



QUARTERLY ENGAGEMENT REPORT

APRIL TO JUNE 2014



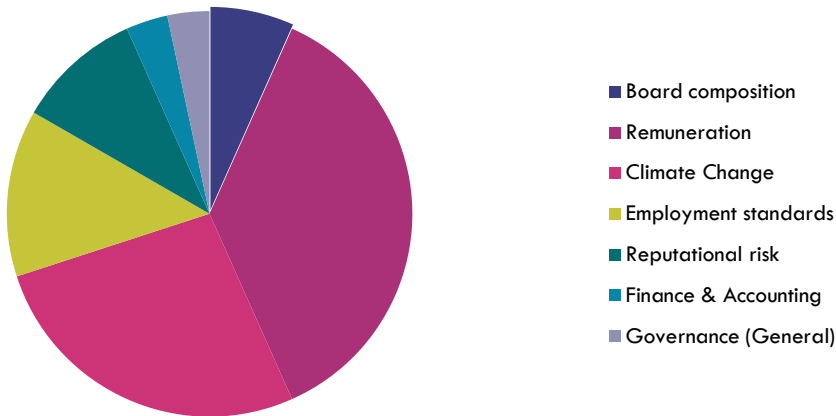
Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF or the Forum) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders whilst promoting social responsibility and corporate governance at the companies in which they invest. Formed in 1990, the Forum brings together a diverse range of local authority pension funds in the UK with combined assets of over £125 billion.

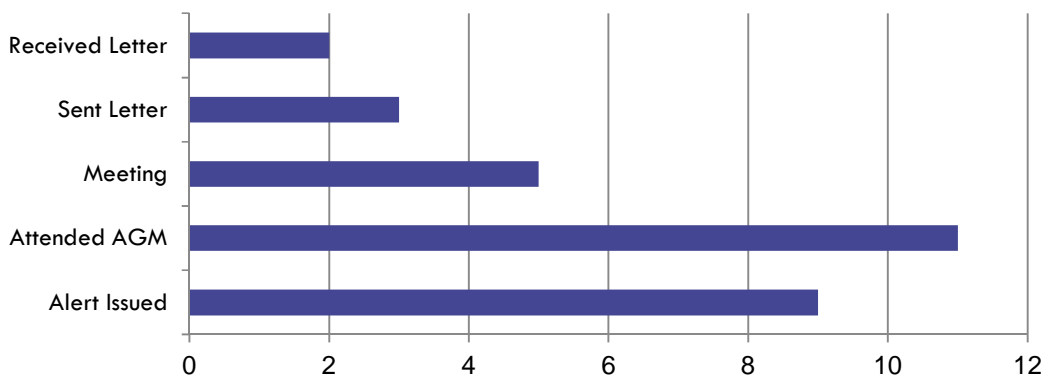
ENGAGEMENT SUMMARY

APRIL TO JUNE 2014

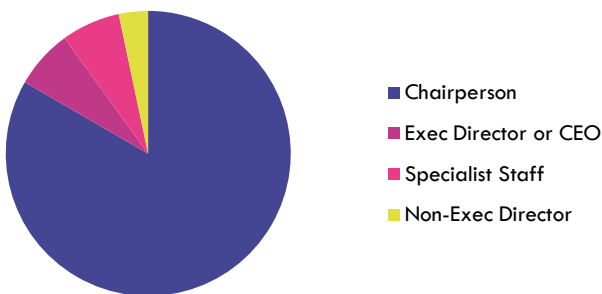
Topics



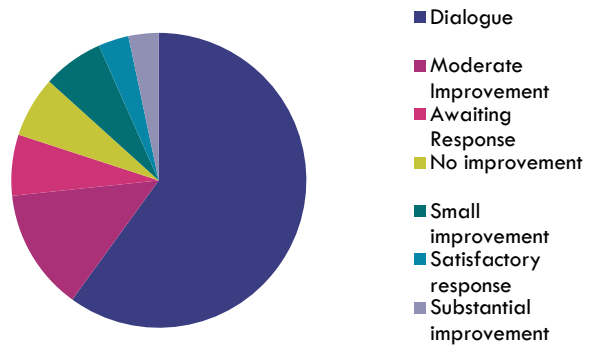
Activities



Company Contact



Outcomes



ACHIEVEMENTS

- Attended **Barclays** Annual General Meeting (AGM) to challenge the company over governance and executive remuneration. Executive remuneration was also a focus in questions posed at the AGMs of **Glaxosmithkline**, **G4S**, **WPP** and **Smith & Nephew**.
- Spoke in support of the resolution co-filed at the **National Express** AGM on human capital management at US operations.
- Met with **BP** and **Glencore** to discuss carbon management and carbon asset risk. Addressed the BP chair on diversification into low carbon energy sources at the company's AGM.
- Questioned the chair of **Rio Tinto** at the company AGM on business strategy regarding the risk of thermal coal becoming a stranded asset and the chair at **Royal Dutch Shell's** AGM on approach to carbon asset risk management.
- Asked the chair of **Anglo-American** at the AGM about social, economic and community risk management moving from labour intensive mining operations to surface operations.
- Issued voting alerts on **Glencore** and **Travis Perkins** due to lack of board diversity. Other alerts in the quarter focussed on executive remuneration and carbon mitigation.
- Met with Stephen Hester of **RSA Insurance Group** to discuss the accounting irregularities in Ireland and company proposals for strategy going forward
- Met with the **UK Listing Authority** regarding Essar Energy's proposal to delist from a premium listing and the implications for governance compliance.

NETWORKS & EVENTS

- **Investor meeting** – for larger shareholders in Trinity Mirror
- **30% Club Investor Group** –Denise Wilson, Chief Executive of the Davies Review steering group, Women on Boards
- **Christine Figueres** - highlighting the importance of collective action on climate change, hosted by St Paul's/CCLA.
- **Treaty on Business and Human Rights** – hosted by Business and Human Rights Resource Centre
- **Rio Tinto workshop on sustainable development** –updating investors on the Company's sustainable development activities
- **Due Diligence: From Rhetoric to Reality** – what human rights means for companies' due diligence efforts

COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF continues to engage with companies on the issue of board diversity. After Antofagasta appointed Vivianne Blanlot to the board, **Glencore** was the sole FTSE 100 company with an all-male board. LAPFF had written to the company on this issue and raised this with a board member at an investor meeting. However, it appeared progress had stalled and the Forum issued a voting alert to flag up concern. Finally the first female board director, Patrice Merrin was appointed in late June. A voting alert was also issued for **Travis Perkins** which has only one woman board member and does not disclose any targets for further appointments.

Member funds have also been raising board diversity issues with their investment managers, with member funds communicating with Capital Group, LGIM, State Street Global Advisors and UBS asking them to promote board diversity in their engagement and voting activities. Not all managers had a specific voting policy on gender diversity at board level, but one noted they were considering doing so.

A meeting was held with the chair of **Trinity Mirror** over issues of media standards and ethics. This explored developments in relation to phone hacking, particularly regarding the extent of potential claims and the merits of the different regulatory options open to the company and the possibility these might offer for limiting financial risk. The Forum remained concerned over the failure to report on regulatory issues, and to properly 'bottom out' potential exposure to claims relating to phone hacking and issued a voting alert recommending voting against the report and accounts. Subsequently, LAPFF attended the AGM and since then it has been reported that a new group of high-profile alleged hacking victims have filed civil claims.

PROMOTING GOOD GOVERNANCE

Reliable Accounts

A meeting was held with Stephen Hester, the new Chief Executive of **RSA Insurance Group**. The company has had to announce large losses in its Irish Republic subsidiary after it transpired there were accounting irregularities on claims and provisioning, which have led to a £773m Rights Issue. The discussion also ranged over the changing of company auditors from Deloitte to KPMG, due to the acceptance of a large new consultancy contract by Deloitte.



Executive Pay

The Forum took an increasingly public approach to tackling complexity in directors remuneration schemes and frequently high levels of payout. The LAPFF chair attended the **Barclays** AGM, where a new director, Crawford Gillies is due to take over as chair of the remuneration committee from Sir John Sunderland. Cllr Quinn noted that this was the right thing for the board to have done, but stated *“it was a shame that it had taken pressure from investors for this to happen.”* LAPFF had formed a key part of this pressure having issued a voting alert recommending members oppose the remuneration policy and Sir John’s re-election due to concerns over the level of executive pay and staff bonuses primarily in the investment bank.

In line with its increased focus on company AGMs, LAPFF executive member David Murphy attended the AGM of **Smith & Nephew** and asked for more detail on factors taken into account in bonus payments. Sir John Buchanan, the chair, responded that both financial and non-financial issues were reflected in the bonus calculations. The remuneration chair, Jo Papa, added that the score-card used took account not only of business objectives, but also had a measure of risk/return.

The Forum issued a voting alert for the second year running for **WPP**. At the AGM, a LAPFF representative asked if the Company would commit to simplifying its variable remuneration package for executives, as well as increasing transparency around the numerous schemes within the package. The board acknowledged that the variable pay package was complicated but stated it had adopted the existing arrangements in response to shareholder requests for variable pay to reflect more effectively executive performance and felt that there was sufficient transparency in conveying information regarding executive pay packages. At the **G4S** AGM, the Forum questioned the Company’s use of adjusted metrics for its long term incentive scheme.

The Forum also entered into discussions with **Glaxosmithkline** on ‘clawback procedures’ in alliance with a group of US investors as part of a focus on global pharmaceutical sector companies. As a result of a question raised by the Forum at the company annual meeting, a positive conference call with chairman, Sir Christopher Gent, has been held to establish the basis for further dialogue on the issue.

‘Our objective is clear: General Mills will source 100 per cent of our palm oil from responsible and sustainable sources by 2015’

GM’s statement on responsible palm oil sourcing

MANAGING ENVIRONMENTAL RISK

Palm Oil

Following its participation in collaborative engagement with a number of US companies on sustainable palm oil, LAPFF was pleased to note at the beginning of April that

General Mills joined the growing number of companies that have pledged to only source from suppliers that provide fully traceable, deforestation-free palm oil. In its revised palm oil sourcing commitment, General Mills announced that it will only source from suppliers that can trace their palm oil back to operations verified as not contributing to deforestation or peat land development, activities which destroy the habitats for endangered species or contribute to climate change.

Energy and Environmental Risk

Engagement with **BP** has continued with a collaborative meeting on the company's approach to carbon asset risk focussing on the potential disruptions of technology and policy to BP's 2035 Energy Outlook and how the company is building resilience into its strategy for these. The company was also pressed on the wider role BP is playing in low carbon technology development and the climate policy debates. At the **BP** AGM, Cllr Greening asked the chair about business sustainability and company's plans to diversify into low carbon energy sources. Carl Svanberg responded that the company recognises that all fossil fuel that is available cannot be burned and that energy efficiency will be crucial. A meeting with Peter Coates, Non-Executive Director of **Glencore**, followed an investor briefing the previous day attended by the chair, Tony Hayward and Chief Executive, Ivan Glasenberg.



Following on from a meeting in 2013 with **Rio Tinto**, LAPFF was again represented by Cllr Greening at the AGM asking the board about ensuring future business viability in the context of thermal coal being likely to be a stranded asset. The chairman's response noted the company's belief that there is a place for thermal coal into the future but also the hope that in the long term friendlier energy solutions can be found.

In April, **Shell** released a detailed formal response to investor concerns over carbon asset risk management. LAPFF was represented at the London AGM and challenged the chair to continue to actively participate in the debate over likely future energy policy and pricing as this was a key concern of mainstream investors.

TARGETING SOCIAL ISSUES

Employment Standards

At the **Ango-American** AGM, Cllr Rose asked the chair about the company's longer term investment strategy in the platinum division and in particular the socio-economic risks inherent in shifting from the labour intensive deep mining operations at Rustenberg to new low cost surface operations. The chair responded that they were very aware of the potential local



impact of job losses and that they would continue in discussions on the company's longer term investment direction in South African platinum operations.

LAPFF has engaged with **National Express** since 2012 regarding the company's approach to health and safety concerns and unionisation issues in the US. At the most recent meeting in 2014 with the Chief Executive, it was evident that

the company had not implemented previous commitments. Some LAPFF member funds had co-filed a shareholder resolution requesting the company to implement a mechanism to ensure appropriate board oversight, and to develop and implement a comprehensive policy based on the ILO Declaration on Fundamental Principles and Rights at Work. At the May AGM, Cllr Greening supported the resolution noting the board's willingness to engage, but noting the need to deal with problems in North America. Including the board's holdings, the combined for and abstain votes were not far off one fifth of independent shareholders. This was a significant result considering most resolutions of this type struggle to reach a support vote in double figures.

CONSULTATIONS & PUBLIC POLICY

ENGAGING WITH POLICY-MAKERS

One issue that LAPFF has continued to pursue is companies proposing to delist from premium listings in order that they have less stringent requirements on governance compliance. When the Forum became aware of **Essar Energy's** plans to take the company private, a letter was written to the company noting that this proposal for a forced sale overall would have a predominantly negative impact both in terms of governance best practice and in terms of company prospects for raising future capital in London. A collaborative investor meeting was also held with the UK listing authority to outline concerns that minority shareholders were put in the position of having to accept the given offer, or face owning a non-liquid stake in a company that would no longer be in the FTSE indices.

CONSULTATION RESPONSES

The proposed restructuring of the Local Government Pension Scheme continues to occupy member attention after the announcement at the beginning of May that previous merger plans were not to be pursued. The latest consultation from the Department of Communities and Local Government asks for submissions on 'opportunities for collaboration, cost savings and efficiencies': [Consultation on LGPS Structural Reform](#).

The Forum also responded to the FRC consultation changes to the Corporate Governance Code. The Forum's recommended focus was on those aspects which impact shareholder rights and the going concern statements at the heart of the LAPFF position on the weaknesses of International Financial Reporting Standards. In addition, weaknesses were highlighted in proposed revisions on certain remuneration concerns. All published LAPFF consultation responses can be viewed at: <http://www.lapfforum.org/consultations>.

A short report was submitted to the Local Government Association Leadership Board describing the Forum's activities and outcomes during the year.

LAPFF IN THE NEWS

LAPFF has been regularly featured in the media with coverage generated via a combination of media releases and active liaison and availability of the chair for direct comment. A snapshot of recent print and online coverage is below.



LAPFF pushes on board diversity and pressures Glencore
[Reuters](#), [The Wall Street Journal](#), [CNBC](#), [Yahoo Channel 7 News](#), [The Independent](#),
[Money Web](#), [The Guardian](#), [Investment & Pensions Europe](#), [Shares Magazine](#),
[Bloomberg](#)

LAPFF presses WPP on Martin Sorrell's pay
[Evening Standard](#), [Telegraph](#), [Irish Times](#), [Wall Street Journal](#),
[The Australian](#)

Barclays called out over excessive bonuses
[Reuters](#), [Daily Mail](#), [Financial Times](#), [Daily Mail](#), [Bloomberg](#), [Daily Telegraph](#), [IPE](#)
[Europe](#), [Financial News](#)

LAPFF targets Barclays and National Express in Governance Driver
[Professional Pensions](#)

Trinity Mirror Shareholders Call for Transparency
on Phone Hacking Costs
[The Guardian](#)

LAPFF pushes to reject Mike Ashley's Proposed Bonus Scheme at SportsDirect
[Shields Gazette](#)

COMPANY PROGRESS REPORT

Company	Topics	Outcome	Domicile
Afren	Remuneration	Moderate Improvement	UK
Anglo American	Employment standards	Moderate Improvement	UK
Barclays	Remuneration	Dialogue	UK
BP plc	Climate Change	Dialogue	UK
Essar Energy	Governance (General)	Dialogue	Mauritius
Exxon Mobil	Climate Change	Dialogue	US
G4S	Remuneration	Dialogue	UK
General Mills	Sustainable palm oil	Substantial improvement	US
Glaxo Smithkline	Remuneration	Moderate Improvement	UK
Glencore	Board diversity/carbon management	Small improvement	Switzerland
National Express	Employment standards	Dialogue	UK
Rio Tinto	Climate Change	Dialogue	UK
Royal Dutch Shell	Climate Change	Dialogue	UK
RSA	Finance & Accounting	Small improvement	UK
Smith & Nephew	Remuneration	Satisfactory response	UK
Sports Direct	Remuneration	Dialogue	UK
Travis Perkins	Board Composition	Dialogue	UK
Trinity Mirror	Reputational risk	Dialogue	UK
WPP	Remuneration	Dialogue	Jersey

Companies LAPFF has not previously engaged with individually are indicated in bold.



Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum was established in 1991 and is a voluntary association of local authority pension funds based in the UK. It exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which its members invest. The Forum's members currently have combined assets of over £125 billion.

Report prepared by PIRC Ltd. for the
Local Authority Pension Fund Forum

PIRC

www.lapfforum.org

Aberdeen City Council
Avon Pension Fund
Barking and Dagenham LB
Bedfordshire Pension Fund
Camden LB
Cheshire Pension Fund
City of London Corporation
Clwyd Pension Fund
Croydon LB
Cumbria Pension Scheme
Derbyshire CC
Devon CC
Dorset County Pension Fund
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
Hampshire Pension Fund
Haringey LB
Harrow LB
Hounslow LB
Islington LB
Lancashire County Pension Fund
Lambeth LB
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
NILGOSC
Nottinghamshire CC
Rhondda Cynon Taf
Sheffield City Region Combined Authority
Shropshire Council
Somerset CC
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Surrey CC
Teesside Pension Fund
Tower Hamlets LB
Tyne and Wear Pension Fund
Waltham Forest LB
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC