



Responsible Investing Protecting Shareholder Value The Role of the LAPFF

Keith Bray Forum Officer

12 December 2023

The Context

- The LGPS in England, Wales, Scotland and N.I. has assets under management of £400bn
- It has 7m members
- It has 15K employers
- It is the largest funded defined benefit pension scheme in the UK and one of the largest in the world (est. 7th)

In short, the LGPS 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)

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 87 LGPS funds and 7 LGPS Pools with assets under management of £350bn+
- The Forum has a quarterly members' Business Meeting preceded by a quarterly Executive meeting. The Executive is a mix of councillors and officers which is elected by the membership annually. All member funds are invited to make nominations to the Executive and each fund has one vote for each Executive position.
- Much more information and copies of our Annual Reports and detailed Quarterly Engagement Reports can be seen on our website at www.lapfforum.org

The Role of the Executive

The Executive

- manages the work of the Forum within the approved budget,
- manages the implementation of the work plan, which has been approved by the membership and ensures that due consideration is given to issues raised by member funds.
- oversees the preparation of the annual conference programme and considers and approves the Forum's Annual Report.
- appoints a Research and Engagement Partner and other contractors as required to carry out services on behalf of the Forum.
- appoints a Forum Officer to engage with existing and prospective members
- reports it's activities quarterly to the members' Business Meeting.

LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value for its members, the Forum

- facilitates commissioning of research into and by **engagement** with investee companies where ESG Concerns have been identified. Engagements are led by Executive members, supported by the Research and Engagement Partner.
- issues occasional voting alerts for members to discuss with their fund managers.
- provides a forum for consultation on responsible investment..
- 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)
- Human rights issues arising from corporate relationships with local communities.
- Supply chain labour standards – reputational risks
- Boardroom structures, diversity.
- Directors' remuneration
- Accounting standards – reliable accounting
- Tax transparency



The Forum's Watershed Moment

- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation of these roles.
- The resolution was supported by 37.7% of M&S shareholders. Marc Bolland was appointed as Chief Executive – M&S share price rose 5.5% on news of appointment.
- The subsequent incoming M&S Chair, Robert Swannell spoke at the LAPFF Annual Conference

LAPFF's visit to Brazil



- During August /September 2022 the LAPFF Chair, Councillor Doug McMurdo, Chair of the Bedfordshire Fund, visited Brazil on a fact finding tour following the collapse of tailing dams in Mariana and Brumadinho.
- These were humanitarian, environmental, ecological, reputational and financial disasters
- During the visit the Chair met with local communities, business leaders and investors.
- In particular, Mr Jose Penido, the Chair of Vale, one of the major mining companies involved and the second largest company in Brazil, spent two days with the LAPFF Chair visiting the affected sites and Mr Penido then followed up by attending and speaking at the LAPFF conference in December where he promised that VALE would ensure the issues that caused the collapse were being addressed and that he and his Board were determined to make it a better and much more responsible company

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.
- We '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.
- By 2025, Sestao (Spain) plant to become the world's first full-scale zero carbon-emissions steel plant



Financial Reporting Council

- Due to our growing concerns about the reliability of accounts from an investor's perspective (*e.g. Carillion, BHS, Tesco, Patisserie Valerie*) the LAPFF lobbied 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 was appointed as CEO of the FRC and spoke at the LAPFF Conference

Some recent successes



- Getting Shell to admit that it had been on the wrong climate change trajectory
- National Grid agreeing to produce a climate lobbying report
- Having the Brazil report referred to repeatedly in a UK Parliamentary debate
- The LAPFF video about its visit to Brazil has been accepted for viewing at this year's UN Forum on Business and Human Rights

Where are we now?

- Really making 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 with Pool representatives on the Executive
- Continuing to **engage with companies** and issue occasional voting alerts. (It is for individual funds to discuss these with their fund managers).
- Continue to engage with and comment on other matters of interest to LGPS funds
- More collaboration - more effectiveness

Benefits of LAPFF membership

Value for money

- Research costs spread over 87 Forum member funds with assets of more than £350 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

Acting together - achieving more!

Protecting shareholder value



RHONDDA CYNON TAF

