



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 72 public sector pension funds in the UK with combined assets of over £200 billion.

# QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2017



Management of cybersecurity risk explored with several company chairs

LAPFF focusses on climate risk during company engagements

Employment and remuneration practices at Sports Direct raise serious concern

## Councillor Kieran Quinn



It is with great sadness that we relay the death of the LAPFF Chair, Councillor Kieran Quinn on Christmas day, 2017.

Kieran joined the LAPFF Executive Committee in 2012 when he became Chair of the Greater Manchester Pension Fund and chaired the Forum from the beginning of 2013.

During his time as chair, membership grew from 55 member funds to the current 72, many joining after a personal visit from Kieran. He was most recently working with the Executive Committee to take the Forum to its next level by incorporating asset pools into the LAPFF structure.

Kieran was involved in company engagement from the beginning of his time with LAPFF. Of the Forum's engagement approach, he told the FT in 2015 "there are no questions we are afraid to ask". He certainly put this into practice in all the company engagement meetings in which he participated. He was a prominent advocate of strong and active stewardship across the range of companies in which LAPFF member funds have holdings.

Always open to debate and honest and frank communication, Kieran met not only the chairs and directors of engagement companies, but regulators, union representatives, stakeholder bodies, investor groupings, member and pool representatives alike, and was equally skilled at negotiating positive outcomes with all.

He was instrumental in helping to establish the All Party Parliamentary Group on local authority pension funds, alongside progressing meetings with MPs and instigating regular party conference fringe meetings, all giving LAPFF a stronger voice at Westminster and in Whitehall.

Kieran was also an influential voice on the Local Government Pension Scheme (LGPS) Advisory Board where he represented the Metropolitan funds and chaired the Investment and Engagement Committee. On the Board he was a tireless advocate of the rights and responsibilities of Administering Authorities (Councils) and Councillors in their member roles on pensions committees and in the new asset pooling structures that began emerging in 2016. He contributed significantly to the development of changes to the LGPS, particularly on responsible investment strategies, and was widely respected across its community.

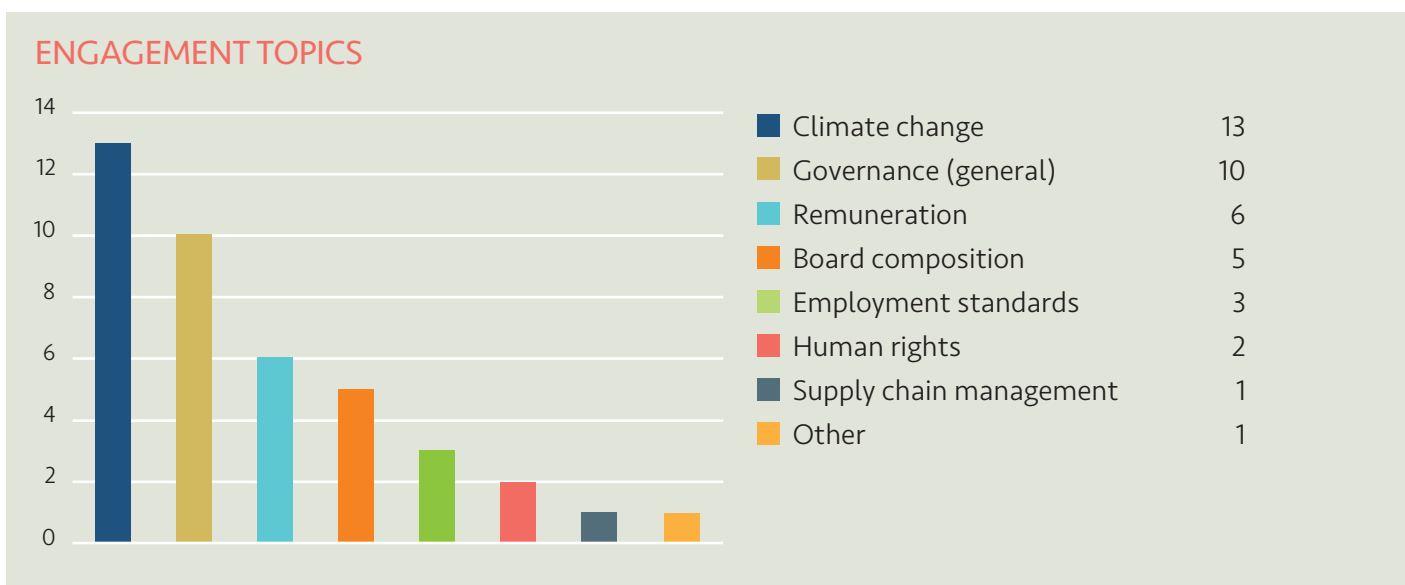
A shining star in the LGPS has gone out but what Kieran shaped and created will continue to burn in our hearts and minds and in the legacy he has left in LAPFF. He was a decent, thoughtful and principled man and will be sorely missed as a good friend and colleague. Our thoughts are with his wife Susan and their two boys.

**Ian Greenwood**  
Vice Chair, LAPFF

**Denise Le Gal**  
Vice Chair, LAPFF



# Company Engagement



## GOVERNANCE RISK

### Voting Alerts

LAPFF's engagement with **Sports Direct International** continued through correspondence over voting recommendations for an extra-ordinary general meeting in December. The Forum recommended a vote against a resolution to approve the extension of the guaranteed minimum value for eligible employees participating in the Company's share scheme to Karen Byers (Global Head of Operations) and Sean Nevitt (Global Head of Commercial) and a resolution to approve a proposed payment to John Ashley, Mike Ashley's brother.

The Forum was of the opinion that the Company's share scheme terms were not appropriate in the first place and therefore should not be extended to any further participants. The terms allow the potential for Executives to receive large awards concurrent with shareholders making a loss. Regarding John Ashley's proposed payment, LAPFF did not consider that sufficient evidence was provided as to why the payment should be approved, and the family relationship raised potential conflicts of interest, which were recognised by the Company itself ten years ago.

At the general meeting, Cllr Greening asked why the payment to John Ashley was being processed after a considerable amount of time had passed and enquired about the financial cost to the company of extending a guaranteed minimum payment to the two executives. At **Sport Direct's** half year financial review the following day, Cllr Greening noted the Company had proposed to repurchase £130m worth of shares and wondered why the money was not used for something else, stressing that back-pay was still owed to agency staff. Mr Ashley stopped Cllr Greening in the middle of his sentence and repeatedly



Mike Ashley

told him to stop talking. Cllr Greening attempted to ask his question again, but both Mr Ashley and Keith Hellawell refused engage in conversation about the payments.

The Forum also issued a voting alert in support of **JD Wetherspoon's** remuneration policy. During 2017, LAPFF identified companies with highest and lowest oppose votes on their remuneration reports in 2016 that held policy votes in 2017. JD Wetherspoon has had very strong support for both its remuneration report in 2016 (88%) and its remuneration policy in 2014 (99.7%).

The Forum supported the Company's decision not to introduce a long-term incentive plan, which is widely used by other UK companies, as well as the Company's policy not to allow for excessive pay-outs. Directors' annual bonus is capped at 45% of base salary, and an additional 5% can be awarded for carrying out a set number of calls to the Company's pubs. The Forum was pleased to see this unique performance metric being used as it is a good

example of stakeholder engagement that could help the Company to achieve operational efficiencies and good human capital management. While there were some concerns over special pension provisions for executive directors, upon engagement, the Company explained that such payments can only be realised after 25 years of service.



### Remuneration

A successful meeting took place between Executive Rewards Director at **Diageo**, Leonie Clarke, and LAPFF Executive member, Cllr Paul Doughty. The Forum met with Diageo to gain further understanding of the Company's pay policy, in particular the stakeholder consultation process and how pay rates are determined. Cllr Doughty also asked about the Company's gender pay disclosure. The Company was welcoming and open to future meetings with LAPFF.

LAPFF attended the **Hargreaves Lansdown** AGM, and asked the Board about remuneration for the CEO, specifically awards given when he joined the Company. Faith Ward, who attended the AGM on behalf of LAPFF, also asked about the Company's plans to implement the findings of the Taskforce for Climate-Related Financial Disclosure (TCFD). The Company was receptive to LAPFF's views and is open to a follow up meeting on the TCFD.

### Mergers & Acquisitions

LAPFF participated in a call with the Chairman of **AstraZeneca**, Leif Johansson to better understand the Company's approach to M&A. M&A is a common practice in the pharmaceutical industry, so it was helpful to hear AstraZeneca's approach and to compare its approach to the LAPFF Trustee Guide on M&A issued in 2016.

### Cybersecurity

Reflecting growing member concerns on cybersecurity and data content, LAPFF has had a number of meetings with companies to probe their governance and risk management procedures on this issue.

At a meeting with the **WPP** chairman, Roberto Quarta, Deputy Chair Ian Greenwood asked about WPP's recent cyber-attack and the circumstances around it, the Company's position towards internet content problems,

such as inappropriate content and fake news, and how advertisers and their clients act to mitigate associated risks.

Ian Greenwood also met with **Prudential** Chair, Paul Manduca, to determine the likelihood of a cyberattack and understand the range of impacts a potential attack might have. As an insurance company, Prudential is at high risk of an attack and there is substantial threat to customer data. Mr Manduca provided further information on the Company's recent scenario analysis and Board training.

A number of issues were discussed with **IAG's** Chairman Antonio Vazquez Romero including a computer crash at British Airways which affected 75,000 passengers. Although the crash was not deemed to be related to a cyberattack, it exposed the Company's vulnerability to a possible cyber attack and possible fallout should such an attack take place.

Cllr Doug McMurdo of the LAPFF Executive member also discussed cybersecurity management with the Head of Data Governance at **Sainsbury**.



In order to underpin engagement, LAPFF has co-signed a letter to the UK National Cyber Security Centre (NCSC) from Prof Hoepner in support of targeted research on 'Supporting the Board: Managing Cyber Risks' to understand how directors make decisions about cyber security; how board responsibility is designated and what information and metrics board members use to assess risk and make judgements on the worth of security measures.

### ENVIRONMENTAL AND CARBON RISK

LAPFF issued its [Climate Change Investment Policy Framework](#) in November, to help member funds in their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. The framework provides guidance in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals. A companion [document](#) provides practical guidance for considering climate risk in investment strategy for funds.

Continuing collaborative engagement, now with the IIGCC resolution sub-group, Cllr Toby Simon participated in the regular 'eight on eight' meeting with **BP**, where large shareholders and senior company executives explored progress on metrics and targets, both operational and strategic, and within the context of the Taskforce on Climate Related Financial Disclosure and the new remuneration policy.

A follow-up collaborative meeting with Matthew Bateson, the Global Practice Leader for Energy, Environment and Climate Change at **Rio Tinto**, had been proposed with a similar set-up. The company felt this would be more relevant in early 2018 and the meeting discussed progress with the scenarios and working on these possibilities with the businesses within the group.

**BHP** recently announced its intention to withdraw from the World Coal Association, an international lobbying group, by March 2018, due to its support for cleaner coal over renewables. The company also announced that it would review its membership of the Minerals Council of Australia (MCA). At the 2015 BHP AGM, LAPFF had asked whether the company would withdraw from the MCA and another trade association due to their negative stance on climate change.

Executive Member Cllr Toby Simon met with **OMV** Chief Executive, Rainer Seele, to discuss the board's approach to ensuring strategic resilience to climate change. Cllr Simon asked about the company's oil and gas planning assumptions and whether they included a downside scenario for prices. It is LAPFF's view based on the discussion that the Company is taking a prudent approach.

A collaborative conference call took place with the chair of the Governance committee of the **Southern Company**, organised by the 50 50 initiative. Jane Firth asked about the financial implications of having adequate Board climate competency.

## SOCIAL RISK

### Employment Standards

Although mergers and acquisitions were the main focus of a call with **AstraZeneca** Chair, Leif Johansson, employment standards were also raised in the context of the Company's global supply chain. LAPFF further discussed clinical trials with Mr Johansson.

### Human Rights

LAPFF Executive member Jane Firth attended the **BHP Billiton** AGM in October, where she asked the Board about operational risks of joint ventures, specifically in relation to Samarco and Cerrejon projects. LAPFF was told that lessons had been learned from the Samarco tragedy. The Chairman also stated that more resources were added to the team to deal with the projects and emphasised that BHP will be complying with the ICMM Framework. However, the Board expressed their belief that the Samarco situation would have not been different were there a different approach to joint ventures and non-operated projects.

Ms Firth later spoke with the Vice President of Corporate Governance and Asset President of Joint Ventures to discuss the Company's process for entering and running joint ventures, as well as the Company's accountability structure. The Forum welcomed the company's openness in explaining how the joint ventures are structured and governed.



## Diversity

LAPFF has engaged with a number of companies to promote greater board gender diversity including on a collaborative basis. Together with other members of the 30% Club Investor Group, LAPFF met with companies in the real estate sector to determine companies' initiatives to increase female representation. The Group is considering whether to publish a note about the engagements with the sector.

## RELIABLE ACCOUNTS

LAPFF has continued to pursue problems in the setting of accounting standards, and has identified governance anomalies with the status of the regulator the Financial Reporting Council (FRC). Matters have now reached the attention of prominent Parliamentarians. At the December 2017 LAPFF Annual Conference, Baroness Bowles (Sharon Bowles) former MEP and chair of the European Parliament Economic Affairs Committee spoke at length and detail on some of the problems. During December 2017 LAPFF also became aware of further problems as a result of investigative journalist activity in this area, including Freedom of Information requests.

LAPFF has also engaged with the Department of Business, Enterprise and Industrial Strategy (BEIS) and has asked to be involved in the development of pre- and post-Brexit regulatory strategy and reform. Matters have reached a stage where more detail should be available to report later in 2018.



## MEDIA COVERAGE

[Danish, UK pension funds tell corporates to improve tax reporting](#) – IPE, 1 November 2017

[News Roundup: climate change guidance](#) – Room 151, 16 November 2017

[EAPF leads climate-change push](#) – Top 1000 funds, 6 December 2017

[EU Parliament approves plan to dilute asset valuation rules](#) – IPE, 6 December

[Sports Direct shares yo-yo as profit plunge offset by Nike deal](#) – Telegraph, 14 December 2017



## NETWORKS AND EVENTS

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

- Cllr Quinn, the LAPFF Chair, spoke on LAPFF engagement and promoted collaboration at a meeting with ShareAction.
- LAPFF Executive, Cllr Toby Simon, spoke at CDP's 201 UK results event and presented awards to leading companies in CDP's first UK company award ceremony.
- Attendance at CDP's Global Forest report launch to discuss engaging on deforestation-free supply chains and how financial institutions can enable the transition.
- Attendance at the Sports Direct Investors Roundtable to discuss the Company's half-year financial results.
- Participation in a Union Tesla meeting to receive update on the Tesla campaign and LAPFF's potential role.



## CONSULTATION RESPONSES

LAPFF [responded](#) to the UK Listing Authority's consultation on creating a new premium listing category for sovereign controlled companies, detailing why the Forum considers that the Premium Listing category should not be modified to accommodate such issuers.

The Forum also [responded to the FRC consultation](#) on draft amendments to Guidance on the Strategic Report Non-financial reporting. The response emphasised that as an investor forum, LAPFF believes that robust rules, application and practice on accounting and financial reporting are essential to safeguard the interests of pension fund beneficiaries.



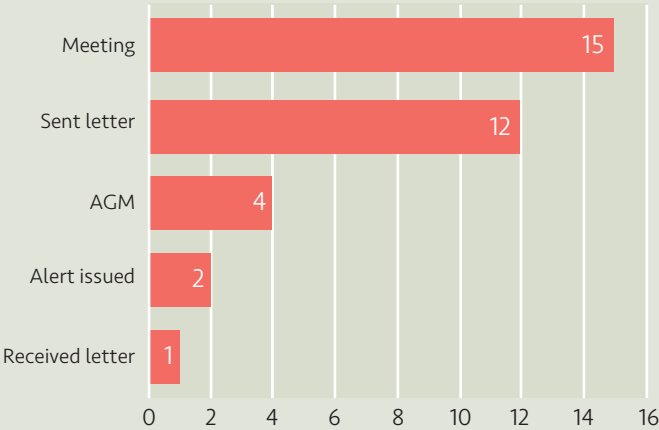
## COMPANY PROGRESS REPORT

24 companies engaged over the quarter

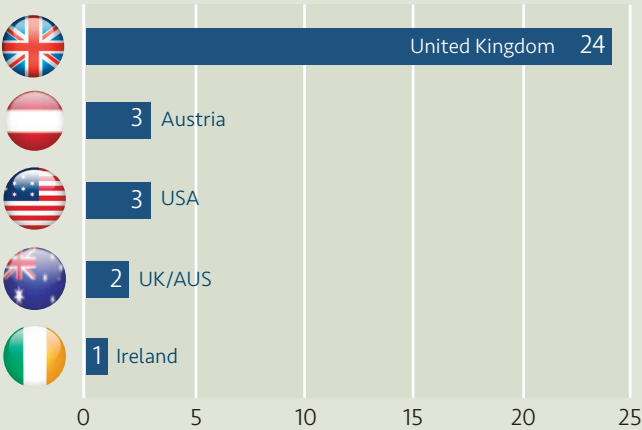
Q4 2017 ENGAGEMENT DATA			
Company	Topics	Activity	Outcome
Astrazeneca Plc	Remuneration/Supply Chain	Meeting	Dialogue
BP Plc	Climate Change	Meeting	Moderate Improvement
BHP Billiton Group (GBR) Plc	Governance (Accountability in joint ventures)/Climate Change/Human Rights	Meeting/AGM/Letter	Moderate Improvement
Cairn Energy Plc	Climate Change	Sent Letter	Awaiting Response
Diageo Plc	Remuneration/ Governance (diversity)	Meeting/ Letter	Small Improvement
General Motors Company Plc	Climate Change	Sent Letter	Dialogue
Hargreaves Lansdown Plc	Remuneration/Climate Change	AGM	Dialogue
International Consolidated Airline Group SA	Governance (Cybersecurity)/ Climate Change	Meeting	Satisfactory Response
JD Wetherspoon Plc	Remuneration	Alert Issued	Satisfactory Response
National Express Group Plc	Employment Standards	Sent Letter	Dialogue
OMV AG	Climate Change	Meeting/Letter	Moderate Improvement
Provident Financial Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
Prudential Plc	Governance (Cybersecurity)/ Board Composition	Meeting	Satisfactory Response
Rio Tinto Plc	Climate Change	Meeting	Change in Process
Ryanair Holdings Plc	Employment Standards	Sent Letter	Awaiting Response
Sainsbury Plc	Governance (Cybersecurity)	Meeting	Dialogue
SKY Plc	Audit Practices	AGM	Dialogue
Southern Company	Climate Change	Meeting	Small Improvement
Sports Direct International Plc	Employment Practices/ Remuneration	Meeting/AGM/ Alert Issued	No Improvement
Tesla Motors Inc	Climate Change	Sent Letter	Awaiting Response
Transco (National Grid)	Climate Change	Sent Letter	Dialogue
WPP Plc	Governance (Cybersecurity)	Meeting	Satisfactory Response

COMPANY ENGAGEMENT ACTIVITIES

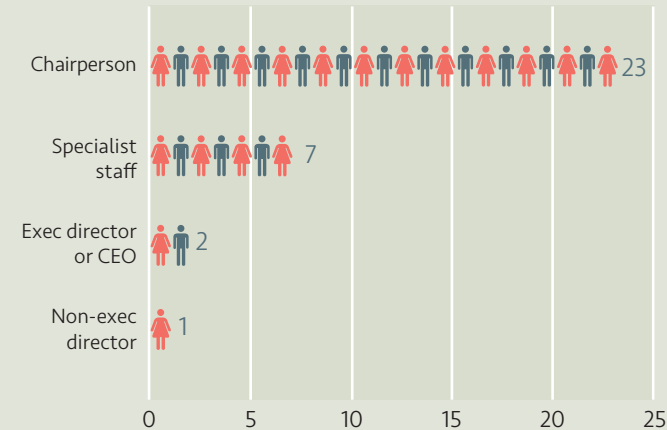
Company engagement activities



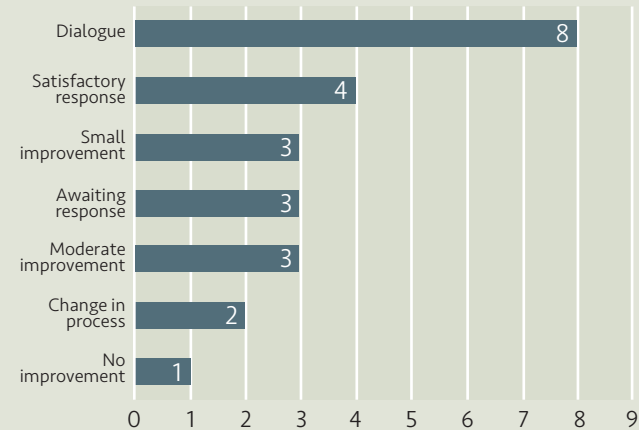
Company domiciles



Position engaged



Outcomes





## LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC