

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

## Summary

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

## Recommendation

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

## DRAFT QUARTERLY ENGAGEMENT REPORT

JULY to SEPTEMBER 2016

### [FRONT PAGE HEADLINES]

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

### LOCAL AUTHORITY PENSION FUND FORUM

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

### ACHIEVEMENTS

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



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

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

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

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

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

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

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



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

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

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

## COMPANY ENGAGEMENT

### ENGAGEMENT TOPICS



## PEOPLE AND INVESTMENT VALUE/EMPLOYMENT STANDARDS

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

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

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

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

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

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

## RELIABLE ACCOUNTS

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

## HOLDINGS BASED ENGAGEMENT

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

## M&A engagement gets underway with Rentokil

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

## TAX

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

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

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

## PEOPLE PAY AND INVESTMENT VALUE

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

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

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

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

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

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

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

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

## **MEDIA COVERAGE**

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

### **Sports Direct**

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

Five Live interview with Jane Firth at 1h 10min, <http://www.bbc.co.uk/programmes/b07rkqgz>

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

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

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

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



## Accounting standards

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

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

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

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

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

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

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

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

## NETWORKS AND EVENTS

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

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

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

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

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

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

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

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

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

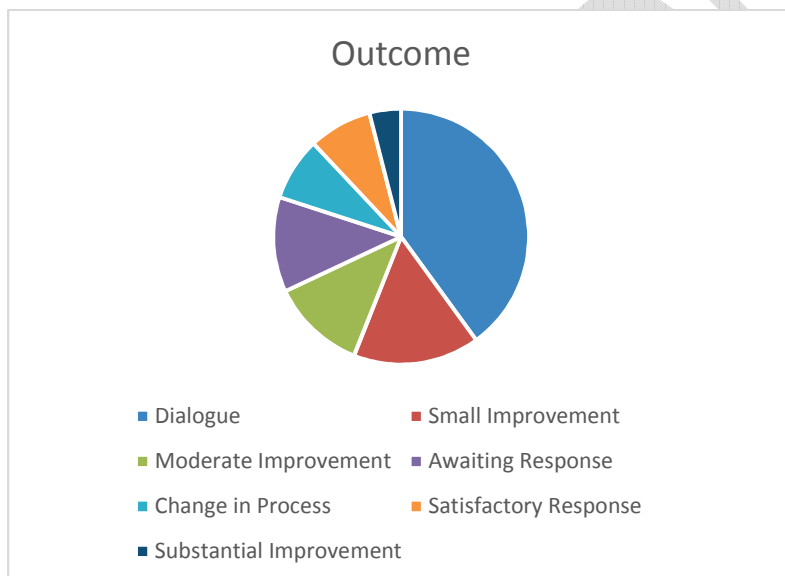
## COMPANY PROGRESS REPORT

21 Companies engaged over the quarter

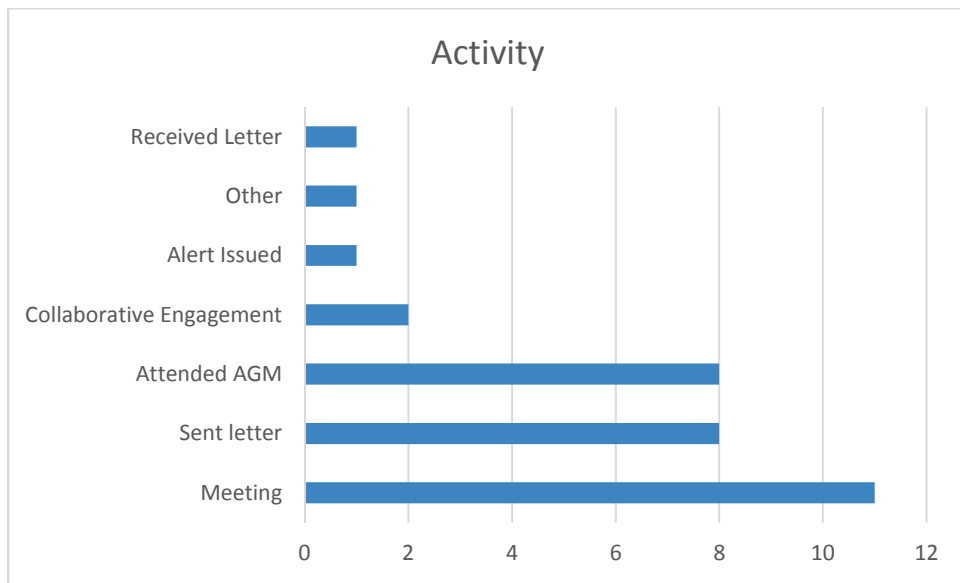
Company	Topic	Activity	Outcome
Anglo American	Climate Change/ Governance (General)	Meeting	Change in Process
BP	Remuneration	Meeting	Meeting
British Land	Remuneration	AGM	Dialogue
BT	Governance (General)	AGM	Dialogue
Euromoney Institutional Investor	Board Composition	Sent letter	Awaiting Response
G4S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

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

## COMPANY ENGAGEMENT OUTCOMES



## ENGAGEMENT ACTIVITIES



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