

Report Title:	LAPFF Membership
Contains Confidential or Exempt Information?	NO - Part I
Member reporting:	Councillor Julian Sharpe, Chairman Berkshire Pension Fund and Pension Fund Advisory Panels
Meeting and Date:	Berkshire Pension Fund and Pension Fund Advisory Panels – 19 October 2020
Responsible Officer(s):	Ian Coleman, Interim Pension Fund Manager
Wards affected:	None

REPORT SUMMARY

1. This report presents to Members an overview of the Local Authority Pension Fund Forum (LAPFF).
2. The benefits of joining the LAPFF are set out in Appendix 1.

1 DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That Panel

- i) **Agree to join the LAPFF.**

2 REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

2.1 It is now widely accepted that it is in all shareholders' interests to promote high standards of corporate governance and corporate social responsibility. Corporate governance can be defined narrowly as the relationship of a company with its shareholders and how it governs its activities, or more broadly as its relationship to society on environmental, social and governance (ESG) issues.

2.2 As long ago as 1992 the Cadbury Report on Corporate Governance defined corporate governance as:

2.2.1. "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."
or

2.2.2. as the Financial Times put it "Corporate governance can be defined narrowly as the relationship of a company with its shareholders or more broadly, as its relationship to society"

2.3 For LGPS funds the position was clarified in September 2016 by the Department of Communities and Local Government Guidance on Preparing and Maintaining an Investment Strategy Statement. 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.

2.4 CIPFA Guidance - The Myners Principles were updated in 2008 when the original ten principles were distilled down to six principles. Principle 5 relates to Responsible Ownership and in this context the CIPFA Guide to the application of the revised Myners Principles says:

2.4.1. "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 environmental, social and governance issues. For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of Local Authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest."

2.5 The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of Local Authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:

- 2.5.1. Seeks to protect and enhance the value of members shareholdings by optimising Local Authority pension funds' influence as shareholders on ESG (environmental, social and governance) issues and thereby to promote Corporate Social Responsibility and high standards of Corporate Governance;
- 2.5.2. Facilitates commissioning of research and policy analysis of issues more effectively than individual members;
- 2.5.3. Provides a forum for consultation on shareholder initiatives;
- 2.5.4. Provides a forum for information exchange and discussion about any investment issues;
- 2.5.5. Provides a forum to consider issues of common interest to all pension fund administrators and trustees.

2.6 The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.

2.7 The Forum currently has 78 Local Authority members including 28 English counties; 31 London Authorities (including the City of London Corporation and the LPFA); 8 English Metropolitan/ Unitary Authorities; 8 Welsh Authorities; 4 Scottish Authorities; the Environment Agency, 1 passenger transport authorities and 6 LGPS Pools.

2.8 LAPFF member funds now control assets of around £250 billion. The annual subscription for each year commencing on April 1st is currently £10,000 but this is reduced on a pro rata basis throughout the year.

2.9 Benefits of membership would include:

- 2.9.1. Supporting shareholder value through engagement and activism on issues relating to ESG issues;
- 2.9.2. Supporting members in dealing with pressure from outside bodies to divest from certain asset classes. The Forum believes that engagement with companies is more effective than divestment;
- 2.9.3. Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members);
- 2.9.4. Collective and more cost-effective approach to research;
- 2.9.5. Saving of officer time and cost in researching issues;
- 2.9.6. Sharing research costs with 81 Forum member funds and 6 Pools;
- 2.9.7. Providing a Forum for discussion of any related Local Government pension fund issue;
- 2.9.8. Opportunities for networking with colleagues from all parts of UK and all types of Authority;
- 2.9.9. Two free places at the LAPFF Annual Conference;
- 2.9.10. Facilitating collaboration with other major institutional investor groups both nationally and internationally
- 2.9.11. The Forum's aims are to provide a customised, cost effective vehicle for Local Authority pension funds to make their compliance with Myners principle 5 (responsible ownership) more effective.

2.10 Membership of LAPFF would further demonstrate the Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value.

3 KEY IMPLICATIONS

3.1 Failure to comply with best investment principles could result in the Administering Authority being reported to the Pensions Regulator.

4 FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The annual subscription for each year commencing on April 1st is currently £10,000 but this is reduced on a pro rata basis throughout the year.

5 LEGAL IMPLICATIONS

5.1 None.

6 RISK MANAGEMENT

Table 1: Risk Analysis

Risks	Uncontrolled Risk	Controls	Controlled Risk
Failure to meet best investment practice.	Medium	Internal and External Audits	Low

7 POTENTIAL IMPACTS

7.1 Failure to comply with best investment principles could result in the Administering Authority being reported to the Pensions Regulator.

8 CONSULTATION

8.1 Not Applicable.

9 TIMETABLE FOR IMPLEMENTATION

9.1 Immediate.

10 APPENDICES

10.1 The appendices to the report are as follows:

- Appendix 1 – Summary of the benefits of joining the LAPFF.

11 BACKGROUND DOCUMENTS

Not applicable

12 CONSULTATION (MANDATORY)

Name of consultee	Post held	Date issued for comment	Date returned with comments
Cllr Julian Sharpe	Chairman – Berkshire Pension Fund Panel		
Adele Taylor	Director of Resources and Section 151 Officer		
Andrew Vallance	Head of Finance and Deputy s151 Officer		



BENEFITS OF LAPFF MEMBERSHIP

Protecting shareholder value

Acting together – achieving more!

- The Local Authority Pension Fund Forum (LAPFF) is an association of 81 local authority pension funds and 6 LGPS Pools with assets of around £250 billion. **The Forum seeks to protect the investments of its members** by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues.
- The effectiveness of funds' action in this context is improved beyond measure by collaboration. In other words by joining the LAPFF each fund can influence the collective action of (currently) 81 other local authority pension funds and achieve so much more than it can by acting alone. Put simply it's a case of 'strength in numbers'
- The LAPFF is also able to collaborate more effectively with other major institutional investors both within the UK and internationally

So why join the LAPFF?

For a modest annual subscription of £10,000 member funds secure the following benefits:-

- **Access to the highest quality research into ESG issues at minimum cost**
- **Effective engagement with investee companies**
- **Collaboration with other major institutional investors**
- **Unparalleled networking opportunities for elected members and officers involved with the management of the LGPS**
- **Saving officer time and costs**
- **Two free places at the LAPFF Annual Conference**

***For more information visit our website at www.lapfforum.org
or contact Forum Officer, Keith Bray
on 01633 255685 or 07811 800612 or email Keith at
postmaster@keithbray.plus.com***



Protecting Shareholder Value the Role of the LAPFF

Keith Bray

Forum Officer, LAPFF

12 October 2020

The Role and Structure of the LAPFF

- The Forum seeks to **protect and enhance the value of our members' shareholdings** by way of shareholder engagement with the companies in which they invest by promoting the highest standards of corporate social responsibility, with a view to improving long term returns.
- It is a voluntary association of 81 LGPS funds and 6 LGPS Pools. The most recent recruits being the Essex County and The London Borough of Bexley funds
- The Forum has a quarterly members' meeting preceded by a quarterly Executive meeting (both currently held online). The Executive is a mix of councillors and officers which is elected by the membership annually. It is currently chaired by an Independent Councillor and includes councillors from all three major parties.
- Much more information and copies of our Annual Reports and Quarterly Engagement Reports can be seen on our website at www.lapfforum.org

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value for its LGPS

members, the Forum

- facilitates commissioning of research into and engagement with investee companies (where concerns have been identified) more efficiently and effectively than individual members.
- Issues occasional voting alerts for members to discuss with their fund managers
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues..
- holds an Annual Conference in December(will be online this year)
- provides a forum to consider **any** issues of common interest to all pension fund administrators and trustees.
- **facilitates collaboration with other institutional investors both nationally and internationally**

Areas of concern for responsible owners

Environmental, Social & Governance (ESG) issues

- Environmental issues (e.g. Climate change – promoting a just transition to a net zero economy, mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks
- Boardroom structures
- Directors' remuneration
- Accounting standards – reliable accounting
- Appointment of and role of auditors
- Tax transparency

The Context

- The LGPS in England and Wales has assets under management of £291bn
- It has 5.9m members
- It has 15,700 employers
- It is the 6th largest funded pension scheme in the world

In short, the LGPS as a whole 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)

Some engagement results





Financial Reporting Council

- The LAPFF has been lobbying strenuously for the replacement of the FRC for several years, on grounds of it being “unfit for purpose”
- A 2018 review of the FRC led by Sir John Kingman (former Treasury Official and Chairman of Legal and General) called for the “ramshackle house” to be closed.
- In March 2019 the then Business Secretary, Greg Clark announced that the FRC will be replaced by a new regulator – the Audit, Reporting and Governance Authority – ARGA
- Sir Jon Thompson, CEO of HMRC has been appointed as CEO of the FRC and will be the first CEO of ARGA



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.**



- 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..

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 relationships with the new LGPS Pools
- Continuing to engage with companies and issue occasional voting alerts. (It is for individual funds to discuss these with their fund managers)
- More collaboration - more effectiveness

Benefits of LAPFF membership

Value for money

- Research costs spread over 81 Forum member funds with assets of around £250 billion – **strength in numbers**
- Assists members in reacting to pressure groups advocating divestment in particular sectors.
- Facilitates collaboration nationally and internationally with other institutional investors
- Forum for discussion and networking about **any** related local government pension fund issues.
- Saves officer time and cost in researching issues
- Annual Subscription £10,000. (£5,000 for 2020/21)

Acting together - achieving more Protecting shareholder value!

