

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE
MEETING DATE:	27 MARCH 2015
TITLE:	LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT 4Q14
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report:	
Appendix 1 - LAPFF Quarterly Engagement Monitoring Report	

1 THE ISSUE

- 1.1 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF publishes a Quarterly Engagement Report highlighting its activities during the quarter.
- 1.2 The quarterly engagement report for the period ending 31 December 2014 can be found in Appendix 1.

2 RECOMMENDATION

The Avon Pension Fund Committee is asked to:

- 2.1 **Note LAPFF Quarterly Engagement Report at Appendix 1**

3 FINANCIAL IMPLICATIONS

3.1 The subscription for LAPFF is provided for in the annual budget.

4 LAPFF QUARTERLY ENGAGEMENT REPORT

4.1 The Fund is a member of LAPFF, a collaborative body that exists to serve the investment interests of local authority pension funds. In particular, LAPFF seeks to maximise the influence the funds have as shareholders through co-ordinating shareholder activism amongst the pension funds.

4.2 The Fund recognises that collaboration with other investors is a powerful tool to influence corporate behaviour, both in terms of corporate governance and to ensure non-traditional investment risks are brought to the attention of company boards so they can be addressed and managed more effectively by the company.

4.3 Fund members and/or officers regularly attend LAPFF meetings and conferences. The work of LAPFF supports the officers and Investment Panel members in their discussions with the investment managers.

4.4 LAPFF's activity in the quarter is summarised in their Quarterly Engagement Report at Appendix 1.

4.5 Highlights from the engagement report include:

(1) LAPFF held engagement meetings with the Chairman of both Shell and BP to discuss their company's approach to carbon management.

(2) LAPFF issued a draft voting alert to members on the proposed executive remuneration for incoming CEO at BG Group, Mr Lund. LAPFF along with several institutional shareholders had publicly shared concern that offering remuneration terms outside of the policy approved by a binding shareholder vote would've been seriously undermining for the UK's new executive pay regime. The subsequent withdrawal of the conditional share offer by BG brought the deal offered to Mr Lund for accepting the job of CEO back within the terms of the policy approved by BG shareholders at its most recent AGM.

(3) Reliable Accounts – LAPFF sent a letter to the Financial Reporting Council concerned that Afren plc's company practices did not comply with the Listing Rules or with the s410A of the Companies Act 2006. Defective accounts have implications not only for the appointment of directors, but also for the approval of remuneration policy. As a result, LAPFF has asked the FRC to address this issue with some urgency. This is part of a wider LAPFF campaign focussing on the legality and effectiveness of current accounting standards.

4.6 **Shareholder Resolutions:** At the quarterly LAPFF business meeting held in January, it was noted that LAPFF along with 13 other pension funds filed shareholder resolutions at both upcoming Shell and BP AGMs. The resolutions call for routine annual reporting from 2016 to include further information about certain activities related to climate change, including ongoing operational emissions management, asset portfolio resilience to the International Energy Agency's scenarios, and public policy positions relating to climate change. It has since been reported that Shell management is recommending shareholders vote for the motion, which is very rare for a shareholder proposed resolution.

5 SHAREHOLDER ACTION BENCHMARKING SURVEY

- 5.1 The report, published by independent responsible investment charity 'ShareAction', ranked 33 of the largest asset managers in the UK on transparency, corporate governance, ESG.
- 5.2 The study examined the 33 asset managers on the basis of publicly available information and a survey that 24 of the firms completed. It found that all 33 firms are now publicly committed to stewardship and RI: 100% are signed up to the Code and all but 2 (Artemis Investment Management and Santander Asset Management UK Limited) are signatories to the PRI. 96% of survey respondents state that they conduct stewardship because they believe it affects investment returns. However the quality of RI and stewardship policies, practices and disclosures vary considerably between asset managers, and quality is not contingent on the size of the firm, or whether they are mainly active or passive managers.
- 5.3 The report makes individual recommendations for each asset manager based on the publicly available information examined and private recommendations based on confidential responses to a survey.
- 5.4 The Fund is invested with 7 of the managers included in the report, Jupiter (ranked 3rd), Standard Life (6th), Schroder (10th), RLAM (11th), SSgA (12th), BlackRock (13th) and Invesco (24th).
- 5.5 The Report is available in full at <http://shareaction.org/research>.

6 RISK MANAGEMENT

- 6.1 A key risk to the Fund is that the investments fail to generate the returns required to meet the Fund's future liabilities. This risk is managed via a diverse investment strategy structured to manage financial and other investment risks including environmental social and governance (ESG) risks. The engagement activity of LAPFF on behalf of the Fund is a key way of managing these ESG risks.

7 EQUALITIES

- 7.1 An Equality Impact Assessment has not been completed as this report is for information only.

8 CONSULTATION

- 8.1 This report is for information and therefore consultation is not necessary.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

- 9.1 The issues to consider are contained in the report.

10 ADVICE SOUGHT

- 10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director – Business Support) have had the opportunity to input to this report and have cleared it for publication.

Contact person	Matt Betts, Assistant Investments Manager (Tel: 01225 395420)
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**Background
papers**

LAPPF Member Bulletins, Data supplied by The WM Company

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