

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2015

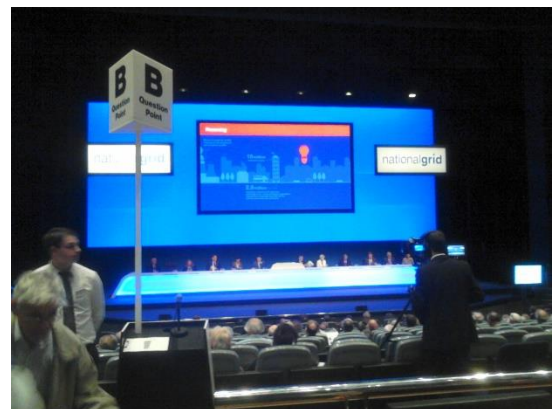


Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of member funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at companies in which they invest. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £175 billion.

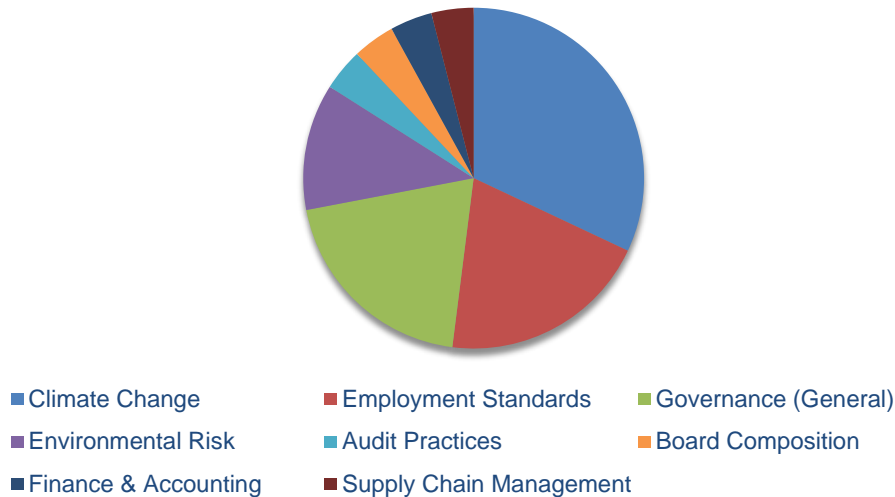
ACHIEVEMENTS

- Building on its previous success in demonstrating that the **accounting standards** used by many UK companies are not consistent with the legal requirement of a 'true and fair view' of accounts, LAPFF has obtained a second opinion on this topic from Mr George Bompas QC. Mr Bompas argued in his first opinion that financial statements must give a 'true and fair view' of accounts in line with UK company law that cannot be overridden by accounting standards. This latest opinion, released publicly on 1 September 2015, goes to the heart of the matter in confirming that UK law requires accounts to be properly prepared in order to determine what capital is available for the purpose of distributing dividends.
- Properly prepared accounts are those that 'enable a determination of what is or is not available for distribution by reference to amounts stated in them.' As a result, 'resort to further supplementary records or documents' is neither required nor permitted to determine what is available for distribution. In other words, companies can only issue dividends on realised, as opposed to unrealised, profits.
- Mr Bompas' second opinion has received immediate attention from the financial press, with the Financial Times publishing an emphatic piece that describes the opinion as 'potentially explosive.' The FT piece further makes the point that while regulations on capital requirements and boardroom standards have been amended significantly in the wake of the financial crisis, needed amendments have not yet been made to accounting standards. This observation is helpful as LAPFF continues its efforts to push for accounting standards that comply with the law and allow for integrity of the financial system. Subsequent to this, meetings were held with RBS, HSBC and Barclays to discuss the implications of the second Bompas opinion for their accounts.
- LAPFF Executive member, Geik Drever, attended the **National Grid** Annual General Meeting, to ask the board how climate change strategy is shaping the Company's overall business strategy and whether the Company plans to disclose its Scope 3 emissions. LAPFF asked about Scope 3 emissions at last year's National Grid AGM and was told it was the first investor group to do so. It was therefore gratifying to hear that the Company is likely to disclose its Scope 3 emissions starting next year.
- LAPFF participated in an Equality and Human Rights Commission Inquiry roundtable into the recruitment and appointment of board directors. The appointment of women to boards was of particular interest during the roundtable discussion. Cllr Mary Barnett represented LAPFF at the Inquiry.



COMPANY ENGAGEMENT

ENGAGEMENT TOPICS

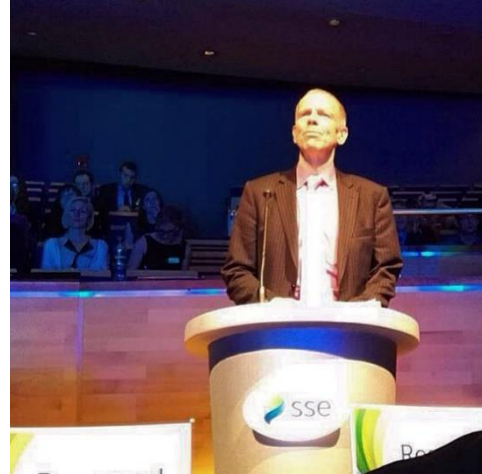


HOLDINGS BASED ENGAGEMENT

Cllr Denise Le Gal attended the **BT Group** AGM and spoke to the chairman, Sir Michael Rake, to welcome: the introduction of clawback provisions in remuneration; the achievement of a gender diverse board; and the significant carbon emission reductions made during the year. She noted the company auditors had been in place for thirty one years and set out that auditor rotation reduces the risks of excessive familiarity between statutory auditors and clients, encourages fresh thinking and helps limit conflicts of interest.

LAPFF attended the **Vodafone** AGM for the second year in a row. Chairman Gerard Kleisterlee presided over the meeting. The Forum asked about board and auditor independence. Specifically, the new Senior Independent Director, Philip Yea, has worked as recently as 2014 with the Company's auditors, so LAPFF asked why, given this apparent conflict of interest, the Company took the decision to appoint Mr Yea as Senior Independent Director. LAPFF raised this concern with Vodafone last year when Mr Yea was appointed to chair the Audit Committee. This topic is likely to gain publicity as European law on auditor rotation and independence come into force and raise visibility of the role of auditors. LAPFF has already asked about auditor rotation and independence at a number of AGMs, and companies appear to have varying states of preparation in answering these questions. While they might be prepared from a legal perspective, they often do not satisfy investor concerns in this area.

In July, LAPFF Executive Member, Cllr Cameron Rose, attended the **SSE** AGM in Perth, Scotland. In line with the above concerns about legal developments surrounding independent auditors, Cllr Rose asked about auditor independence at the meeting where Lord Smith of Kelvin stepped aside to make way for new chairman, Richard Gillingwater. Mr Gillingwater indicated his satisfaction with the independence of the current auditor. SSE is required to rotate its auditor in 2021, but will run a tender process in 2018 for a 2019 rotation. The response to a second question on carbon capture and storage was that SSE is confident that CCS will go forward with UK government approval.



PROMOTING GOOD GOVERNANCE

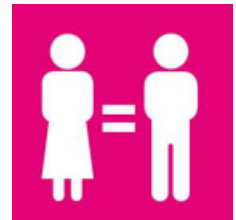
LAPFF Chairman, Cllr Kieran Quinn, met again with **Trinity Mirror Group** Chairman, David Grigson, to discuss the company's strategy and progress on dealing with phone hacking claims. The Company seems to have taken LAPFF suggestions on board and is taking positive steps to resolve challenges, both in relation to strategy and hacking.

Tax expert, Richard Murphy, has analysed company responses to the **Corporate Tax Transparency Initiative** (CTTI) survey sent by LAPFF to the FTSE 100 earlier in the year. His summary report suggests a continued reluctance by many companies to engage on this issue, but there are particular areas that some major companies have identified that suggest possible ways forward to progress corporate tax transparency.

PEOPLE AND INVESTMENT VALUE/EMPLOYMENT STANDARDS

Cllr Mary Barnett attended a roundtable inquiry hosted by the Equality and Human Rights Commission (EHRC) on FTSE 350 recruitment and appointment of board directors. The roundtable was an evidence-gathering exercise and an opportunity for the EHRC to share some emerging issues and findings on board appointments. One area addressed was the challenges faced in improving the representation of women on boards.

The 30% Club Investor Group, of which LAPFF is a member, has responded to the Government Equality Office's Gender Pay Gap consultation which strongly supports publication of gender pay information to encourage employers to take action to help close this gap.



LAPFF has also co-signed a letter to support the **Business Supply Chain Transparency on Trafficking and Slavery Act of 2015** being proposed at the federal level in the United States. This bill follows on from almost identical legislation already in place in California that requires

businesses of a certain size to report on their supply chain practices in relation to trafficking and slavery.



Cllr Richard Greening spoke to the company secretary at **John Menzies** about health and safety practices in light of worker deaths at Los Angeles International Airport. The Company had been the target of a vigorous union campaign to improve its health and safety practices after a Menzies worker died while driving a baggage tug. John Geddes spoke openly with Cllr Greening about what the Company learned from the experience and how it has taken steps to improve its health and safety programme for workers. Mr Geddes also spoke about the Company's experience of working with unions in this context. Separately, Cllr Greening spoke about how LAPFF engages on the issue of worker rights at the Committee on Workers Capital conference.

A meeting with **Halfords** explored the link between how employees are treated by the companies they work for and the value that companies create for shareholders in the context of Halfords' approach to employee engagement.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

LAPFF continued its engagement on carbon management with **Shell** and **BP** following the unprecedented support by the boards for the strategic resilience resolutions put to their AGMs. These were overwhelmingly passed by shareholders with votes of over 98% at both meetings. The Forum continues its membership of the Aiming for A coalition which was instrumental in co-ordinating international investor support.

Cllr Rose attended an investor meeting with Shell's newly appointed chairman, Chad Holliday. Of note for Shell are the announcements that the company has left ALEC (the American Legislative Exchange Council) with a Shell spokesperson saying 'its stance on climate change is clearly inconsistent with our own' and its decision to cease further exploration activity in offshore Alaska for the foreseeable future

A further meeting was held with BP to follow up on developments precipitated by the Strategic Resilience resolution and to explore any impacts on the company's business development plans.



Painted owls welcomed people to Birmingham on the way to the National Grid AGM

LAPFF Executive Member, Geik Drever, attended the National Grid AGM. Ms Drever addressed Sir Peter Gershon, the chairman of National Grid to ask about the influence of climate change on the company's business strategy and met briefly with the Chief Executive, Steve Holliday, following the meeting to clarify how the Company is decoupling profits from carbon emissions.

Palm Oil

Earlier this year, LAPFF wrote with other investors to the Roundtable on Sustainable Palm Oil (RSPO) on strengthening its standards for sourcing palm oil sustainably and to an accelerated timeline. The RSPO has recognised concerns over the development of differing sustainable sourcing initiatives and that it is working to address these. However, the investor group has emphasised that best practice standards ultimately need to be incorporated into the RSPO's



core principles and criteria. LAPFF also attended a meeting of the UNPRI Investor Working Group on Palm Oil to discuss ways forward for the group and effective engagement practices with companies listing palm oil as one of their commodities.

There is now a 'spot tool' that investors can use to help identify sustainable producers of palm oil. This tool includes a mapping function that allows users a detailed view of concession sites, along with certification details under, for example, the RSPO. Currently, 25 of the top publicly listed companies selling palm oil are ranked based on a 48 indicator framework. The ratings

for this tool are then assigned by an environmental economist. The tool can be found at: <http://www.sustainablepalmoil.org/spott/>

MEDIA COVERAGE

Bompas IFRS Opinion

[Financial Times](#), [IP&E](#), [Invezz](#), [Out-Law](#)

Local Authority Pension Scheme Reform

[Public Finance](#)

Clinical Trials Transparency

[Local Government Chronicle](#)

Fossil Fuel Divestment

[The Lincolnite](#), [Hackney Citizen](#), [Buxton Advertiser](#)

NETWORKS AND EVENTS

The first of the party fringe meetings was held in Brighton, at the Labour party conference with the theme 'Has Banker Bashing Gone Too Far?'. Speakers included Cllr Kieran Quinn (Chair, LAPFF), Dominic Lindley (New City Agenda), Mike Kane MP, formerly Treasury Select Committee and Joanne Segars Chief Executive NAPF and it was followed by a lively debate.

Other events and meetings attended during the quarter included:

CWC Conference: Cllr Greening presented on LAPFF engagement on labour rights

Equality & Human Rights Commission: Cllr Barnett participated in a roundtable

Frank Bold/CORE Coalition: explored link between governance and sustainable societies

TUSO: event to discuss implications for workers of zero hour contracts/precarious work

Nikko Research Center: met with Japanese investors on shareholder engagement

Green Investment Bank: update on recent Bank activities

NAPF: Decarbonisation of equity portfolios event

Climate Bonds: launch event for climate bonds initiative held at Norton Rose law firm

CDP: managing natural capital risks for an uncertain future

Hacked Off: discussed phone hacking practices of media conglomerates

CONSULTATIONS

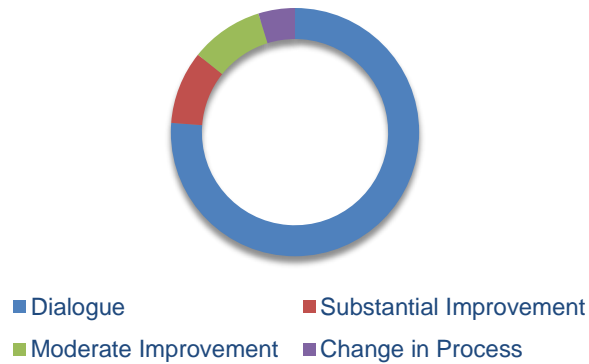
LAPFF submitted a consultation response to the Hong Kong Stock Exchange, which is seeking to revise its environmental, social and governance (ESG) guidance to issuers. Support was voiced for the Exchange's intention to move toward comply or explain reporting for a number of ESG metrics, in part as an example for other exchanges looking for reporting guidance. However, LAPFF suggested a further move to mandate reporting of carbon emissions. The impetus for this suggestion is the goal of a single global reporting framework, which LAPFF believes is essential for effective action on climate change. LAPFF stated support for international accounting tools - specifically the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard - to promote clarity and comparability in carbon emissions reporting. LAPFF Chairman, Kieran Quinn, emphasised the importance of these efforts in the run up to the Paris climate talks that will take place in December.

COMPANY PROGRESS REPORT

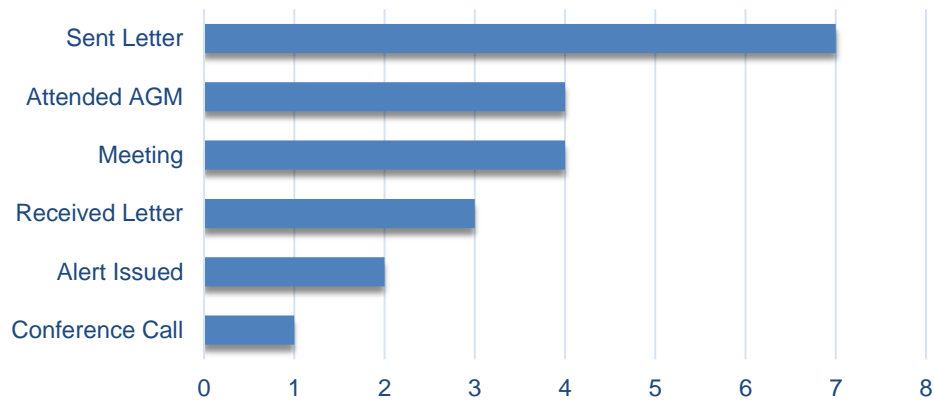
The Forum engaged with **16 companies** during the third quarter.

Company	Topics	Activity/Outcome	Domicile
Trinity Mirror	Governance	Meeting/Substantial Improvement	UK
Astra Agro Lestari	Environmental Risk	Sent Letter/Dialogue	Indonesia
National Grid	Carbon Management	AGM/Moderate Improvement	UK
SSE	Carbon Management	AGM/Dialogue	UK
Vodafone	Governance	AGM/Dialogue	UK
BHP Billiton	Carbon Management	Sent Letter/Dialogue	UK/Australia
John Menzies	Employment Standards	Meeting/Moderate Improvement	UK
Halfords	People and Investment Value	Meeting/Dialogue	UK
Toyota	Carbon Management	Received Letter/Dialogue	Japan
BP	Carbon Management	Meeting/Change in Process	UK
Shell	Carbon Management	Meeting/Dialogue	UK/Netherlands
Volkswagen	Governance	Sent Letter/Dialogue	Germany
Google	Governance	Sent Letter/Dialogue	United States
AGL Australia	Carbon Management	Voting Alert/Dialogue	Australia
BT Group	Audit Practices	AGM/Dialogue	UK
Sports Direct	Employment Standards	Voting Alerts/Dialogue	UK

COMPANY ENGAGEMENT OUTCOMES

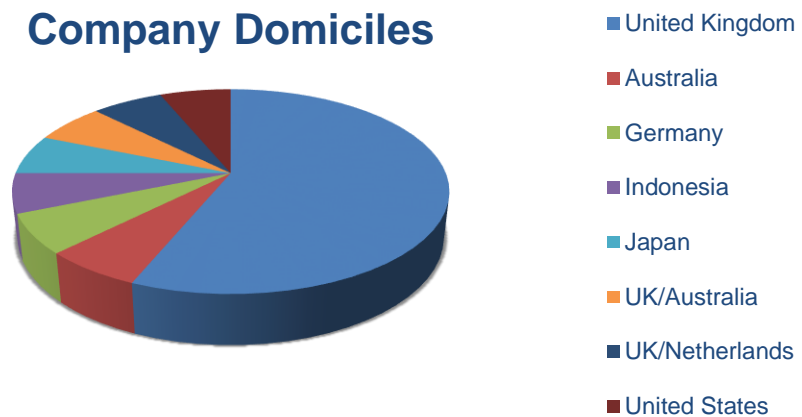


ENGAGEMENT ACTIVITIES



COMPANY DOMICILES

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Local Authority Pension Fund Forum Members

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

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