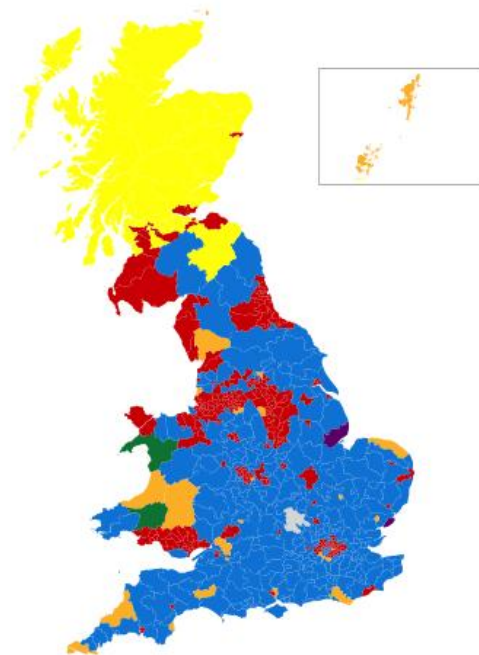




QUARTERLY ENGAGEMENT REPORT


JANUARY TO MARCH 2015




Local Authority Pension Fund Forum


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. Formed in 1990, LAPFF brings together a diverse range of local authority pension funds in the UK with combined assets of over £150 billion, www.lapfforum.org.

ACHIEVEMENTS

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The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focussing on carbon management, strategy and disclosure. For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition.


- Societe Generale** announced in 2014 the separation of the roles of Chairman and Chief Executive. LAPFF has met regularly with the company to discuss this concern since 2010. This issue was also raised at a meeting with **Total**, in the context of succession planning. Discussion further explored how carbon management considerations influence business strategy, particularly on capex plans for marginal oil reserves.
- Subsequent to collaborative engagement in 2014, in early 2015 **Wilmar** revealed that it has fully mapped its supply chain, making public all its suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices.
- LAPFF's participation in the Sustainable Palm Oil Manifesto was one prompt for Malaysian palm oil trader **Kuala Lumpur Kepong's** announcement in January 2015 that it will begin to use the industry standard definition of High Carbon Stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources and Greenpeace. Another Manifesto member, **IOI**, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.
- The Forum is already planning its fringe meeting programme for the 2015 party conference season on the following dates: *Lib Dems* in Bournemouth, on Sunday 20th September at 6.00pm in the evening fringe; *Labour* in Brighton on Monday 28th September at 1.00pm at the lunch fringe; and *Conservative* in Manchester on Monday 5th October at 8.30am in the breakfast fringe.
- LAPFF is also actively considering the establishment of an All-Party Parliamentary Group on the Local Government Pension Scheme, following the 2015 General Election. This will provide the Forum with a leading voice amongst the new House of Commons and the Lords.
- A meeting with the Forum's third largest European holding, **Novartis**, explored board independence and executive remuneration in the context of new Swiss governance regulation.

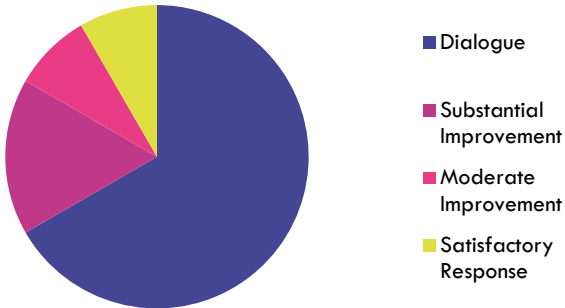

- LAPFF welcomed its newest members, **Suffolk County Council Pension Fund, Powys County Council Pension Fund** and **Strathclyde Pension Fund**, taking LAPFF membership to 64 funds.

ENGAGEMENT SUMMARY

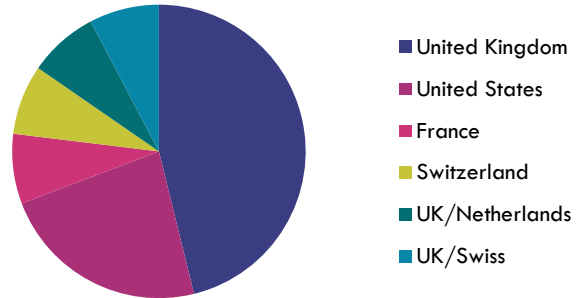
JANUARY TO MARCH 2015

The Forum engaged with **13 companies** over the period

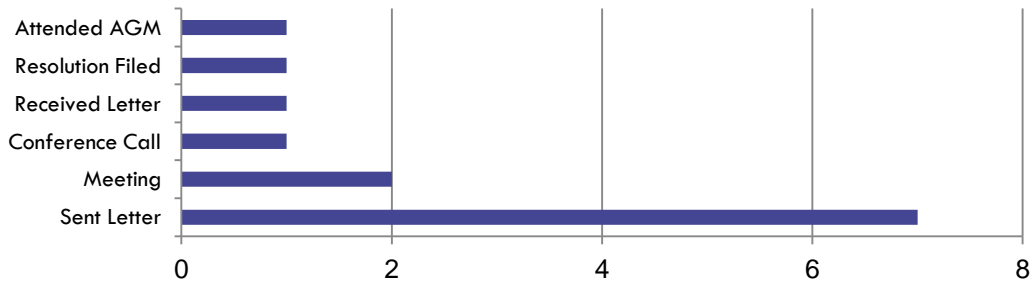
Outcomes



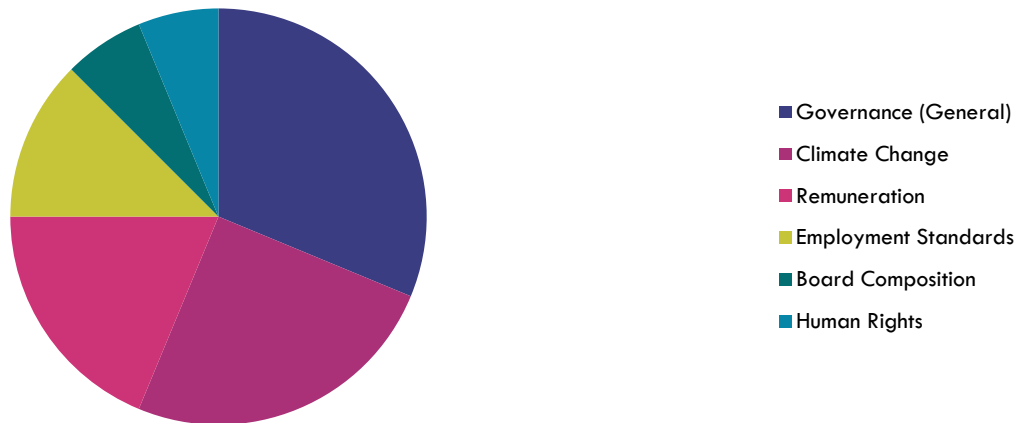
Domicile



Activities



Topics



COMPANY ENGAGEMENT

LEADERSHIP ON KEY CAMPAIGNS

LAPFF co-signed an international investor statement in a letter sent to the Italian government, to express concerns about a proposal that double voting rights be granted to shareholders who have owned their shares for over two years. Although the measure was intended to prevent short-termism, concerns were raised that certain shareholders would benefit at the expense of others as has been the case in France where this approach has been in place for a number of years. Here predominantly controlling shareholders have benefitted, often at the expense of minority shareholders.

Italy has had best practice in this area thanks to the Draghi Law of 1998, which requires a two-thirds majority of votes of special meeting resolutions to allow loyalty shares. The proposed changes called for a simple majority to approve double voting rights. The letter asked the Italian government to allow a sunset clause to set in so that the simple majority rule did not take effect. In early February, the Italian government capitulated to investor pressure and decided to invoke the sunset clause thus scrapping the proposal on double voting rights.



PROMOTING GOOD GOVERNANCE

Executive Pay

LAPFF has written to Tesco linking the issue of executive remuneration to good governance. It has come to light that the company does not appear to employ 'malus' provisions, which has been especially problematic given the departure of staff with apparent roles in the company's accounting scandal. The Forum also contacted Hays and Centrica to seek feedback on its 'Expectations on Executive Pay' document.



Executive remuneration is currently a hot topic in Switzerland, with the final provisions of the new corporate governance law set to be implemented during 2015. As a result, both **Novartis** and **Nestlé** were keen to share with investors their respective approaches to implementing the new law. The 'Ordinance Against Excessive Pay', also known as the Minder Initiative, covers board election processes and remuneration. During 2014, provisions came into force to require the election of each board member individually, the direct election of the Chairman and individual members of the compensation committee. As of this year, Swiss companies will have to submit a binding resolution on board and executive remuneration.

A roundtable meeting of shareholders including LAPFF with the chairman of Nestlé explored the implications of the company's application of these new requirements and cited new areas

in which the law could develop. Likewise, representatives from Novartis set out their intended implementation and actions. LAPFF had approached both companies as they are two of the most widely held companies amongst LAPFF portfolios in continental Europe. The meeting with Novartis thus offered the opportunity to explore other areas such as mergers and acquisitions, pay structures, the role of significant shareholders and the approach to drug patents in the developing world.

Reliable Accounts

In the wake of revelations that **Tesco** had misrepresented its accounts, LAPFF also requested a discussion with the company about a way forward from the company’s accounting deficiencies. This request is part of LAPFF’s broader strategy to push for improved accounting standards. In February 2015, LAPFF Chairman, Kieran Quinn, signed a joint letter to the Financial Times calling on the UK to favour a position of ‘prudence’ rather than one of ‘neutrality’ as the overriding principle in its accounting standards.

Profit and loss account

For the year ended 30 March 2015

Notes	2015		2014		2013		2012		2011	
	Balance exceptional items	Exceptional items	Balance exceptional items	Exceptional items	Balance exceptional items	Exceptional items	Balance exceptional items	Exceptional items	Balance exceptional items	Exceptional items
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Continuing operations										
Turnover	2.3	502.1	-	502.1	736.1	-	716.1	-	716.1	-
Operating costs	4	(505.8)	(58.5)	(561.3)	(633.9)	0.1	(602.8)	-	(602.8)	-
Operating (loss)/profit		(3.7)	(58.5)	(61.2)	102.2	0.1	113.3	-	113.3	-
Income from other financial assets	6	0.1	-	0.1	0.1	-	0.1	-	0.1	-
Profit on part disposal of subsidiary	9	-	135.2	135.2	-	-	-	-	-	-
Interest payable and similar charges	7	(0.5)	-	(0.5)	(27.0)	-	(27.0)	-	(27.0)	-
Interest receivable and similar income	7	0.7	-	0.7	12.2	-	12.2	-	12.2	-
Share of profit/losses of joint ventures	11(a)	(24.8)	(5.5)	(30.3)	0.3	-	0.3	-	0.3	-
Share of profit/losses of associates	11(b)	(0.3)	-	(0.3)	0.4	-	0.4	-	0.4	-
Profit before taxation	4	11.2	273.2	106.4	78.6	0.1	97.7	-	97.7	-
Taxation	8	(15.3)	16.1	0.8	(12.3)	(1.2)	(13.5)	-	(13.5)	-
Profit attributable to equity shareholders		17.9	289.3	107.2	66.3	0.9	84.2	-	84.2	-

The notes on pages 45 to 71 form part of these financial statements.

MANAGING ENVIRONMENTAL RISK

Energy and Environmental Risk

In the first two months of 2015, both **Shell** and **BP** announced their advice to shareholders to support ‘strategic resilience’ resolutions filed by LAPFF members as part of the Aiming for A coalition. Such recommendations from companies where resolutions have been filed by shareholders are unprecedented in the UK and extremely rare in other markets. The resolutions call for disclosures on ongoing operational emissions management, asset portfolio resilience to the International Energy Agency’s scenarios, low carbon energy research and development and investment strategies, relevant strategic key performance indicators and executive incentives and public policy positions relating to climate change.



A number of these issues were discussed when Cllr Rose met with members of the sustainability and legal teams of **Total**. How the company viewed fracking in its business strategy was also discussed. The sad loss of the company’s Chairman and CEO in a plane crash in late October 2014, was covered in discussions on board succession planning and the separation of powers. Any

project developments in Western Sahara are yet to be approved, but the company set out its views on how to engage with local communities in the area.

During 2014, LAPFF was part of a coalition that encouraged palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land. One company contacted was **Wilmar**, which in early 2015 revealed that it has fully mapped its



supply chain. The company has made public all of its 800 suppliers in Indonesia and Malaysia. This improved transparency should allow investors to understand better how well the company is implementing supply chain sustainability practices. LAPFF's participation in the Sustainable Palm Oil Manifesto has led to Malaysian palm oil trader

Kuala Lumpur Kepong's announcement in January 2015 that it will begin to use the industry standard definition of High Carbon Stock (HCS) forests developed by The Forest Trust, Golden Agri-Resources, and Greenpeace. This commitment should help to further the coalition's commitment to a moratorium on clearing HCS areas and works toward a No Deforestation approach previously eschewed by the coalition. Building on this development, another Manifesto member, **IOI**, which controls an estimated 10.5% of the global palm oil trade, has publicly committed to applying its sustainable palm oil policy to its subsidiaries and trading partners, as well as its direct operations.

TARGETING SOCIAL ISSUES

Employment Standards and Practices

The IndustriALL federation of trade unions approached LAPFF about a conference call on a campaign to have **Rio Tinto** improve its labour and community relations practices. Executive members, Rodney and Denise Le Gal, listened to union concern about a practice at Rio Tinto called 'direct engagement' between management and workers which although is generally supported, even by unions, concern was expressed that this policy at Rio Tinto is masking an attempt by the company to exclude unions from discussions pertaining to work conditions and labour relations. With regard to community relations, unions are concerned that Rio Tinto is failing to obtain free prior and informed consent, especially from Indigenous communities, where the company engages in projects. This engagement was helpful as LAPFF prepares for the Rio Tinto AGM, although some of the claims made on the call still need to be substantiated with more compelling evidence. Further research will be undertaken to determine the weight of the claims and whether they should be used in engagement with Rio Tinto.



Social and Reputational Risks

LAPFF's Cllr Richard Greening attended the **Lonmin** AGM, where he asked the Board about the implementation of the recommendations from the South African Human Rights Commission's report from October 2014 to improve labour and community relations in the wake of the company's Marikana mine disaster in 2012. Lonmin endured a debilitating five



month strike during 2014, but proposed solutions to the company's labour concerns have been linked more broadly to its community engagement approach. In response to Cllr Greening's question, Lonmin CEO Ben Megara outlined how the company had engaged with the South African Human Rights Commission to work on a solution,

part of which is a Five Point Plan to resolve social investment issues, such as the company's role in promoting education and providing housing for the community in which it operates. In addition to formally recognising the Association of Mineworkers and Construction Union (AMCU) and employing the relatives of Marikana victims, the Bapo ba Mogale community now owns 2.4% of Lonmin's share capital after the company made a royalty payment to the community and allocation to the Bapo trust in line with its commitment to meet South Africa's Black Economic Empowerment requirement.

THE FORUM IN THE NEWS

LAPFF Press Releases on the Shell and BP resolutions

<http://www.lapfforum.org/>

BP and Shell shareholder resolutions

[Guardian](#), [Independent](#), [Financial Times](#), [Courier](#), [Investment Week](#), [Professional Pensions](#), [Blue and Green Tomorrow](#), [Fund Web](#), [Forbes](#), [Local Government Chronicle](#), [Investment & Pensions Europe](#)

LAPFF G20 tax transparency
[Responsible Investor](#)

IFRS and Reliable Accounts
[Financial Times](#)

NETWORKS & EVENTS

The LAPFF Chairman, Cllr Quinn travelled to Scotland to meet with new LAPFF executive committee member Barney Crockett of North East Scotland Pension Fund, as well as visiting Cllr Paul Rooney chair of Strathclyde Pension Fund, who subsequently joined the Forum.

Novethic Conference: Cllr Greening addressed a conference on investors, climate and low carbon finance in Paris, setting out LAPFF's position on corporate carbon management.

LAPFF representatives also attended a number of other events including a **30% Club Investor** Group meeting focussed on board refreshment; a Pensions Infrastructure Platform seminar reviewing the platform one year on and talks on Embedding Global Markets relating to the governance role of investors on Human Rights and on environmental protection legal developments relating to Rio Tinto's role in the unrest in Bougainville, Papua New Guinea.

COMPANY PROGRESS REPORT (new companies in bold)

Company	Topics	Activity/Outcome	Domicile
Total	Carbon management	Meeting/Moderate Improvement	France
BP	Carbon management	Resolution/Substantial Improvement	United Kingdom
Associated British Foods	Board Composition	Letter/Satisfactory Response	United Kingdom
Lonmin	Employment Standards	Attended AGM/Dialogue	United Kingdom
Shell	Carbon management	Resolution/Substantial Improvement	UK/Netherlands
Microsoft	General Governance	Letter/Dialogue	United States
Tesco	Remuneration/Accounts	Letter/Dialogue	United Kingdom
Novartis	General Governance	Meeting/Dialogue	Switzerland
Centrica	Executive Pay	Letter/Dialogue	United
Amazon	Governance/Employment Standards	Letter/Dialogue	United States
Hays	Remuneration	Letter/Dialogue	United
AstraZeneca	Mergers & Acquisitions	Letter/Dialogue	United States
Nestlé	General Governance/Remuneration	Meeting/Dialogue	Switzerland

Local Authority Pension Fund Forum Members

Aberdeen City Council
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
Falkirk Council
Greater Gwent Fund
Greater Manchester Pension Fund
Greenwich Pension Fund
Gwynedd Pension Fund
Hackney LB
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
Powys County Council Pension Fund
Rhondda Cynon Taf
Shropshire Council
Somerset CC
South Yorkshire Integrated Transport Authority
South Yorkshire Pensions Authority
Southwark LB
Staffordshire Pension Fund
Strathclyde Pension Fund
Suffolk County Council 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

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