Pension Fund Committee
Meeting to be held on 27 November 2015

Electoral Division affected: None

Responsible Investment
(Appendices 'A' and 'B' refer)

Contact for further information:
Andrew Fox, (01772) 535916, Head of Service, Policy and Compliance
andrew.fox@lancashire.gov.uk

Executive Summary

Responsible Investment (RI) encompasses a range of activities associated with the Fund fulfilling its commitment to being a good asset owner.

This report provides the Pension Fund Committee with its regular update on RI related matters which include the fund's annual review of its Statement of Compliance with the UK Stewardship Code.

Recommendation

The Committee is asked to:

(i) Note the report;
(ii) Approve the Stewardship Code Compliance Statement for 2015 set out at Appendix 'A'.

Background and Advice

Members of the Pension Fund Committee receive regular reports on RI related matters which routinely include:

- current matters of note and news;
- latest reports from:
    1. Pensions and Investment Research Consultants Ltd (PIRC) as the fund's provider of proxy voting and governance services;
    2. Local Authority Pension Fund Forum (LAPFF) as the fund's provider of engagement and governance services;
- details of litigation cases in which the Fund has a potential interest;
- progress against priorities identified by the Member Working Group on Responsible Investment.

The fund is developing an approach to Responsible Investment (RI) in line with the following definition from the Pensions and Lifetime Savings Association (formerly known as National Association of Pension Funds (NAPF)):

Responsible Investment is an investment approach in which investors recognise the importance of the long-term health and stability of the market as a whole; seeking to incorporate material extra-financial factors alongside other financial performance and strategic assessments within investment decisions; and utilise ownership rights and responsibilities attached to assets to protect and enhance shareholder value over the long term – primarily through voting and engagement.

The current approach, which is set out within the fund's Statement of Investment Principles, comprises four key strands of activity:

1. Voting Globally
2. Engagement Through Partnerships
3. Shareholder Litigation
4. Active Investing

The report which follows highlights current matters of note and news within this evolving area of work and provides the Committee with an update on each of the 4 key strands of activity.

Statement of Compliance with the UK Stewardship Code 2015

In response to the financial crisis of 2008, the Walker Review (Corporate Governance in the UK Banking Industry) recommended that the Financial Reporting Council (FRC) should develop a Stewardship Code setting out best practice principles for investor engagement. The FRC published a first version of the Stewardship Code in 2010 and an updated version (the current code) in September 2012 - a copy has been placed in the Members Retiring Room for reference.

The Stewardship Code is primarily aimed at asset managers but other institutional investors, including pension funds, are encouraged to report under it and it is considered best practice to do so. Mirroring the 'comply or explain' statements made by companies under the Corporate Governance Code, institutional investors are expected to publish a statement on their website which explains the extent to which they have complied with the seven principles of the Stewardship Code.

The Pension Fund Committee approved the Fund's first statement of compliance with the Stewardship Code in September 2013 and an annual review has followed in each subsequent year. The statement of compliance proposed for 2015 is set out at Appendix 'A'.

There are few significant changes from the statement approved in 2014, although additional details are included of collaborations under principle 5 which demonstrates the Fund's willingness to work in partnership with other investors.

The adoption of the proposed statement and the actions it encompasses will ensure the Fund's continued compliance with the Stewardship Code.

Annual Review Meetings with Fund Managers

The Investment Panel recently met with Morgan Stanley, Natixis/Harris, MFS, AGF, and Robeco to discuss fund performance, the economic backdrop, future investment strategies, and ESG matters. For the first time, equity manager meetings majored on ESG matters in recognising the Fund's aspirations in developing its RI approach, using the opportunity to discuss how such non-financial matters may impact upon investment decisions, and setting the scene for future discussions.

Discussions centred upon the integration of RI themes in investment processes; examples and outcomes of engagement activity, ESG risk management, and resources employed on ESG issues. Managers were specifically asked about climate change and the potential impact on their portfolios including the risks arising from underestimating the impact of a declining demand for fossil fuels and/or remedial measures to address climate change.

Morgan Stanley and MFS employed broadly similar approaches in having no allocations to energy and natural resource companies so were not as exposed to these risks as others. In addition, Morgan Stanley avoids companies that do not represent sustainable sources of value and cash flow generation over time.

There was a common theme from all managers in placing emphasis on good corporate governance in underlying companies invested in.

Harris echoed this theme, and also explained that whilst there is energy exposure within the portfolio, energy represents only a small proportion of the stocks held, which are carefully chosen based on their valuation metrics rather than an explicit recognition of climate change risk. Far more emphasis is placed on return generation and management strength, as well as corporate governance norms, than on a company's environmental impact specifically.

AGF described their developing approach to ESG matters within their emerging markets mandate, including enhanced risk management practices, and an intention to sign up to UNPRI by the end of this year. Their sustainable investing approach is based on long-term shareholder holdings. Additional ongoing liaison on ESG matters was offered.

Arguably, Robeco have the most developed approach to sustainability in asset management within the Lancashire Fund, with sustainability being regarded as a long term value driver impacting future performance. Their investment thesis ensures that ESG factors are integrated into investment analysis and decision-making in order to improve risk/return ratios. Considering ESG factors leads to more comprehensive company assessments and valuations, allowing earlier discovery of investment opportunities and ESG risks. In addition, exercising ownership rights through voting and engagement to affect behaviour change enables Robeco to create additional long-term value whilst taking responsibility for assets.

Details were discussed relating to Robeco's sustainability investment framework, stewardship policy, engagement themes and examples, ESG risk management, and portfolio analytics.

Correspondence from Members on Fossil Fuel Exposure

During September and October 2015 the LGPS Fossil Free campaign (Fossil Free UK) prompted LCPF and Lancashire County Council to receive correspondence from a small number of fund members and campaigners on the subject of fossil fuel exposure. The majority of letters followed a standard format produced by campaign organisers which sought a commitment to complete divestment from fossil fuels.

Responses have been made to each individual following the approach set out in the letter signed by the Deputy Leader of the County Council (Appendix 'B' refers) which explains that the fund has a relatively low exposure to fossil fuels (compared with other LGPS funds) and the reasons why it will not be making a commitment to divestment.

The campaign identified LCPF as the LGPS fund with the lowest level of investment in fossil fuels and it has been important to emphasise that this position isn't the result of an ethical or environmental stance prohibiting investment in this sector (negative screening) but the outcome of experienced external Fund Managers continually assessing the risks and returns of competing investment opportunities in order to achieve maximum risk adjusted returns in line with meeting the fund's investment strategy and objectives and fulfilling its core fiduciary duty to scheme members.

1. Voting Globally

The Fund owns shares in listed companies across the globe. To ensure the consistent and effective use of its voting rights (something it has committed to doing as a signatory of the UN Principles of Responsible Investment) LCPF employs PIRC as its proxy voting agent. Following clear principles set out within standing voting guidelines PIRC cast votes at every shareholder meeting the Fund is entitled to participate in.

The fund receives quarterly reports which provide a retrospective summary of votes cast and the outcome of voting (where this is known). A copy of the most recent report (covering the period from 1 July to 30 September 2015) has been placed in the Members Retiring Room for reference.

During this period the Fund:

- voted at 21 shareholder meetings (15 AGM and 6 EGM)

Location	Meetings Voted	
UK & BRITISH OVERSEAS	4	19%
EUROPE & GLOBAL EU	3	14%
USA & CANADA	8	38%
ASIA	4	19%
AUSTRALIA & NEW ZEALAND	2	10%
TOTAL	21	100%

- voted on 277 separate resolutions

Vote Categories	Resolutions Voted	
For	138	50%
Abstain	21	8%
Oppose	113	41%
Non-Voting	2	1%
Withhold	3	1%
TOTAL	277	100%

The period saw only 2 shareholder resolutions and both were supported by the Fund. One was a proposal that J.M Smucker Company (North American food, beverage and pet food manufacturer with net annual sales £8bn) should issue a public report by January 2016 proposing how the Company can increase its renewable energy sourcing and production. The company has a history of strong corporate responsibility which includes commitments and targets for environmental impact reduction. The resolution proposed further emphasis on renewable energy as part of the efforts underway. The other resolution was a proposal that the Board of Nike should publish its policy on political donations and disclose the sums and recipients involved in order to promote and deliver greater transparency.

Across the 21 meetings voted in the period, opposition and abstention were primarily focussed on proposals to appoint directors (reflecting concerns about independence, diversity and the effectiveness of nominees) and on issues of pay and remuneration. Full details of all voting appears within the quarterly report from PIRC which is available in the Members Retiring Room.

2. Engagement through Partnerships

The Fund's engagement activities are principally through the direct relationships that develop between Fund Managers/Investment Managers and investee companies but they include partnerships and collaborations which can offer greater reach and impact and broader representation.

The Fund's principal collaboration within the RI work stream is its membership of the Local Authority Pension Fund Forum (LAPFF) which exists to promote the investment interests of local authority pension funds as shareholders.

The latest engagement report from LAPFF has been placed in the Members Retiring Room for reference and describes activities in the period from 1 July 2015 to 30 September 2015. Highlights in this quarter include:

- meetings with Barclays, RBS and HSBC to discuss the over-riding requirement for financial accounts to provide a ‘true and fair value’. The meetings followed a second legal opinion from Mr Bompas QC (covered widely in the media, including the Financial Times) confirming International Financial Reporting Standards (IFRS) currently do not satisfy requirements under s393 of the Companies Act 2006 for financial accounts to give a "true and fair view".
- attending the National Grid Annual General Meeting (AGM) to ask how the Company’s climate strategy affects its overall strategy and whether it will disclose its Scope 3 emissions. The Company has confirmed that it is likely to do so next year.
- posing questions at the AGMs of BT, Vodafone and SSE on topics including: remuneration; gender diversity; carbon emission reductions; and board and auditor independence.
- participating in an Equality and Human Rights Commission Inquiry roundtable on the recruitment and appointment of board directors, including the appointment of women.
- co-signing a letter to support the Business Supply Chain Transparency on Trafficking and Slavery Act of 2015 being proposed at a federal level in the United States.
- submitting a consultation response to the Hong Kong Stock Exchange, and advocated for mandatory reporting on carbon emissions.

The Fund has continued to build/maintain a regular involvement with LAPFF in the period through:

- ***attending the quarterly Business meeting (6 October 2015)***
  Quarterly business meetings provide the opportunity to meet representatives from other LGPS funds and participate in debate and decision-making. The main topic of discussion was the manifestation of increasing government compulsion for LGPS collaboration and pooling and the accompanying tight timescale and lack of clarity around process.

- ***attending the EGM (6 October 2015)***
  The EGM was called in order to enable a vote on proposed amendments to the LAPFF constitution which resulted from a consultation process with members. The outcome was a small number of changes which support and enable LAPFF to demonstrate high standards of corporate governance.

- ***participating in the LAPFF mentoring scheme***
  The fund's Financial Policy Officer has been partnered with a mentor from the Staffordshire Pension Fund and begun initial discussions around the frequency of meetings and themes of specific benefit or interest.

As mentioned above, annual review meetings with external Fund Managers in early November 2015 featured questions on in-house approaches to RI (including engagement) for the first time. Responses indicated that approaches differ in depth, scope and emphasis and the initial insight gained is a good starting point for building a better understanding of RI activities undertaken by external parties on behalf of the Fund as a responsible asset owner and for identifying any examples of good practice which can potentially be developed going forward.

The National Association of Pension Funds (now renamed the Pension and Lifetime Savings Association) has published findings from the member survey on engagement practices which LCPF contributed to as a respondent over the summer. A copy of the findings has been placed in the Members Retiring Room for reference. The core findings are that there is universal acceptance that the consideration of risks to a company’s long-term sustainability, such as environmental, social or governance factors is compatible with a pension fund’s fiduciary duty and funds have clear understanding of stewardship responsibilities (as set out under the Stewardship Code). However, the report also highlights that, due to limited resources and the many significant pension reforms they have had to manage, the stewardship agenda remains a difficult one for some funds to devote significant time to.

3. Shareholder Litigation

The Fund is committed to maintaining an up to date understanding of any shareholder litigation in which it potentially has an interest. Litigation offers a route for recovering financial losses where asset values have been diminished as a result of financial misconduct and also fulfils a commitment to engage with investee companies to improve standards of corporate governance.

The Fund receives securities litigation monitoring services at no cost from two US law firms - Barrack, Rodos and Bacine (BR&B) and Robbins Geller Rudman and Dowd (RGRD) who ensure prospective actions are known about, the fund's interest (level of loss) is quantified and information is available as a basis for making decisions on an appropriate course of action given the risks, costs, benefits and deadlines involved in each case.

<u>United States</u>

Under US law, any shareholder who can demonstrate a loss related to a certified class action is automatically represented and does not have to prosecute individually.

The table below gives details of cases identified through litigation monitoring where the fund has losses which will potentially be represented under developing class actions.

Company Name	Effective class period begin	Effective class period end	Potential loss incurred ($'000)
Medtronic, Inc.	08/12/2010	03/08/2011	27.71
Intuitive Surgical, Inc.	19/10/2011	18/04/2013	251.54
Barrick Gold Corp.	07/05/2009	23/05/2013	364.67

CenturyLink, Inc.	08/08/2012	14/02/2013	521.63
ITT Educational Services, Inc.	24/04/2008	25/02/2013	760.06
Weight Watchers International, Inc.	14/02/2012	30/10/2013	2,265.97
Petroleo Brasileiro S.A. Petrobras	07/01/2010	26/11/2014	6,158.91

In each of these cases, the Fund has been advised to continue monitoring progress, but with no other action required at this stage.

United Kingdom

Securities claims in the UK require investors to file actions individually in order to benefit from a successful group action (they must be a named claimant on an issued Claim Form). Actions are much less prevalent in the UK than equivalent class actions in the US.

Royal Bank of Scotland

As previously reported, the Fund has joined a large group of institutional investors in a group action against Royal Bank of Scotland Group Plc (RBS) under which it is argued that investors suffered losses in connection with a Rights Issue in 2008. The law firm representing our investor group (SL Group Claimants) provides a monthly update on pre-trial progress with the case.

Since the last quarterly report to the Pension Fund Committee an 8th Case Management Conference (CMC) has taken place at the High Court in London (5th to 7th October 2015). At this CMC the judge heard an application from the Defendants for the start date of the trial to be adjourned from December 2016 to March 2017 (with the interim procedural deadlines to be concurrently extended). The Judge has not yet handed down his judgment on the application and the court has issued an apology for the delay.

In September 2015 claimants were advised of a significant increase in RBS's estimate of their costs. It was initially considered that the level of insurance cover already in place to meet the estimated share of costs faced by SL Group (if RBS win and their costs fall to be met by the claimants) remained adequate and it was inappropriate to incur the cost of increasing insurance cover above the existing £15m. This original opinion has subsequently been revised and SL Group claimants have been advised that a further £5m of adverse costs cover (ATE insurance) is to be obtained.

The decision to take additional insurance cover has no immediate and direct financial impact on the Fund but it ultimately means that our potential share of any sum recovered from RBS will be lower than if the premium for purchasing the extra cover could have been avoided. What has changed is the estimated scale of RBS costs; the additional insurance premium is the cost of mitigating the increased risk that costs awarded to RBS (should it win the case) might exceed the original £15m of insurance cover, leaving claimants facing a share of uninsured costs.

It has been reported in the press that a group of claimants from the SG Group (the “Lloyds Claimants”) have left the SG Group and instructed a separate law firm. Whilst this has attracted attention and speculation in the media, the advice we have been given is that this change is not anticipated to have any material impact on either the likelihood of a successful outcome or the share of costs faced by the SL Group claimants (which continues to be estimated at 33.9% of any adverse costs award made in RBS's favour).

A further (9th) CMC is provisionally scheduled for December 2015 after the expiration of a number of procedural deadlines during November. With a judgement on the application to adjourn the start date still awaited, the trial date currently remains unchanged (7 December 2016) with an anticipated trial window of 25 weeks.

4. Active Investing

Active investing involves *"seeking investments with ESG characteristics, provided these meet the Fund's requirements of strong returns combined with best practice in ESG and/or corporate governance"* (LCPF Statement of Investment Principles).

The Fund's i**nvestments** are primarily selected with the goal of achieving maximum risk adjusted returns (exceeding a benchmark investment index and outperforming the market) but a supplementary commitment to active investment means the Fund will prefer investments which also offer a positive environmental, social or governance impact where appropriate opportunities are available.

In the last quarter the fund has added to existing holdings in renewable, sustainable and clean energy – the 'E' part of ESG. Under its infrastructure strategy the fund has made a significant direct investment in a diversified well established wind farm electricity generation business by acquiring a 50% stake EDF's Portuguese wind-farm assets, one of the top 5 wind farm operators in Portugal with gross installed capacity c.500MW.

The investment signals the beginning of a partnership with EDF Energies Nouvelles which it is hoped will lead to further collaborations in the future and which also demonstrates that the Fund is cognisant of the climate change agenda and involved in investments which will directly assist the global transition to a lower carbon future through the provision of generation and supply technology which offers a viable and sustainable alternative to fossil fuel dependency whilst meeting the strategy and objectives of LCPF as a long term investor.

Members Working Group on RI: Action Plan

Some elements of the action plan produced by the Member Working Group on RI currently remain either partially or fully outstanding as follows:

- Create a Responsible Investment Policy for the Fund;
- A policy setting out the circumstances in which stakeholder consultation would be sought and the possible methods for achieving this should be developed;
- Reduce the carbon footprint of LCPF property portfolio wherever possible;
- Procure/sign up to RI/ESG monitoring tool/ service e.g. RobecoSAM;
- Create a structured framework for ongoing discussions with external investment managers.

The last three elements are practical/procedural, but making further progress with them is ultimately linked to the development of a Responsible Investment Policy, which is in turn partly dependent on greater clarity about the new operating arrangements which will flow from the formal establishment of the Lancashire and London Pensions Partnership.

A full review of all existing policies and approaches will take place to ensure these are fit for purpose given the aims, objectives and (crucially) the joint operating arrangements to be put in place. In the circumstances, and reflecting that RI is a rapidly evolving agenda which is inevitably tied into how investments are selected, managed and monitored in practice, it is proposed that those elements of the RI Working Group's action plan not yet formally concluded should be addressed as part of the deliberations from which the partnership's approach to Responsible Investment develops rather than being treated as a separate exercise. In light of the observation (at the 30 September meeting of the Pension Fund Committee) that an action plan should identify action "owners" it is proposed that responsibility for encompassing outstanding elements of the action plan will fall to the officers involved in developing policies and procedures as part of the wider work streams associated with establishing the partnership and determining its detailed operating model.

Quarterly reports on RI will continue to provide the Committee with regular information and updates on the continuing evolution of RI as the partnership comes into being and will reflect continuing efforts to fulfil the RI commitments which are clearly set out within the Fund's Statement of Investment Principles until the clarity needed to develop an RI Policy for the Fund is available.

RI Action Plan

Area	Action	Update on actions taken and in planning / progress currently	Status
Fiduciary Duty			
Outcome 1			
Having considered all the information presented to its meetings, the Working Group agreed that it would wish to recommend the Pension Fund Committee to consider a more active stance in relation to RI issues than had previously been the case where that did not pose the risk of financial detriment to the Fund. Members acknowledged that the primary aim of an investment strategy was to secure the best possible return and that the administering authority and trustees should not impose their own ethical views on issues such as tobacco, energy, food etc., on scheme beneficiaries.			
Action 1	Recommendation to Pension Fund Committee to consider a move towards RI where it was practicable to do so, and without posing a detrimental financial risk to the Fund.	*Implicitly accepted by the Pension Fund Committee on 27 November 2014 in accepting the recommendations of the member working group. Recognition of this stance will be reflected in the Fund's first Responsible Investment policy document, currently being developed.*	Concluded
Outcome 2			
Concerns were expressed about the Fund's ability to canvass and assess the views of scheme employers and members on specific social, ethical and environmental considerations and investments. Before taking any specific steps that could potentially lead to the investment in or disinvestment from particular sectors, Members acknowledged that it was important to canvass and understand the views of scheme stakeholders, and agreed that different ways of achieving this needed to be explored.			
Action 2	A policy setting out the circumstances in which stakeholder consultation would be sought and the possible methods for achieving this should be developed.	*The recruitment of a Financial Policy Officer has brought the additional capacity needed to facilitate the further development of an RI policy for the Fund.* *The requirement (and options) for undertaking stakeholder consultation will be addressed as part of the work under action 5a below.*	Under planning as part of action 5a

Area	Action	Update on actions taken and in planning / progress currently	Status
Outcome 3			
The Working Group felt that it now had a much greater understanding of RI, SRI and ESG issues and in particular the legal framework around fiduciary duties and the issue of disinvestment. Members again acknowledged that the primary aim of the Fund's investment strategy was to secure the best possible return and it was agreed that disinvestment was not an option which should be pursued by the Fund at this moment.			
Action 3	No action required.		Concluded
Existing Investment Activity			
Outcome 4			
The Working Group encouraged the taking of specific steps or actions to reduce carbon production within the Fund's portfolio - for example, within the property portfolio. In addition, the Group supported the continued identification of good investment opportunities and the making of investments that provide appropriate returns and which may possess certain 'green' or clean energy characteristics.			
Action 4	Reduce carbon footprint of LCPF property portfolio wherever possible	*Consideration will be given to how the carbon footprint of the current property portfolio can be captured in order to facilitate the identification of opportunities for reduction going forward.* *Will foreseeably be related to and affected by action 7 below.*	Under review

Area	Action	Update on actions taken and in planning / progress currently	Status
Governance and Policy			
Outcome 5			
The Working Group recommend the establishment by the Fund of a Responsible Investment Policy based on the Policy Tool produced by UNPRI, and subsequently work towards the adoption of the UN Principles.			
Action 5a	Create a Responsible Investment Policy for the Fund	*Achieving a policy which is of practical benefit to the Fund and its stakeholders going forward and which contributes to the fulfilment of commitments made as a signatory of UNPRI will involve a number of steps* *- a more detailed position statement on the Fund's aspirations in relation to RI* *- the identification of practical approaches by which these aspirations will be fulfilled* *- the design of any new agreements/documents and reporting/monitoring approaches needed (minimal bureaucracy being a key aim)* *- the agreement by key personnel (e.g. internal investment managers, external fund managers, expert advisors, and agents) of any practical/operational changes or new approaches/ requirements placed on them in order to comply with/deliver the approach set out within the RI Policy* *The development of a Lancashire London Pensions Partnership is likely to introduce considerable changes and the development of an RI policy will need to await greater clarity on the future operating model via which it will be implemented in practice.*	Under planning

Area	Action	Update on actions taken and in planning / progress currently	Status
Action 5b	Consider signing up to the UN PRI initiative	*LCPF became an Asset Owner signatory on 10 March 2015, and is recognised on the UNPRI website.*	Concluded
Outcome 6			
A proposal for revised SRI wording within the SIP should be produced.			
Action 6	Rewrite Statement of Investment Principles section on RI/ESG	*Revised wording in relation to responsible investment was incorporated into the revision of the Statement of Investment Principles approved by the Pension Fund Committee on 27 March 2015. Any further changes as the Responsible Investment approach develops will be incorporated accordingly.*	Concluded

Analysis and Monitoring			
Outcome 7			
Investigate the options for procuring/ signing up to an SRI/ ESG monitoring tool/service.			
Action 7	Procure/sign up to RI/ESG monitoring tool/ service e.g. RobecoSAM	*Progress requires the Fund to determine (through its Responsible Investment Policy) what its aims and aspirations are in this area before deciding upon the best way to fulfil these requirements.* *Involvement in the development of an LGPS Procurement Framework for ESG services will provide valuable insight into the services currently available from the marketplace and use of the framework will make the procurement of them a less onerous process*	Pending - subject to development / clarification of RI aspirations as part of 5a above and learning gained from participation in the ESG procurement framework.

Area	**Action**	**Update on actions taken and in planning / progress currently**	**Status**
Outcome 8			
Formalise SRI/ ESG discussions with external investment managers as part of ongoing engagement.			
Action 8	Create structured framework for ongoing discussions with external investment managers.	*Action 8 (Engagement) will be addressed as part of Action 5a above.* *Meetings held with Fund managers as part of the ESG mapping exercise will include initial discussions about ongoing engagement on the subject of RI and ESG.* *The development of an RI Policy will include consideration of what is practical and desirable in terms of a more structured approach and will identify any changes/additional requirements this places upon key personnel (including external investment managers) and existing processes, in preparation for discussion and agreement.* *The RI Policy (once drafted) will reflect the approach and advice on engaging with external fund managers set out within the NAPF publication "Incorporating ESG considerations into investment decisions" (This document was a PF Committee agenda item in March 2015).*	Underway

Consultations

N/A

Implications:

This item has the following implications, as indicated:

In approving an updated compliance statement, Lancashire County Pension Fund is demonstrating its commitment to the UK Stewardship Code and the promotion of behavioural changes that will lead to better corporate governance by asset managers and companies.

It is a key component of good governance that the Fund is an engaged and responsible investor complying with the Stewardship Code.

Well-run, responsible companies are more likely to be successful and less likely to suffer from unexpected scandals which impact on shareholder value.

Risk management

Compliance with the Stewardship Code demonstrates that the Pension Fund believes that companies should adhere to the highest standards of governance. The Fund's reputation could be weakened by failing to comply.

The promotion of good corporate governance in the companies the Fund is invested in reduces the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Involvement in a non-US type of “class action” may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

Should the claimants in the litigation against RBS fail, then it is possible that LCPF faces having to make a contribution towards RBS costs notwithstanding the insurance which is in place. The amount of any shortfall following an insurance settlement and the LCPF contribution thereto is impossible to quantify at this stage.

Furthermore, if the case is successful the LCPF will be required to pay the amounts owing for Legal Services under the Conditional Fee Agreement (insofar as not recovered from RBS) and to pay a proportion of any sum recovered to the funder from the proceeds of the litigation.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Report of the SRI Working Group to Pension Fund Committee – November 2014	27 November 2014	Andrew Fox, (01772) 535916
National Association of Pension Funds (NAPF) Responsible Investment Guide	2013	Andrew Fox, (01772) 535916

Reason for inclusion in Part II, if appropriate

N/A