



Responsible Investing Protecting Shareholder Value The Role of the LAPFF

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The Role and Structure of the LAPFF

- The Forum seeks to **protect and enhance the long term value of our members' shareholdings** by way of **shareholder engagement** with the companies in which they invest, by promoting the highest standards of corporate governance and corporate social responsibility.
- It is a voluntary association of 85 LGPS funds and 6 LGPS Pools with assets under management of £300bn+
- The Forum has a quarterly members' meeting preceded by a quarterly Executive meeting (both currently held online but hopefully face to face shortly). 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 both 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 responsible investment and responds to consultation papers.
- Sponsors an All Parties Parliamentary Group (APPG) re the LGPS
- holds an Annual Conference in December
- **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 £276 bn
- It has 6.1m members
- It has 16,300 employers
- It is the 6th largest funded pension scheme in the world

(Source: Scheme Advisory Board – Annual Report 2020)

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



ArcelorMittal



- The Forum, as a member of Climate Action 100+, has taken the lead since 2018 in encouraging the company (the largest steel producer in the world) to adopt more ambitious carbon emission reduction targets for 2020 -30, and improve its appreciation of the role of green hydrogen technology.
- In 2019 the company produced its first 'Climate Action Report' with a road map to zero reductions by 2050 and by January 2020 had set more medium term targets to cut carbon emissions 30% by 2030 in Europe, and began reporting separately about the development of green hydrogen technology.
- By the end of 2020 we had 'met' with Aditya Mittal who had taken over from his father Lakshmi Mittal as CEO and at that meeting he committed to include detailed discussions on the carbon zero emission carbon transition at the 2021 AGM and did so.

National Grid

The logo for National Grid, featuring the text "nationalgrid" in a white, lowercase, sans-serif font on a dark blue rectangular background.

- We have been engaging with National Grid for many years and attending AGMs since 2013 with the aim of encouraging the company to adopt more ambitious targets for the reduction of carbon emissions. More recently we have engaged with National Grid as a Climate Action 100+ leader.
- National Grid is now recognised as a leader in many respects not least due to its ambition to operate a zero carbon electricity system in the UK by 2025 and for the entire company to be net zero by 2050
- Sir Peter Gershon, then Chairman of National Grid was a speaker at the 2019 LAPFF conference
- In March this year following a series of meetings with the Chairman, the Board announced that it will provide an advisory vote for shareholders at this year's AGM to put its climate change targets to the 2022 AGM. Our engagement continues – the LAPFF Vice Chair having met National Grid representatives last October to seek greater definition of intentions re their net zero pathway.



Financial Reporting Council

- Due to our growing concerns about the reliability of accounts from an investor’s perspective (*e.g. Carillion, Tesco, Patisserie Valerie*) 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, formerly CEO of HMRC has been appointed as CEO of the FRC and he was a speaker at our Conference in December



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.**



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



- 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.
- LAPFF member held less than 5% of the M&S share register but 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 the day, 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
- 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 85 Forum member funds with assets of more than £300 billion – **strength in numbers**
- Assists members in reacting to pressure groups advocating divestment in particular sectors.
- Facilitates **collaboration on engagement nationally and internationally** with other institutional investors
- Saves officer time and cost in researching issues
- **Annual Subscription £10,050 (Not payable until 1 April 2022 but membership available immediately)**

Acting together - achieving more
Protecting shareholder value!

Kent Pension Fund

