                        | Singapore      |
| 7  | <b>BP</b>                     | Climate Change/<br>Incentivising Execs           | Attended AGM/<br>Small Improvement      | United Kingdom |
| 8  | <b>Rio Tinto</b>              | Climate Change                                   | Attended AGM/Dialogue                   | UK/Australia   |
| 9  | <b>Unilever</b>               | Human Rights/Supply<br>Chain Management          | Attended AGM/Dialogue                   | UK/Netherlands |
| 10 | <b>Anglo American</b>         | Climate Change                                   | Attended AGM/Dialogue                   | United Kingdom |
| 11 | <b>Anglo American</b>         | Climate Change                                   | Alert Issued/Substantial<br>Improvement | United Kingdom |
| 12 | <b>Tullow Oil</b>             | Board Composition/<br>Governance                 | Sent Letter/Dialogue                    | United Kingdom |
| 13 | <b>Tullow Oil</b>             | Board Composition                                | Received Letter/Dialogue                | United Kingdom |
| 14 | <b>Shell</b>                  | Remuneration                                     | Meeting/Dialogue                        | UK/Netherlands |
| 15 | <b>GKN</b>                    | Board Composition                                | Collaborative Engagement                | United Kingdom |
| 16 | <b>ExxonMobil</b>             | Climate Change                                   | Alert Issued/Dialogue                   | United States  |
| 17 | <b>Tullow Oil</b>             | Board Composition                                | Attended AGM/Dialogue                   | United Kingdom |
| 18 | <b>Ricoh</b>                  | Employment Standards/<br>Human Rights            | Sent Letter/Awaiting Response           | Japan          |
| 19 | <b>Burberry</b>               | Employment Standards/<br>Human Rights            | Sent Letter/Awaiting Response           | United Kingdom |
| 20 | <b>Unilever</b>               | Employment Standards/<br>Human Rights            | Sent Letter/Awaiting Response           | UK/Netherlands |
| 21 | <b>Carillion</b>              | Employment Standards/<br>Supply Chain Management | Attended AGM/Dialogue                   | United Kingdom |

|    | <b>Company</b>           | <b>Topics</b>                           | <b>Activity/Outcome</b>              | <b>Domicile</b> |
|----|--------------------------|---|--------------------------------------|-----------------|
| 22 | <b>RBS</b>               | Remuneration                            | Attended AGM/Dialogue                | United Kingdom  |
| 23 | <b>Glencore</b>          | Climate Change                          | Alert Issued/Substantial Improvement | Switzerland     |
| 24 | <b>Chevron</b>           | Climate Change                          | Alert Issued/Dialogue                | United States   |
| 25 | <b>National Express</b>  | Employment Standards/<br>Human Rights   | Attended AGM/Dialogue                | UK              |
| 26 | <b>Royal Dutch Shell</b> | Climate Change/Campaign                 | Collaborative Engagement             | UK/Netherlands  |
| 27 | <b>Telecom Plus</b>      | Board Composition                       | Sent Letter/Dialogue                 | UK              |
| 28 | <b>ENI</b>               | Climate Change                          | Collaborative Engagement             | Italy           |
| 29 | <b>Glencore</b>          | Climate Change                          | Attended AGM/Substantial             | Switzerland     |
| 30 | <b>Next</b>              | Employment Standards/<br>Climate Change | Attended AGM/Dialogue                | UK              |
| 31 | <b>Royal Dutch Shell</b> | Climate Change                          | Collaborative Engagement             | UK/Netherlands  |
| 32 | <b>Royal Dutch Shell</b> | Climate Change                          | Attended AGM/Satisfactory            | UK/Netherlands  |
| 33 | <b>Standard Life</b>     | Incentivising Execs                     | Attended AGM/Dialogue                | UK              |
| 34 | <b>National Express</b>  | Employment Standards/<br>Human Rights   | Sent Letter/Dialogue                 | UK              |
| 35 | <b>Total</b>             | Climate Change                          | Attended AGM/Dialogue                | France          |
| 36 | <b>G4S</b>               | Remuneration                            | Sent Letter/Dialogue                 | UK              |
| 37 | <b>WPP</b>               | Remuneration                            | Alert Issued/Dialogue                | UK              |
| 38 | <b>Royal Dutch Shell</b> | Campaign (General)/<br>Human Rights     | Sent Letter/Dialogue                 | UK/Netherlands  |
| 39 | <b>Tullow Oil</b>        | Board Composition                       | Meeting/Dialogue                     | UK              |
| 40 | <b>BP</b>                | Remuneration                            | Sent Letter/Awaiting Resp            | UK              |
| 41 | <b>BP</b>                | Environmental Risk                      | Meeting/Dialogue                     | UK              |
| 42 | <b>Glencore</b>          | Environmental Risk                      | Meeting/Dialogue                     | Switzerland     |
| 43 | <b>Rio Tinto</b>         | Environmental Risk                      | Meeting/Dialogue                     | UK/Australia    |
| 44 | <b>Total</b>             | Environmental Risk                      | Meeting/Dialogue                     | France          |

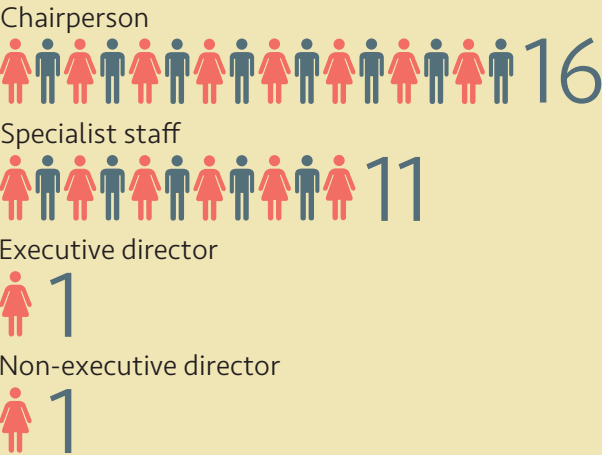
COMPANY ENGAGEMENT ACTIVITIES



COMPANY DOMICILES



POSITION ENGAGED



OUTCOMES





## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council



## Agenda Item: 10 **Draft Quarterly Engagement Report**

### Summary

- The Quarterly Engagement Report text, once approved by Members at the LAPFF Business Meeting in October, will be formatted and include infographics and images, ready for publication.

### Recommendation

- That LAPFF Members review and approve the text of the Quarterly Engagement Report (July to September 2016).

## DRAFT QUARTERLY ENGAGEMENT REPORT

JULY to SEPTEMBER 2016

### [FRONT PAGE HEADLINES]

- Report launch on why a 2°C Business Model is less risky than Business as Usual' for oil companies
- National Grid publishes scope three emissions after LAPFF's request
- LAPFF work with UNITE starts to pay off at Sports Direct
- National Express starts talks with unions

### LOCAL AUTHORITY PENSION FUND FORUM

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 71 public sector pension funds in the UK with combined assets of over £175 billion.

### ACHIEVEMENTS

#### LAPFF and Carbon Tracker (CTI) launch of '[Engaging for a Low Carbon Transition](#)'



In July, LAPFF and Carbon Tracker Initiative launched the report '[Engaging for a Low Carbon Transition](#)' which sets out how a 2°C business model can be less risky than 'business-as-usual' for oil and gas companies. The LAPFF chair, Cllr Quinn, welcomed over sixty attendees and introduced the report author, Paul Spedding, who set out how to determine the degree to which investments are 'two-degree' compliant and the implications for shareholder value. The report gives very practical 'hands

on' guidance on how to respond to 'shibboleths' encountered in engagement with company representatives.

#### National Grid publishes scope three emissions upon LAPFF's request

In 2014, LAPFF attended the National Grid AGM and raised the issue of the Company reporting its Scope 3 emissions, or emissions stemming from the Company supply chain. At the time,

National Grid said this was an interesting question that no other investor had inquired about. LAPFF inquired about this again at the 2015 AGM and was told that the Company would likely publish this data within the year. By the 2016 AGM, National Grid had published Scope 3 emissions data in the annual report. This data is important information to understand the full extent to which a company is contributing to global emissions, so this development is an important step forward.

### **LAPFF work with UNITE starts to pay off at Sports Direct**

LAPFF was one of a number of shareholders and shareholder groups supporting a UNITE-backed resolution at the Sports Direct AGM that called for an independent review of the Company's human capital management strategy. The AGM received a lot of media coverage, and LAPFF's Executive Committee



member, Jane Firth, spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live. At the AGM, most investors focused on replacing Keith Hellawell as Chair, but in the aftermath, the focus has been on the shareholder resolution. The latest development is a promise from Sports Direct that it will replace its lawyers, RPC, as the party to conduct the next independent review of workplace practices and corporate governance. It remains to be seen whether this promise is kept, but oversight of employee management seems to be moving in a better direction.

### **National Express starts talks with unions**

For the last three years, LAPFF has either supported shareholder resolutions with National Express requesting an independent assessment of labour conditions in the Company's US subsidiary, Durham School Services, or individual LAPFF funds have co-filed this resolution. When the Company refused to accept the resolution on this year's AGM ballot, there was some frustration on the part of LAPFF and the unions. However, LAPFF has since learned that National Express has been speaking to the unions about this situation. This development comes alongside a US Federal Court decision that found a union organising campaign in Santa Rosa, Florida to have been legitimate. National Express has now said it will accept this ruling and will bargain collectively with the union at the Santa Rosa site. A number of similar rulings have been made against the Company in the past couple of months.

## COMPANY ENGAGEMENT

### ENGAGEMENT TOPICS



## PEOPLE AND INVESTMENT VALUE/EMPLOYMENT STANDARDS

In addition to hosting the AGM, **Sports Direct's** Deputy Executive Chairman, Mike Ashley, led a walk-through of the Company's Shirebrook facility for press and investors. Participants got to see the warehouse floor and the controversial security check workers go through to enter and exit the warehouse. Mr Ashley continually emphasised the size of the facility and how hard it is to manage such a large operation. Mr Ashley and the Sports Direct Board then hosted a meeting with investors to answer further questions. At one point, both the Chairman, Keith Hellawell, and Mr Ashley left the room for an extended period without explaining why they had left. At the end of the session, a Sports Direct employee stood up to sing the praises of the Company. Overall, the day had a very contrived feel.

Following the **SSE** AGM, LAPFF also met with Helen Mahy, a non-executive director and SSE's Director of Sustainability, Rachel McEwen, to discuss the company's human capital management approach. SSE has been cited in a number of circles for having a good approach to human capital management. Unlike most other companies, it has also developed a methodology to quantify how much value SSE staff contributes to the business. This methodology suggests that SSE's staff is its second largest asset – behind windfarms. Based on the insightful conversation, LAPFF has invited Ms McEwen to speak at the LAPFF conference.

LAPFF also continued with its engagement to promote women on boards, having meetings with **Weir Group, Tullow Oil** and **Telecom Plus**. Weir Group showed itself to be a leader in the field, with very proactive approaches to managing diversity and a critical approach to Chairs who stand in the way of this. Tullow Oil and Telecom Plus candidly discussed some of the challenges they face in achieving a more diverse board and workforce but Tullow Oil, in particular, was very open to further engagement to seek to improve in this area.

LAPFF also proposed that the Investor Group of the 30% Club submit a letter to the FT calling for increased action with companies on reaching more gender diverse boards and praising Halfords in this regard. Published in early August, it was followed by a response from Sir Philip Hampton and Dame Helen Alexander, Chair and Vice Chair of the 'Women on Boards Review' supporting the Investor Group's efforts to promote stronger diversity at companies and calling for other stakeholders to join the action.

In total, LAPFF attended eight AGMs this quarter – **Sainsbury, BT, British Land, SSE, Vodafone, National Grid, Vedanta** and **Sports Direct**. At least four of these, Sainsbury, BT, SSE and Vedanta, have led to further engagements with the companies. It remains to be seen whether Sports Direct keeps its promise to engage with LAPFF, given at the 2016 AGM, after many years of the Forum being unable to secure a meeting with board members. Cllr Richard Greening asked about Vedanta's human rights practices at the AGM. While the Company has a poor human rights record, its human rights policy guidance appears to be quite sound. It will be interesting to see if this leads to a turnaround in Vedanta's human rights practices.



Given that the above AGMs took place just after the Brexit vote, there were a number of Brexit-related questions asked of the respective company boards. The issue of free movement of workers was raised on a number of occasions by companies, for example, at the BT AGM the Chairman expressed his worry that a restriction on this movement would affect the Company's talent base and ability to execute its contracts on behalf of customers.

## RELIABLE ACCOUNTS

LAPFF was in the media in September for its latest round of letters to the [FTSE350 on reliable accounting](#), which urged FTSE350 Chairs to disregard the Financial Reporting Council (FRC)'s guidance on accounting standards. A Freedom Of Information request revealed that although the FRC had made public efforts to suggest that the UK Government concurred with the FRC position, it hadn't. These letters were covered extensively by national press.

## HOLDINGS BASED ENGAGEMENT

Following attendance at the Unilever AGM, Cllr Doug McMurdo of the LAPFF Executive met with Andrew Stephen and Clare Cavana of **Unilever** to discuss the Company's business model and Sustainable Living Plan. Unilever has been held up in many quarters as a leader in integrating environmental, social and governance issues into its business model and strategy. This meeting led to a further meeting on tax and LAPFF looks to have progressed in establishing an engagement relationship with Unilever.

### M&A engagement gets underway with Rentokil

LAPFF has recently issued a report setting out issues investors should consider in evaluating companies' approaches to mergers and acquisitions. Using elements of the approach set out in the guide, Cllr Toby Simon met with representatives of Rentokil Initial, which has a reputation for doing mergers and acquisitions well, in order to learn from best practice and to assess performance in line with LAPFF guidance. Feedback from Rentokil was extremely positive, and LAPFF will look to engage with other companies to test the guide further.

## TAX

LAPFF, with consultant, Richard Murphy, met **Sainsbury** to hear about the company's approach to tax risk and governance. Mr Murphy's assessment is that it would not take much for Sainsbury to qualify for the FairTax Mark. The Company's policy statement and reporting on tax havens is good, but there could be further reporting on country-by-country tax disclosure, and on how the Company ensures it has not engaged in tax avoidance. LAPFF Executive member, Cllr Doug McMurdo, also went with Mr Murphy to meet Janine Juggins of **Unilever** about tax.

In addition to the company meetings on tax, on the back of its own letter to the company, LAPFF has co-signed a letter with other investors to **Alphabet**, parent company to Google, requesting



further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.

## PEOPLE PAY AND INVESTMENT VALUE

In the run-up to binding votes on remuneration policy at most companies' 2017 AGMs, LAPFF has maintained a focus on executive pay policies and how companies apply them in practice.

In 2015, much of LAPFF's engagement with **BP** focused on the five elements of the Company's strategic resilience to climate change. One of these, remuneration, has surfaced as a big issue for BP during 2016, and following Ian Greenwood's attendance at the BP AGM and media comments on the Company's approach to remuneration, LAPFF held a meeting with BP Chair, Carl Svanberg, to discuss concerns. Whilst it is clear that a large portion of the remuneration this year was attributed to pension contributions, LAPFF stressed that BP's disclosure should improve so that the composition of pay was more transparent for shareholders to analyse. Mr Greenwood also encouraged BP to do more to 'stress test' its pay before finalising it, to assess how shareholders will react, particularly in a difficult financial environment where workers are being made redundant.

At the **British Land** AGM, Cllr Doug McMurdo noted that the existing remuneration policy, allows for granting of a high level of awards and a longer notice period on recruitment. He asked the Chair if the company did not consider the quality of British Land's brand and internal culture should be sufficient to attract high calibre candidates without such inducements. The Chair noted the wish to keep flexibility in being able to attract and recruit staff in senior positions, and that the company should be able to compensate an individual for loss where they have to forego pay at a previous employer.

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with **BP** and **Anglo American** in the last quarter. The utility, **SSE** is one of the largest UK emitters, and Cllr Cameron Rose attended the AGM to ask about the Company's approach to carbon capture and storage (CCS) in light of the government's failure to fund further efforts around this technology. The Company was disappointed with the government's position but still sees CCS as a technology to consider in future.

Cllr Toby Simon met with Anglo American following attendance at the Company's AGM and to follow up on elements of the strategic resilience shareholder resolution. Cllr Simon met with Anglo Chairman, Sir John Parker, as well as Head of Social Performance and Engagement, Jon Samuel, and Investor Relations Manager, Ed Kite. Anglo has had a difficult time over the last year, first seeing its share price drop precipitously then rise significantly just prior to the Company's AGM. Anglo has been in the process of disposing assets and re-organising the business, so it was interesting to discuss these developments as well as how sustainability concerns were being considered while this structural overhaul continues.

At the **National Grid** AGM, Cllr Cameron Rose noted the company's statement that the biggest impact it could make to the environment was by connecting low carbon and renewable energy to the network and asked what were the biggest challenges faced in doing this. The CEO, John Pettigrew commented on how the network needs to operate which will be very different from how it's been done in the last 50 years. It will entail encouraging demand-side response and also starting to introduce fast frequency and battery responses. He also noted that the company is working much more closely in the distribution networks with providers of renewables, particularly solar and wind with 9 gwatts of additional generation.

In an initiative coordinated by the Investor Network on Climate Risk, LAPFF joined other investors in writing to the US Securities and Exchange Commission (SEC) relating to improving reporting of material sustainability risks in issuers' SEC filings. In particular it flagged up the 2010 guidance on climate change-related disclosure, on which very few comment letters have been issued by the SEC and no enforcement actions taken for failure to meet these requirements.

## **MEDIA COVERAGE**

**Quarter Highlight:** A Russian piece about LAPFF's concern with IFRS and the FRC's guidance - <http://gaap.ru/news/151262/> , with [English translation](#)

### **Sports Direct**

Channel Five interview with Jane Firth, <https://www.youtube.com/watch?v=XtTQJGp8qo8>

Five Live interview with Jane Firth at 1h 10min, <http://www.bbc.co.uk/programmes/b07rkqgmz>

Yahoo Finance, [Investor group rebukes Sports Direct, wants review of management](#) (25 Aug 2016)

International Business Times, [Sports Direct's working practices called into question by shareholders' group](#) (24 Aug 2016)

LocalGov, [Council pension fund supports working practices review of Sports Direct](#) (24 Aug 2016)

The Guardian, [Sports Direct faces more pressure over working practices review](#) (23 Aug 2016)

## Accounting standards

CCH Daily, [Pension funds group slams FRC dividends advice as 'defective'](#) (6 Sep 2016)

Accountancy Age, [LAPFF urges FTSE 350 companies to disregard the FRC](#) (2 Sep 2016)

The Times, [Pension schemes attack accountancy watchdog](#) (1 Sep 2016)

Economia, [LAPFF steps up row with FRC over true and fair](#) (1 Sep 2016)

BBC News, [Adopt Swedish-style shareholder committee on pay, says MP](#) (1 Sep 2016)

IPE, [LAPFF urges FTSE 350 firms to disregard 'defective' accounting advice](#) (1 Sep 2016)

**LAPFF/Carbon Tracker report – [Engaging for a Low Carbon Transition](#)**

IPE, [Report offers hope for energy companies](#) (8 Aug 2016)

## NETWORKS AND EVENTS

A summary of some of the events and meetings attended by LAPFF representatives during the quarter:

**Carbon Tracker/LAPFF Report launch:** In conjunction with Carbon Tracker (CTI), LAPFF launched a report that presented an economic and financial justification for moving away from investment in coal and gas. LAPFF representatives also attended a CTI event where the risk implications for fossil fuel demand were explored.

**Presentation to East Sussex Pension Committee:** LAPFF representatives heard a petition on fossil fuel divestment put to the Committee and spoke about LAPFF's recent work on carbon management, executive remuneration, tax and human capital management.

**Omnia Strategy on gender pay reporting:** A LAPFF representative participated in this round-table co-chaired by Cheri Blair of Omnia and Ann Francke of the Chartered Management Institute to evaluate the new gender pay reporting rules and what they mean for business.

**Client Earth/ShareAction Fiduciary Duty Event:** Speakers considered how pension fund trustees can take into account financial and non-financial factors in their investment decisions.

**Sports Direct briefing:** TUSO and UNITE held a briefing for investors to explain the human capital shareholder resolution that garnered 53% support from independent shareholders at the AGM.

**Board Intelligence Seminar:** Participants discussed the FRC's research into culture with the Chartered Institute of Internal Auditors.

**ShareAction Air Pollution and Pharmaceuticals events:** Discussions on air pollution as a problem from both health and economic perspectives, with associated climate change

implications and on the unsustainable business model of global pharmaceutical companies highlighted by poor pricing strategies.

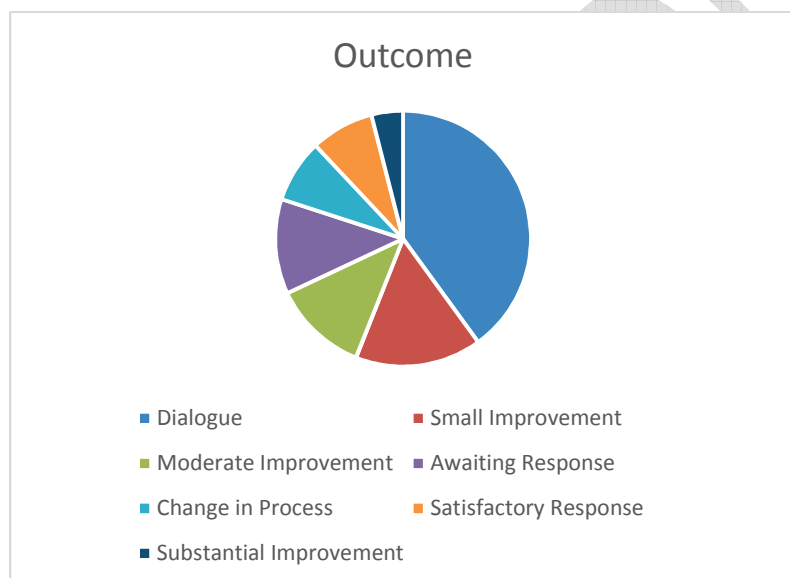
## COMPANY PROGRESS REPORT

21 Companies engaged over the quarter

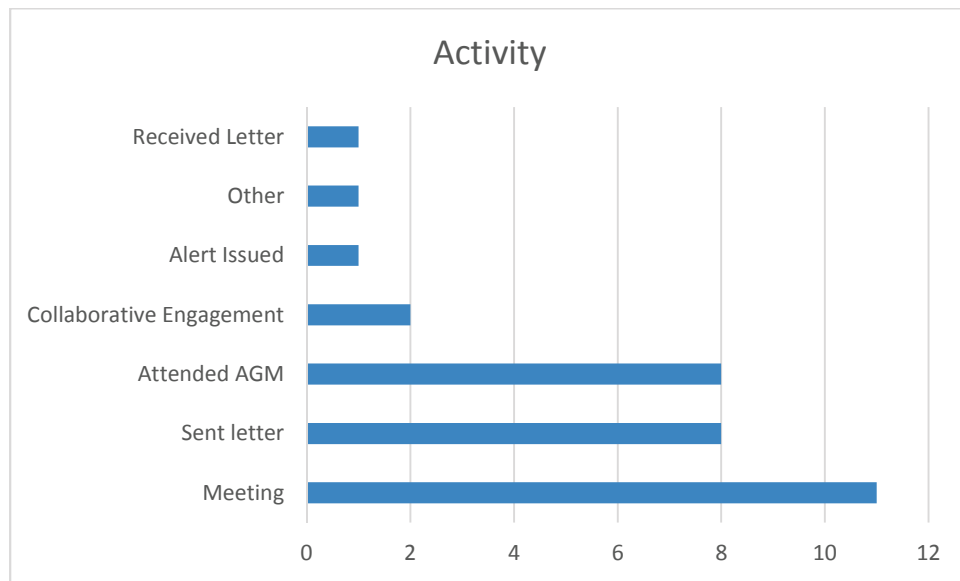
| Company                             | Topic                                      | Activity                    | Outcome                    |
|-------------------------------------|--|-----------------------------|----------------------------|
| Anglo American                      | Climate Change/<br>Governance<br>(General) | Meeting                     | Change in Process          |
| BP                                  | Remuneration                               | Meeting                     | Meeting                    |
| British Land                        | Remuneration                               | AGM                         | Dialogue                   |
| BT                                  | Governance<br>(General)                    | AGM                         | Dialogue                   |
| Euromoney<br>Institutional Investor | Board Composition                          | Sent letter                 | Awaiting Response          |
| G4S                                 | Human Rights/<br>Governance                | Collaborative<br>Engagement | Dialogue                   |
| Google                              | Governance                                 | Sent Letter                 | Awaiting Response          |
| M&S                                 | Climate Change/<br>Supply Chain            | Meeting                     | Dialogue                   |
| National Express                    | Employment<br>Standards                    | Meeting                     | Small Improvement          |
| National Grid                       | Climate Change                             | AGM                         | Substantial<br>Improvement |
| Rentokil                            | M&A/ Governance                            | Meeting                     | Satisfactory Outcome       |
| Rolls-Royce                         | Governance/<br>Environment                 | Sent Letter                 | Meeting Set                |
| Sainsbury                           | Tax/ Governance                            | Meeting                     | Small Improvement          |
| Sports Direct                       | Employment<br>Standards                    | Alert Issued/ AGM           | Moderate<br>Improvement    |

|                |                                      |             |                                |
|----------------|--------------------------------------|-------------|--------------------------------|
| SSE            | Climate Change/<br>Employment        | AGM         | Dialogue                       |
| Telecom Plus   | Board Composition/<br>Climate Change | Meeting     | Small Improvement              |
| The Weir Group | Board Composition/<br>Remuneration   | Meeting     | Satisfactory Outcome           |
| Tullow Oil     | Board Composition                    | Sent Letter | Engagement<br>Completed        |
| Unilever       | Human Rights/ Tax                    | Meetings    | Small Improvement/<br>Dialogue |
| Vedanta        | Human Rights                         | AGM         | Dialogue                       |
| Vodafone       | Governance<br>(General)              | AGM         | Dialogue                       |

## COMPANY ENGAGEMENT OUTCOMES



## ENGAGEMENT ACTIVITIES



**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****LGC INVESTMENT SUMMIT 2016****Purpose of the Report**

1. To report on the LGC Investment Summit 2016.

**Information and Advice**

2. The 28<sup>th</sup> LGC Investment Summit was held on 8 to 9 September 2015 at the Celtic Manor Resort, Newport. 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 Mayor Kate Allsop, Alan Woodward (GMB) and Keith Palframan (Group Manager – Financial Strategy & Compliance).

***Day One - Chaired by Mike Ellsmore, Chair of CIPFA Pensions Panel.***

3. ***New Approach to Investment Strategy (Chris Hitchen, Chief Executive, RPMI and Railpen Investments)***

Chris is managing an organisation that is similar to the expected structure of Pooled funds and he set out some of the issues he has dealt with during his time in charge.

He stressed the importance of being clear on your aims (his mission statement is "To pay pensions securely, affordably and sustainably".) He stressed the education journey they have been on with their employers - now they get employers to "articulate their objectives" (growth, income or protection, and liquidity requirements) as opposed to "choosing asset types".

He also reviewed some of their recent work on costs which highlighted

- "Hidden" investment costs were 3 times the size of cheques written
- 20% of assets gave rise to 2/3 of costs
- Costs matter more when returns are low

4. ***Investment Solutions Vol. 1 – fixed income and credit (David Buckle of Fidelity, Stephen Marsh of T Rowe Price and Stephen Thariyan of HGI)***

David kicked off this session providing initial background to recent events and current market conditions. This included the challenges that funds face in the current low yield environment with many global fixed income markets offering negative yields. However, he also set out the potential opportunities if investors are willing to look beyond the traditional



mainstream areas of the markets. This included Asian bond markets as one specific area that UK investors have tended to ignore and which he believes offers good value.

Stephen M then outlined how he believes investors can generate attractive returns in this climate through focussing on income based assets that generate attractive coupons but also active management to manage risk. Their approach was to promote a hedge fund style strategy to access fixed income markets that can capture the divergence that exists across global markets.

Stephen T outlined some of the challenges and uncertainties facing investors. However, he demonstrated how some credit markets have strengthened in terms of quality of credit and depth of market. He set out a yield curve for fixed income which allowed investors to capture the higher yields they needed by investing across a wider range of credit classes.

5. ***Managing assets and liabilities in the new pooling structures (Andy Green, CIO, Hymans Robertson)***

Andy started out by looking at the progress of the LGPS as a whole since 2013, highlighting how the strong asset returns over the last three years have, on a like for like basis, improved the funding position of the scheme as a whole. However, he went on to show that when the gloomier economic outlook is taken into account the average return that Funds require to target full funding over the same time horizon has remained the same.

Andy reminded us that most LGPS Funds are very reliant on equities and other assets dependent on global growth to drive that return. He proposed that these growth assets have a potentially limited upside over the medium term and considerable downside risks. He drew the attention of Funds to the predictable and reasonably attractive returns available on income asset classes such as high yielding debt, emerging market debt and property: these may enable Funds to still meet their required return target while running considerably less downside risk. He also noted that the very low interest rate environment should be favourable in creating more opportunities for Funds to invest in infrastructure projects.

Andy concluded by looking at the challenges faced by investing through the new pooling arrangements in England & Wales. He highlighted the importance of clear investment beliefs held at Fund level in this structure. Finally, he noted that in a low return environment, the need to achieve whatever marginal gains are available through cost saving is even stronger.

6. ***Break out - focus 1 – finding the frontier (diversification) (John Roe of L&G)***

John set out how he approaches allocating to investment markets including the role of diversification, the impact of asset allocation decisions and how he believes cheap methods of accessing markets can be more effective than active management. He then outlined how the approach could be applied to the LGPS to reshape investment strategies and improve outcomes with a focus on controlling investment costs.

7. ***Break out – focus 2 - maximising impact of asset allocation in pooled world (Matt Bullock of Wellington)***

Matt gave insights into diversification of risks and whether investors are as diversified as they think against different economic scenarios. He referred to modelling that they have done for their funds and then extended the presentation into the construction of pools - will the managers chosen by pools give the desired diversification for funds?



8. **Break out - focus 3 – investing to meet cash flows (Liam Kelly of Insight)**

A common theme from the conference was the shifting cashflow profile of the LGPS and the need to meet net outflows from investments. Liam outlined the importance of managing the timing of growth asset sales and the risks of volatility in some asset classes in a cashflow negative environment. He then discussed the importance of contractual cashflows and how to build a strategy to generate required yields: this would be by investing across a range of credit asset classes and also meet ongoing income requirements.

9. **Break out - focus 4 – harnessing the power of factors (Dimitris Melas of MSCI)**

Dimitris outlined the work that MSCI had done in looking at the impact of different factors on investment outcomes. The question for investors remains whether active managers are replicating factor investing or if factor based index approaches are an efficient way of capturing returns within equity markets.

10. **Info exchange - large pools and governance**

Part 1 - Gavin Ralston from Schroders covered the features of big public funds around the world. The differing approaches of two (Alberta and Victoria) were particularly highlighted. The importance of asset allocation within these arrangements was highlighted as a driver of investment returns. Gavin also stressed the importance of schemes having a clear mission and highlighted the impact of “investment excellence” on deficit recovery.

Part 2 - Jeff Houston from LGA: a quick update on pooling developments covering the changing political influence given the new government (shift to DCLG control? more constructive dialogue re infrastructure?), a timeline update and governance issues.

The delegates then broke up into groups based on their proposed pools, and debated five questions before nominated group representatives fed back briefly. The responses from each pool were very consistent.

Questions were - should pools have asset allocation capabilities (yes), what is the role of elected members (oversight of pool) and Local Pension Board (oversight of fund), will they invest in other pools (possibly, if deemed appropriate), any infrastructure they won't invest in (none if it delivers the required returns).

**Day Two - Chaired by Nicola Mark, Norfolk Pension Fund.**

11. **Investment solutions vol 2 – growth assets and alternatives (Bill Landes, CTI and Vis Nayar, HSBC)**

Bill's presentation set out the basics of alternative beta and how it can be used to take advantage of systematic risks and has diversification value. He then outlined how the strategy could be applied in a variety of client solutions.

Vis's presentation mentioned that smart beta should be customised to the investors' needs and that the investor needs to ensure that their smart beta is what they sought and that it has not become “polluted”. This included ways of incorporating ESG beliefs into a strategy without resulting in unintended portfolio biases.

12. **LGPS investment framework – evolution, revolution or devolution? (Bob Holloway, DCLG)**

This was Bob's final presentation from his current role in DCLG before he leaves to join LGA in October. He updated us on the current status of the new investment regulations - with the Minister over the weekend and hopefully laid in the house in the next few weeks.

He noted that DCLG will not be as well-resourced going forward as it has been previously. He highlighted the important role that the Scheme Advisory Board will have going forward in providing a forum for both employer and member representatives, to develop and agree solutions to LGPS issues and take to ministers.

**13. *Investment solutions vol 3 – the search for income (Martyn Hole, Capital Group and Matthew Bance/Peter Cazalet of UBS)***

In contrast to many of the other sessions Martyn set out the case for equities and how they could be used as a solution to meeting the changing cashflow needs of the LGPS. He set out how dividend focussed equity strategies could both generate higher returns and be used as a source of income.

Peter was another speaker to highlight the potential cashflow challenges facing the LGPS. The problem being how to target growth while meeting short term cash outflows and managing long term liabilities.

Matt then provided some analysis showing the returns required to meet different income levels and how they believe a multi asset solution with a specific income sleeve can both meet the return requirements of the LGPS and also solve the cashflow problem.

**14. *Changes to come in the LGPS world (Councillor Roger Phillips, Chair of LGPS Scheme Advisory Board)***

In this final session, Roger reminded the audience of the environment within which the SAB's work is undertaken (local authority austerity, high levels of scrutiny, etc), before going on to set out the recent work of the Board. He quickly covered:

- The latest on the makeup of the Board and the politicians that they are dealing with.
- Echoing Bob Holloway's earlier talk he suggested that a lack of resource at DCLG is likely to mean more of a role for the SAB (and those who input to it) and others in driving the LGPS forward.
- Cost management – a reminder of the process and the role of the Scheme Advisory Board. Included was an explanation of the two (SAB and HMT) processes and why they are different. The SAB's commitment to (i) keeping costs as measured by the SAB process at the level agreed by the Heads of Agreement, and (ii) ensuring that the yield from employee contributions is achieved. It was also emphasised that bad (or good) investment returns fall outside the processes.
- Deficit management – a comparison of the funding positions of the unfunded and funded public sector schemes. Comments on the changing face of LGPS employers (e.g. recent changes in the education sector). A suggestion that the 2016 valuations look like being "not spectacularly good news". A quick reference to the GAD Section 13 work and a view that funding decisions should be made locally.
- Academy work - why they feel they need to do something and what they are looking for from PwC. In response to a question from the floor, he acknowledged the significance of the academy issue for both LEAs and LGPS funds and then referred to the "open" attitude of DfE and HMT personnel so far.
- Transparency of investment costs – a "template" for reporting based on a Dutch approach is expected to be launched in the next few months

In closing, Roger stressed the importance that he will place on transparency and communication. His aim is that the SAB “will be an asset for the LGPS” by working with all stakeholders to ensure that they can advise the minister wisely, which in turn will mean that the SAB will have more influence in the corridors of Westminster.

## **Statutory and Policy Implications**

15. 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.

## **RECOMMENDATION/S**

- 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

**Report author:**

**Keith Palframan**

**Group Manager – Financial Strategy & Compliance**

**For any enquiries about this report please contact: Keith Palframan**

## **Constitutional Comments**

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

## **Financial Comments (KRP 17/10/16)**

17. 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



## **REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT**

### **PROPERTY INSPECTION 2016**

#### **Purpose of the Report**

1. To report on the recent property inspection.

#### **Information and Advice**

2. The Fund has a significant portfolio of directly held UK commercial property and strategic land opportunities and, as part of the fiduciary duties of members, each year a visit is arranged to inspect a number of these sites. This year's visit took place on 12th/13th October 2016 and was attended by the following members of the Sub-Committee as well as officers of the County Council and representatives from Aberdeen Asset Management.

| <b>Attendees</b>             |                            |
|------------------------------|----------------------------|
| Councillor Reg Adair         | County Councillor          |
| Councillor Mike Pringle      | County Councillor          |
| Councillor Chris Barnfather  | County Councillor          |
| Councillor Sheila Place      | County Councillor          |
| Councillor John Wilkinson    | County Councillor          |
| Councillor Parry Tsimbiridis | County Councillor          |
| Chris King                   | Trade Union Representative |
| Alan Woodward                | Trade Union Representative |
| William Bourne               | Independent Adviser        |

3. Six properties were viewed and the Aberdeen representatives were able to answer questions from the Sub-Committee members. Training was also held on the second day.
4. The first property viewed was Castlewood Business Park, South Normanton. This is a newly developed and very large warehouse facility occupied by Alloga UK and used for the sorting and distribution of pharmaceuticals and controlled drugs. The building has been constructed to a very high specification, including a 12 metre eaves height and 33 loading doors, making it one of the largest properties in the Fund's portfolio.
5. The next two properties were smaller units in Sutton-in-Ashfield and Mansfield, which form part of the Fund's local investment portfolio. Bakkavor Foods Ltd in Sutton-in-Ashfield produces sauces for other food manufacturers, and it is on a long lease, which provides the Fund with a durable source of income. Andrew Page motor factors in Mansfield occupies one of the units at Isabella Court, owned by the Fund, and a representative of the company

gave a short talk on how it operates. As Isabella Court is multi-let, this forms a particular focus for Aberdeen's asset management work, ensuring that tenants are likely to extend their leases.

6. The last property on day one was a currently empty property in Lands Lane in Leeds city centre. It is planned that a change of use can be implemented and that 'A3' (food and drink) businesses will occupy the property.
7. Day two began with training provided by Aberdeen Asset Management. Rachel Aird gave an Economic Overview presentation which highlighted the impact of recent global events on property indicators. Graham Hardie then gave a presentation on the subject of 'Value Investing' wherein he outlined the approach taken by Aberdeen Asset Management in assessing the real value of a property and its likely income stream, and investing on this basis. The opposite approach – buying assets when they appear to be cheap – is a lot riskier and not a long-term strategy suitable for a pension fund. Furthermore, when assets appear cheap, it is usually for a reason yet to materialise. Following this Scott Griffiths gave a transactional update, which highlighted how the 'Value Investing' approach works in practical situations relevant to the fund.
8. Josh Levy from Lambert Smith Hampton then gave a presentation on the Manchester property market success story. Manchester has grown significantly over the twenty years since the IRA bomb, and this it seems has been due to a number of political and commercial factors in which Manchester City Council has been actively involved. The city also benefits from having distinctive areas outside of the centre which act as hubs for cultural and commercial activity. Josh heralded Manchester as the centre for the so-called Northern Powerhouse, but a certain rivalry with Liverpool and Leeds was also acknowledged. How these relations unfold will be determined in the course of time.
9. The first visit on day two was to an industrial unit in Brooke Park, Handforth, Cheshire. This was part of a larger estate owned by the Fund and is occupied by an Aston Martin service centre. Such high quality occupation helps generate a good income stream for the Fund and the current construction of a nearby relief road linking the A6 to Manchester Airport will only serve to make the property more accessible and thereby enhance the Fund's income stream.
10. The final visit was to a Marks & Spencer in Northwich, Cheshire. This too provides a strong income stream on a long-term lease, although it was noted that the surrounding area in the town centre is changing due to the construction of a large area set aside for retail and leisure activity.

## **Statutory and Policy Implications**

11. 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.

## **RECOMMENDATION/S**

- 1) That it be noted that regular property inspections are regarded as an important part of fulfilling members' fiduciary duties.
- 2) That the report be noted.

**Report Author:**

**Ciaran Guilfoyle**

**Investments Officer – Pensions & Treasury Management**

**For any enquiries about this report please contact: Ciaran Guilfoyle**

**Constitutional Comments**

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

**Financial Comments (SRC 17/10/16)**

13. There are no direct 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





**REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT****LGPS CENTRAL ASSET POOL****Purpose of the Report**

1. To provide an update on progress regarding the creation of the LGPS Central Investment Pool.

**Information and Advice**

2. The Sub-Committee has received regular updates on progress with asset pooling within the Local Government Pension Scheme (LGPS) and on the creation of the LGPS Central investment pool. In addition, the Committee's Chair and Vice-Chair and the Council's s151 Officer have been involved throughout the process.
3. The detailed business case for LGPS Central was submitted to the government in July 2016 and follow up calls have been held with the Department for Communities and Local Government (DCLG) and HM Treasury to clarify a number of minor issues. No significant concerns were raised about the submission and a formal response is expected in the autumn.
4. Following a competitive tender exercise LGPS Central has appointed Eversheds as its legal adviser and PwC to provide financial/other advice for the period up to 31 March 2018. Initial workshops have been held with the advisers and this has assisted in reshaping the project plan to enable the pool to be operational by 1 April 2018.
5. Workstreams have been agreed to cover the following key elements:
  - Fund governance
  - Pool governance
  - Target operating model (TOM)
  - Asset Servicer and wider procurement
  - IT
  - CIV vehicles
  - HR & Transformation
  - Communications
6. Each workstream has a lead officer and support from the participating funds. Regular meetings are being held for each workstream with the leads reporting to the Programme Director at least every three weeks.

7. Eversheds are producing key documents for the creation and governance of the pool and these are being reviewed by Browne Jacobson and internal legal teams on behalf of the participating funds. The key documents are:
  - Shareholders Agreement
  - Articles of Association
  - Inter-Authority Agreement
8. The Shareholders Agreement deals with the role of participating authorities as owners of the new operating company and sets out the powers and responsibilities of the Shareholders Forum. The Inter-Authority Agreement establishes a joint committee for oversight of the operating company. This role will be undertaken in conjunction with the Practitioners Advisory Forum, an officer group that will liaise with the operator over pool-wide investment issues. Key appointments to the pool operator will be made by the Shareholders Forum. It is intended that the Chief Executive and Chief Operating Officer are appointed by April 2017 in order to oversee the FCA registration process and ensure that appropriate IT systems are put in place.
9. An away day was held in Chester on 27 September 2016 for Members and officers that are expected to be part of the overall governance structure of LGPS Central. The away day dealt with the legal structure of LGPS Central and the roles and responsibilities of members in their capacity as both shareholder and investor. An advice note from Eversheds is attached to help explain the LGPS Central governance structure.
10. It has been agreed that the Shareholders Forum and Joint Committee will initially have an independent chair and Bob Summers, former Director of Finance at Norfolk County Council and a former Chair of CIPFA Pensions Panel, has agreed to fulfil this role. Once the governance structure has been in operation for a period of time, the arrangements for chairing meetings will be reviewed.
11. A further joint meeting was held on 4 November 2016 in order to finalise the key documents. Monthly briefing notes are being circulated to Committee members in order to keep them informed of the progress and a weblink enabling members to access documentation on the LGPS Central investment pool has been set up.

## **Statutory and Policy Implications**

12. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

- 1) That the report be noted.

**Report Author: Simon Cunningham**

## **Senior Accountant – Pensions & Treasury Management**

**For any enquiries about this report please contact: Simon Cunnington**

### **Constitutional Comments**

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

### **Financial Comments (SRC 17/10/16)**

14. There are no direct financial implications arising from the 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'



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## LGPS Central

### Explanation of LGPS Central Governance Structure

19 October 2016



This advice note has been prepared solely for LGPS Central (and its participating authorities), and unless expressly agreed in writing, we do not accept liability to any other person in respect of the advice provided.

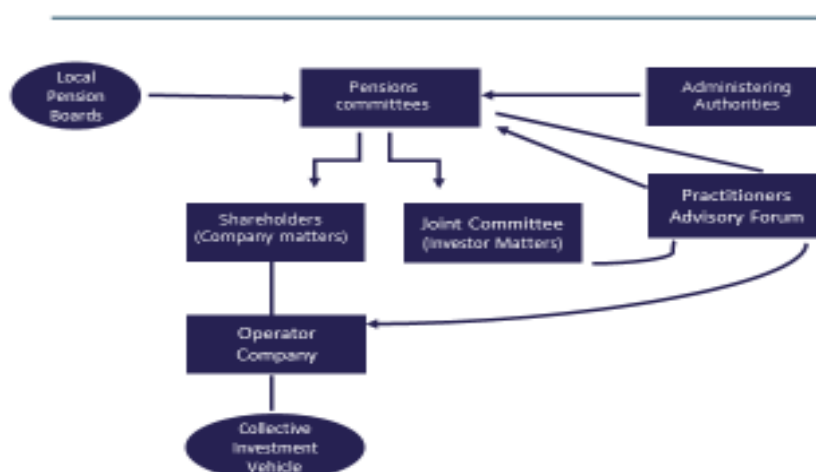
## Detailed advice

### 1. Background

We have been asked to provide a high level summary of the LGPS Central governance structure, in particular setting out the roles and interactions of the key bodies, including LGPS Central Limited, the shareholder representatives, the joint committee and the Practitioners Advisory Forum.

In broad terms the structure is summarised in the following diagram:

### Proposed Governance Structure



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### Joint Committee

- 1.1 The Joint Committee will be the forum for dealing with common investor issues relating to the Operator and the ACS.
- 1.2 Each administering authority will be individual investors in the ACS (and any other pooled vehicles managed by the Operator) and each will have investor rights afforded by the suite of key documents which, in the case of the ACS, are made up of the constitutive deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. These investor rights are embedded in those documents and cover matters including the right to withdraw from the pooled vehicle, investor reporting (including frequency and content) and investor voting rights (including on proposed changes to the pooled vehicle).
- 1.3 We understand that the administering authorities do not want to delegate their actual key decision making powers or investor rights to the Joint Committee. Instead these will be retained for exercise by the individual authorities subject to consideration of any recommendations the Joint Committee may make.

## Explanation of LGPS Central Governance Structure

- 1.4 It is expected the Joint Committee will meet twice a year (with support from the Practitioners Advisory Forum) to discuss and agree a common consensus view on investor issues such as:
- 1.4.1 concerns over Operator service delivery and KPIs,
  - 1.4.2 matters requiring investor approval; and
  - 1.4.3 other Pool related investment issues, for example adopting common approaches to investment policies (for example common social, environmental and corporate governance policies or policies on voting rights).
- 1.5 The Joint Committee would not make binding decisions on these issues but would make recommendations back to each authority (via the Practitioners Advisory Forum) to individually approve.
- 1.6 Given the limited delegation to the Joint Committee, a formal joint committee structure is not the only way this part of the governance structure could be delivered. However, a joint committee structure provides a tried and tested structure that delivers a clear and transparent separation of shareholder matters and investor matters. On the other hand, a formal joint committee structure equals adds a level of bureaucracy, cost and effort which the structure would necessitate. Pros and cons of a joint committee structure are set out below.

### **Shareholder Representatives**

- 1.7 Shareholder meetings will be the forum for dealing with the shareholder rights of the administering authorities as shareholder in the Operator. This is distinct from investor/customers issues dealt with by the Joint Committee.
- 1.8 Certain major decisions (e.g. changes to articles of association, rights in shares, buy-back of shares etc) which would have an effect on the shareholders' rights are usually required, through the Companies Act 2006, to be approved by the shareholders at a general meeting called by the directors of the company. Shareholders can also via a Shareholders' Agreement provide that the company can only take certain actions with their prior approval (such as adopting strategic plan, board changes, entry into/termination of certain key contracts, changes to key employee terms and conditions).
- 1.9 In order to retain sufficient control over the company to address 'Teckal' issues from a procurement perspective, the Shareholders Agreement needs to provide that certain key strategic shareholder decisions will require unanimous approval of all the shareholders before they can be approved at a shareholder meeting.
- 1.10 Meetings of the shareholders are subject to the requirements of the Articles of Association of the Operator, the terms of the Shareholders Agreement and general company law. They are therefore subject to different rules to a Joint Committee meeting (e.g. access to information and voting rules) and for this reason need to be kept separate.
- 1.11 Each authority will be represented at shareholder meetings by an appointed representative of that authority. This may or may not be the same individual that represents the authority on the Joint Committee. It is intended that shareholders will meet quarterly.
- 1.12 Having different individuals at the shareholder level and on the Joint Committee would clearly help to manage conflicts of interest (should they arise) and may assist in retaining clarity of governance functions being carried out. However it would be possible to put in place an appropriate conflicts policy to deal with potential conflicts.

**Practitioners Advisory Forum**

- 1.13 The Forum will be made up of an officer from each administering authority (such as the Section 151 officer or a pension fund officer). The Forum is not a legal entity but a working group of officers. The terms of the Forum will be set out in an Inter Authority Agreement confirming how the Forum will be comprised, operate and be resourced and funded.
- 1.14 As this is a working group of officers, no statutory functions can be delegated to the Forum. The Role of the Forum is:
- 1.14.1 To support the meetings of the Joint Committee and action its recommendations;
  - 1.14.2 To act as a mechanism to facilitate discussions between the individual administering authorities as investors and the Operator; and
  - 1.14.3 To analyse the Pool-wide investment performance of the Operator, including its investment costs, customer service and delivery of wider investor services such as voting and responsible investment. They will also review risk management and compliance arrangements from an investor perspective.
- 1.15 The Practitioners Advisory Forum would not have a formal role at shareholder meetings but could attend to deliver presentations etc.



## Explanation of LGPS Central Governance Structure

### 2. **Pros and Cons Analysis**

#### **PROS OF A JOINT COMMITTEE**

Tried and tested structure used by local authorities to provide joint working arrangements.

Subject to clear and certain public law rules governing the operation of joint committee meetings (even if its actual delegated powers are very limited).

Provide a clear and visible separation of shareholder matters and investor matters (especially if different representatives attend shareholder meetings) which would help to manage conflicts (especially if different representatives were on these two bodies).

Provides openness and transparency from a public access perspective in terms of access to minutes and papers. This would avoid potential criticism that the authorities are not acting in a transparent manner (especially given that shareholder meetings will be private).

Potentially reduces the risk that other meetings (including shareholder meetings) taking place are perceived as being meetings at which collective authority positions are being influenced which should have been subject to rules on local authority meetings.

To the outside world it represents confirmation that authorities are working collaboratively (and are seeking to manage the joint arrangements collectively and consistently). Adoption of a Joint Committee would be a recognition of the changes being made in the way the LGPS pension funds are being managed/invested i.e. collectively and is not simply continuation of business as before.

In the event wider powers do need to be delegated to the Joint Committee in the future (or on an ad hoc basis) there would be an existing structure in place to facilitate this.

#### **CONS OF A JOINT COMMITTEE**

In the absence of the delegation of material administering authority powers, it entails the creation of a formal structure that doesn't make actual decisions and involves additional time and cost.

In this case, the operation of the Joint Committee is more formal and therefore open to public access that it necessarily needs to be.

The costs of operating and supporting a Joint Committee structure will be more expensive than alternative solutions. However, if the Committee only meets twice a year this will be limited.

The different rules covering meetings of shareholders and Joint Committee meetings can cause confusion especially if the representatives are the same individuals and meetings are held consecutively.

The role of the same chair (ideally with an understanding of shareholder meetings and company law) on both bodies will be vital to manage the meetings in the appropriate way.

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