



Local Authority
Pension Fund
Forum

Protecting Shareholder Value

The role of the LAPFF

Keith Bray, Forum Officer

28 November 2014

Agenda

1. About the LAPFF
2. Corporate Governance and Corporate Social Responsibility
3. Approaches to activism
4. Some engagement results
5. Summary

The Role of the LAPFF

The Forum is a voluntary association of LGPS funds which seeks to **protect and enhance the value of its members' shareholdings** by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value the Forum is a voluntary association of LGPS funds which

- seeks to optimise LA pension funds' influence as shareholders to promote high standards of Corporate Governance (CG) and Corporate Social Responsibility (CSR)
- facilitates commissioning of research and policy analysis of issues relating to areas of concern more effectively than individual members
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues
- provides a forum to consider **any** issues of common interest to all pension fund administrators and trustees (e.g. the future structure of the LGPS and the use of collective investment vehicles (CIV's))

LAPFF - Membership

Currently 61 Local Authority pension funds

- 5 Welsh Authorities
 - 21 English Counties
 - 21 London Authorities
 - 8 English/ Metropolitan/Unitary Authorities
 - The Northern Ireland Fund (NILGOSC)
 - 3 Scottish Authorities
 - 2 Passenger Transport Authorities
- £130 billion in value
 - **Membership open to all LGPS pension funds**

LAPFF – Members as at 1 November 2014

Avon Pension Fund	LB Ealing	Northamptonshire CC
Bedfordshire Pension Fund	LB Enfield	North East Scotland Pension Fund
Cheshire Pension Fund	LB Greenwich	North Yorkshire CC
Clwyd Pension Fund	LB Hackney	Nottinghamshire CC
Corporation of the City of London	LB Haringey	Rhondda Cynon Taff
Cumbria CC	LB Harrow	Shropshire County Pension Fund
Dyfed Pension Fund	LB Hounslow	Somerset CC
Devon CC	LB Islington	South Yorkshire Pension Fund
Derbyshire CC	LB Lambeth	South Yorkshire PTE Pension Fund
Dorset County Pension Fund	LB Lewisham	Staffordshire Pension Fund
East Riding Pension Fund	LB Newham	Surrey CC
East Sussex County Council	LB Southwark	Teeside Pension Fund
Falkirk Council	LB Tower Hamlets	Tyne and Wear Pension Fund
Greater Gwent Fund	LB Waltham Forest	Warwickshire Pension Fund
Greater Manchester Pension Fund	LB Wandsworth	West Midlands Pension Fund
Gwynedd Pension Fund	Lincolnshire CC	West Midlands PTA Pension Fund
Hampshire Pension fund	Lothian Pension Fund	West Yorkshire Pension Fund
Lancashire County Fund	London Pension Fund Authority (LPFA)	Wiltshire CC
LB Barking & Dagenham	Merseyside Pension Fund	Worcestershire CC
LB Camden	NILGOSC	
LB Croydon	Norfolk Pension Fund	

LAPFF – our structure

MEETINGS

- 4 Business Meetings a year, Annual General Meeting
- Each member Fund has one vote at meetings but decisions usually by consensus
- Forum Executive
- Annual Conference (members receive two complimentary places)

PUBLICATIONS

- Trustee guides, monthly bulletins, quarterly newsletters, quarterly engagement reports & annual report , website (www.lapfforum.org)

CONTRACTS

- PIRC contracted to supply research, advice and assistance to LAPFF
- Forum Officer – liaison with members, marketing and publicity. (Part-time)

Granted Special Interest Group (SIG) status by Local Government Association (LGA)

The revised Myners Principles

1. Effective decision making
2. Clear objectives
3. Risks and liabilities
4. Performance assessment
- 5. Responsible ownership**
6. Transparency & reporting

(LGPS funds required to comply or explain)

CIPFA Guidance

- Authorities may wish to consider seeking alliances with either other pension funds in general or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on ESG issues.
- **For example the LAPFF exists to promote the investment interests of LA funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.**

Corporate Governance (CG) & Corporate Social Responsibility (CSR)

“The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders’ role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place.” **Cadbury (1992)**

“Corporate governance can be defined *narrowly* as the relationship of a company with its shareholders **or more broadly**, as its relationship to society”
(Financial Times)

This illustrates the link between corporate governance and corporate social responsibility (CSR)

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Greenhouse gas emission, Mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Appointment of and role of auditors
- Accounting standards as applied to banks

Boardroom structures

- Separation of Chair of Board from Chief Executive (e.g. M&S)
- Independence of non- executive directors
- Senior independent director
- Recruitment and appointment of directors
- Induction and professional development
 - **Institute of Directors – IoD Chartered Director qualification (supported by LAPFF)**

Directors' remuneration

- Supportive of appropriate rewards for success
- Opposed to 'Fat cat' pay deals rewarding poor performance
- Opposed to excessive rewards which are disproportionate to performance
- Promotion of transparency

Appointment of and role of auditors

- Risk of conflict of interest from other relationships with company
- Ratio of fees for consultancy work and audit fees
- Independence of audit committees

Accounting standards as applied to banks

- Banks accounts were signed off by auditors as representing a 'true and fair view' of their financial position.
- Shortly afterwards they needed to be bailed out by public money
 - HBOS needed £40.8bn
 - RBS needed £51bnand shareholders suffered major losses.

Are accounting standards fit for purpose?

Approaches to shareholder activism

- Leave it to fund managers
- Use a consultant
- Do it yourself
- Collaboration (e.g. by membership of the
LAPFF)

Approaches to shareholder activism

- Collaboration improves effectiveness immeasurably
- Engagement with companies preferable to confrontation
- Effectiveness of 'screening' (i.e. dis-investing from particular companies) is questionable

Collaboration is crucial

- NAPF e.g. Disclosure of directors' pensions
- Universities' Superannuation Scheme (USS)
- Institutional Investors Group on Climate Change (IIGCC)
- International collaboration – e.g. with US state pension funds
- **You cannot do it effectively on your own – it's simply a case of 'strength in numbers'**

Some engagement results

YOUR M&S

The logo for News Corporation, featuring a white globe icon to the left of the text "News Corporation" in a white serif font, all set against a dark blue rectangular background.

News Corporation



- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.
- The resolution was supported by 37.7% of M&S shareholders
- Marc Bolland subsequently took over as Chief Executive in May 2010 and Robert Swannell took over as chairman in January 2011



- LAPFF co-filed a resolution seeking an independent chair
- The culmination of intensified engagement over the past year
- Meetings held with investors and advisers to build support
- Vote in favour: 30.5%
- Excluding Murdoch votes: 67%

Financial Reporting Council

Accuracy of bank accounts

- Ongoing correspondence and meetings with Sir Win Bischoff(former Chairman of Lloyds Banking Group) Current Chairman of the Financial Reporting Council.
- LAPFF liaison with an investor coalition including the Universities Superannuation Scheme (USS), Railpen Investments and several leading investment fund managers

The Department for Communities and Local Government' view (DCLG)

- Supportive of activism and of LAPFF as an organisation
- DCLG officers have been keen supporters of LAPFF for many years

Benefits of LAPFF membership

Improved effectiveness

- **61 member funds**
- **Assets of £130 billion**
- **Strength in numbers**
- **Improved information flow/intelligence about Corporate governance/CSR issues**
- **More scope for collaboration**
- **Co-ordination of campaigns**

Benefits of LAPFF membership

Value for money

- Research costs spread over 61 Forum member funds
- Saves officer time and cost in researching issues
- Forum for discussion and networking about **any** related local government pension fund issues.
- Two free places at LAPFF annual conference
- Annual Subscription £8460 (or £8250 pa for those that sign up for 3 years)
- Full benefit of membership immediately **but no charge for 2014/15**

Where are we now?

- Beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Much more to do

The future?

- More collaboration - more effectiveness

Future Developments at LAPFF - Increasing membership and greater influence

- Membership more than doubled (increased by 150%) since 2003
- Growth in membership expected to continue
- Growing influence with other institutional investor groups and with Central Government
- Higher profile and greater influence with corporate sector (investee companies)

E.G. Professor John Kay – author of the Kay Review and Robert Swannell - Chairman of M&S, have spoken at the LAPFF Conference



Summing Up

- The LAPFF provides:-
 - a customised, cost-effective vehicle for LA pension funds to improve both their effectiveness as responsible investors and their compliance with Myners Principle 5 – responsible ownership

Protecting shareholder value

Acting together - achieving more



Local Authority
Pension Fund
Forum