

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2014



Councillor Peter Brayshaw*

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) 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, www.lapfforum.org.

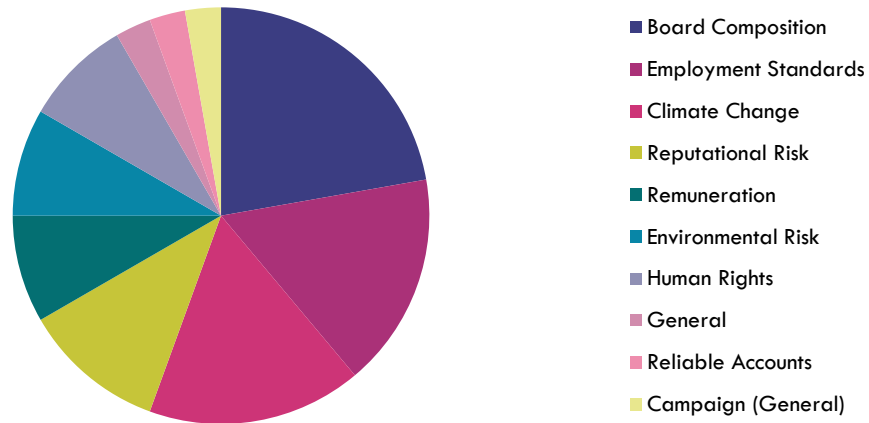
*The Executive and members of the Local Authority Pension Fund Forum mourn the death of Cllr Peter Brayshaw, LB Camden, who had been an active Executive member for the past four years. Peter also chaired the Camden pensions committee for 11 out of the last 25 years, and was involved in the founding of the modern LAPFF in 1992. He was a most esteemed member of the LAPFF Executive and will be missed by all who worked with him on LAPFF activities.

ENGAGEMENT SUMMARY

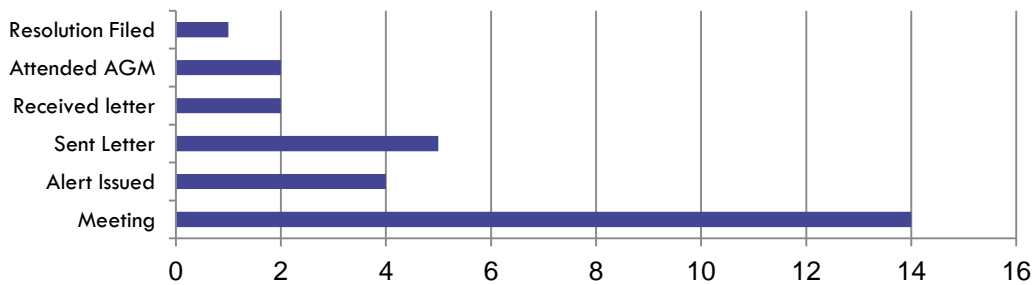
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The Forum engaged with **19 companies** over the period

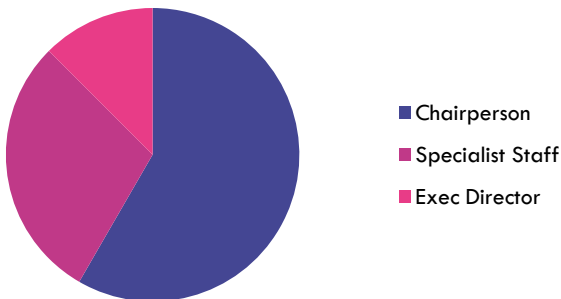
Topics



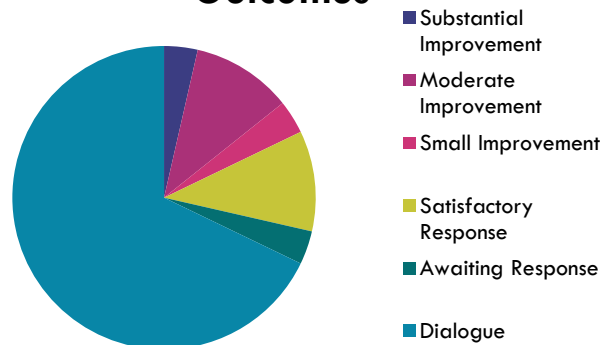
Activities



Company Contact



Outcomes



ACHIEVEMENTS

During the Quarter, LAPFF met with fourteen companies on issues ranging from phone hacking to carbon management. Eight of these meetings were with company Chairmen.

- Met with **Shell** to discuss the company's approach to carbon management. LAPFF met the Chairman, Jorma Ollila for the first time. Ian Greenwood and Cllr Cameron Rose spoke to Mr Ollila about strategy and carbon management, including the proposed shareholder resolution calling on Shell to disclose a longer-term carbon strategy. This resolution has now been filed for the 2015 AGM next year. LAPFF representatives also attended a shareholder roundtable with the company.



Shell AGM

- Met with the **BP** chairman, also to discuss the company's carbon management strategy and proposed shareholder resolution. Worked with the company to file a shareholder resolution regarding carbon management that has now reached the necessary threshold of co-filers to go to a vote.
- Following up on member concern about companies involved in the production and sale of cluster munitions, LAPFF held conference calls with **Singapore Technologies** (Singapore), **Textron** (US) and **Lockheed Martin** (US) that clarified the position of these companies in relation to cluster munitions. A call was also held with **Deutsche Telekom** (Germany) on labour rights at its US subsidiary.
- Cllr John Gray and West Midlands Pension Fund representative, Leanne Clements met with construction firms, **Kier** and **Carillion**, to discuss labour relations in light of assertions that these companies engaged in blacklisting of trade union employees. Kier Chairman, Phil White, spent nearly two hours speaking to LAPFF and is keen to engage further.
- LAPFF Chairman, Cllr Kieran Quinn, and LAPFF Executive Member, Cllr Richard Greening, met with the **National Express** Chairman and CEO to continue dialogue around concerns that the company's US unit, Durham School Services, engages in poor labour practices at some of its US sites. LAPFF has engaged extensively with National Express in the past, and the fact that the company continues to meet with LAPFF is encouraging.
- Cllr Quinn also met with **Trinity Mirror**, another company with which LAPFF has engaged extensively. Discussions are continuing in relation to the company's role in the hacking scandal, but there are signs that Trinity Mirror is responding to engagement.
- Issued a draft voting alert to **BG Group** over the company's proposed executive remuneration package for incoming CEO, Helge Lund. Along with other investor groups, LAPFF voiced concern to the company about the excessiveness of the package and its potential to undermine the new binding remuneration vote. The company eventually capitulated and re-worked Mr Lund's package to fit within the company's remuneration policy.



2014 LAPFF ANNUAL CONFERENCE

LAPFF held its 19th Annual Conference in Bournemouth from 3-5 December, 2014. As with prior annual conferences, this one was extremely well-attended with around 120 local councillors present. Cllrs Quinn, Rose and Greening provided highlights of LAPFF company engagement over the year at the opening session of the conference.

Featured speakers included Cherie Blair and Michael Heseltine. Cherie Blair spoke about the importance of human rights to investors, not just from a moral perspective but also from a business perspective. She cited growing evidence that a failure to consider adequately human rights concerns can lead to negative returns for investors. Michael Heseltine spoke to localism and the need for local authorities to ensure that they are promoting investment and development within their authorities. Other speakers included Fiona Reynolds, head of the UN Principles for Responsible Investment, and Jim O'Neill, former economist with Goldman Sachs.

Topics covered included more traditional corporate governance concerns, such as executive pay and gender diversity on boards. However, some newer topics, such as the potential for infrastructure as a possible investment opportunity for local authority pension funds and labour rights (continuing on from Cherie Blair's speech) were also discussed.



COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

In line with the LAPFF Executive's authorisation to engage with certain aerospace and defence companies over possible involvement with the production and sale of cluster munitions, LAPFF Vice Chair Cameron Rose and West Midlands LAPFF representative, Leanne Clements, held teleconferences with **Singapore Technologies**, **Textron** and **Lockheed Martin**. The concern is that cluster munitions kill people indiscriminately and that they continue to be dangerous after conflicts have ended. These companies were identified for engagement on the basis of their presence on investor exclusion lists or other publicly available materials suggesting that they might be involved in the production or sale of these munitions. The abovementioned companies also provided responses to an initial letter of inquiry from LAPFF regarding cluster munitions and offered to engage.

The LAPFF line of inquiry focused on the companies' awareness of and adherence to the Oslo Convention banning cluster munitions. This Convention provides a definition of cluster munitions and activities banned in relation to these munitions. While the companies were all aware of the Convention and its definition of these weapons, they are all based in countries that have failed to ratify or accede to the Convention – Singapore and the US. The companies have contracts with these governments as well, so although two companies provided reasonable assurances that they no longer produce or sell cluster munitions, one company could not offer such assurances. Furthermore, some government contracts require contracting companies to maintain cluster munitions or produce components that facilitate the use of cluster munitions. Because the companies are not in countries that have ratified the Oslo Convention, they are not in breach of any law in relation to cluster munitions. However, their practices might meet the exclusion criteria threshold for certain investors.

PROMOTING GOOD GOVERNANCE

Holdings Based Engagement and Executive Pay



Following on from its attendance at the **Vodafone** AGM, LAPFF Vice Chair Ian Greenwood met with Chairman Gerard Kleisterlee to discuss a range of governance issues at the company, including tax avoidance. Mr Kleisterlee responded that the company has issued a detailed tax report and has fully complied with all of its tax obligations. He further outlined in detail his philosophy on succession planning for the company.

Ian Greenwood also met with the Chairman of **Severn Trent**, Andrew Duff, to discuss remuneration arrangements at the company, as a follow-up to LAPFF attendance at the AGM.

Reliable Accounts

LAPFF sent a letter to the Financial Reporting Council in relation to **Afren Plc**. This letter expressed a concern about the company's accounts, specifically the failure to disclose certain transactions entered in 2012 and 2013. Among other things, LAPFF is concerned that the company's practices did not comply with the Listing Rules or with the s410A of the Companies Act 2006. The latter provision requires disclosure of 'off balance sheet arrangements.' 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.



MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk



LAPFF has continued to pursue its strategy of engagement with the top UK corporate carbon emitters on business strategies for emission reductions and management of carbon asset risk. **Shell** and **BP** are the two highest emitters in the UK, and LAPFF met with chairmen of both companies to discuss planned shareholder resolutions to encourage these companies to provide more focussed disclosure on their longer-term carbon management plans. LAPFF is part of an investor coalition, working to file these resolutions, the coalition also including the largest members of the £15bn Church Investors Group and Rathbone Greenbank. The resolutions have been designed to be supportive but stretching and articulate the need to balance the short-term and longer-term aspects of shareholder value creation and investment risk concerns.

The meeting with the Shell chairman, Jorma Ollila, followed up on issues discussed at a meeting in 2013 with the company and in 2012, namely on carbon management and the environmental and community concerns in Nigeria. Other areas covered included potential exploration in the Arctic and fracking in the US. 13 LAPFF funds were co-filers to the Shell resolution alongside 136 other shareholders filing, representing 52 million shares. Other filers, apart from the investor coalition bodies, included three Swedish funds, a Canadian fund, an Australian fund and a number of US bodies.

The meeting with Carl-Henric Svanberg, the BP chairman, following meetings in previous years, also covered a range of issues; health and safety management; the Rosneft investment and the situation in Russia; the effect of variations in the oil price, the company's views on fracking as well as carbon management in the context of the proposed resolution.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

LAPFF continued its engagement with companies in relation to employment standards and practices. This engagement has taken two main forms over the quarter: an inquiry into allegations of blacklisting and questions about the labour practices at US subsidiaries. The companies engaged on the blacklisting issue tended to be more forthcoming, possibly because the UK law is stronger in this area.



In relation to blacklisting, both **Kier** and **Carillion** pointed to measures they had taken in response to allegations they used the Consulting Association's list to blacklist trade union members. Since the issue broke in 2009, the UK has passed legislation prohibiting blacklisting, and councils such as Islington have issued procurement requirements that contractors not use blacklists. However, there is a group litigation order (GLO) working its way through the court system which alleges that Kier, Carillion and other companies are responsible for a greater level of blacklisting than they have admitted to so far. It is unclear what the likelihood of success is for this litigation, or what the cost implications are for these companies if the litigation succeeds. As a result, LAPFF will be tracking this litigation to determine how it could impact long-term investors.



In relation to labour practices at US subsidiaries, LAPFF engaged with **Deutsche Telekom** and **National Express**. Both companies have been targeted publicly for US subsidiaries alleged to be flouting US labour laws on collective bargaining and freedom of association. Both companies have said that they have no concerns in this regard. However, some trade unions have alleged that poor labour practices are threatening existing and future contracts, which could be a concern for investors.

Social and Reputational Risks

For a number of years, LAPFF has voiced concern about the level of control the Murdoch family holds over the **News Corp**, **BSkyB** and **21st Century Fox** boards. In November 2014, LAPFF issued voting alerts in relation to these three companies calling for, respectively, more independence on the board and to oppose the election of James Murdoch. Board independence is a particular concern in light of a separation agreement that allows for 21st Century Fox to 'control the defence of civil claims' in relation to phone hacking claims arising at News International. If News International chooses not to comply with the stipulations established by 21st Century Fox in relation to hacking claims, it might not benefit from an established indemnification arrangement. This arrangement could cost investors a lot of money, depending on how future hacking inquiries play out. LAPFF has also continued to engage with **Trinity Mirror** on hacking. Trinity Mirror also faces a number of future hacking claims and has worried some investors by refusing to join a recognised industry regulator.

NETWORKS & EVENTS

- **Climate Change Investor Coalition 'Aiming for A'** – met to discuss the wording and roll out of resolutions for Shell and BP
- **All Party Parliamentary Group on Climate Change** – event to discuss the threat of stranded assets
- **UKSIF AGM and annual lecture** – Lucinda Bell, Finance Director of British Land, gave the annual lecture
- **Access to Medicines Index** – investor event hosted by Aviva to disclose the latest company rankings on the Index
- **Land grabs, human rights and the UK** – law firm Leigh Day hosted an event to examine the impact of land grabs on local communities

THE FORUM IN THE NEWS

BP and Shell shareholder resolutions
[Financial Times](#), [Investments & Pensions Europe](#), [Reuters](#)

BSkyB
[City AM](#), [The Guardian](#), [Reuters](#), [Times of India](#), [Financial Times](#), [Yahoo Finance UK & Ireland](#), [Euronews](#), [HITC Business](#)

LAPFF G20 tax transparency
[Financial Times](#), [Investment & Pensions Europe](#), [Corporate Governance](#), [Responsible Investor](#), [Top 1000 Funds](#), [Investor Weekly Australia](#)

Infrastructure and Investment Governance Reform
[Financial Times](#)

Investment governance reform is the key to infrastructure funding writes LAPFF Chair Kieran Quinn: read London Mayor Boris Johnson's opinion piece first published in the *Telegraph* in October and then the Forum response from Cllr Quinn advocating a long term investment culture published in the *Financial Times* in November in a special feature article (www.lapfforum.org/news/investment-governance-reform-is-the-key-to-infrastructure-funding)

COMPANY PROGRESS REPORT

Company	Topics	Outcome	Domicile
BP	Carbon management	Dialogue	United Kingdom
Deutsche Telekom	Employment Standards	Dialogue	Germany
Vodafone	Remuneration	Moderate Improvement	United Kingdom
Trinity Mirror	Phone Hacking	Dialogue	United Kingdom
Severn Trent	Remuneration	Moderate Improvement	United Kingdom
Shell	Carbon Management	Dialogue	UK/Netherlands
Kier Group	Employment Standards	Small Improvement	United Kingdom
Twenty-First Century Fox	Board Composition	Dialogue	United States
News Corporation	Board Composition	Dialogue	United States
Carillion	Employment Standards	Moderate Improvement	United Kingdom
National Express	Employment Standards	Dialogue	United Kingdom
BSkyB	Board Composition	Dialogue	United Kingdom
Afren	Reliable Accounts	Dialogue	United Kingdom
Textron	Reputational Risk/Human Rights	Satisfactory Response	United States
Associated British Foods	Diversity	Dialogue	United Kingdom
Singapore Technologies	Reputational Risk/Human Rights	Dialogue	Singapore
Lockheed Martin	Reputational Risk/Human Rights	Satisfactory Response	United States
BG Group	Remuneration	Dialogue	United Kingdom
Bellway	Corporate Governance/Diversity	Dialogue	United Kingdom

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

Local Authority Pension Fund Forum Members

Avon Pension Fund
Barking and Dagenham LB
Bedfordshire 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
Dyfed Pension Fund
Ealing LB
East Riding of Yorkshire Council
East Sussex Pension Fund
Enfield LB
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
Wandsworth Borough Council Pension Fund
Warwickshire Pension Fund
West Midlands ITA Pension Fund
West Midlands Pension Fund
West Yorkshire Pension Fund
Wiltshire CC
Worcestershire CC