

# QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2016



**This quarter, LAPFF membership reached 70, welcoming Sutton as its newest member**

LAPFF Chairman, Cllr Kieran Quinn, cited for work on promoting the legal standard of true and fair view for accounting standards

Strategic resilience resolutions co-filed to Rio Tinto, Anglo American and Glencore supported by all three company Boards

Corporate Tax Transparency Initiative engagement meetings yield fruitful information

LAPFF welcomes new members to the Executive Committee

LAPFF remembers former LAPFF chair and Lord Mayor of Bradford, Cllr Bob Sowman

# Achievements

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## LAPFF Chairman, Kieran Quinn, listed as number 17 on Accountancy Age's Financial Power List for 2016

Clr Quinn has been included on this list for his work on promoting the legal standard of true and fair view for accounting standards. This ranking demonstrates LAPFF's growing traction in promoting the legal standard of a true and fair view of accounts in the UK's accounting industry. The Forum's initiative is also growing in prominence at the European level, with LAPFF's latest communication to Lord Hill, Commissioner for Financial Stability, Financial Services and Capital Markets Union, calling for a clarification of the European Financial Reporting Advisory Group (EFRAG)'s position on IFRS 9.



## Strategic Resilience Resolutions co-filed by LAPFF funds supported by Boards

The boards of the three integrated mining companies, Anglo American, Rio Tinto and Glencore have confirmed they are advising investors to vote in favour of strategic resilience resolutions being put to their 2016 AGMs. The resolutions request reporting on company actions in the face of the carbon transition, including how the companies will manage their assets to be resilient to future energy scenarios. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with eighteen funds co-filing across the three companies.



## Trends begin to emerge from tax engagements

LAPFF received three more responses and met with three companies in relation to the Forum's Corporate Tax Transparency Initiative (CTTI). These engagements reveal a continued reluctance to increase disclosure of tax practices, even by companies already doing relatively well in this area. Despite this concern, a number of companies are planning to increase disclosure although investors are not yet requesting tax information to the extent they could.

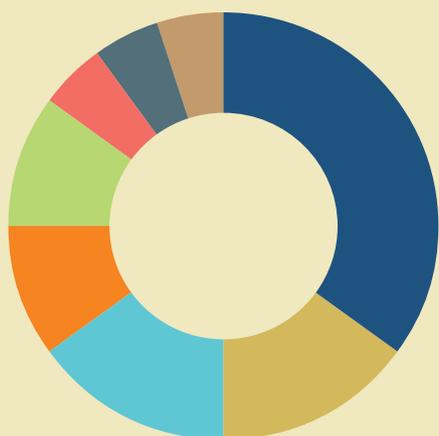


## Nestlé agrees to LAPFF request to review human rights reporting in light of Modern Slavery Act requirements

At **Nestlé's** recent investor roundtable, New LAPFF Executive member, Clr Mukesh Malhotra, asked Nestlé Chairman, Peter Brabeck-Letmathe, to consider reporting in alignment with the new UK Modern Slavery Act requirements. Mr Brabeck-Letmathe agreed to look into doing so. This commitment is particularly important as the Company faces litigation before the U.S. Supreme Court relating to child labour in its supply chain.

# Company Engagement

## ENGAGEMENT TOPICS



Tax	7
Social risk	3
Environmental risk	3
Climate change	2
Board composition	2
Governance	1
Remuneration	1
Employment standards	1

## HOLDINGS-BASED ENGAGEMENT

Although climate change strategic resilience resolution efforts have shifted in part to Glencore, Anglo American and Rio Tinto, engagement continued with **BP** to assess how the company is responding to the resolution requests from last year. A meeting with a number of BP’s senior management including Head of Long-Term Planning and Head Economist took place at the end of February with colleagues from the Aiming for A coalition. Cllr Richard Greening attended on behalf of LAPFF. While BP was supportive of the resolution ahead of last year’s AGM, there are concerns that its commitment to implementing the requests in the resolution are stalling. Therefore, BP’s disclosure of its ‘faster transition’ was a welcome response to one of the resolution’s components.

Engagement with another integrated miner, **BHP Billiton**, had previously been around the resolution asks on strategic resilience and the carbon transition. However, with the company issuing its ‘Climate Change Portfolio Analysis’ in 2015, investor focus shifted to the mining dam collapse at the Company’s Samarco project in Brazil, which left at least twelve people dead, eleven missing, and untold damage to property, causing significant reputational damage for BHP. The dam is operated by Samarco as a joint venture between BHP and Vale.

Jane Firth from the LAPFF Executive spoke with BHP representatives about the Company’s community engagement efforts, particularly at the Cerrejon mine in Colombia, and its responses to the Samarco disaster, in Brazil. This conversation followed Ms Firth’s attendance at the BHP Billiton AGM last year, where she welcomed the Company’s Portfolio Analysis report and asked about the Company’s membership of industry groups with

approaches to climate change at variance with Company statements. While BHP has taken a number of steps to engage effectively with communities in relation to project development, it is worrying that the Company identified a Samarco-type disaster as a risk in its annual report the year prior to the mine dam collapsing. This course of events suggests that while BHP has an effective risk identification program, it is not equally effective in taking measures to prevent these risks from materialising.

## PROMOTING GOOD GOVERNANCE



LAPFF met with **Kier Group** to discuss the Company’s remuneration practices. This meeting follows on from an initial meeting in 2014 regarding Kier’s past involvement with blacklisting and Chairman Phil White’s well-received presentation at the 2015 LAPFF Annual Conference. The latest meeting took place with Amanda Mellor, the chair of Kier’s remuneration committee. The meeting achieved its aims of gaining an understanding of the Company’s approach to its specific remuneration challenges; providing support for challenges to the status

quo in executive pay, and pressing where LAPFF considers Kier could move further in the direction of the Forum's beliefs on executive pay. The Company's approach to non-monetary incentives was explored in line with the Forum's views on People and Investment Value.

Responsible tax payment has rapidly become a significant governance issue for investors over the last couple of years. LAPFF has been engaging with the FTSE 100 companies on tax through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire. During the quarter, LAPFF received questionnaire responses from **Dixons Carphone, Admiral Group** and **SSE** and met with **ITV, Tesco** and **Direct Line Group** to discuss what needs to happen for companies to report more fully on their tax practices. LAPFF has employed eminent tax expert, Richard Murphy, to consult on this engagement, and the outcomes of these discussions are starting to feed into ideas for overcoming a disclosure barrier on tax.

LAPFF also wrote to **Google** following revelations that the Company had failed to pay adequate tax in the UK but as yet has had no response. Google UK had argued it was exempt from paying tax on share options. The Company's effective tax rate is allegedly between 2% and 3% as compared with the standard 20% rate for corporation tax.

## PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS



After attending last year's **Nestlé** investor roundtable, LAPFF was again invited to this event hosted in Central London. New LAPFF Executive Member, Cllr Mukesh Malhotra, succeeded at his first LAPFF engagement meeting in getting the Nestlé Chairman, Peter Brabeck-Letmathe, to agree to review the Company's reporting on labour rights in the supply chain so that the Company is compliant with the reporting requirements in the new Modern Slavery Act.

LAPFF attended another investor roundtable, this time held by unions, to learn about a shareholder resolution filed with **Pearson**, an education company. Teachers and parents in

the US and the UK have expressed concern that Pearson is driving a system of educational testing that is unduly stressful for teachers, parents and students and does not achieve appropriate educational outcomes. These testing concerns have been coupled with poor financial performance over the last few years, prompting union pension funds to request that the Company re-visit its business strategy to ensure that its products and services are meeting both basic human rights and shareholder needs.

LAPFF is also finalized its policies on human capital which should help to guide engagements relating to people and investment value. A human capital policies paper was presented to both the LAPFF Executive and LAPFF Membership for approval and covers topics such as zero hour contracts and supply chain transparency. The paper draws on both legal developments and recent research clarifying the link between human capital and investment value.

## ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Building on success after last year's results at the Shell and BP AGMs, three strategic resilience resolutions have been co-filed for the 2016 AGMs of **Glencore, Anglo American,** and **Rio Tinto**. This result was no small feat, with extra efforts by LAPFF and its coalition partners needed to rally Anglo American shareholders and push the resolution with this Company over the co-filing threshold. The Anglo resolution was the first in the UK to be supported by 5% of voting shares. The Rio Tinto resolution is another first in that all 100 co-filers have the Company as part of their main investment portfolio. As was the case last year, there has been not only shareholder support for the resolutions, but company support as well with all three boards backing the resolutions. Once again, a process of voting declarations in advance of the resolutions, acts as a spur to indicate active shareholder support rather than the default position of supporting management automatically. LAPFF member funds made up half of the largest co-filers by shares held at Anglo American, with a total of 18 LAPFF funds co-filing across the three companies. With the range of other investors, the total assets under management backing these resolutions amounts to £8 trillion.

Since filing shareholder resolutions are prohibitively complex in France, LAPFF joined other investors in writing to **Total**, asking the Company for a commitment to disclose according to the five elements of the strategic resilience resolution. This disclosure covers asset portfolio resilience according to the International Energy Agency Scenarios, which include the 450 ppm/two degree scenario. In March, minutes of the Total board meeting were released indicating that the directors had agreed to publish this information in a document at the May AGM. This disclosure

will also address other elements requested such as R&D in low-carbon energies as well as Total's engagement with public policies addressing climate change.



Other engagement avenues to address the required low carbon transition have included tackling company involvement in lobbying activities. LAPFF has written to a

number of companies – **Johnson Matthey, EDF, and Proctor and Gamble** – requesting information regarding their membership in industry organisations that have denied or failed to promote action on climate change. This engagement was undertaken with other investors concerned that industry bodies are often laggards in their climate change policies and strategies. Overall, the companies approached have been forthcoming with their views on balancing their climate change work with partners who are not engaging as well in this area as the companies would like. In relation to industry organisations, the challenge is fostering responsible climate change approaches while maintaining membership in groups with varied work and purposes. P&G responded to the LAPFF letter in January along these lines.

LAPFF has also joined other investment institutions in correspondence to the Financial Reporting Council (FRC) to set out long-term investors' expectations that fossil fuel dependent companies (notably oil, gas and coal companies) should address climate-related risks in the newly introduced viability statements in their annual reports.

## MEDIA COVERAGE

### Climate Change

FT: [Anglo American pressed on climate change disclosure](#) [subscription only]

Chief Investment Officer: [\\$8T Investor Coalition Turns Up Heat on Miners](#)

Edie.net: [Investors Demand Climate Transparency from Mining Firms](#)

Blue & Green Tomorrow: [Unprecedented Investor Call for Climate Risk Transparency from Mining Giants](#)

Professional Pensions: [UK schemes join global battle against mining giants over climate change](#) [subscription only]

### Governance

FT: [Murdoch's return to helm of Sky set to raise governance questions](#) [subscription only]

### Human rights

Electronic Intifada: [Has the UK Really Banned Boycotts?](#)



### Reliable accounts

Financial Director: [All's true and fair in accounting standards battle](#)

Accountancy Age: [The Financial Power List 2016](#)

Investment and Pensions Europe: [MEPs reignite war of words over prudent accounting standards](#)

Lider Press (Hungary): [a piece including a reference to LAPFF's work on true and fair view and the Bompas Opinion](#)

### Tax

The Times: [Pension funds step up the pressure in tax row](#) [subscription only]

## NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

**Devon, Somerset, Wiltshire and Falkirk committees:** Presentations to LAPFF member funds on shareholder engagement, LAPFF activities and positive outcomes.

**SPS** – Keith Bray, LAPFF’s Forum Officer, attended an event hosted by SPS titled “Reviewing Investments & Funding at a Time of Change” to represent LAPFF

**Goldman Sachs/Local Government Chronicle (LGC)** – On behalf of LAPFF, Mr Bray also chaired a LGC roundtable hosted by Goldman Sachs. This discussion focussed on ESG issues and included LGPS participants, as well as representatives from GM.

**CDP** – post-COP 21 update and ‘deep-dive’ on miners meeting

**ClientEarth/Preventable Surprises roundtable** – LAPFF representatives attended a meeting hosted by CCLA on Investor Strategy Post COP21

**Carbon Tracker** – International Investor meeting on strategies for 2016 and beyond

**Extractives Industry Transparency Initiative (EITI)** – call, the focus of which was to recruit a new investor representative to sit on the EITI Board. Recruitment of an investor representative has proved very difficult but is important as the EITI framework finds its way into legislation such as the Dodd-Frank Act provisions on conflict minerals. However, there are concerns about the efficacy of the EITI as well, which might account for the lack of investor interest.

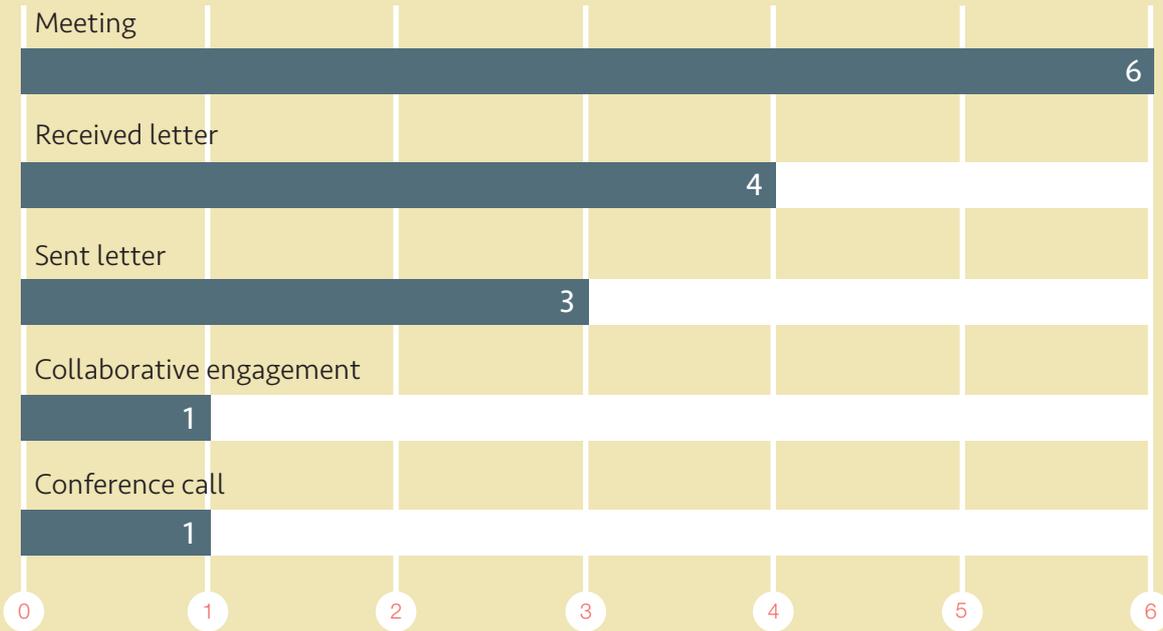
**University College London** – on a related topic, an international law professor critiqued the Dodd-Frank conflict mineral provisions, stating that they are ill-conceived at law and in practice. Her assessment is that the pending EU conflict minerals regulations are vastly better than their US counterparts.

**Rockefeller** – human capital webinar exploring the link between human capital and shareholder value.

## Q1 2016 ENGAGEMENT DATA

	Company	Topics	Activity/Outcome	Domicile
1	Dixons Carphone	Tax	No Improvement	United Kingdom
2	Admiral Group	Tax	Small Improvement	United Kingdom
3	SSE	Tax	Dialogue	United Kingdom
4	BHP Billiton	Social Risk/Environment	Satisfactory Response	UK/Australia
5	P&G	Climate Change	Dialogue	United States
6	ITV	Tax	Dialogue	United Kingdom
7	Kier Group	Remuneration	Moderate Improvement	United Kingdom
8	Tesco	Tax	Dialogue	United Kingdom
9	Google	Tax	Dialogue	United States
10	Weir Group	Board Composition	Dialogue	United Kingdom
11	Direct Line	Tax	Moderate Improvement	United Kingdom
12	Nestlé	Employment Standards/ Board Composition	Moderate Improvement	Switzerland
13	BP	Climate Change	Moderate Improvement	United Kingdom

### COMPANY ENGAGEMENT ACTIVITIES



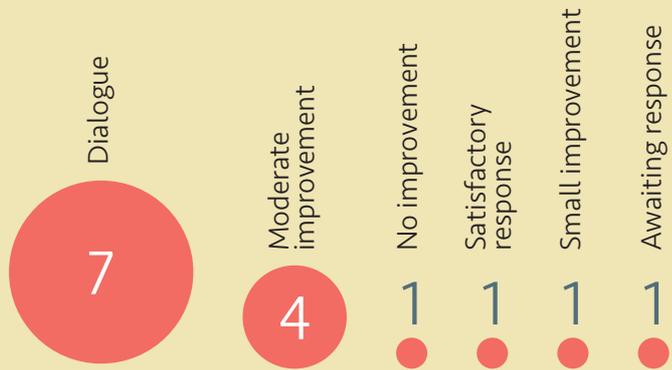
### COMPANY DOMICILES



### POSITION ENGAGED



### OUTCOMES



## NEW LAPFF EXECUTIVE MEMBERS

LAPFF would like to welcome new Executive Committee members, Cllr Mukesh Malhotra, London Borough of Hounslow Pension Fund, Cllr Doug McMurdo, Bedfordshire Pension Fund, and officer Faith Ward, Environment Agency Pension Fund.



*Cllr Mukesh Malhotra*



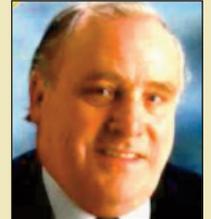
*Cllr Doug McMurdo*



*Faith Ward*

## REMEMBERING CLLR BOB SOWMAN

### **A tribute by LAPFF Vice Chair, Ian Greenwood**



Many long term members will have been saddened by the news of the death of Cllr Bob Sowman. Bob was a Bradford Councillor for 30 years and held a number of senior managerial posts in the engineering industry. He was the Chair of West Yorkshire Pension Fund for many years and Chair of LAPFF from 1999 till 2004. He was my friend for nearly 40 years. Bob was a larger than life character who cared passionately about equality and believed that everybody should have a decent pension. He was an early advocate of responsible ownership and engagement and under his chairmanship LAPFF made great strides. His leadership and vision made a great contribution to LAPFF becoming the organisation it is today. He was a wonderful man who will be missed by many.

## 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
- 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
- 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
- Sutton (London Borough of)
- Teesside 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