



**Responsible Investing  
Protecting Shareholder Value  
The Role of the LAPFF**

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**The Context**

- The LGPS in England and Wales has assets under management of £291bn
- It has 5.9m members
- It has 1.7 m pensioners
- It has 15,700 employers
- It is the 6<sup>th</sup> largest funded pension scheme in the world

*(Source: Scheme Advisory Board – Annual Report)*

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

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**Fiduciary Responsibility  
of LGPS Pension Fund Committees**

- When making investment decisions, LGPS administering authorities **must** take proper advice and act prudently. In the context of the local government pension scheme 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)*

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**The Role and Structure of LAPFF**

- The Forum seeks to **protect and enhance the value of our members' shareholdings** by way of responsible 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 82 LGPS funds and 7 LGPS Pools. The most recent recruits being the Berkshire and Essex County funds and the London Borough of Bexley fund.
- 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 elected annually by the membership. It is currently chaired by an Independent Councillor and includes councillors from both major political parties.
- Much more information and copies of our Annual Reports and Quarterly Engagement Reports can be seen on our website at [www.lapfforum.org](http://www.lapfforum.org)

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**LAPFF – What we are about**

In pursuing it's aim to promote responsible investment and thereby 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 can – strength in numbers.
- 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 (online in 2020 hopefully face to face 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**

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**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)
- Socially responsible relationships with employees and local communities - reputational risks
- Boardroom structures
- Directors' remuneration
- Accounting standards – reliable accounting
- Appointment of and role of auditors
- Tax transparency

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### Understanding the Changing Landscape

- **Some portfolios in the LGPS are shifting** from active to passive, from the UK to overseas and from public equity to other asset classes
- **Societal expectations of asset owners are growing** on climate change, human rights, diversity, inequality and many other issues
- The **role of asset managers is under increasing scrutiny**, particularly given the rising dominance of passive managers
- Regulatory **oversight of stewardship activity is expanding**, with significant responsibilities still lying at the fund level
- LAPFF's work programme needs to take account of all these trends

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### Priorities for 2021 - 2022

Issues rising up the agenda, for example

- Responding to COVID - measures that companies put in place to safeguard workers and protect and enhance shareholder value
- Pay gaps and diversity including the dimension of socio-economic background
- Long-term themes such as reliable accounts, the employee relationship and human rights remain central for LAPFF, but **climate change will affect every engagement**

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### 'Paris' scenario - 50% chance

**The system change we need according to climate scientists**

Net global CO2 emission pathway

UN's Intergovernmental Panel on Climate Change, October 2018:  
To limit global mean surface air temperature to the 1.5°C target in the Paris Agreement

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**'Paris' scenario - 67% chance**

Oct 2018 IPCC report (<https://ipcc.ch/sr15/>)

- 1 Jan 2018, 420 gigatons of CO<sub>2</sub> left to emit
- Around 42 gigatons of CO<sub>2</sub> are emitted each year
- 1 Jan 2021 the budget is three years down the track

At current rates this budget will be gone in about seven years

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**ArcelorMittal** 

ArcelorMittal

- **Objective:** ambitious targets for 2020 -30, recognition of the role of green hydrogen technology
- **Achieved:** target to cut carbon emissions 30% by 2030 in Europe, green hydrogen technology separated out in reporting
- **In Progress:** Waiting for second 'group' climate action report, pressing for science-based scope 3 emission targets for the group

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**Say on Climate** 

To manage the transition to net zero, companies need

- Annual disclosure of emissions
- A plan to manage and reduce these emissions
- An AGM vote on the plan

Company votes in 2021: Unilever, Shell, Glencore and seven North American companies

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**National Grid**



- **Objectives:** setting science-based targets; proving shareholders with a 'Say on Climate'
- **Achieved:** revised 2020-2050 targets including scope 3 carbon reduction targets of 20% by 2030, Say on Climate for 2021
- **In Progress:** science based target alignment for 2 degrees, pushing for a 1.5 degree scenario

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**Where are we now?**

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

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**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
- Strength in numbers

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Acting together - achieving more  
Protecting shareholder value!



RHONDDA CYNON TAF



Local  
Authority  
Pension  
Fund  
Forum

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