

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.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2016



LAPFF Annual
Conference 2016

Strategic resilience
resolution follow up
continues

Corruption raised at
a number of LAPFF
engagements

Sports Direct a
'no show' at
meeting with
LAPFF

LAPFF Conference 2016



LAPFF held another successful conference in Bournemouth from 7-9 December 2016. Entitled 'Protecting Portfolio Value', a primary focus of the conference was portfolio resilience. This reflected not only resilience in a changing political and economic climate but also LAPFF's continuing work on ensuring that companies targeted for strategic resilience shareholder resolutions on climate change follow through on their promises in line with the resolution asks.

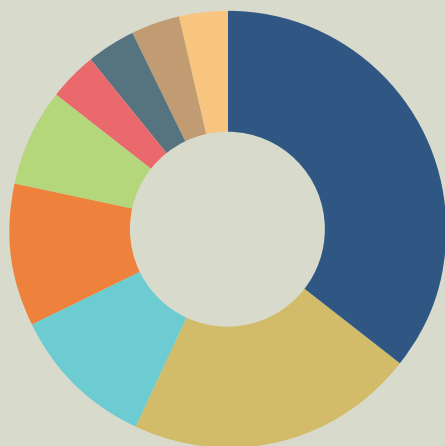
Representatives of all eight pools spoke about their experiences in getting their respective pools up and running. In one session, Seamus Gillen (*pictured above right*) of Value Alpha spoke about redefining the responsibilities of the corporation in the current climate, while views on infrastructure and impact investing were expressed during other sessions. Share buybacks, mergers and acquisitions, executive pay, human capital management and the role of shareholder resolutions also had dedicated sessions.

The most memorable session of the conference was presented by Bill Browder (*pictured below*), CEO of Hermitage Capital, who spoke about his experience as an investor in Russia and the level of corruption and defalcation there. Mr Browder gave a harrowing account of what happened to his lawyer, Sergei Magnitsky, who was tortured and killed. His efforts to gain justice for Sergei have led to laws in the US and UK aimed at protecting human rights.



Company Engagement

ENGAGEMENT TOPICS



Governance (general)	10
Climate change	6
Employment standards	3
Human rights	3
Social risk	2
Incentivising executives	1
Board composition	1
Supply chain management	1
Cybersecurity	1

GOVERNANCE RISK

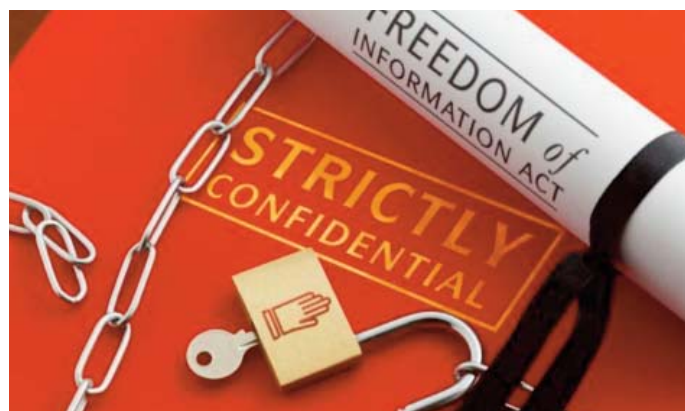
RELIABLE ACCOUNTS

Fol Highlights False Legal Claim by FRC

A Freedom of Information (FOI) request to the Department of Business Innovation and Skills (BIS) for 2015 correspondence – the year of the 2015 Opinion of Mr Bompas QC – revealed that the FRC had stated that government lawyers agreed with the FRC's position that LAPFF (based on Mr Bompas' position on true and fair view of accounts) was wrong. However, the FOI also revealed that this was not in fact the position of government lawyers (something stated twice by a BIS official). This false position has, however, been put to the Economic Affairs Committee of the House of Lords, as well as some journalists, and the FRC's own AGM.

As a result a further FOI was requested for 2013 – the year of the 2013 Opinion of Mr Bompas QC. This correspondence reveals the orchestration of a line between the FRC and BIS officials regarding Mr Bompas' 2013 Opinion – leading to a statement by the Minister Jo Swinson MP in October 2013. The summation of the 2015 and 2013 correspondence reveals that the Ministerial Statement is misleading as it does not reflect the position of the government's lawyers. Instead the Minister made a statement based on the FRC's position being correct and the FRC then cites the position of the Minister to justify the FRC as being correct. That is circular reasoning and far from the truth, which is that the government lawyers have never said that Mr Bompas is wrong.

"...the government lawyers have never said that Mr Bompas is wrong."



The extent of the campaign against the Bompas Opinions is clear as the 2013 correspondence shows that the FRC and some BIS officials had agreed at the outset that the FRC position had to 'be believed' even before the FRC had instructed (or even chosen) Counsel to consider the merits of Mr Bompas' position – which is very clear where the FRC position is wrong. Also revealed is that when the position of the FRC was due to be made public, with a statement from the Minister, the FRC asked BIS to "Try to get some investors on side, but it's more important to get corporates and the [accounting] profession onside". That is a remarkable conflict to invoke, as companies (their accounts) and the accounting profession (the auditors) are the parties that the FRC – and BIS – is supposed to be regulating. In short some BIS officials and the FRC were 'ganging up' with conflicted parties against the LAPFF/Bompas position based on wholly false assertions.

Clearly this campaign would not have been needed if indeed the position of LAPFF and Mr Bompas was demonstrably wrong.

BENEFICIAL OWNERSHIP

Corruption Raised at Two LAPFF Engagements

LAPFF met with **Rolls Royce** and **Rio Tinto** to discuss a range of issues, including climate change and strategic resilience. However, both companies are also facing corruption charges that have been filed with the UK's Serious Fraud Office. Rolls Royce has brought in a former employee of BAE Systems who worked with BAE to establish due diligence procedures to ensure the prevention of corrupt practices. Former Rio Tinto CEO, Sam Walsh, has been implicated in Rio Tinto's corruption case, along with another former CEO, Tom Albanese, who is now CEO of Vedanta. Perhaps not coincidentally, Mr Walsh left the company just prior to the corruption charges going public. Two other Rio Tinto executives, including Alan Davies, who has just resigned as a non-executive director at Rolls-Royce to protect that company from the Rio Tinto allegations, have since been fired.



LAPFF Tax Engagement Enters Next Phase

At the LAPFF October Business Meeting, it was agreed that the next step of the tax engagements would focus on the financial sector, including insurance companies. Tax expert Richard Murphy is continuing to consult with LAPFF on this topic and is helping to define these financial sector engagements.

MERGERS AND ACQUISITIONS

Sky Continues Questionable Deal and Appointment

After attending the **Sky** AGM, Ian Greenwood met with Martin Gilbert, Sky's Deputy Chairman, to discuss Twenty-First Century Fox's anticipated takeover bid and James Murdoch's appointment as Chairman of Sky. LAPFF has long opposed the appointment of James Murdoch as a board member of his father's companies, both because of his role during the phone hacking scandal and because of

the governance issues raised by his family ties. There were also concerns around his appointment as Chairman at this AGM primarily because no other candidates were considered.

HOLDINGS-BASED ENGAGEMENT

Antofagasta Unclear on Production Prospects

Antofagasta requested a meeting with LAPFF to introduce the Company's new Senior Independent Director. Ollie Oliveira has replaced William Hayes in this position, although Mr Hayes remains as a non-executive director with the Company. LAPFF Chairman Kieran Quinn took the meeting and asked about measures taken to promote greater diversity, not only at board level but throughout the organisation and at recruitment as well as governance challenges related to the fact that Antofagasta is a family-owned company. Discussions covered how Antofagasta has been responding to the glut in the copper market, both financially and in terms of its social and environmental practice. After the meeting, there was a report of lower production outputs by the Company. While production had come up in the meeting, the Company had not mentioned this drop.

BT Rues Brexit Vote

When LAPFF attended the **BT** AGM in 2016, Chairman Mike Rake expressed firm views on the outcome of the Brexit referendum and the effect it would have on BT's access to workers. Chairman Rake agreed to a follow up meeting with LAPFF, attended by LAPFF Vice-Chairman, Ian Greenwood. The meeting provided a useful update on the EE merger, the chance to explore protections from cyber-security risks and to determine what steps the Company is taking to make provisions for the effects of Brexit and contingent human capital concerns.



SOCIAL RISK

EMPLOYMENT STANDARDS

Sports Direct a 'No Show' at Meeting with LAPFF

After a number of years of trying to get a meeting with **Sports Direct**, Senior Independent Director Simon Bentley, agreed at the Sports Direct AGM in September to a meeting with LAPFF. This meeting has yet to happen despite best efforts from LAPFF. The Forum had recommended to members to vote against the re-election of Sports Direct Chairman, Keith Hellawell, at the 5 January 2017 EGM to address these continuing concerns about the Company's governance and business practices including claims of poor workplace practices at the Shirebrook warehouse in Derbyshire. The vote was called because of a lack of support for Mr Hellawell from independent shareholders at the 2016 Sports Direct AGM. Regardless of the outcome, a change in corporate governance and company ethic is clearly in order.



PEOPLE PAY AND INVESTMENT VALUE

Shell Gears Up for Pay Policy Vote

Councillors Toby Simon and Doug McMurdo met with **Shell's** remuneration chairman, Gerard Kleisterlee to discuss the Company's executive remuneration arrangements in advance of the AGM vote. They questioned how the performance indicators used by Shell such as 'production available for sale' and 'project delivery' aligned with low carbon, low demand scenarios. LAPFF had similarly asked **Anglo American** at their AGM whether the required low-carbon transition is reflected in the strategic performance element of its executive remuneration arrangements.

Many companies appear to be feeling increasingly uneasy about challenges to their pay arrangements after surprise investor revolts at the **BP** and **Weir** AGMs during 2016. This is likely linked to the fact that many companies will face votes on their pay policies during 2017 and calls from Prime Minister Theresa May to curb excessive executive pay.

HUMAN RIGHTS

Vedanta Seeking to Improve on Human Rights and Environment

After attending the **Vedanta** AGM, Councillor Richard Greening met with the Company to discuss its human rights and environmental record. LAPFF has engaged in previous years with the Company due to specific concerns raised related to both issues. However, Vedanta has appointed a former Shell employee as a director and Chair of the CSR Committee to help improve performance in these areas. After a first meeting with CSR Chair, Katya Zotova, Vedanta requested a second meeting between Councillor Greening and the Company's Group President of Sustainability, Roma Balwani (pictured right). Ms Balwani spoke more specifically to Vedanta's human rights and environmental practices.



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ENVIRONMENTAL RISK

CARBON MANAGEMENT

Strategic Resilience Resolution Follow Up Continues

LAPFF met with representatives of **Rio Tinto** and **BP** during the quarter to discuss the companies' respective responses to the strategic resilience resolutions on climate change passed at their 2016 and 2015 AGMs respectively. The Rio Tinto meeting provided confirmation that disclosure would not be able to fully address all five elements of the resolution in the course of one year but that reporting would be a work in progress. The BP meeting explored a greater use of scenario planning, having introduced the 'faster transition' scenario which will be built on, other scenarios included consideration of the mobility revolution eg, the role of electric vehicles and autonomous driving. Given that the company's remuneration report was voted down in 2016, there was interest in proposals for 2017. Of particular note was a number of positive changes to make incentives far more aligned with the required low carbon transition, including the proposed removal of production volume based targets in the form of reserve replacement incentives.

A follow-up meeting with **National Grid** representatives after attending the 2014, 2015 and 2016 AGMs, was held in collaboration with other members of the Aiming for A investor coalition. This explored a number of topics including the company's public policy work on climate change; business strategy and future energy scenarios; Operational Emissions Management and its view on the benefits of shareholder resolutions for the utilities sector on climate resilience.

NETWORKS AND EVENTS

In addition to the LAPFF conference, the following shows some of the events and meetings attended by LAPFF representatives during the quarter:

Conservative Party Fringe Meeting: *'British investment for British jobs: what role for pension funds?'* Speakers included Cllr Kieran Quinn (Chair, LAPFF), Denise Le Gal (LAPFF executive member), and Tim Thomas (Director of Employment and Skills Policy, EEF)

SNP Fringe Meeting: *'Scottish investment, for Scottish jobs: what role for pension funds?'* Speakers included Cllr Kieran Quinn (Chair, Local Authority Pension Fund Forum), Ian Blackford MP (Vice Chair, APPG on Local Authority Pension Funds), Andy Johnston (Director, LGIU Scotland), chaired by Cllr Alasdair Rankin (Chair, Lothian Pension Fund)

Rio Tinto Sustainable Development Workshop covering Safety and Health, Environment and climate change, Human rights and transparency and Risk management

Falkirk Council Pension Fund ESG Seminar: participation in this event which included ESG in the strategy framework and sustainable wealth creation

IIGCC General Members Meeting including 2016 year in review and plans for 2017

BP SRI Day: provided an update on BP's activities and addressed priority issues identified in the company's engagement sessions during the course of the year

MEDIA COVERAGE

Sky

[21st Century Fox Bid](#), IPE, 13 December 2016

[Murdoch under pressure to raise his bid for Sky following offer that values the UK-based broadcaster at £18.5bn](#), This is Money, 13 December 2016

[Murdoch deal requires robust safeguards at Sky](#), say shareholders, Guardian, 13 December 2016

[Murdoch's Fox-Sky Deal Faces Further Shareholder Pushback](#), The Street, 13 December 2016

[Takeover bid for Sky should offer 'appropriate premium' say pension funds](#), Belfast Telegraph, 13 December 2016

[More pressure on Fox-Sky deal as pensions lobby group wades in](#), City A.M., 13 December 2016

LGPS Regulations

[UK government faces legal challenge over local authority scheme veto](#), IPE, 15 December 2016

[UK's LPGS: Mixed reviews for final regulations](#), IPE, November 2016



Accounting Standards

[FRC holds firm on 'true and fair' dividends reporting](#), CCH Daily, 22 December 2016

[FRC sticks to its guns over distributable profits](#), Economia, 12 October 2016

Infrastructure Investment

[Picking up the infrastructure investment gauntlet](#), PSE, 28 December 2016

Tax

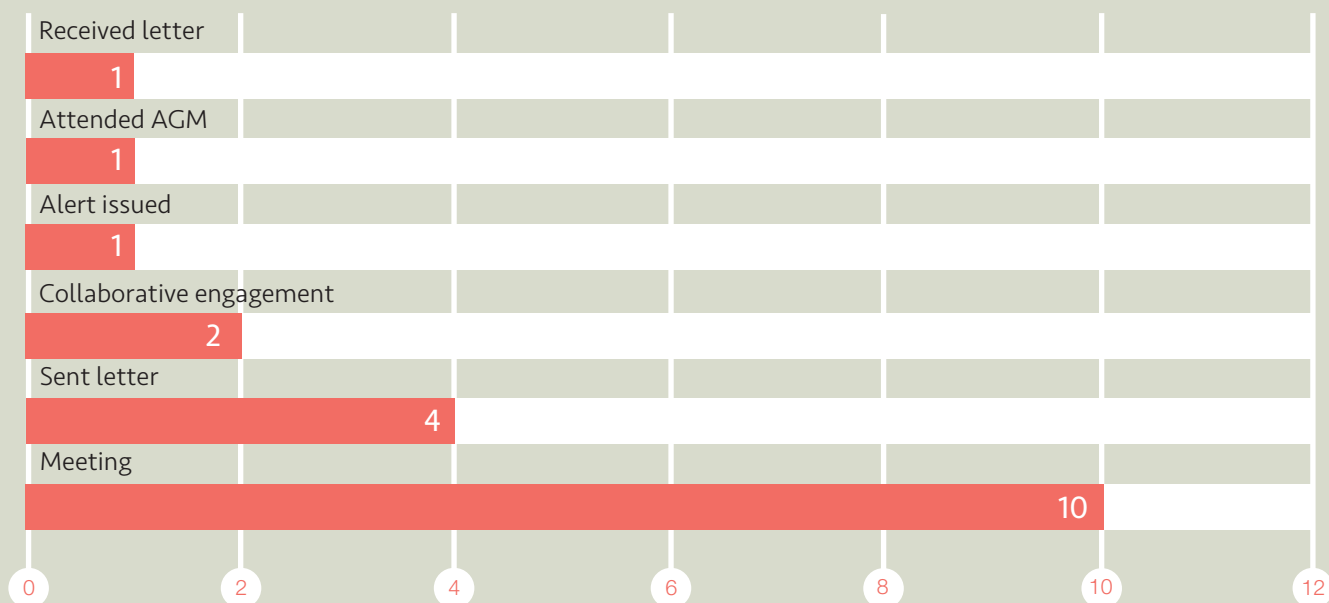
[Aggressive tax avoidance raises risks for investors](#), Financial Times, 28 October 2016

COMPANY PROGRESS REPORT

12 Companies engaged over the quarter

Q4 2016 ENGAGEMENT DATA				
	Company	Topics	Activity	Outcome
1	Rolls-Royce	Environment/Corruption	Meeting	Small Improvement
2	Shell	Social Risk/Human Rights	Meeting	Dialogue
3	Vedanta	Human Rights/Climate Change	Meeting	Dialogue
4	National Grid	Climate Change	Meeting	Small Improvement
5	BT Group	Governance	Meeting	Small Improvement
6	Sky	Governance	Meeting	Dialogue
7	Antofagasta	Governance	Meeting	Dialogue
8	Rio Tinto	Climate Change	Meeting	Change in Process
9	BP	Climate Change	Meeting	Change in Process
10	Samsung	Governance/Supply Chain Management	Sent Letter	Awaiting Response
11	EasyJet	Governance	Sent Letter	Awaiting Response
12	Sports Direct	Employment Standards	Alert Issued/EGM	Dialogue

COMPANY ENGAGEMENT ACTIVITIES



COMPANY DOMICILES



POSITION ENGAGED



OUTCOMES



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 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
- 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 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