



Local Authority  
Pension Fund  
Forum

# Protecting Shareholder Value the Role of the LAPFF

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# Agenda

1. Setting the context
2. Corporate Governance and Corporate Social Responsibility
3. The Role of the Local Authority Pension Fund Forum
4. Approaches to activism
5. Some engagement results
6. The future

# The Context

- The LGPS in England and Wales has assets under management of £260bn
- It has 5.6m members
- It is the 6<sup>th</sup> largest funded pension scheme in the world

**In short, the LGPS is a very significant institutional investor both nationally and internationally.**

# Fiduciary Responsibility of LGPS Pension Fund Committees

- When making investment decisions, administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme (LGPS), a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate. ➤

## **However**

- The law is generally clear that schemes **should** consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors

*(Source: Department of Communities and Local Government)*

# Corporate Governance & Corporate Social Responsibility

## **Corporate Governance**

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 Social Responsibility**

“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)

# 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

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# LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value the Forum

- seeks to optimise LA pension funds' influence as shareholders to promote high standards of Corporate Governance and Corporate Social Responsibility
- 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. pooling of investments)

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# LAPFF - Membership

Currently (79) UK Local Authority pension funds

- 29 English Counties
  - 27 London Authorities
  - 8 English/ Metropolitan/Unitary Authorities
  - 8 Welsh Authorities
  - 4 Scottish Authorities
  - 2 Passenger Transport Authorities
  - The Environment Agency
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- £230 billion in value
  - 5 Pools (including the London CIV)
  - **Membership open to all LGPS pension funds and pools**

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# 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 (particularly as applied to banks)
- Tax transparency

# Approaches to responsible investing and shareholder activism

- Leave it to fund managers
  - Use a consultant
  - Do it yourself
  - Collaboration (e.g. by membership of the LAPFF)
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- Collaboration improves effectiveness immeasurably
  - Engagement with companies preferable to confrontation
  - Effectiveness of 'screening' (i.e. divesting from particular companies) is questionable

# Collaboration is crucial

- Shareholder Coalition – Financial Reporting Standards  
*RailPen; Universities Superannuation Scheme;*  
*Several leading investment managers*
- NAPF (now PLSA) e.g. Disclosure of directors' pensions
- International collaboration – e.g. with US state pension funds
- **Individual funds cannot do it effectively on their own – it's simply a case of 'strength in numbers'**

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# Some engagement results

YOUR M&S





- 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 appointed as Chief executive – M&S share price rises 5.5% on news of appointment..



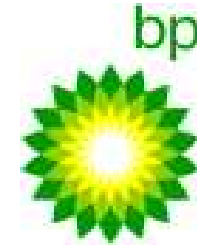
## Remuneration at Barclays

- In 2015, despite unimpressive performance, Barclays paid out more in bonuses than in dividends to investors
- The Forum lobbied aggressively about this, and eventually secured the removal of Sir John Sutherland as Chairman of the Barclays Remuneration Board



# Shell & BP

## Carbon Management



- 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’ focusing 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. At the BP and Shell AGMs the resolution received votes of 98% and 99% in support.**

# Where are we now?

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Always more to do



# The future?

- LAPFF to remain a Fund based organisation
- Building relationship with the new LGPS Pools
- More collaboration - more effectiveness

# Benefits of LAPFF Membership

- 79 member funds
- Assets of £230 billion
- Strength in numbers
- Improved information flow/intelligence
- More scope for collaboration nationally and internationally
- Co-ordination of campaigns

# Benefits of LAPFF membership

## Value for money

- Research costs spread over 79 Forum member funds
- Saves officer time and cost in researching issues
- Forum for discussion and networking about **any** related local government pension fund issues.
- Annual Subscription £9500p.a.

# Acting together - achieving more Protecting shareholder value!



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