

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2017



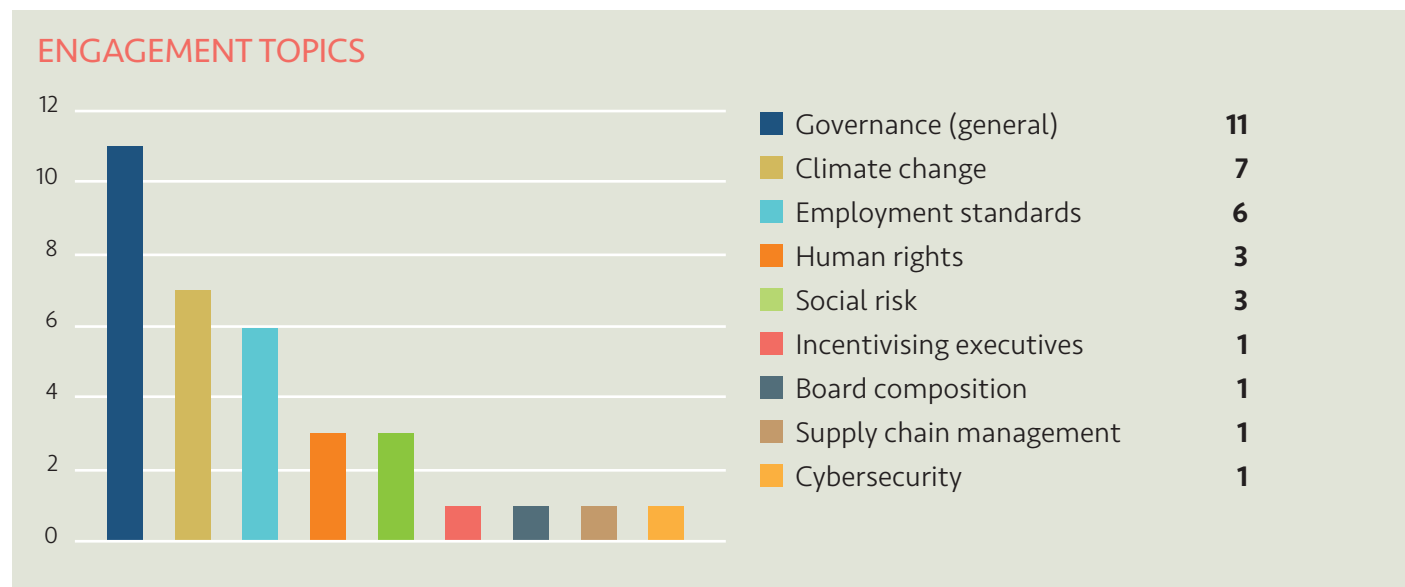
New year ushers in
new Executive
Committee and
updated constitution

LAPFF responds to
government green
paper on corporate
governance

Rio Tinto issues
climate change
report following
engagement

LAPFF continues to
engage Sports Direct
on employment
standards

Company Engagement



GOVERNANCE RISK

EXECUTIVE PAY AND RELIABLE ACCOUNTS

LAPFF response to government green paper on corporate governance

[LAPFF responded](#) to The Department for Business, Energy & Industrial Strategy's Green Paper on Corporate Governance Reform. The response focused on ensuring that executive pay is properly aligned to long-term performance and giving greater voice to employees and consumers in the boardroom.

Although the Forum is concerned that the current executive remuneration system is fundamentally broken and needs to be overhauled, for the purposes of the Green Paper, a number of suggestions were offered regarding the existing framework. Binding upper thresholds for total annual pay and mandatory disclosure of fund manager voting records were recommended, as were increased stakeholder engagement on executive remuneration, including employee representation on remuneration committees and incorporating employee views into pay policy. In respect of stakeholder engagement, LAPFF stated it would like to see more legal requirements to ensure that stakeholder voices of all types, not just those of employees and consumers, are considered in order to build business resilience to non-traditional financial factors.

The response re-iterated previously identified problems with the regulator of governance, accounts and financial reporting, the Financial Reporting Council (FRC). The submission noted the methods that the FRC had used to give the impression it had done nothing wrong and that it has denied any errors. The response questioned the governance of the FRC itself, including the way it is established, and called on Downing Street to "take an

active interest in the position of the FRC". In particular, LAPFF has suggested that serious consideration should be given to disbanding the FRC and establishing an independent Companies Commission.

LAPFF also wrote to the Chairman of the US Securities and Exchange Commission (**SEC**) to support the implementation of the Pay Ratio Rule. In the Forum's view, the primary value of the ratio is to indicate a company's approach to balancing internal and external competitiveness when setting CEO pay, and to ensure the wage gap within each company does not increase disproportionately, which could have adverse impacts on employee morale and productivity.

"the legislative requirements that the FRC is getting wrong are not even complex, the only things that are complex are the excuses that the FRC constructs to avoid dealing with its mistakes"

MERGERS AND ACQUISITIONS

Tesco merger with Booker

In a new briefing '[Tesco: asking the right questions of the proposed merger with Booker](#)', the Forum provided questions individual funds may wish to use to engage with the company. The proposed deal would see Tesco merge with Booker, food wholesaler and owner of Londis and Budgens convenience stores. The stock market appeared to applaud particular strategic aspects of the deal. These include developing the supply chain management capabilities and the premium paid for control of Booker which appear reasonable. However, there also appear to be a variety of risks that shareholders should be aware of, which include some governance concerns.

The Forum considers it a high risk transaction and encourages shareholders to gain assurance from Tesco's board that the risks that accompany the Booker merger have been acknowledged. For analysis of the deal, refer to the briefing on the member section of the LAPFF website.

"We... consider this to be a high risk transaction and encourage shareholders to gain assurance from Tesco's board"

HOLDINGS-BASED ENGAGEMENT

Earnings, infrastructure and Brexit raised at EasyJet AGM

CLlr Doug McMurdo attended the **easyJet** AGM and spoke to the Chair and Senior Independent Director. The day before LAPFF attended the easyJet AGM, its founder and 34% shareholder Sir Stelios Haji-Ioannou had stated his concerns to the *Daily Telegraph* about earnings. At the AGM one of his representatives raised concerns about the about the size of the fleet and the type of contracts used to manage its size. He had promised to vote against the Chairman on this point. However, at the time of the vote, he only used a token number of his shares to oppose the Chairman. It was also noted that, post-Brexit, the company headquarters would remain in Luton. The implication, though, was that a large operational element would be on the continent with the company having applied for an operation license in Europe. Congestion problems in British airspace were raised as a major problem for easyJet. The CEO spoke about infrastructure impediments, its impact on business and the need for greater investment.



ENVIRONMENTAL & CARBON RISK

LAPFF response to recommendations of the task force on climate-related financial disclosure

In responding to the Financial Stability Board's **Taskforce on Climate Disclosure** report, LAPFF supported its recommendations and considered all market participants should be encouraged to aim for full implementation. The

Forum further considers that guidance could go beyond promoting disclosure of scenario that reflects a 1.5 – 2 degree future, to recommending that companies should be positioning themselves for a low carbon future by disclosing a strategic business transition plan.

LAPFF's response further noted the lack of a recommendation to report on public policy positions and also requested a greater focus on reporting of the financing and development of the low-carbon investment opportunities. To ensure the rapid take up and promotion of consistent standards, the Forum encouraged the Taskforce to work with national stock exchanges, financial regulators and the International Organization of Securities Commissions.



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Strategic resilience

At a follow-up meeting with Jan du Plessis, the chair of **Rio Tinto**, Rodney Barton of the LAPFF executive joined other investors in the small coalition that has been meeting with the company since 2013, to improve its response to the anticipated low-carbon transition. It was made clear that all elements of the strategic resilience shareholder resolution, co-filed by LAPFF member funds, at the 2016 AGM, would not be able to be addressed in one year. So for example there is still much to be done in the areas of linking low carbon strategy with remuneration and on future low carbon scenarios. However, the company appears to be addressing each element of the resolution, for example through running internal workshops on undertaking scenario planning.

In March, Rio issued a climate change report in conjunction with its sustainable development report, in response to the resolution request. A follow-on meeting was held with Mathew Bateson, Head of Environment & Legacy Management who also led a webinar which included Vivek Tulpule, Head of Economics & Markets. At this, it was indicated that the issues which the company still need to consider further are quantitative reporting and combining reporting with the financial reporting of the company.

In a [press-statement](#), LAPFF welcomed the news that **Shell** was divesting most of its oil sands interests in Canada and at a collaborative meeting with Chad Holliday,

the Shell chairman, asked how the company could better illustrate how action to mitigate exposure to carbon risk is integrated into Shell's business model and strategic planning.

In a collaborative call with the chair of the **BP** remuneration committee, Professor Ann Dowling, gave an update on the proposed new pay arrangements at the company and how these linked into company strategic action on climate. Part of the performance indicators for the long term incentive plan now include a reflection of strategic priorities to support a lower carbon future with the focus on 'value over volume'. In doing so, the use of the 'reserves replacement ratio' criticised in the past, has been removed as a metric for remuneration.

SOCIAL RISK DIVERSITY

Lack of gender diversity on the board of FTSE 350 company

Over the past 18 months LAPFF has been communicating with **Euromoney**, which, following a board restructure, now has no women on the board. In the 2016 Annual Report the lack of women on the board is described as 'temporary', although the company states its support for the principles of the Davies Report and that as part of a board review 'the diversity position will be reviewed in light of best practice.' In the run-up to the January AGM, LAPFF contacted Euromoney to inform them that a voting alert would be issued as all those proposed to be elected to the board at the AGM were male. This did elicit a response describing the changes the company had gone through. However, given the amount of time that had passed and that no female directors were proposed to be elected to the board, LAPFF remained concerned that the board was not giving this issue adequate consideration and treating it with sufficient urgency. A [voting alert](#) was therefore issued to oppose the re-election of John Botts, chairman of the nominations committee.

LAPFF's response to the Parker review of ethnic diversity

[LAPFF responded](#) to the government-backed Parker Review on Ethnic Diversity of UK Boards' consultation report '[Beyond One by 21](#)'. The interim report highlighted the lack of ethnic diversity and makes several recommendations, including setting a target that each FTSE 100 Board should have at least one director of colour by 2021, FTSE companies should develop candidates for the pipeline and companies should enhance transparency and disclosure. The Forum's response set out the Forum's position on diversity, how it engages on such issues and recommended that the final report could be strengthened by stressing the role that investors can and should play.

HUMAN CAPITAL AND EMPLOYMENT

Continuing engagement with Sports Direct over employment standards

LAPFF continues to engage with **Sports Direct**. At the end of last year the Senior Independent Adviser of Sports Direct failed to attend a meeting with Cllr Kieran Quinn, LAPFF chair. Separately, the Forum issued a voting alert to oppose the re-election of Sports Direct Chairman, Keith Hellawell, at the 5 January 2017 EGM to address continuing concerns about the Company's governance and business practices. So at the start of January LAPFF was in touch with Sports Direct regarding the previously arranged meeting in December for which no apology was forthcoming from the Senior Independent Director. Communications stressed concerns that Keith Hellawell was re-appointed as chairman at the EGM despite overwhelming opposition from independent shareholders. They also highlighted the falling holdings in Sport Direct of LAPFF members and concerns by some members that the drop in the company's financial performance was being driven by governance and workplace concerns. LAPFF was told that engagement with Cllr Quinn would be discussed at a February 2017 board meeting. The Forum has since followed up to enquire about the results of that discussion but has received no response from any Sports Direct representative.

RELIABLE ACCOUNTING RISK

Reliable accounts and banking regulation in a changing environment

The Forum met with **HSBC** to discuss the company's sparse human capital management reporting and financial regulation, including reports from the US suggesting that financial regulations implemented after the financial crisis to protect economies from further crises are likely to be rolled back. There were two meetings, the first on human capital management with Pierre Goad, Group Head of Employee Insight and Communications, and the second on financial regulation with Chairman, Douglas Flint. Mr Flint is set to step down as Chair later this year. He will be replaced by Mark Tucker, who will leave the Goldman Sachs board to fill this role.



MEDIA COVERAGE

Accounting Standards

[LAPFF moves against EC with IFRS 9 'maladministration' claim](#) – IPE, 12 January 2017

[Accounting roundup: More illegal dividends unearthed](#) – IPE, 15 February 2017

[Clearer picture of banks' capital is required to help avert crises](#) – Financial Times, 12 January 2017

LAPFF Response to the Corporate Governance Green Paper

[Shareholders demand right to limit executive pay](#) – Financial Times, 24 February 2017

[LAPFF hits out at UK's Financial Reporting Council](#) – IPE, 27 February 2017

[Weekly highlights – Financial Services](#) – LexisNexis, 2 March 2017



Climate risk

[Global asset owners, managers launch initiative to track shift to low-carbon economy](#) – Pensions & Investments, 11 January 2017

LGPS

[MPs urged to examine sector's finances](#) – Municipal Journal, 28 February 2017

[MPs urged to examine local government pension scheme](#) – LocalGov, 2 March 2017

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

Corporate Human Rights Benchark (CHRB) launch - The CHRB is a collaborative effort of Aviva Investors, the Business and Human Rights Resource Centre, Calvert Research and Management, the EIRIS Foundation, and Institute for Human Rights and Business and VBDO to rank major multinationals on their human rights efforts.

ShareAction Workforce Disclosure Initiative event - ShareAction is developing a rating tool for human capital management aimed at allowing investors to prioritise companies for engagement on human capital and to identify sub-issues for engagement.

UNGC beneficial ownership - Discussing the importance of beneficial ownership transparency for responsible business practices and the ability of investors to assess business risk. The discussion followed the launch of beneficial ownership global website to build on national efforts.

PRI Global RI Regulation - PRI guide launch on responsible investment regulation globally and its impact.

2016 India Spotlight Index - The Access to Nutrition Foundation (ATNF) has launched the India Spotlight Index, which assesses the policies, practices and disclosure of the largest multinational Indian food and beverage manufacturers.

ClientEarth Climate Change and the Law Seminar - This event explored how to use the existing legal framework to better encourage companies to report both on their climate change impacts and on how they will be affected by climate change.

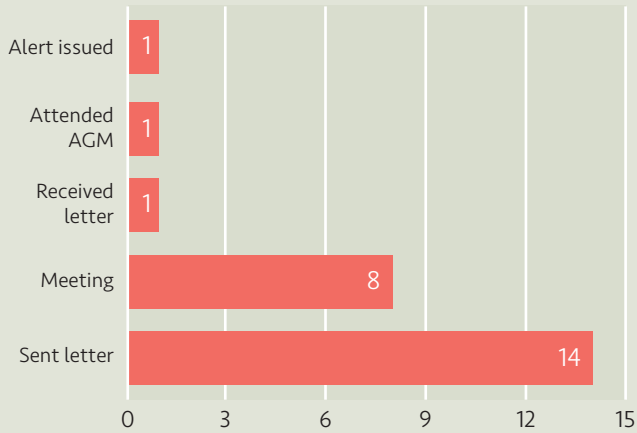
COMPANY PROGRESS REPORT

15 companies engaged over the quarter

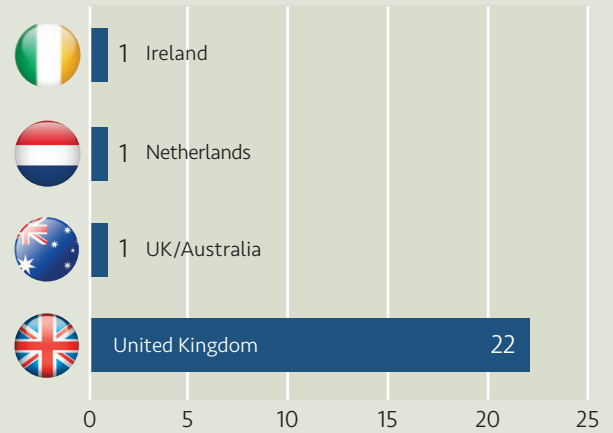
Q1 2017 ENGAGEMENT DATA				
	Company	Topics	Activity	Outcome
1	Aberdeen Asset Management plc	Sent Letter	Social Risk	Governance (General)/ Awaiting Response
2	Anglo American plc	Meeting	Climate Change/ Human Rights	Change in Process
3	AstraZeneca plc	Sent Letter	Governance (General)	Dialogue
4	BP plc	Sent Letter/Meeting	Climate Change/ Remuneration	Substantial Improvement
5	British American Tobacco plc	Sent Letter	Social Risk	Dialogue
6	Easyjet plc	Sent Letter/ Attended AGM	Other/Governance (General)	Dialogue
7	Euromoney Institutional Investor plc	Alert Issued	Board Composition	No Improvement
8	HSBC Holdings plc	Sent Letter/Meetings	Employment Standards/ Finance and Accounting	Change in Process/ Dialogue
9	Lloyds Banking Group plc	Sent Letter	Finance and Accounting	Dialogue
10	Rio Tinto Group	Meetings	Climate Change	Substantial Improvement
11	Royal Dutch Shell plc	Meeting	Climate Change	Dialogue
12	Shire plc	Sent Letter	Governance (General)	Dialogue
13	Sports Direct International plc	Sent Letters/ Received Letter	Employment Standards/ Governance (General)	Awaiting Response/ No Improvement
14	Standard Life plc	Sent Letter	Governance (General)/ Social Risk	Awaiting Response
15	Vodafone Group plc	Sent Letter	Governance (General)	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

Company engagement topics



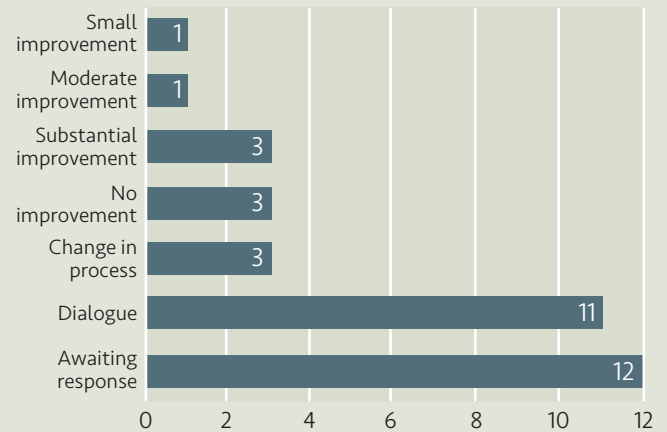
Domicile



Position engaged



Outcomes



LAPFF DEVELOPMENTS

At the LAPFF AGM, it was announced that Cllr Kieran Quinn had been re-elected as LAPFF Chair and Cllr Denise Le Gal and Cllr Ian Greenwood were elected as Deputy Chairs of the LAPFF executive.

Joining them on the executive is new committee member Cllr Alasdair Rankin (Lothian Pension Fund). Two members of the executive, former LAPFF Deputy Chair, Cllr Cameron Rose, and Cllr Richard Greening have stepped down after distinguished tenures on the executive, and at the executive meeting in January LAPFF chair, Kieran Quinn, extended his thanks for all their work and support over the years.

At the LAPFF AGM it was announced the revised LAPFF Constitution had been overwhelmingly approved (by 85% of those who responded). Kieran Quinn stated "The Forum now has a robust and modern constitution, enshrining the rights of our members and the role and obligations of our Executive and membership, through our own transparent governance process. It is now 'fit for purpose'." The new Constitution can be viewed on the member section of the LAPFF website.

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
- Durham County Council 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 County Council Pension Fund
- 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
- Northumberland County Council
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Redbridge (London Borough of)
- 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 City and County of Swansea 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