CELEBRATING
25
years

LOCAL AUTHORITY PENSION FUND FORUM
ANNUAL REPORT 2015

Local Authority
Pension Fund
Forum

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CHAIRMAN'S STATEMENT

Councillor Keiran Quinn
Chair of the Local Authority Pension Fund Forum

My third year as LAPFF Chair coincides with a number of benchmarks. 2015 is effectively the 25th anniversary of the Forum's founding. This year also marks the 20th LAPFF conference, so it's a good time to reflect on past achievements as well as more recent developments and progress by the Forum.

From its origins in 1990 with just seven members, LAPFF has grown to its current membership of 65 funds. Since this time last year, we have been joined by Cardiff and Vale of Glamorgan, Hertfordshire, Powys, Strathclyde and Suffolk Pension Funds and I would like to extend my thanks to Forum Officer, Keith Bray, for his work in bringing new members into the Forum.

We were also privileged to welcome new members to the LAPFF Executive Committee – Cllr Paul Doughty of Merseyside Pension Fund, Cllr Denise Le Gal of Surrey Pension Fund, and Cllr Barney Crockett of North East Scotland Pension Fund. However, it was with great sadness that we learned of the loss of LAPFF Executive member Cllr Peter Brayshaw just after the 2014 Annual Conference. Peter contributed hugely to LAPFF's work. He has been and will be sorely missed, both as a colleague and a friend. LAPFF also recently learned that Cllr Bert Turner, Chair of West Midlands Pension Funds, has passed away. He was a great supporter of LAPFF and we wish his family and colleagues our deepest sympathies.

As I look back on LAPFF's recent and past achievements, the Forum's position as a front-runner in governance and responsible investment is striking. Over the last 25 years, LAPFF has addressed a wide range of concerns and this report sets out some of the highlights. In 2015, LAPFF worked with its partners in the 'Aiming for A' investor coalition to file strategic resilience shareholder resolutions on carbon management with Shell and BP. These received unprecedented support from both companies and their shareholders. This positive outcome was a testament to the long-term nature of engagement with both companies.

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LAPFF has also led on the challenge to International Financial Reporting Standards (IFRS), issuing reports on accounting standards and seeking legal opinions from Mr George Bompas QC which demonstrate the role of poor accounting standards in bank failures, and corporate failures more broadly. When LAPFF first started looking at these standards, it was one of very few voices to express concern. However, LAPFF's analysis, supported by engagement, is gaining traction with investors recognising the existing deficiencies in accounting standards and supporting legally-compliant accounting from auditors.

LAPFF's engagement has developed in scope over time. A few of many engagement areas are executive remuneration, director and auditor independence, board balance and labour rights. More recent areas of concern include engagement with the FTSE 100 on tax transparency in anticipation of significant developments in this area. This increased scale of engagement demonstrates the growing recognition by mainstream investors of the importance of LAPFF's mission - to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

The coming year looks to be busier than ever, with the potential of further shareholder resolutions and developing international partnerships. The turmoil set up by proposed changes in the LGPS has meant that LAPFF has increasingly taken on the role of the voice of the LGPS and this will continue as a predominant focus for 2016. I look forward to working with colleagues to build further on the 25 years of the Forum's growth and development.


BP to urge shareholder...
uk.mobile.reuters.com/article/idUKK...

«Top News

BP to urge shareholders to support climate resolution
Thu Feb 5, 2015 6:19pm GMT

WASHINGTON (Reuters) - BP Plc said on Thursday it will tell shareholders to back a resolution brought by investor activists calling on the oil major to improve transparency on its climate change risk exposure, following a similar move by Royal Dutch Shell Plc last week.

LAPFF EXECUTIVE COMMITTEE 2015

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Greater Manchester
Pension Fund

2 **Deputy Chair**
Ian Greenwood
West Yorkshire
Pension Fund

3 **Deputy Chair**
Councillor
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Barney Crockett
North East Scotland
Pension Fund

5 **Executive**
Councillor
Paul Doughty
Merseyside
Pension Fund

6 **Executive**
Councillor
Denise Le Gal
Surrey Pension Fund

7 **Executive**
Councillor
Richard Greening
London Borough of
Islington Pension Fund

8 **Executive**
Councillor
Toby Simon
London Borough of
Enfield Pension Fund

9 **Executive**
Councillor
Mary Barnett
Torfaen, Greater
Gwent Pension Fund

10 **Executive**
Rodney Barton
Director, West
Yorkshire Pension
Fund

11 **Hon Treasurer**
Geik Drever
Strategic Director
West Midlands
Pension Fund

12 **Executive**
Jane Firth
South Yorkshire
Pension Fund

13 **Executive**
David Murphy
Chief Executive and
Secretary, NILGOSC

Research and
Engagement Partner
PIRC
Pensions and Investment
Research Consultants

Forum Officer
Keith Bray
Local Authority Pension
Fund Forum

25 YEARS OF PROGRESS

1990
Seven funds collaborate on responsible investment and collective shareholder action.

1991
AGM attendance includes Fisons on reducing peat production in environmentally sensitive areas.

1992
LAPFF engages with companies on political donations, BET commits to putting them to shareholder vote.

1993
Legal & General is one of the first UK companies to hold a shareholder vote on political donations. LAPFF facilitates a meeting between Grand Metropolitan and workers on labour standards.

1994
LAPFF supports an independently appointed non-executive at Yorkshire Water. LAPFF lobbies on one-year contracts for directors. More companies start to provide a vote on political donations.

1995
LAPFF files the first ever shareholder proposal on corporate governance issues with BG on executive pay.

1996
The inaugural LAPFF conference is held. Meetings continued with Yorkshire Water on accountability, environmental standards improved and new directors were appointed.

1997
After controversy over Nigerian operations, LAPFF members submit the first UK social issue shareholder proposal to Shell.

1998
Councillor John McCallum from West Midlands Pension Fund is the first elected chair. LAPFF publishes a study tracing the rise of non-executive directors on boards, but challenges their degree of independence.

1999
LAPFF advocates for a shareholder vote on executive pay in response to a government consultation. Letters are sent to retailers on supply chain labour standards.

2000
New regulations require companies to submit political donations to a shareholder vote, representing the culmination of a ten year campaign by LAPFF.

2001
LAPFF continues to focus on companies in high impact sectors and their environmental management and performance leads to all but a small minority of companies publishing environmental policy statements or committing to do so.

2002
UK regulations are approved giving a shareholder vote on directors' pay which the Forum had been lobbying for since 1994. LAPFF participates in drawing up an investor statement on Burma.

2003
Engagement on directors' service contracts led to one-third of surveyed companies addressing directors' contractual terms.

2004
LAPFF commissions research on the investment impact of climate change and the UK Environment Minister congratulates the Forum for playing an important role in furthering good environmental standards with the FTSE 100.

2005
After two years of engagement on supply chain labour standards, WM Morrison agrees to appoint a corporate social responsibility manager.

2006
The Forum engages to promote equal pay for women employees and publishes the trustee guide 'Delegating shareholder engagement: Holding fund managers to account'.

2007
LAPFF writes to over 100 companies raising concerns about audit practices and proposes tougher carbon reduction targets to government.

2008
Following engagement, BG Group discloses a carbon target and FirstGroup appoints an independent monitor of its freedom of association policy. LAPFF questions companies on auditor independence following the financial crisis.

2009
LAPFF members file a shareholder resolution at Marks & Spencer asking the company to appoint an independent Chair resulting in 38% shareholder support. The Forum tackles remuneration at meetings with the UK banks.

2010
Marks & Spencer appoints an independent Chair. WM Morrisons publishes an ethical trading policy after seven years of engagement.

2011
Forum research is published indicating international financial reporting standards contributed to the financial crisis. The issue of phone hacking, media standards and corporate governance are raised in meetings with News Corporation and BSkyB.

2012
LAPFF members co-file for an independent chair at News Corporation. UK government implements mandatory corporate carbon reporting and a binding shareholder vote on executive remuneration after years of Forum pressure.

2013
LAPFF continues to press on media standards, executive pay and climate risk. The Banks Post-Mortem Follow Up report is published and a legal opinion is provided by Mr Bompas QC on IFRS flaws.

2014
LGPS reform rises up the agenda, LAPFF presses on board diversity, culminating in Glencore, the last FTSE company with an all-male board, appointing a female director.

20 ENGAGEMENT SNAPSHOTS FROM 2015

Shareholder Resolutions:

- BP and Shell strategic resilience resolutions are supported by management and pass with overwhelming shareholder support of over 98%.
- A National Express resolution for independent oversight of labour conditions at a US subsidiary gains highest level of support registered to date for an employee rights resolution.

Legal Opinions:

- A second Bompas Opinion, commissioned by LAPFF, finds significant flaws in the position of the Financial Reporting Council based on Mr Martin Moore QC's view of October, 2013. The Bompas II opinion supports LAPFF strategy of pursuing defective accounts and maintaining the challenge to aspects of international reporting standards.

International Partnerships:

- Société Générale separates the roles of Chairman and Chief Executive subsequent to the Forum raising this with the company over a number of years combined with other investor pressure.
- LAPFF progresses a joint engagement with US investors including Green Century Capital Management on sustainable palm oil - Wilmar commits to full mapping of its palm oil supply chain.
- LAPFF joins a Clinical Trials Transparency Initiative.

UK-based Partnerships:

- Engagement is catalysed by investor coalitions, including the 'Aiming for A' investor coalition and the investor coalition on IFRS standards.

International Engagement:

- International engagement increases as a proportion of total engagement.
- LAPFF engages with US and Singapore companies on cluster munitions.
- LAPFF promotes mandatory carbon reporting to the Hong Kong Stock Exchange.
- LAPFF signs an investor letter in support of business supply chain transparency legislation in the US.
- LAPFF signs an international investor statement sent to Italian government expressing concerns about a double voting rights proposal. This proposal is later scrapped due to shareholder pressure.

Tax Transparency:

- LAPFF sends the Corporate Tax Transparency Initiative question bank to the FTSE 100 and provides initial analysis.

Company Engagements:

- Tesco – LAPFF engages on the implementation of malus provisions in the wake of the Company's accounting scandal; the Company then implements these provisions.
- Barclays – Following a meeting with the chairman over the remuneration committee chairman continuing in his role, the Company appoints a new committee chairman.
- Trinity Mirror Group (TMG) - The Company's corporate governance approach to phone hacking improves after LAPFF engagement. TMG appoints a new company secretary and reviews joining an official regulator.
- Company AGM attendance - climate risk and employment standards are raised in addition to a range of governance concerns. LAPFF follows up with National Grid on disclosure of scope 3 emissions, and the chairman states that these emissions are likely to be reported next year.

Voting Alerts:

- Statoil - the board supports a climate resilience resolution similar to those filed with Shell and BP, with similar support levels of support.
- Chevron - LAPFF advises support for a resolution calling for a dividend policy increasing the amount authorised for capital distribution in light of decreasing profitability associated with capital expenditure on high cost, unconventional projects.

Political Engagement:

- LAPFF holds fringe meetings at the Labour, Conservative and Liberal Democrat annual conferences.

MAIN ENGAGEMENT THEMES

Reliable Accounts
The Forum has long been concerned about the provision of reliable accounts by companies. LAPFF has issued two 'Post-Mortem' reports on the role that defective accounting standards have played in facilitating the banking crisis, and has received two legal opinions from George Bompas QC on defective accounting standards.

The latest Bompas opinion (Bompas II) was published in September 2015. It confirms that the FRC's position - IAS 1 includes the true and fair view that is required by the law - is reliant on defective logic. It also confirms that the target of the true and fair view test in law applies to the 'profits, losses, assets, liabilities and financial position' in the accounts, i.e. it applies to *the numbers* in the accounts, not the accounts and narrative *in general*. However, the FRC has wrongly applied its (defective) form of 'true and fair view' to the accounts in general, i.e. not the accounting numbers. Mr Bompas QC is also clear that UK legislation does require the accounts to enable a determination of distributable profits. He demonstrates that the FRC's counsel is also wrong on this crucial point by relying on defective guidance from the ICAEW which was misreading the statute. This clarification is fundamental to LAPFF's argument that certain elements of the existing IFRS regime not only are not equivalent to the law, but have developed in a way that is inconsistent with the law.

This issue is not abstract. We have seen, over the course of the past year or two, illegal dividends paid by Betfair, and accounting failures at Quindell and Tesco, among other companies, precisely because IFRS does not follow a true and fair view model for accounts on which the reliability of reported profits is paramount.

While the FRC has steadfastly stated its support for IFRS, major companies are becoming less sure of the FRC position and have instead suggested support for Mr Bompas QC's and LAPFF's position. A range of financial publications have also latched onto the on-going debate about IFRS, questioning the integrity of the standard. There are now rumblings in the EU about accounting standards, in addition to new EU-level laws around auditing and auditors. Therefore, this issue will not disappear anytime soon.

Environmental Risk - Carbon Management
From its inception, LAPFF has encouraged companies to adopt and implement effective environmental management policies. Initially, the Forum benchmarked the FTSE 100 on carbon emission reporting and, together with the Environment Agency, corresponded with companies to encourage more comprehensive reporting. Carbon risk management was pursued in following years, through company meetings and by posing questions to boards at AGMs, as well as through reports for members flagging up the need for pension fund trusts to assess potential risks, costs and opportunities within their portfolios due to climate change.

Many company engagements have been long-term in nature, with a number of successes along the way. Illustrative of this was BG, in 2008, setting a carbon emission reduction target. Engagement with Shell and BP has also spanned many years. The filing of the first ever social issue shareholder resolution at a UK company by institutional investors in 1997 was co-filed by LAPFF funds at Shell regarding the Company's environmental and human rights activities.

Collaboration is frequently the key to leveraging change with companies and this has been particularly evident with the Forum's participation in the 'Aiming for A' investor coalition. From 2012, the coalition, initiated by CCLA, focused on long-term engagement to encourage companies to move towards a low carbon economy. The engagement process led to the filing of shareholder resolutions on strategic resilience and LAPFF members combined in large numbers to co-file and publicly declare support for resolutions to Shell and also to BP. The primary request of the resolutions was for an assessment of the companies' asset portfolio resilience against a range of International Energy Agency (IEA) scenarios, which includes remaining within two degree temperature increase limits. Votes of over 98% in support of both resolutions proved the success of crafting resolutions that were supportive but also stretching in nature.

Further, LAPFF has consistently lobbied the UK government for mandatory carbon reporting and pushed for tougher targets on emissions. In 2012, carbon reporting was made mandatory in the UK and this year, LAPPF has extended its reach, encouraging the Hong Kong Stock Exchange to mandate carbon disclosure.

The impact of climate change for companies and investors remains high on LAPFF's agenda, with more voting alerts issued on this topic than any other, and this issue is frequently raised with company boards at AGMs.

LAPFF member funds have also received a heightened demand for position statements on fossil fuel divestment. LAPFF does not support divestment but promotes a strategy of pushing for an 'orderly transition' requiring companies to identify and tackle carbon risks in their business models.

Tax Transparency

Investor concerns in this area have been fostered by a number of factors including the 'LuxLeaks' scandal in which a number of multinational companies were accused of adopting tax avoidance schemes associated with Luxembourg's tax regime, and continuing efforts by the OECD to promote ethical tax practices by companies. LAPFF has recognised the direction of travel of this issue and engaged tax expert, Richard Murphy, to draft a question bank for FTSE 100 companies to complete regarding their approach to tax reporting as part of a LAPFF Corporate Tax Transparency Initiative (CTTI).

The questions focused on a range of tax-related topics, from disclosure of tax policies to the role of auditors in tax practices, to country-by-country reporting. This style of reporting is promoted by the OECD/G20 BEPS (Base Erosion and Profit Sharing) project, which began in 2013 and led to a 15-point action plan to address the issue. BEPS aims to address the issue of companies operating in one country but channelling money through other countries such that they avoid substantial tax liability. Though arguably not illegal, a number of parties have deemed this practice unfair and have asked that companies pay their fair share of tax in places where they operate.

LAPFF recognises that companies need to have efficient tax planning, and that good tax planning can benefit investors by ensuring that companies in which they invest do not waste money on excessive tax payments. Concern arises when efficient tax planning crosses the line into 'aggressive' tax planning, or when companies actively seek ways to avoid paying the share of tax they should be paying.

Unfortunately, this line is not always clear, either legally or ethically. As a result, LAPFF has joined the call for greater tax transparency to ensure that investors are clear about the components of corporate tax plans that could affect company performance, either through reputational fallout or through poor corporate tax policy. This is the crux of the governance risk inherent in reckless tax avoidance policies.

One of the consequences of poor tax practices and reporting is a lack of clarity around company accounts. For instance, if a company has an outstanding tax liability in Country A but is reporting accounts that do not reflect the full extent of possible tax liabilities in the future, investors' understanding of accounts could be inaccurate. As global rules around tax practices and reporting are re-calibrated and re-conceived, LAPFF will be working with companies to ensure that they comply not only with new legal expectations, but with developing investor expectations on good tax practices. As a result of this work, LAPFF supports the Fair Tax Mark campaign lead by the Tax Justice Network.

Governance Risk

Auditor Rotation

The Forum has been interested in the role of the scope, accuracy and legality of auditing standards for many years, most recently through its work on International Financial Reporting Standards (IFRS). LAPFF's engagement has also focussed on how and how often auditors are selected in the first place, as well as what the role of auditors should be. This engagement has been supported by the introduction of European-level laws codifying standards on the length of auditor tenure, limits on non-audit fees, audit report requirements, and the role of audit committees. Two groups of laws have been enacted through the European Union, one applicable to the auditing of accounts, and a second applicable to public-interest entities (which in practice means systemically important companies, such as financial institutions or listed companies).

This reformed framework has been developed in recognition of certain deficiencies within the existing auditing framework. Some of these deficiencies are systemic, such as an effective oligopoly of four auditing firms, and some of the deficiencies are more cultural, such as a lack of trust in auditors and the audits they conduct.

One of the requirements due to come into force is a mandatory rotation of statutory auditors and audit firms. Many companies have had their auditors in place for twenty years or more. However, the new requirement will stipulate a ten year rotation period. The reasoning behind this is the consideration that auditors can get too comfortable with clients, which might compromise their ability to conduct an objective, thorough audit. Therefore, auditor independence is of paramount importance. Of note is a provision allowing for 5% of shareholders to take action to oust a statutory auditor if these shareholders are unhappy with auditor performance.

Given these developments, it has been informative that when LAPFF has raised auditor rotation at AGMs and at meetings with companies, company representatives have frequently been fairly complacent, even when their auditors have been in place for twenty years or more. Amongst this group, there has been a fairly standard response that the companies are aware of these developments and have aimed to be compliant with the provisions of the relevant law. It is much rarer amongst this group that companies will rotate their auditors before they are legally required to do so. This complacency raises questions about whether companies have fully taken on board the spirit of the laws and the consequences of failing to have truly independent, accurate audits. Given the continued problems with IFRS and the lack of legally-compliant audit reporting, this complacency is potentially a worry for investors.

Board Composition

Independence is just as critical in terms of board composition. Board independence is a real concern in a range of markets, from the US where the Chair and CEO positions are often combined, to some Asian markets where multiple family members often serve on the same board. LAPFF's view is that appropriate board composition can lead not just to an appropriate level of independence on the board, but can contribute to improved board performance by avoiding 'group think' approaches to problem-solving.

One of the board composition concerns that LAPFF encountered during 2015 related to independence from the auditor. During 2014, the Forum met with a company and raised the point that that the Chair of the Audit Committee was affiliated with the Company's statutory auditor. The Company Chairman was receptive to LAPFF's observation that this arrangement could raise concerns about conflicts of interest, even if it was just the perception of a conflict. He noted that this development had slipped under the radar of the Board, but that it was important and would be taken under consideration.

Nonetheless, just prior to the 2015 AGM, it emerged that the board member in question had not only continued in his Audit Committee capacity, but had been designated Senior Independent Director of the Board for a two year term. LAPFF questioned the Chairman about this decision and was told that the Company assessed independence in a broad sense and was satisfied that the appointment was appropriate. LAPFF remains concerned that this assessment misses the point regarding the systemic nature of some conflicts of interest. This is the type of situation that is ripe for engagement.

Patrice Merrin

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Diversity

LAPFF has had a focus on gender diversity in board composition for a number of years. To support this, in 2012, LAPFF joined the 30% Club Investor Group, an investor initiative to promote gender diversity on boards. A focus on reaching at least the target of 25% female representation on FTSE 100 board was maintained, with 30% being the initial proportion advocated. LAPFF and a number of the group's members focussed in particular on the few remaining companies with all male boards. The Forum took a fairly public stance, especially with Glencore in 2014, including issuing a voting alert and garnering press coverage. The company ultimately appointed female director, Patrice Merrin, in late 2014, becoming the last FTSE 100 company to relinquish its all male status.

In LAPFF's engagement, a common factor has been the dearth of females at the executive director level which remained as a consistent barrier to women's progress to board level.

Overwhelmingly, conversations around diversity have been positive in the sense that directors, when asked about the importance of gender diversity on their board, recognise many aspects of its relevance including that it ensures a more varied input to board discussions. Other responses seem more rote in nature, with it being noted that women add an important element of diversity to boards but without a clear explanation of why or how. And despite the progress made in increasing numbers of qualified women to boards, some directors still assert that for their industries it is difficult to recruit qualified women to the board due to the lack of appropriate candidates.

Development and promotion of women in the executive pipeline is certainly an area of concern, and LAPFF has been speaking to companies about how best to approach this development both through its own activities as well as through the 30% Club initiative. Company responses demonstrate that ensuring a sufficient representation of women on boards is only the first step. LAPFF will continue to work on ensuring that women make their way onto boards of the FTSE 100 and other listed companies, but also to address initiatives that need to be fostered at executive level and at all levels of companies, from recruitment onwards.

Executive Pay

Executive remuneration is a long-standing engagement topic for LAPFF, with two principal issues of concern. First that of 'rewards for failure', not only for cases where executives are forced out of failing companies but receiving significant exit payments but also where executives are highly rewarded despite unimpressive ongoing company performance. Second is the view that executive pay is too high in general, with unrelenting increases in executive rewards over the years despite shareholder pressure and political attention. LAPFF has fundamental questions as to whether performance-related pay is really effective in motivating directors in the first place, or aligning their interests with those of shareowners.

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A range of issues surfaced during meetings with companies to explore these issues. One issue that was encountered on a number of occasions was how companies deal with 'golden handcuffs', i.e. where executives are provided with such strong financial incentives to stay with their current employer that it becomes disproportionately expensive for other companies to recruit them. This practice thereby inflates levels of pay offered to executives. With these ever inflating levels of overall pay, the issue of pay ratios between the most well paid individuals within a company and the average workers pay has become more prominent, as these ratios become larger over time. LAPFF Chairman, Kieran Quinn, met with the High Pay Centre to discuss how best to engage with companies on these concerns.

In 2013, LAPFF issued its 'Expectations for Executive Pay' report. Since then, engagement has been oriented around consultation with a wide range of companies on the issues raised, and the extent to which companies consider these 'expectations' could be practically implemented.

Pharma and Clinical Trials
During 2015, LAPFF met with a number of pharmaceutical companies, primarily over corporate governance. Part of this focus was in response to new Swiss laws on remuneration that came into effect in 2014 and 2015, which were relevant as many of the top pharmaceutical firms are Swiss. Of specific interest was the 2013 'Ordinance against Excessive Pay', also known as the Minder Initiative, requiring companies to adapt their AGM agendas, as well as their articles of association, to accommodate new standards on executive pay. Implementation of the ordinance was phased, with some provisions to take effect in 2014 and others to take effect in 2015.

Engagement with Roche was progressed by attending the 2015 AGM to encourage the board to engage with its controlling shareholders on the make-up of its corporate structure. This is due to the extremely limited free float which means most institutional investors have to accept non-voting shares, and thus cannot influence remuneration policies.

While pharmaceutical majors were coming to grips with these new executive pay laws in Switzerland, a new international campaign on clinical trials transparency was coming to the fore. Based on the Access to Medicines Index, investors are seeking to highlight methodological deficiencies in clinical trials that can potentially affect both the health of patients and the financial health of companies.

Specifically, the campaign is targeting Phase III trials as these trials often influence drug marketability and expected profit, as well as company valuation and stock price. Concerns about clinical trials stem from the fact that, among other things, results from around half of all clinical trials are not published and negative results are twice as likely not to be published as positive results.

Social Risk

Human Rights
As with many responsible investment and governance issues, it is clear that human rights practices by companies can affect business reputation and performance. LAPFF undertook engagement with a number of aviation and defence companies on cluster munitions to determine how responsibly they were operating in relation to respecting human rights. The primary concerns with cluster munitions is that they can be indiscriminate, affecting civilian populations rather than solely military targets, and that they can lie dormant for long periods of time and detonate post-conflict. Following member concern, nine companies were identified in which LAPFF members had invested and, after conducting research, the companies identified for engagement were narrowed down to four.

It became clear from the research process and from engagement that an assessment of best corporate practice in relation to cluster munitions is difficult. Key states including the US and Singapore have not ratified the key international treaty banning cluster munitions, the Oslo Convention. Furthermore the treaty definition of a cluster munition leaves a fair amount of scope for the production of weapons that are still of great concern in terms of their impact on civilians and their potency after conflict periods end.

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LAPFF's approach focused on the companies' awareness of and adherence to the Oslo Convention. While the companies were all aware of the Convention and its definition of these weapons, they are all based in countries that have failed to ratify or accede to the Convention. Engagement also explored the practical implications of companies' relationships to cluster munitions. For example, some companies produce missile casings used for a range of weapons but these can also be used to launch cluster munitions

On Government contracts, two companies provided reasonable assurances that they no longer produce or sell cluster munitions, but one could not offer such assurances. Furthermore, some government contracts require contracting companies to maintain cluster munitions or produce components that facilitate the use of cluster munitions. However, their practices might meet the exclusion criteria threshold for certain investors.

Employment Practices

Overseas
LAPFF first began work on overseas supply chain concerns in relation to child labour in 1998. The Forum focused on ensuring that retail companies adhered to the core ILO conventions on child labour, forced labour, discrimination and freedom of association and collective bargaining. Research covered the FTSE All-Share to determine whether companies had policies on labour rights in their supply chains or whether they had taken other steps to address such concerns. In particular, LAPFF engaged with companies that did not have codes of conduct in place and encouraged them to adopt codes for their suppliers.

The landscape on labour rights has changed significantly since LAPFF's initial dialogues. Codes of conduct rooted in international law have become almost a requirement for retailers. Hard and soft law frameworks are also developing quickly. California issued its Supply Chain Transparency Act in 2010 with a federal level law pending, and the UN Guiding Principles on Business and Human Rights were endorsed unanimously by the UN Human Rights Council in 2011, providing a touchstone for union efforts on labour rights. During 2015, the UK passed a Modern Slavery Act to address some of the most egregious international supply chain labour concerns.

LAPFF has responded accordingly to these developments through a range of engagement and consultations. Most recently, LAPFF has engaged with companies regarding labour conditions in Qatar, attending the Carillion AGM to ask how as an international infrastructure company based in the UK it is taking steps to address poor labour conditions at some Qatari building sites under construction for the 2022 World Cup.

It can be difficult for investors to link labour conditions, and human rights more broadly, to business performance. Therefore, LAPFF has advocated better company reporting in this area including by supporting an investor letter on a federal version of the California Supply Chain Transparency Act.

At Home
However, the Forum has also looked closer to home, as some UK companies faced accusations of blacklisting trade union workers. LAPFF met with companies of particular concern to ensure that they had eradicated blacklisting from their own operations, as well as ensuring that their suppliers do not engage in this practice. Inappropriate use of zero hour contracts has also been a concern of the Forum, and LAPFF attended an investor briefing with other investor groups held by the Trade Union Share Owners (TUSO) to understand better how to address this issue.

Long-standing engagement with National Express continued over health and safety and other labour practices. This led to a number of Forum member funds filing a shareholder resolution for the second year in a row to the company's AGM. In 2015, this was to request an independent assessment of labour practices at the Company's US subsidiary, Durham School Services. Cllr Greening attended the AGM and spoke to the motion. The result was that almost a quarter of independent shareholders did not back National Express over labour rights at the AGM, the highest level of support registered to date for a shareholder resolution on employee rights.

The Forum believes companies can improve their performance and enhance long-term shareholder returns by ensuring that employees choose them over competing alternatives; that they stay with them, and they give their discretionary effort towards achieving the company's objectives.

With a view to engaging with selected companies to encourage higher standards of performance in this regard, the Forum's current approach to this subject is to build on its foundational understanding of the drivers of employee engagement by learning more from companies that excel in this regard, or from those that are developing their own insights into this subject. The Forum recently met with Halfords, for example, and gained greater insight into the importance that recruitment and leadership training in transforming an organization with comparatively low levels of employee engagement to one in which higher levels of engagement are having a material impact on financial performance.

Hugh Grant

www.media.cleveland.com

Phone Hacking
When the phone hacking scandal broke in 2007, there was a focus on the alleged newspaper figures involved, such as Clive Goodman, Glenn Mulcaire, Rebekah Brooks and Andy Coulson. LAPFF engaged with key media companies, such as News Corp, to assess the fallout of the scandal, and to press for governance changes likely to reduce the chance of a recurrence of these events.

This engagement included issuing voting alerts highlighting phone hacking as an example of governance failure at media conglomerates.

Nearly ten years on, the scandal continues to provoke litigation, now with the focus on high profile victims such as Hugh Grant and Sadie Frost. LAPFF is continuing its engagement on this issue to determine the likely cost implications of phone hacking for media companies. In the last year, there has been a spate of litigation with a recent settlement of eight claims amounting to £1.2 million, far in excess of initial company cost estimates. However, the claims continue to mount, and it is unclear when the litigation will end.

Another outstanding issue is whether or not an official independent regulator will be designated to monitor and enforce standards and practices surrounding journalistic integrity. There is already an industry body to address hacking, but the Leveson Inquiry recommended the creation of an official, independent regulatory body. There is talk of the recognition of such a regulator, but an official body has yet to be designated. Perhaps not surprisingly, companies within the industry have expressed satisfaction with the industry body, stating that an official regulator is unnecessary. However, some companies remain open to signing up to an official regulator, should one be recognised.

It is understandable that the phone hacking debacle has created reputational difficulties for some media companies. It has been suggested that some advertisers have pulled ads because of these reputational concerns, thus contributing to revenue problems at some companies still struggling with the fallout of the scandal. Unfortunately, these developments come at a time when media companies in general are having to re-think their business strategies to account for changes in technology. LAPFF is following with interest both the phone hacking and business strategy developments in the media industry.

POLICY ENGAGEMENT AND CONSULTATION RESPONSES

LAPFF has contributed its policy perspectives on a range of topics during its twenty-five year history. Some of these topics endure, such as those with an environmental or employment nature. Others, such as an approach to anti-apartheid initiatives, were time-specific.

During 2015, LAPFF signed letters and drafted consultation responses relating to carbon management, voting rights, IFRS and gender, among other areas of interest. Letters went to the Italian government, requesting that dual voting rights not be implemented and the Basel Committee on Banking Supervision regarding a concern about the lack of prudent accounting. In addition, a letter on sustainable palm oil was sent to companies calling for improved disclosure on their work in this area. LAPFF has also worked with US investors in particular to apply pressure to well-known retail companies on sustainable supply chain transparency. This tactic has led to improvements of supply chain transparency among the largest palm oil supplying companies.

Consultations by stock exchanges working to implement greater transparency on long-term responsible investment concerns provide a good opportunity to press for reform. LAPFF's response to the Hong Kong Stock Exchange consultation supported proposals for increased environmental, social and governance disclosure but pushed in particular for mandatory carbon reporting. As in previous consultation responses, the Forum has promoted its view that a single global reporting framework is essential in the context of initiatives seeking a consensus on global action required to tackle climate change. In this instance, it is particularly timely, in the run-up to the Paris Conference of the Parties (COP) 21, for investors to push for meaningful action on climate change. Other initiatives relating to COP 21 include LAPFF's signing on to an investor letter to Finance Ministers supporting action to reach a strong climate agreement.

As part of its efforts to promote gender diversity on company boards, the Forum supported a joint consultation submission on the Gender Pay Gap by the 30% Club Investor Group to the Government Equalities Commission. In related work, LAPFF was approached to participate in a roundtable inquiry regarding women on boards within the FTSE 350. Cllr Mary Barnett represented LAPFF at this consultation hosted by the Equality and Human Rights Commission.

Brenda Trenowden, new Chairperson of 30% Club

20 MEDIA COVERAGE HIGHLIGHTS IN THE LAST 20 YEARS

Over the last twenty years, LAPFF has been repeatedly praised in the media for its engagement on a number of issues, including financial reporting standards, executive remuneration, tax regulation, climate change and labour standards. Media coverage of LAPFF's positions has shown it to be a bellwether in the area of corporate governance and corporate responsibility, as the small selection of highlights below illustrates.

2015:

- LAPFF obtains a second legal opinion from Mr Bompas QC, questioning the legality of the International Financial Reporting Standards *(IPE)*.
- LAPFF contributes a public sector pensions supplement to the New Statesman magazine.

2014:

- LAPFF supports strategic resilience resolutions which are adopted at Shell and BP AGMs *(The Local, Lexology, Guardian)*.
- LAPFF opposes WPP's remuneration policy, due to the complexity of variable pay arrangements and the potential for excessive pay which is subject to discretionary increase *(The Telegraph, Independent, Guardian).*

2013:

- LAPFF supports a resolution filed by Christian Brothers Investment Services calling for an independent chairman at Twenty-First Century Fox *(The Telegraph)*.
- With 43 other investors, LAPFF writes to the US Securities and Exchange Commission to push for consistent tax regulation of oil, gas and mining companies *(AI CIO)*.
- LAPFF supports a further resolution calling for the appointment of an independent chairman at News Corporation *(Independent, Guardian)*.

2012:

- LAPFF launches its People and Investment Report, encouraging better engagement with employees and looking beyond purely financial rewards *(Independent)*.
- LAPFF and Christian Brothers Investment Services file a resolution supporting the appointment of an independent chairman at News Corporation *(Guardian)*.
- LAPFF calls for Barclays to pursue criminal charges against Barclays staff and for bonuses to Bob Diamond to be clawed back *(The Scotsman)*.
- LAPFF joins the 30% Club Investor Group promoting gender diversity on FTSE 100 boards *(IPE)*.
- LAPFF opposes James Murdoch's re-election as BskyB chairman *(Bloomberg)*.

2010:

- LAPFF and ten other pension funds, support the Financial Reporting Council's Stewardship Code *(City AM)*.
- LAPFF, with NAPF, writes to FTSE 350 chairs calling for greater transparency on executives' pensions *(Professional Pensions)*.

2009:

- LAPFF files a special resolution calling for the appointment of an independent chair at Marks & Spencer, to replace executive chairman Sir Stuart Rose *(Guardian)*.

2007:

- LAPFF signs up to the UN Principles of Responsible Investment *(Labour and Capital)*.
- LAPFF votes against the remuneration report at BP's AGM, due to the fact that executive rewards are not clearly linked to safety performance *(Guardian)*.
- LAPFF co-signs a letter to the US Securities and Exchange Commission with other investors, calling for executive bonuses to be curbed *(Public Finance)*.

1999:

- LAPFF advocates for increased employment standards, focussing particularly on the issues of forced labour and child labour *(Local Government Chronicle)*.

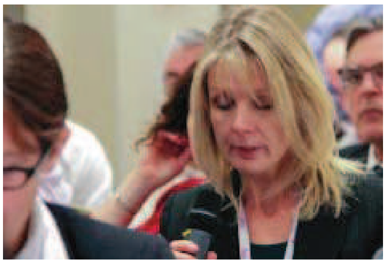
1995:

- LAPFF submits a resolution to British Gas, challenging its executive remuneration policies. The Financial Times calls the resolution 'a watershed in corporate governance'.

ANNUAL CONFERENCE

LAPFF's 2014 Annual Conference again proved a popular event. Entitled *'Productive Investment: public funds and public purpose'* it was addressed by a number of high profile speakers including Cherie Blair, who spoke on how better business practice can drive both market and social returns; Jim O'Neill, on 'Building Cities for the Future' and Sir Michael Heseltine who provided valuable perspectives on urban regeneration.

Ten years on from the 2005 conference *'Fifteen years of shareholder activism: results and prospects'*, the 2015 Annual Conference will celebrate twenty years of Annual LAPFF Conferences. The line up features a number of previous LAPFF chairs joined by a range of speakers from companies, government, NGOs and law firms. Directors' duties, succession planning and corporate accountability will all be subject to review and debate, with particular attention being given to a panel discussion on LGPS developments.



FACTS AND FIGURES – ENGAGEMENT HIGHLIGHTS

41%
DOMICILE – PERCENTAGE OF ENGAGEMENTS WITH NON-UK OR DUAL-LISTED COMPANIES

37%
ENVIRONMENTAL ENGAGEMENT

28%
SOCIAL ENGAGEMENT

36%
GOVERNANCE ENGAGEMENT (EXCLUDING TAX ENGAGEMENTS)

64%
ENGAGEMENT WITH CHAIRMAN

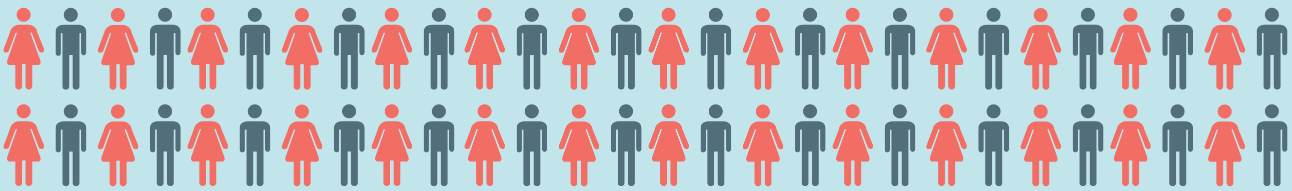
65
ON-GOING COMPANY DIALOGUES

27
COMPANY MEETINGS HELD

129
NUMBER OF COMPANIES ENGAGED

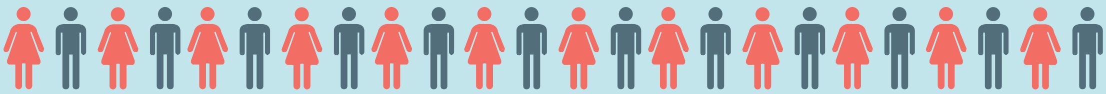
Position Engaged

Chairperson



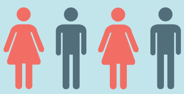
56

Specialist staff



24

Non-executive director



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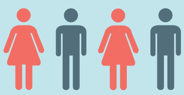
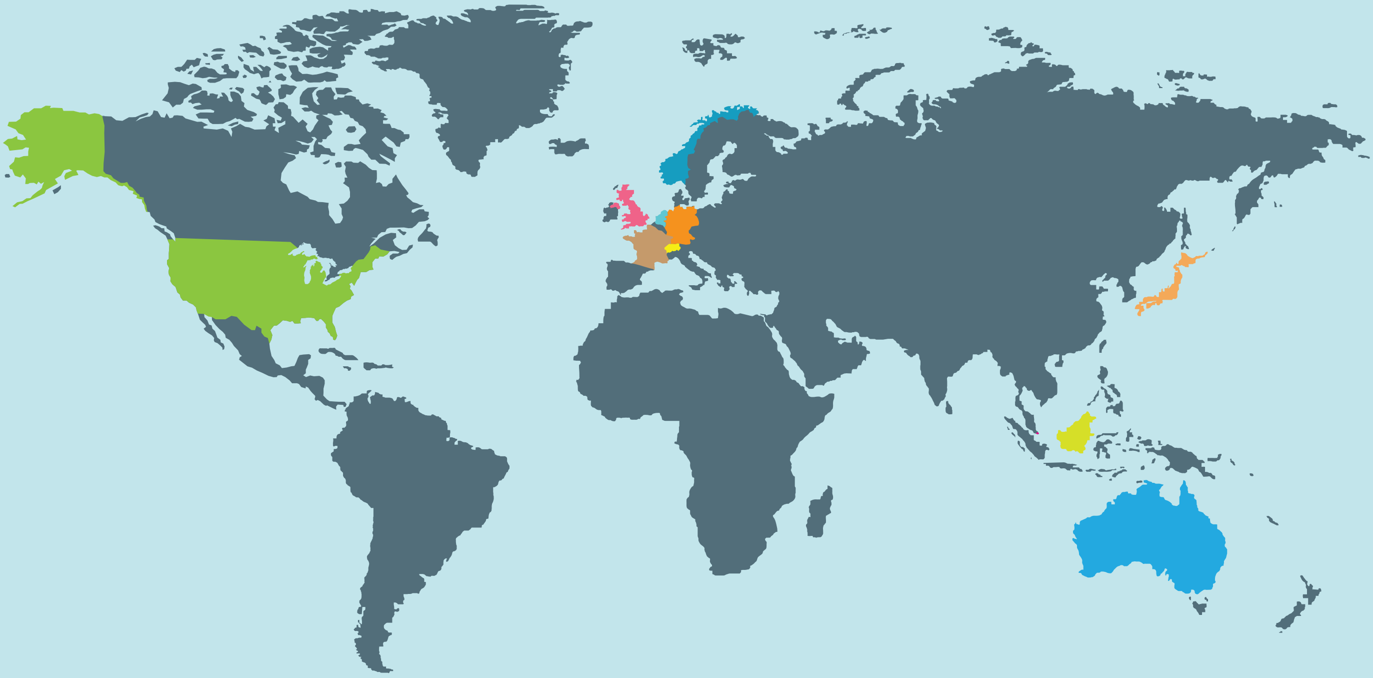
Executive director



4

The trend of increased engagement with company Chairmen continues, with 64% of engagements during the year involving company Chairmen. It can be helpful to meet with specialist staff and executive directors to understand to what degree companies are implementing responsible business strategies. However, the strategic overview that Chairmen are able to provide is often the most helpful perspective for investors.

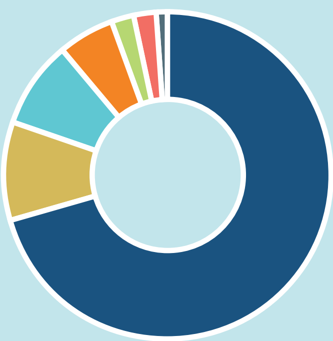
Company Domicile



Although the companies engaged with were predominantly UK-based, a substantial amount of this year's engagement took place with companies either domiciled outside the UK or with dual-listed companies, such as Shell and BHP Billiton.

United Kingdom	54	Japan	2
USA	15	Australia	1
UK/Netherlands	7	France	1
Germany	3	Indonesia	1
Switzerland	3	Norway	1
UK/Australia	3	Singapore	1

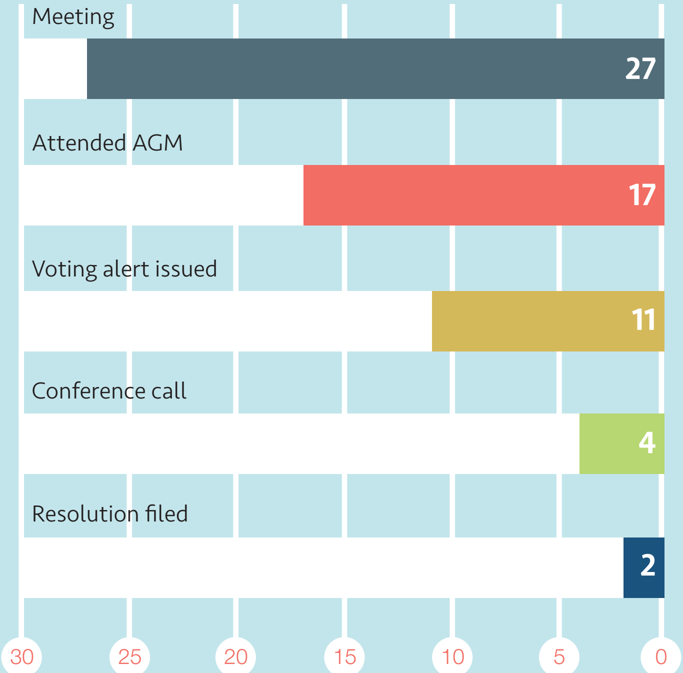
Engagement Outcomes



Dialogue	65
Moderate improvement	9
Substantial improvement	8
Satisfactory response	5
Awaiting response	2
Small improvement	2
Change in process	1

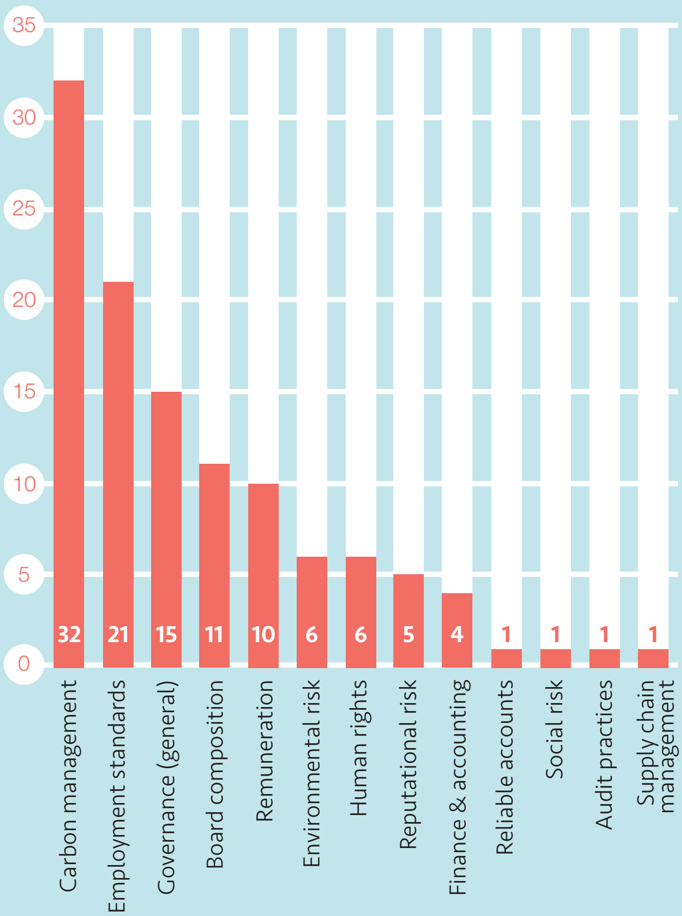
The nature of shareholder engagement is such that the majority of interaction will be dialogue with companies, as they progress towards best practice. However, of the total engagements during 2015, 27% had positive outcomes, including substantial progress on carbon management.

Activity Type



In addition to the engagement noted in the bar graph, a total of 124 letters were exchanged with companies during the course of the year. Speaking with company representatives is always the initial preference in order to gain a better understanding of their perspectives, and this is usually sought through correspondence. However, if a company does not respond to a request for a meeting or a conference call, voting alerts can escalate the concern. Filing shareholder resolutions only usually occurs after several years of engagement

Engagement Topics (excluding tax)



AGM Attendance – 17

Company	Topic
Balfour Beatty	Employment Standards
Bellway	Board Composition
BP	Climate Change
British American Tobacco	Social Risk
BT Group	Audit Practices
Carillion	Employment Standards
Lonmin	Employment Standards
National Express	Employment Standards
National Grid	Climate Change

Company	Topic
Next	Employment Standards
Rio Tinto	Climate Change
Roche	Shareholder Rights
Sage Group	Executive Remuneration
Shell	Climate Change
Sky	Board Composition
SSE	Climate Change
Vodafone	Board Composition

Voting Alerts Issued – 11

Company	Topic
21st Century Fox	Board Composition
AGL Australia	Carbon Risk
Anadarko	Carbon Risk
BG Group	Remuneration
Chevron	Carbon Risk
ExxonMobil	Carbon Risk

Company	Topic
News Corporation	Board Composition
Shell	Carbon Risk
Sky	Board Composition
Sports Direct	Employment Standards
StatoilHydro	Carbon Risk

Provision of Services for Members

- Company engagement
- Quarterly Engagement Report
- Consultation responses
- Voting alerts
- AGM briefings and attendance
- Website
- Investor partnerships
- Business meetings and presentations
- E-bulletin
- Information on LGPS reform
- Trustee guides
- Media coverage
- Member briefings
- Working groups (Women's Network)
- PRI reporting
- Investor seminars
- Shareholder resolution filing support
- Event attendance
- Policy guidance
- Training (mentoring scheme)
- Twitter presence

Companies Engaged – 129 Companies Engaged During the Year Under Review
The numbers below reflect engagements undertaken exclusively by LAPFF rather than collaborate engagements.

Company	Topic
21st Century Fox	Board Composition
3i	Tax
Aberdeen Asset Management	Tax
Admiral	Tax
Afren	Reliable accounts
Aggreko	Tax
AGL Australia	Climate Change
Amazon	Governance; Employment Standards; Human Rights
Anadarko	Climate Change
Anglo American	Tax
Antofagasta	Tax
Arm Holdings	Tax
Ashtead	Tax
Associated British Foods	Board Composition; Employment Standards; Tax
Astra Agro Lestari	Climate Change; Supply Chain Management
AstraZeneca	Governance; Tax
Aviva	Tax
Babcock International	Tax
BAE Systems	Tax
Balfour Beatty	Employment Standards
Barclays	Remuneration; Finance & Accounting; Tax
Barratt	Tax
Bellway	Board Composition
BG	Remuneration; Tax
BHP Billiton	Climate Change; Tax

Company	Topic
BP	Climate Change; Tax
British American Tobacco	Social Risk; Tax
British Land	Tax
BT	Audit Practices; Tax
Bunzl	Tax
Burberry	Tax
Capita	Tax
Carillion	Employment Standards
Carnival	Tax
Centrica	Climate Change; Governance; Tax
Chevron	Climate Change
Coca-Cola Hellenic	Tax
Compass	Tax
CRH	Tax
Deutsche Telekom	Employment Standards
Diageo	Tax
Direct Line	Tax
Dixons Carphone	Tax
EasyJet	Tax
Experian	Tax
Exxon Mobil	Climate Change
G4S	Tax
GKN	Tax
Glencore	Climate Change; Tax
Google	Governance
GSK	Tax
Halfords	Employee Engagement
Hammerson	Tax
Hargreaves Lansdown	Tax

Company	Topic
Hays	Remuneration
Hikma	Tax
HSBC	Tax
Imperial Tobacco	Tax
International Airlines	Tax
International Hotels	Tax
Intertek	Tax
Intu Properties	Tax
ITV	Tax
John Menzies	Employment Standards
Johnson Matthey	Tax
Kier	Employment Standards; Human Rights
Kingfisher	Tax
Land Securities	Tax
Legal & General	Tax
Lloyds Banking	Tax, Finance & Accounting
Lockheed Martin	Reputational Risk; Human Rights
Lonmin	Employment Standards; Human Rights
London Stock Exchange	Tax
Marks & Spencer	Tax
Meggitt	Tax
Microsoft	Governance
Mondi	Tax
Morrisons	Finance & Accounting; Tax
National Express	Employment Standards
National Grid	Climate Change; Tax
Nestlé	Governance

Company	Topic
News Corporation	Board Composition
Next	Employment Standards; Human Rights; Tax
Novartis	Governance; Remuneration
Oxford Metrics	Tax
Pearson	Tax
Persimmon	Tax
Prism	Tax
Prudential	Tax
Randgold Resources	Tax
Reckitt Benckiser	Tax
Reed Elsevier	Tax
Rio Tinto	Climate Change; Human Rights; Tax
Roche	Governance
Rolls-Royce	Tax
Royal Bank of Scotland	Tax, Finance & Accounting
Royal Mail	Tax
RSA	Tax
SABMiller	Tax
Sainsbury	Tax
Sage	Remuneration; Tax
SC Johnson & Son	Tax
Schroders	Tax
Severn Trent	Remuneration; Tax
Shell	Climate Change; Environmental Risk; Tax
Shire	Tax
Singapore Technologies	Reputational Risk; Human Rights

Company	Topic
Sky	Board Composition; Tax
Smiths	Tax
Smith & Nephew	Tax
Sports Direct	Employment Standards; Tax
SSE	Climate Change; Finance & Accounting; Environmental Risk; Tax
St James Place	Tax
Standard Life	Tax
StatoilHydro	Climate Change
Taylor Wimpey	Tax
Tesco	Remuneration; Tax
Textron	Reputational Risk; Human Rights
Total	Climate Change
Toyota	Environmental Risk; Employment Standards
Travis Perkins	Tax
Trinity Mirror	Reputational; Governance
TUI	Tax
Unilever	Tax
United Utilities	Tax
Vodafone	Board Composition; Remuneration; Tax
Volkswagen	Climate Change
Weir	Tax
Wolesley	Tax
WPP	Tax
Whitbread	Tax

LIST OF MEMBERS

In 2005 LAPFF had 13 members, this has grown steadily over the last twenty years to reach LAPFF's current membership of 65 funds.

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- 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
- 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
- Somerset County Council
- Sheffield City Region Combined Authority
- Shropshire Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Teesside 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

Local Authority
Pension Fund
Forum

For more information about LAPFF
Visit our website at www.lapfforum.org

For further information on LAPFF and membership
enquiries, contact Keith Bray, Forum Officer
postmaster@keithbray.plus.com or 07811 800612

PIRC

For more information about LAPFF's Engagement
Programme, please contact Tessa Younger,
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TessaY@pirc.co.uk

Engagement information and data supplied by
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