



Responsible Investing

Keith Bray
Forum Officer
Local Authority Pension Fund Forum

Tessa Younger
Head of Engagement, PIRC Ltd
Research & Engagement Partner to 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 Significance of the RCT Pension Fund and the LGPS as investors

- The RCT Pension Fund is a significant institutional investor in its own right.
- However as part of the LGPS the Fund is part of the fifth largest funded pension Scheme in the world with 5.3m members and assets under management of more than **£300bn**
- **In short, as part of the LGPS, the RCT Pension Fund is part of 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



The Role of 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

- 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. climate change, pooling of investments)



LAPFF - Membership

Currently (82) UK Local Authority pension funds

- 30 English Counties
 - 30 London Authorities
 - 8 English/ Metropolitan/Unitary Authorities
 - **8 Welsh Authorities**
 - 4 Scottish Authorities
 - 1 Passenger Transport Authority
 - The Environment Agency
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- Six pools companies (**The Wales Pension Partnership receives complimentary membership of LAPFF as all 8 Welsh Funds are LAPFF members**)
 - **Membership open to all LGPS pension funds and pools**



Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

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

- Collaboration improves effectiveness immeasurably
- Engagement with companies preferable to confrontation
- As a responsible investor you can engage with and influence the actions of investee companies
- Effectiveness of 'screening' (i.e. divesting from particular companies) is questionable. Divesting should not be ruled out in all circumstances, but you may just be selling your shares to an irresponsible investor

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'**

Climate change

What LAPFF does on your behalf

Risk management

- Company engagement an important element, encouraging development of low or zero carbon aligned business models
- Engaging with systematically important emitters and those who can drive clean energy transition.
- Integral to Climate Action 100+ (CA100+) and other investor initiatives
- Additional focus on corporate lobbying

Assistance provided by LAPFF

- Nine climate related voting alerts in 2019
- Filing shareholder resolutions including ten funds co-filing at BP for a strategy consistent with Paris Agreement

Some Engagement results

- LAPFF is an active member of CA100+ an investor initiative engaging with the 100 largest global carbon emitting companies
- Asked to be lead investor with **ArcelorMittal** the largest steel manufacturer in the world, first meeting in late October 2018
- Shortly after the 2019 AGM, ArcelorMittal issued its 'Climate Action' report setting out the aim for carbon neutrality in Europe by 2050
- More recent engagement has focussed on company lobbying activities and setting medium term carbon reduction targets
- In December, the company announced a target of 30% reduction in emissions by 2030 and that it would publish its trade body memberships in its next Climate Action report, due in 2020

Some more engagement results

Partnering with US investors, engagement with **Ford** and three other car makers (in 2018 and 2019) on the rollback of federal emission and fuel efficiency standards in the US, had a positive outcome when Ford and the other companies agreed higher standards with California in July 2019. These four companies cover nearly one third of new car, light truck and SUV sales in the US





Shell & BP

Carbon Management



- In 2015, the boards of **Shell** and **BP** recommended shareholders support resolutions filed by a number of LAPFF member funds and investor members of the 'Aiming for A' coalition. The resolutions addressed 'strategic resilience to 2035 and beyond' focusing on carbon management, strategy and disclosure
- A company recommending voting **in favour** of a shareholder resolution was at that time **unprecedented in the UK** and reflects the **positive nature of engagement** undertaken. At both AGMs the resolution received votes of over 98% support
- The collaborative engagement has continued with Climate Action 100+ with 99% support of a resolution to the 2019 AGM for BP to align its business strategy with the 2015 Paris Agreement



Some conclusions

- Funds and Pools will use a range of governance and investment strategies to address climate change
- Company engagement an essential element of climate risk management, both direct and collaborative
- All LAPFF engagement is focussed on the mission of responsible investment for long term returns

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 both nationally and internationally - more effectiveness



Acting together responsibly
- achieving more.
Protecting shareholder value!

