

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2019-2020

PENSION FUND COMMITTEE

22ND OCTOBER 2019

**REPORT OF: THE DIRECTOR OF
FINANCE AND DIGITAL SERVICES**

AGENDA ITEM NO. 6
DELEGATED FUNCTIONS – UPDATE REPORT

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1.0 PURPOSE OF REPORT

1.1 This report sets out the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee:

2.1.1 Note the issues being addressed; and

2.1.2 Consider whether they wish to receive further detail on any issues.

3.0 BACKGROUND

3.1 The Director of Finance and Digital Services (in their capacity as S151 officer) supported by an Investment and Administration Advisory Panel with appropriate officer, independent advisor and professional support, has delegated responsibility for all day to day operational matters.

3.2 The Panel advises on all aspects of the Pension Fund. It produces the annual report to Committee and is subject to Audit scrutiny. Areas upon which it gives advice are: -

- Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian,

fund managers, lawyers, pension funds administrator and independent professional advisers.

- Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- Agreeing the terms and payment of bulk transfers into and out of the Fund.
- Agreeing Fund business plans and monitoring progress against them.
- Maintain the Fund's Knowledge and Skills Policy for all Pension Fund Committee Members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- Formulating responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- Ensuring the Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Legislation, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- Ensuring robust risk management arrangements are in place.
- Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Fund.
- Monitor investment performance.
- Work with the Fund Actuary to determine the level of employer contributions required from each employer within the Fund and ensure such contributions are received.

3.3 The Investment and Administration Advisory Panel meets on a quarterly basis, the most recent meeting taking place on the 4th October 2019.

4.0 INVESTMENT PERFORMANCE

4.1 There is a quarterly reporting cycle for pension fund investment performance, with exception reporting agreed with fund managers where there are particular concerns. The most recent panel meeting considered investment performance to the end of June 2019.

- 4.2 During the quarter ended 30th June 2019, the overall value of the Fund increased from £3,457 million to £3,617 million.
- 4.3 A summary of performance relative to the Fund specific benchmark is shown below.

Total Portfolio

	2016		2017				2018				2019		3yr
Quarter	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Fund	7.9	1.8	5.1	2.8	1.7	3.9	-2.0	6.6	.28	-8.1	7.9	5.0	12.0
B'mark	6.8	3.2	4.3	0.7	1.5	3.9	-3.4	4.9	2.4	-6.2	7.0	4.1	9.8
Relative	1.1	-1.3	0.8	2.1	0.3	0.1	1.5	1.6	0.5	-2.0	0.9	0.9	2.1

- 4.4 As shown, the rolling 3 year performance of the Fund is 2.1% positive as compared to benchmark. For the last quarter (i.e. quarter 2), performance has been positive within the actively managed Baillie Gifford Traditional equities portfolio, with BMOgam bonds also marginally outperforming the benchmark. Whilst the rolling 3 year performance for CBRE Property mandates outperformed the benchmark, the last quarter's performance underperformed against the benchmark. The BlackRock passive equity portfolio continues to track the index albeit marginally underperformed during the quarter.
- 4.5 Following the transition in quarter 1 of the High Alpha global equity funds¹ into the Wales Pension Partnership (WPP), quarter 2 performance for Global Growth marginally underperformed the benchmark and Global Opportunities outperformed the benchmark.
- 4.6 The Fund has, over recent months, taken part in a benchmarking exercise coordinated by CEM Benchmarking UK Ltd (CEM) to enable its 2018/19 investment costs and performance to be compared with other LGPS Funds. Interim results have been received whilst other funds continue to submit their data. CEM will be presenting the interim feedback elsewhere on the agenda.
- 4.7 The October Panel agenda included a review of Fund Manager Benchmarks and Targets which affirmed the current targets should remain and the Panel also identified the need for on-going development of Fund Manager reporting arrangements. The Panel also received a presentation from STOXX on alternative indices and sustainable investing.
- 4.8 As Members will be aware, the March 2018 meeting of the Committee agreed to the revised asset allocation strategy for the Fund and the steps to be taken to move toward the preferred strategy. The following table provides a summary of progress made in this regard to 30th June 2019.

¹ High Alpha global equity funds - sub funds of Global Growth (80%) and Global Opportunities (20%).

		Proposed Step 1	Proposed Step 2	Proposed Step 3
Asset Class	Allocation 30/06/19	Current Benchmark	Strategy (1)	Strategy (2)
Total Equities	67%	63%	63%	58%
Total Alternatives	8%	10%	20%	25%
Absolute Return Bonds			10%	10%
Infrastructure				5%
Property	8%	10%	10%	10%
Total Bonds & Cash	25%	27%	17%	17%
Fixed Interest (UK)	11%	12.5%	7.5%	7.5%
Corporate Bonds (UK)	13%	12.5%	7.5%	7.5%
Cash	1%	2%	2%	2%
Expected return (pa)		5.9%	6.2%	6.3%
Expected volatility (pa)		12.2%	12.2%	11.7%

- 4.9 The asset allocation of the Fund by fund managers as at 30th June 2019 is by mandate, which includes cash, and is shown in the table below.

Baillie Gifford Traditional	Global Equities	23.6%
Link – Global Opportunities Fund	Global High Alpha Equities	32.0%
Link – Global Growth Fund	Global High Alpha Equities	8.0%
BlackRock	Passive Global Equities	4.5%
CBRE	UK Property	7.7%
BMO Global Asset Management	UK Bonds	24.1%
Internal	Cash	0.1%

5.0 ADMINISTRATION ISSUES

- 5.1 The 2019 Valuation process is progressing in line with the timetable, with data submitted to the Fund Actuary (AON) and the review of exceptions completed. Meetings have been held with the Fund Actuary to set the key assumptions.

- 5.2 Further to the publication of the SAB 'Good Governance Report', two workstreams have been established with representation across the LGPS to help inform the next stage of the project i.e. Workstream 1 'Standards and Outcomes' and Workstream 2 'Compliance and Improvement'.
- 5.3 The Pensions Regulator has recently published a report on the findings of their survey of the governance and administration at 10 UK LGPS funds. A formal review will be undertaken against the findings/recommendations to establish whether there are areas of good practice that could enhance arrangements at RCT.
- 5.4 Equitable Life Assurance Society (ELAS) are proposing to transfer their business to Utmost Life, if a member vote is successful and the High Court permit it. Rhondda Cynon Taf has 29 members with funds still held with ELAS and the main impact is on 8 members who are 'With Profits' policyholders. The LGA has sought legal opinion on behalf of LGPS Funds to clarify our duties and responsibilities in this regard, and our intentions are to vote accordingly and communicate this to those members concerned.
- 5.5 Annual Benefit Statements were published to Member Self Serve (both active and deferred members) on 2nd August 2019 prior to the statutory deadline of 31st August 2019. In addition, the Annual Allowance communication was issued during October to those scheme members potentially affected.
- 5.6 The promotion of MSS continues where, for example, Pension Fund Officers attended Apprentice and Graduate induction days to raise awareness. The number of MSS registrations for Active, Deferred, Pensioner and Dependant members is shown below.

	<u>Member Numbers</u>	<u>MSS Registrations</u>	<u>% of member Numbers</u>	<u>Previous % age</u>
Actives	23,389	8,735	37.35%	37.43%
Deferred	27,324	6,732	25.19%	24.47%
Pensioners	17,303	3,074	17.77%	16.82%
Dependants	2,706	100	3.70%	3.74%

- 5.7 The focus on Data Quality continues. Key work includes:
- Improvement in data quality scores (i.e. Common Data 97.1% (last year 93.4%) and Scheme Specific Data 97.5% (last year 81.2%) – this being consistent with the Fund's Data Improvement Plan activity; and
 - I-connect being rolled out on a mandatory basis by December 2019.
- 5.8 The Communications Forum met on 10th September 2019 with dialogue on-going with employers around the promotion of MSS and progressing I-connect. A small number of employers are experiencing system related

integration issues with respect to I-connect from who we have requested their detailed plans in writing.

- 5.9 The Pension Fund Annual General Meeting is scheduled for the 25th November 2019, with opportunity following the meeting for Fund Employers to engage directly with the Fund Actuary and Officers. The Fund Actuary (Alison Murray) and the Fund's Independent Advisor (David Cullinan) are confirmed speakers for the event.
- 5.10 Eight 'Key Performance Service Standards' are monitored by the Panel. It was noted that to the end of August 2019, one measure was behind target:
- **% transfers in processed within 10 days** (82% for the year to date against a target of 90%). This measure does not impact on the physical payment of benefits. Out of 43 cases, 1 was not completed within the 10 day target.
- 5.11 The number of 'Internal Dispute Resolution Procedure' Appeals in progress continues to be extremely low, with no obvious trends to report. The Pension Ombudsman provided their decision, not to uphold a recent appeal against the Fund.

6.0 PENSION BOARD

- 6.1 A Pension Board last met on 16th August 2019 and the next meeting is scheduled for week commencing 27th January 2020.
- 6.2 Pension Board supported the draft WPP Responsible Investment Policy and provided broader comments on the respective responsibilities of WPP and individual funds.
- 6.3 At the July 2019 Committee, it was noted that the Chair of the Pension Board's term was due to end in October 2019. Since this time, dialogue has taken place with the Chairperson's sponsoring employer and is supportive of an extension of the Chairman's term.
- 6.4 Pension Board meeting agendas and minutes are published on the Fund website in accordance with the Pension Regulator's requirements.
- 6.5 The Chair of the Pension Board continues to attend meetings across the Fund's governance arrangements, and represents the Fund at Welsh Pension Board Chair engagements

7.0 OTHER ISSUES

- 7.1 The Panel reviewed the skills and knowledge framework and noted the updates.
- 7.2 The Risk Register was considered and updates noted. A review of the Risk Register is being dealt with elsewhere in this agenda.

8.0 CONCLUSION

- 8.1 This report sets out, for the Committee, the key issues being addressed as delegated functions, as specified in the Pension Fund Governance Policy Statement, by the Director of Finance and Digital Services.

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Quarterly
Engagement
report

April-June
2019



Tailings dams,
Persimmon,
Centrica, BP,
ArcelorMittal,
Imperial Brands

TAILINGS DAMS

Investors call for action after Brazilian mining disaster

LAPFF uses community engagement to link stakeholder input to investor value

Objective: Improve responsibility and accountability within the mining sector

Achieved: Formation of a database to promote oversight and accountability of tailings dams.

In progress: Sector-wide collection of tailings dam data

The Investor Mining & Tailings Safety Initiative was created following the failure of a tailings dam at the Córrego do Feijão mining facility in Brumadinho, Brazil. The collapse occurred on January 25 and led to the loss of around 300 lives. The initiative, led by a group of investors with combined assets under management of around \$12.5 trillion, is governed through a steering committee chaired by the **Church of England Pensions Board** and the **Swedish Council of Ethics** of the AP Funds. LAPFF has played a significant role in supporting and liaising with the affected communities through this initiative, ensuring that the community voice forms part of ongoing narrative.

LAPFF was also a signatory to a letter that went to 683 companies requesting data on tailings storage facilities for which they are responsible. There is currently not a consolidated global register making assessing the risks associated with tailings storage facilities difficult. However, responses to this disclosure request are now coming in, with 197 companies submitting data so far and 114 companies stating that they do not have tailings dams.

As a result of the disclosure request a number of companies have now posted their tailings dam data. These companies include **Anglo American**, **Glencore** and

“Not only is the human impact of these dam collapses devastating, but we are starting to understand the extent to which failure to ensure dam safety has created risks for our investment portfolios. LAPFF is pleased to be part of the Investor Initiative on Mining and Tailings Safety, both to support safer dams and communities and to help build stronger companies that create better shareholder value for our beneficiaries.”

Councillor Doug McMurdo,
LAPFF Chair

“I’ve been to most of these investor meetings now. Seeing and hearing from community members about the horrific impacts of these dam collapses has been eye-opening and alarming. These disasters are good examples of how community interests, environmental interests and investor interests align in a need for better ESG practices by companies.”

Councillor Rob Chapman,
LAPFF Vice-Chair

Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which is being led by UNEP, PRI and ICMM. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L’Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative on 10 June.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and as affected stakeholder liaison. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too. ●

TAILINGS DAMS



▲ The owner of British Columbia's Mount Polley mine confirms it has been served with search warrants as an investigation continues into the failure of a dam and possible Fisheries Act breaches. The dam's collapse in the early hours of Aug. 4 last year sent 24 million cubic metres of wastewater gushing into nearby lakes and streams. Contents from a tailings pond is pictured going down the Hazeltine Creek into Quesnel Lake near the town of Likely, B.C. on August, 5, 2014.



▲ Disruption of Samarco dams in Mariana, Minas Gerais, southeastern Brazil, on November 9, 2015. On the fourth day, after breaking two tailings dam, Long Bar is still taken by the mud. The dams are between the municipalities of Mariana and Ouro Preto, about 60 kilometers from Long Bar.

COMPANY ENGAGEMENT



Cllr Chapman with CA100 representation at ArcelorMittal AGM

THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

ArcelorMittal commits to being carbon neutral in Europe by 2050

LAPFF's engagement with the largest global steel company, ArcelorMittal, continued with attendance at the AGM in Luxembourg. Addressing the company chair, Mr Mittal, Cllr Rob Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. This has included exploring industrial-scale use of hydrogen at their Hamburg plant and testing circular and low carbon technologies across a number of sites. Cllr Chapman asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors. Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5

CONTEXT

After chemicals, steel production is the second largest energy consumer among industrial sectors and the most carbon-intensive sector. Having had a couple of meetings last year and earlier this year with ArcelorMittal representatives, the company had showed some progress, including starting an industrial scale trial of using hydrogen in Hamburg in the electric arc process, initially using 'grey' hydrogen produced from natural gas, but with the potential to use hydrogen generated from renewable sources.

degree scenario. Meeting with Mr Mittal immediately after the AGM, LAPFF, with fellow Climate Action 100+ investors followed up on asking for a review of the companies lobbying and membership of trade associations, and about the adoption of science-based targets. Mr Mittal's clear message on the required transition was the need for a level playing field globally, and for the EU to implement a green border tax adjustment to address climate change whilst securing the competitiveness of European steel mills.

Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition

to significantly reduce CO₂ emissions globally and be carbon neutral in Europe by 2050.

Attendance at ArcelorMittal's SRI Roadshow provided useful context to their recently issued Climate Action report. Discussions covered developments in their hydrogen technology, partnerships with car companies, liaising with customers on the Steligence' concept for high-performance buildings and construction techniques and the challenges of different regional policy dimensions and how to report on these.

GOVERNANCE RISK

Persimmon headline

In his last engagement as LAPFF chair, Cllr Paul Doughty attended the Persimmon AGM. The company chair, Roger Devlin, apologised for the previous chief executive's pay award. Presentations from the chief executive and chair focused on how the company was seeking to change, including committing to paying the Living Wage and undertaking a review of customer care. Cllr Doughty asked, given the reputational damage the company had suffered and to safeguard against similar problems in the future, whether the board would consider appointing an employee to the board. This had been raised previously in engagement with the company. In response, Mr Devlin stated that he first wanted to see and understand how employee representatives would work in practice and that the company were keeping it under review.

Imperial Brands

Cllr Glyn Caron met with Imperial Brands to discuss the company's 'Next Generation Products' such as vaping. The meeting focused on how the company was diversifying its products away from traditional tobacco products and seeking to reduce harm. The discussion covered issues around the safety of new products, targets for shifting to less harmful products and marketing to children. Cllr Caron also asked about the company's approach to the emerging legal cannabis market.

COMPANY ENGAGEMENT



VOTING ALERTS

LAPFF issued voting alerts ahead of the **Facebook**, **Twitter** and **Alphabet** general meetings. The alerts recommended that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.

LAPFF also issued voting alerts ahead of the **General Motors** and **Ford** meetings regarding their lobbying

activities on climate change and whether they were aligned with the Paris Agreement. The shareholder proposals received the backing of a large number of shareholders (29% and 16% respectively). These alerts followed collaborative engagements with the companies on climate change and federal reforms which are set to result in lower and more fragmented emissions standards in the US. There appeared to be progress on this front as the carmakers themselves have recently written to both President Trump and the Governor of California calling on them to resurrect discussions about a unified standard. At this point the White House has rejected the call by the sector. Nevertheless, with the encouragement of investors there remains an opportunity to find separate agreements between the car manufacturers and individual states to lower emissions.

Other climate-related voting alerts were issued in relation to the **BP**, **Rio Tinto**, **Andarko**, **Chevron** and **ExxonMobil** Annual General Meetings. Engagement with BP has been long-term, with ten LAPFF members co-filing the resolution to the company that requested it report on its strategy consistent with the Paris Agreement. Disclosure requested included how the Company evaluates the consistency of each new capex investment in exploration, acquisition or development

of oil and gas resources and reserves. The resolution was the outcome of engagement co-ordinated by the Climate Action 100+ (CA100) investor group. It outlined investor expectations relating to the consequences of the Company's strategy for its future business model and, after garnering support from the BP Board, it passed with 99% shareholder support. LAPFF is also a member of the CA100+ Exxon investor group. The two lead investors, the **New York State Common Retirement Fund** and the **Church Commissioners for England**, together with at least one LAPFF member fund, co-filed a shareholder proposal asking ExxonMobil to disclose short, medium and long-term targets for GHG emissions. In response, Exxon sought and obtained no action relief from SEC staff, and subsequently declined to include the proposal in its proxy materials for the 2019 annual general meeting. Consequently LAPFF recommended that member funds vote against the entire Board based on the company's inadequate approach to climate change. Previous engagement with Exxon concerning carbon emissions has failed to result in an adequate response by the company. This is in contrast to many of its industry peers who have taken active and transparent steps in an attempt to manage the energy transition and in doing so are better placed to protect and preserve value.

COMPANY ENGAGEMENT

Daejan Holdings

A meeting with the chair of Daejan Holdings and other investor representatives of the 30% Club Investor Group explored the approach to gender diversity across the company, including gender pay differentials and the approach to recruitment. Daejan Holdings is the only FTSE 350 company that has never had a woman on the board. Three directors were appointed to the board in 2017, all male. The chair considers that the board appoints on merit and no commitment was made to appointing a female director.

Climate Action 100+

LAPFF participated in a Climate Action 100+ investor meeting with the new chair of Centrica plc, Charles Berry. Taking on the role in February, his background indicates he is likely to take a pro-active stance in ensuring the strategic resilience of the company. His experience includes stints at SSE, Drax and Scottish Power, the latter company announcing late last year that it is set to switch to completely clean energy, replacing coal and gas with wind. He spoke about his focus on strategy, capital allocation and business decisions. The investor ask was articulated as a need for ambition by **Centrica** to show its long-term vision for decarbonisation, particularly of heat, and that it is committed to net-zero. It was considered Centrica could articulate its policy stance more strongly and draw in the concept of the 'Just Transition' in its relationship with employees and when any changes are made to the investment portfolio. These were noted by the chair.

Climate Majority Project

In the first quarter of 2019, as part of its involvement in the Climate Majority Project, LAPFF joined US investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050. Responses have come in from a number of companies including **Entergy Corporation, NextEra, NRG Energy, WEC Energy Group** and **Xcel Energy**. **Entergy's** most recent climate report and two-degree scenario analysis includes the latest carbon emissions reduction goal of

“Decarbonization can also create significant new opportunities for the electric power sector, as electrification of the economy can drive substantial demand growth just as the costs of renewable energy generation and battery storage are plummeting. Investors therefore have both a fiduciary interest and obligation to ensure that the electric utility industry is on track to achieve net-zero carbon emissions by 2050 at the latest”



50 percent reduction in the emission rate by 20130 from a 2000 base. NextEra is the world's largest producer of energy from wind and solar, and set out its target to reduce its own emissions by 65% by 2021, from a 2001 starting point. A response from NRG Energy reiterated the science-based targets set in 2014 for absolute operational emission reductions of 50% by 2030 and 90% by 2050. Customer emission reduction goals were provided in absolute amounts rather than a percentage figure, so it was more difficult to discern how stringent these are in reality. WEC Energy Group reports it will achieve a near term goal of emission reductions of 40% below 2005 levels well ahead of the 2030 target, and its 2050 goal is to reduce emissions by 80%. In 2018, Xcel achieved 38% reductions in carbon emissions associated with electricity provided to customers from a 2005 base, and announced a two-part carbon goal for its electricity business, namely 80% emission reduction by 2030 and carbon-free electricity by 2050.

After a meeting in March, follow-up correspondence to the **Southern Company** asked the company to commit to net-zero emissions by 2050 and to communicate this intention by September 2019 with corresponding details to be disclosed on board oversight responsibilities, the associated transition plan,

executive compensation mechanisms and the alignment of policy spending, trade association and lobbying activities.

CLlr Rob Chapman joined a collaborative call organised by the Climate Majority Project (formerly the 50/50 Climate Project) with US utility company **Dominion Energy**. The meeting focused on setting a net zero emissions target by 2050 and moves by the company to low and no carbon energy production. The discussion also covered board oversight of climate change, aligning executive compensation with a net zero target and alignment of political spending and membership of trade associations with meeting its stated objectives on emissions reduction.

General Motors and Ford

LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies continue to work with California to find solutions to reducing greenhouse gases. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. A bipartisan group of lawmakers has also urged the **US Department of Transportation, the US Environmental Protection Agency, and the California Air Resources Board** to return to good faith negotiating to work toward one national programme on fuel economy.

Chipotle

In January, LAPFF co-signed a letter directed to six of the largest global fast food companies. As part of a collaborative engagement facilitated by Ceres and FAIRR, LAPFF was lead investor in a collaborative meeting with American fast food giant Chipotle Mexican Grill. In a discussion with the company's Chief Corporate Responsibility Officer, Director of Sustainability and Director of Procure-

COMPANY ENGAGEMENT

ment, LAPFF quizzed Chipotle on its approach to managing water risk, board oversight and supply chain management. LAPFF also set out its expectations as an investor, challenging the company's practices in areas in which it was deemed to lag behind industry peers.

SOCIAL RISK

Tailings Dam Initiative

The investor tailings dam initiative which has developed out of the collapse of the Vale tailings dam in Brumadinho, Brazil, in late January is moving quickly. The disclosure request on tailings dams has gone to 680 mining companies, and a number of companies have now posted their tailings dam data on their website. These companies include Anglo American, Glencore and Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and liaising with representatives from the affected communities. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which has had its first meeting. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L'Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative in early June.



Engagement related to the war in Yemen

The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen. An additional request for information went to Boeing in relation to the crashes of the company's 737 MAX aircraft in Indonesia and Ethiopia.

EVENTS

In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.

“We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting”

Senator Gerry Horkan

RELIABLE ACCOUNTS

Irish Parliament

In 2012 LAPFF produced 'UK and Irish Banks Capital Losses - Post Mortem' setting out how the accounting framework for listed companies in the UK and Ireland, both under the Financial Reporting Council (FRC) had allowed major banks to keep substantial losses out of their reported net income and mask insolvency. The banking crisis in Ireland led to the country seeking assistance from the International Monetary Fund and liquidity support from the European Central Bank. Cormac Butler, an IFRS expert from Ireland, presented on this topic at the 2012 LAPFF annual conference. He has remained a vocal commentator on reporting standards in Ireland. He and

COMPANY ENGAGEMENT

Tim Bush of PIRC, were asked to appear before a joint committee of the lower and upper houses of the Irish Parliament on 28 May 2019.

John McGuinness TD, chairman of the joint committee, said the Irish public had picked up the €30bn tab for the banking system bailout that they should never have entered into, due to a potentially flawed and illegal accounting model. “We are paying back a debt that we should not be paying back” he said and “we are imposing austerity on people in the pursuit of repayment of that debt that we should not do”.

Senator Gerry Horkan, who is a Chartered Accountant said, “We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting that one learns on one’s first day. They should have taken the hit when it was realised. If they had, we would not have had all these issues with promissory notes and so on.”

Senator Rose Conway-Walsh referred to the impact that the collapse of Carillion in the UK had had on the SME sector in Ireland.

The Committee also asked Tim Bush for views on reform of the accounting profession and competition issues given the recent flurry of enquiries in the UK. Tim Bush suggested that the committee made contact with the BEIS Select Committee in the UK, which the Committee agreed to. The Committee also indicated that it would wish to see Cormac Butler and Tim Bush again.

Local Authority Pension Performance Analytics

At the Local Authority Pension Funds All Party Parliamentary Group meeting in April, Neil Sellstrom of PIRC’s Local Authority Pension Performance Analytics (LAPPA) service provided a presentation on LGPS investment performance and varying trends among 63 local authority funds. Cllr Paul Doughty then provided an overview of the new statutory guidance on LGPS asset pooling followed by discussion. The presentation and meeting minutes are available at the APPG website.

FRC

In May, LAPFF submitted a response to the independent review of the FRC. The purpose of the consultation was to gather views on the recommendations made by the review to create a new regulator responsible for audit, corporate reporting and corporate governance. LAPFF made clear that an effective regulator needs an effective purpose and, as the Brydon Review aims to ‘reset’ the delivery of audits, LAPFF believes this is only achieved by reconnecting with the law. This principle should also drive the model for the setting up and development of the Audit, Reporting and Governance Authority (ARGA).

Media coverage: Audit market reform

LAPFF blames ‘defective’ accounting rules for 2008 Irish banking crisis – IPE, 7 June 2019

Local authority pension funds back UK audit market reform proposals – IPE, 24 April 2019.

PAPERS AND REPORTS

LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how

companies were approaching this element of the new code LAPFF undertook a survey of the FTSE.

The Forum had a great response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply with the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step. The vast majority of those who were going to comply were seeking to do so by appointing a designated NED to the board and very few were intending to have a worker director. In this sense the results suggests there was a missed opportunity but from engagements we know the issue remains under review at many companies.

Media coverage: Workers on boards

Should more companies give employees a seat on their boards? – Telegraph, 29 May 2019

Businesses are resisting worker representation on boards – Personnel Today, 3 May 2019

With rich investment managers in charge, shareholder vetos on exec pay are meaningless – Left Foot Forward, 16 May 2019

Corporate Britain drops the ball on worker directors in favour of government cop outs – Independent, 1 May 2019.

Worker directors increasingly prominent in debates on corporate governance reform - Involvement & Participation Association, N/D

Capita appoints two employees to its board – ShareCast, 13 June

Capita set to join club of companies with worker directors on the board – The Times, 6 May

Media coverage: Voting

LAPFF supports majority of Amazon shareholder resolutions – Professional Pensions, 20 May 2019



The Board Body believes that better employee representation can improve the quality of decision making. The benefits of listening to employees and engaging them in both consultation and decision making are already widely recognised.” *ShareCast, Annual Report, Picked above a Annual Meeting, the Board Group employee director*

Local Authority Pension Funds Forum
responsible investment for long-term returns

Employees on boards

Modernising governance

A LAPFF survey of FTSE All-Share companies
■ May 2019 | lapfforum.org

COMPANY PROGRESS REPORT

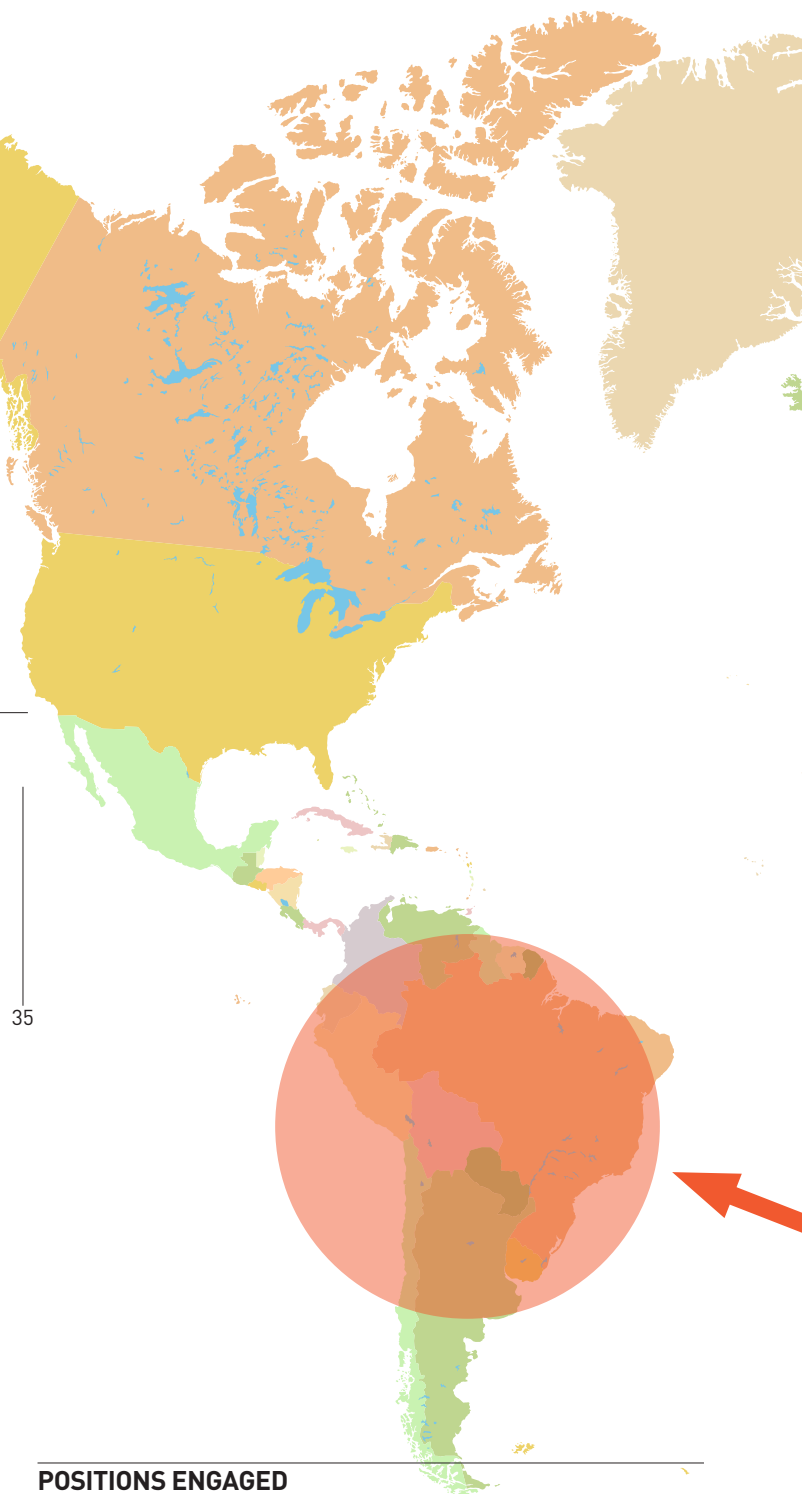
62 Company engagements over the quarter

Company/Index	Activity	Topic	Outcome
AMAZON.COM INC. (2)	Alert Issued	Audit Practices	No Improvement
ANADARKO PETROLEUM CORPORATION (2)	Alert Issued/ Sent Letter	Climate Change	No Improvement
ANGLO AMERICAN PLC	Meeting	Governance (General)	Change in Process
ARCELORMITTAL SA (3)	Meeting/AGM	Climate Change	Substantial Improvement
AVEVA GROUP PLC	Sent Letter	Board Composition	Awaiting Response
BHP GROUP PLC (GBR)	Meeting	Human Rights	Small Improvement
BP PLC	Alert Issued	Climate Change	Substantial Improvement
CENTRICA PLC	Meeting	Climate Change	Small Improvement
CHEVRON CORPORATION	Alert Issued	Governance (General)	No Improvement
CHIPOTLE MEXICAN GRILL INC	Meeting	Climate Change	Moderate Improvement
DAEJAN HOLDINGS PLC (2)	Meeting	Board Composition	No Improvement
DOMINION ENERGY INC	Meeting	Climate Change	Change in Process
ENTERGY CORPORATION	Received Letter	Climate Change	Moderate Improvement
EXXON MOBIL CORPORATION	Alert Issued	Climate Change	No Improvement
FDM GROUP (HOLDINGS) PLC	Sent Letter	Board Composition	Awaiting Response
GENERAL MOTORS COMPANY (3)	Received Letter/ Alert Issued	Climate Change	Small Improvement
HSBC HOLDINGS PLC	AGM	Climate Change	No Improvement
IMPERIAL BRANDS PLC	Meeting	Governance (General)	Moderate Improvement
JD WETHERSPOON PLC	Meeting	Board Composition	No Improvement
MICRO FOCUS INTERNATIONAL PLC	Sent Letter	Board Composition	Awaiting Response
NEXTERA ENERGY INC	Received Letter	Climate Change	Small Improvement
NRG ENERGY INC	Received Letter	Climate Change	Moderate Improvement
PERSIMMON PLC	AGM	Board Composition	No Improvement
PLAYTECH PLC	Sent Letter	Board Composition	Awaiting Response
RIO TINTO GROUP (AUS) (3)	Meeting/Alert Issued	Climate Change/Human Rights	Small Improvement
ROYAL DUTCH SHELL PLC (2)	Meeting	Remuneration	Small Improvement
SIME DARBY PLANTATION	Meeting	Environmental Risk	Small Improvement
SOUTHERN COMPANY	Sent Letter	Climate Change	Substantial Improvement
TESCO PLC	Sent Letter	Climate Change	Awaiting Response
THE SAGE GROUP PLC	Sent Letter	Board Composition	Awaiting Response
WEC ENERGY GROUP	Received Letter	Climate Change	Moderate Improvement
XCEL ENERGY INC.	Received Letter	Climate Change	Substantial Improvement

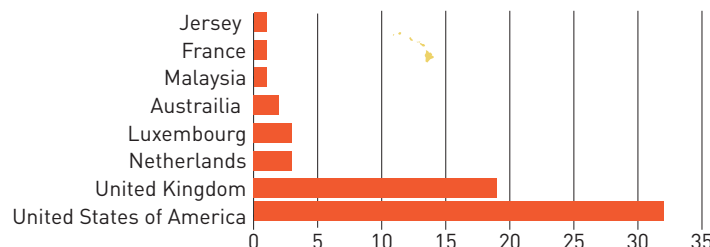
ENGAGEMENT DATA

During the quarter LAPFF has also opened or continued dialogue with the following companies:

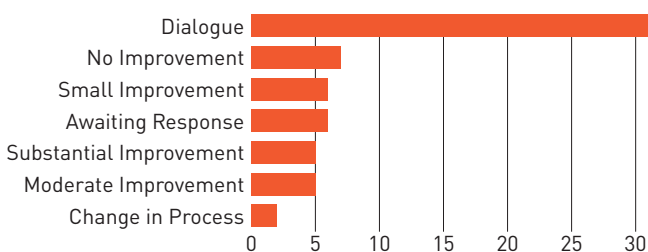
Airbus se, Alphabet inc, Bae Systems plc, Caterpillar inc., Facebook inc, Ford Motor Company, General Dynamics Corporation, General Electric Company, Glencore plc, Motorola Solutions inc., Raytheon Company, SSE plc, Tesla inc, Textron inc, Thales, The Boeing Company, Twitter inc.



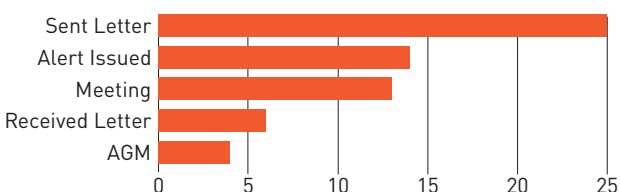
COMPANY DOMICILES



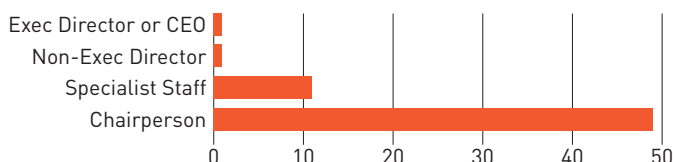
MEETING ENGAGEMENT OUTCOMES



COMPANY ENGAGEMENT ACTIVITIES



POSITIONS ENGAGED



ENGAGEMENT DATA

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS



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letters were sent to mining companies requesting information on tailings dams.



- Avon Pension Fund
- Barking and Dagenham Pension Fund
- Barnet Pension Fund
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Brunel Pensions Partnership
- Cambridgeshire Pension Fund
- Camden Pension Fund
- Cardiff & Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation Pension Fund
- Clwyd Pension Fund (Flintshire CC)
- Cornwall Pension Fund
- Croydon Pension Fund
- Cumbria Pension Fund
- Derbyshire Pension Fund
- Devon Pension Fund
- Dorset Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing Pension Fund
- East Riding Pension Fund
- East Sussex Pension Fund
- Enfield Pension Fund
- Environment Agency Pension Fund
- Falkirk Pension Fund
- Gloucestershire Pension Fund
- Greater Gwent Pension Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney Pension Fund
- Hammersmith and Fulham Pension Fund
- Haringey Pension Fund
- Harrow Pension Fund
- Havering Pension Fund
- Hertfordshire Pension Fund
- Hounslow Pension Fund
- Islington Pension Fund
- Kingston upon Thames Pension Fund
- Lambeth Pension Fund
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham Pension Fund
- LGPS Central
- Lincolnshire Pension Fund
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton Pension Fund
- Newham Pension Fund
- Norfolk Pension Fund
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire Pension Fund
- Northern LGPS
- Northamptonshire Pension Fund
- Northumberland Pension Fund
- Nottinghamshire Pension Fund
- Oxfordshire Pension Fund
- Powys Pension Fund
- Redbridge Pension Fund
- Rhondda Cynon Taf Pension Fund
- Shropshire Pension Fund
- Somerset Pension Fund
- South Yorkshire Pension Authority
- Southwark Pension Fund
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk Pension Fund
- Surrey Pension Fund
- Sutton Pension Fund
- Swansea Pension Fund
- Teesside Pension Fund
- Tower Hamlets Pension Fund
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest Pension Fund
- Wandsworth Borough Council Pension Fund
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster Pension Fund
- Wiltshire Pension Fund
- Worcestershire Pension Fund