CT/18/51
Investment & Pension Fund Committee
15 June 2018

INVESTMENT MANAGEMENT REPORT

Report of the County Treasurer

All recommendations contained in this report are subject to confirmation by the Committee before taking effect.

Recommendations:

(i) That the Investment Management Report be noted;
(ii) That the Committee note compliance with the 2017/18 Treasury Management Strategy.
(iii) That State Street Money Market Fund be added to the treasury management approved counterparty list for the Pension Fund.

1) FUND VALUE AND ASSET ALLOCATION

The table below shows the Fund value and the asset allocation for the Fund compared to the target asset allocation as at **31 March 2018**.

Fund Value and Asset Allocation

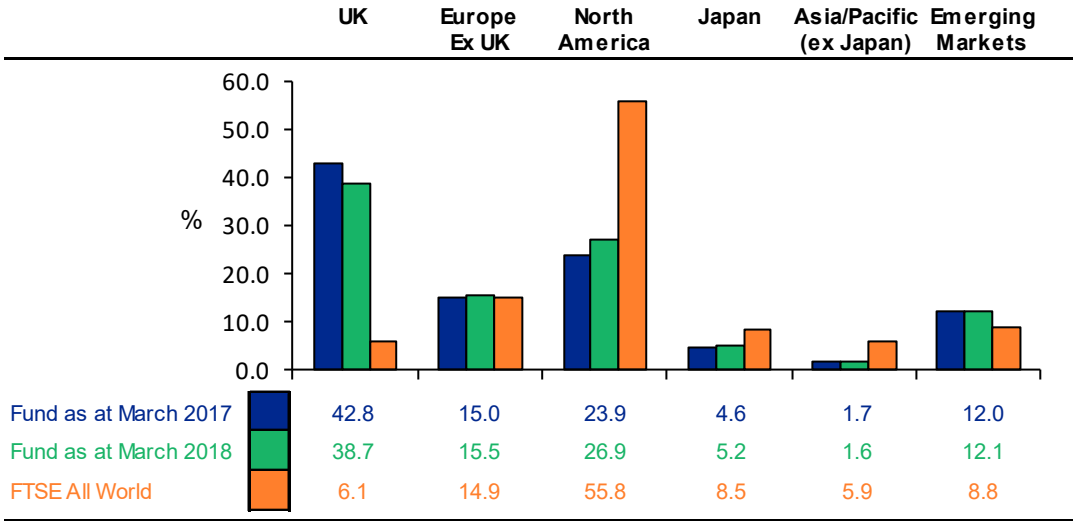
	Fund Value as at 31.3.18	Target allocation 2017/18	Fund asset allocation at 31.3.18	Variation from Target
	£m	%	%	%
Fixed Interest				
Global Bonds	211.4	6.0	5.2	
Multi-Sector Credit	221.4	6.0	5.4	
Cash	100.6	1.0	2.4	
	533.4	**13.0**	**13.0**	**-0.0**
Equities				
Passive Equities	1,780.2	43.0	43.6	
Active Global Equities	418.5	10.0	10.2	
Active Emerging Markets	183.8	5.0	4.5	
	2,382.5	**58.0**	**58.3**	**+0.3**
Alternatives/Other				
Diversified Growth Funds	608.8	15.0 *	14.9	
Property	388.4	10.0	9.5	
Infrastructure	146.2	4.0	3.6	
Private Debt	27.1	0.0 *	0.7	
	1,170.5	**29.0**	**28.7**	**-0.3**
Total Fund	**4,086.4**	**100.0**	**100.0**	

* Medium term allocation of 3% to Private Debt agreed, but this will be built up over time, funded from a decreased allocation to diversified growth funds

- The Fund value as at 31st March 2018 stood at £4,086.4 million, a decrease of around £130m over the quarter, but an increase of £160 million since 31st March 2017.

- The table shows the target asset allocation for 2017/18 as set out in the Investment Strategy Statement. The actual allocations are all within 2% of the target and no action is required to rebalance between asset classes. While the allocation to cash is higher than target, this will be reduced by the drawdown of the commitment made to private debt funds.
- For 2018/19 the strategic asset allocation has been amended, such that the allocation to diversified growth funds is reduced to 13% and the strategic allocation to private debt is shown as 2%. This reflects the likely drawdown during 2018/19 of the private debt commitments previously agreed by the Committee to be funded from the diversified growth fund allocation.
- The following table gives the geographical split of the Fund's equity allocations against the FTSE World geographical weightings.

Geographical Split of Equity Allocation compared to the FTSE All World Index

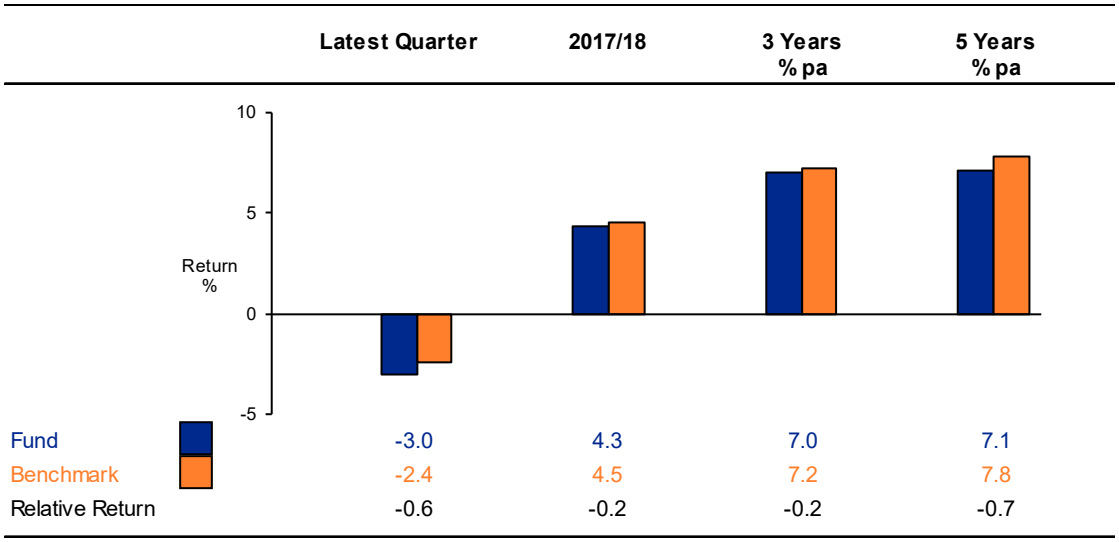


- The table shows that the Fund has an over-exposure to the UK and a significant under-exposure to North America compared to the world market. There is also a smaller under-exposure to Japan, while the exposure to Europe and the combined exposure to Asia/Pacific (ex Japan) and Emerging Markets is about right.
- The Committee have previously agreed that in principle, the Fund should look to reduce its overweight to UK equities by reallocating to overseas equities on a phased basis, predominantly to US equities with a small proportion to Japanese equities. A total of £68 million had been moved by the end of March, representing the minimum monthly sum agreed at the last meeting of the Committee, and this is reflected in the change in weightings between March 2017 and March 2018.
- Following the quarter end, the FTSE All Share index performed well during April and early May in comparison to the North America and Japan indices. As a result the triggers were hit to move an additional £40 million to North America and £2 million to Japan, and these transfers were implemented, in addition to the regular monthly amount. In total a further £78 million was moved between 1 April and 31 May.

2) FUND PERFORMANCE

The performance of the Total Fund over the last quarter, the financial year, and on a rolling three and five year basis are shown in the following chart.

Longer Term Fund Performance Summary



The performance statistics quoted are net of fees for the current financial year and the last three years, but the five year figures shown combine gross performance up to 31 March 2014 and net of fees performance from 1 April 2014 onwards.

The financial year has seen a return 0.2% below benchmark, as a result of a negative last quarter. The total absolute return was +4.3%, below the Fund benchmark of +4.5%. However, initial figures for the LGPS Universe show the Devon Fund's return in the top third of LGPS funds over the year, which suggests that the strategic asset allocation, which determines the benchmark, has performed well, but manager performance has been below target. The three and five year returns are also below benchmark.

A breakdown of the performance of the Total Fund for the quarter **to 31 March 2018** and the comparative Index returns are shown in the following table:

Performance for the quarter to 31 March 2018

Sector	Fund Return	Benchmark	Benchmark Description
	%	%	
Global Bonds	-1.6	-1.7	BarCap Global Bonds
Multi-Sector Credit	4.0	3.7	MSC Bespoke *
Cash	0.2	0.2	GBP 7 Day LIBID
Passive Equities	3.7	3.8	Devon Bespoke Passive Index
Active Global Equities	5.6	2.9	FTSE World
Active Emerging Markets	1.5	11.4	MSCI Emerging Markets
Diversified Growth Funds	4.3	4.1	Devon Multi Asset Benchmark
Property	11.3	10.1	IPD UK PPF All Balanced Funds
Infrastructure	4.1	5.2	GBP 7 Day LIBID+5%
Private Debt	-1.6	3.9	GBP 7 Day LIBID+5%
Total Fund	**4.3**	**4.5**	**Devon Bespoke Index**

*Composed of 1/3 Bank of America Merrill Lynch Global High Yield Constrained Index; 1/3 JPMorgan Emerging Markets Bond Index Plus; 1/3 CSFB Bank Loan Index.

Key issues over the nine months of the financial year to date include:

- Currency issues have had an impact, with the decision to increase the level of hedging having had a positive impact on the Fund's returns on North America and Japan, as the value of Sterling recovered against the Dollar and the Yen. Conversely the weakening dollar had an adverse impact on the infrastructure return, and the strengthening Euro has meant that the additional Euro hedges put in place have had a negative impact on both equity and infrastructure returns.
- The active global equity and fixed interest returns are above benchmark, but the emerging markets equities mandate has significantly underperformed. This has been the major contributor to the below benchmark performance for the year.
- Global bonds produced a negative absolute return as a result of small increases in interest rates in the global economy, while the multi-sector credit investment performed significantly better.
- The diversified growth funds (DGFs) have performed more or less in line with their cash plus benchmarks at a time of modest positive returns in equity and some bond markets.
- Property has also seen a positive return ahead of the benchmark.
- The private debt return reflects currency movement on the US fund investment. In US Dollar terms the US fund achieved +4.66%, but the fall in the value of the Dollar converted this into a -2.9% return when translated into Sterling. The private debt investments are still relatively new, and returns should improve as further income distributions are received.

3) FUNDING LEVEL

The most recent triennial valuation, as at 31 March 2016, carried out by the Fund Actuary, Barnett Waddingham, determined that the Devon Pension Fund had a funding level of 84%.

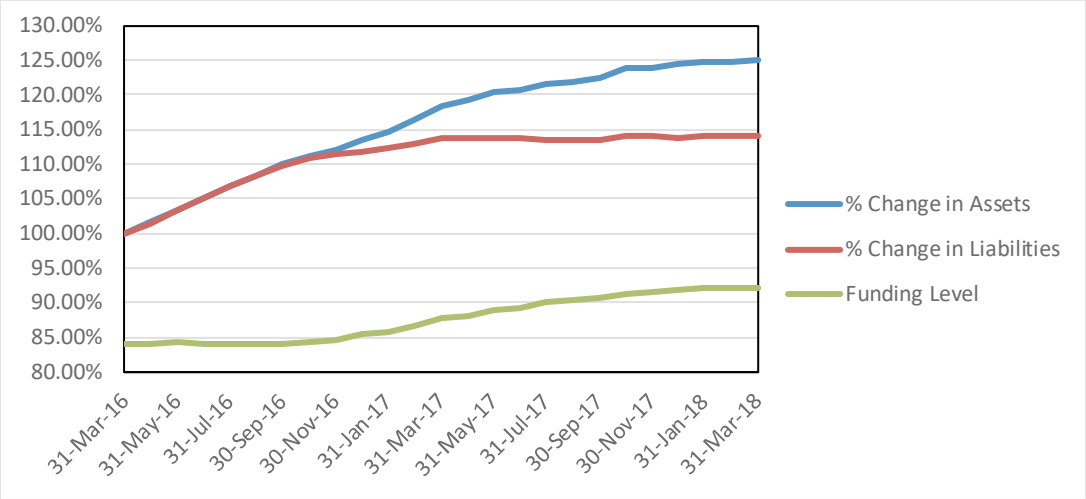
The Fund Actuary has re-assessed the position as at 31 March 2018, using the approach of rolling forward the data from the 2016 valuation, and updating it for subsequent investment returns, pension and salary increases. While it is not possible to assess the accuracy of the estimated liability as at 31 March 2018 without completing a full valuation, the results will be indicative of the underlying position.

- Over the two years since the 2016 Triennial Valuation, returns have been ahead of the required rate as shown in the following table:

	Actuarial Assumption	**Actual Return**
2016/17	5.5%	18.0%
2017/18	5.5%	4.3%
Two Year Return (annualised)	**5.5%**	**10.9%**

- Both the assets and liabilities have increased, although the assets have increased at a faster rate than the liabilities and there has therefore been an improvement in the funding level over the period. The movement in assets, liabilities and funding level is shown in the following table.

Movement of Assets, Liabilities and Funding Level March 2016 to March 2018



- The Actuary has estimated a funding level of **92%** as at 31 March 2018, compared with the 84% funding level at the 2016 Triennial Valuation.

4) BUDGET FORECAST MONITORING AND CASH MANAGEMENT

(a) Appendix 1 shows the income and expenditure for 2017/18 against the original budget forecast, together with the forecast for 2018/19.

(b) There was a difference of **£4.3m** between contributions received and pension benefits paid out over the year. This was a smaller shortfall than anticipated, mainly as a result of higher employer contributions. This followed the re-set of employer contributions levels following the 2016 Triennial Actuarial Valuation.

(c) The income received as cash reflects the income from the property mandate, distributions from infrastructure investments and interest on internally managed cash. This income has been sufficient to cover both the gap between pension benefits payments paid and the contributions received and the management costs for the year. The remaining income is from the Fund's segregated equity and bond mandates and is reinvested by the fund managers.

(d) Fund manager fees were higher than forecast. The invoiced fees were higher than anticipated as Aberdeen invoiced the fees for their underlying holdings in the Aberdeen India and China Funds, which were previously embedded costs. The increase on 2016/17 also reflects the increase in asset values, given that fund manager fees are based on a percentage of the value of the assets under their management. Fees were not paid on the main global equities mandate in 2016/17 due to poor performance, but were paid in 2017/18. Embedded fees (not invoiced, but deducted from fund performance) also rose due to the increase in asset values, and the fees charged on the new private debt investments. There was also a significant increase in the performance fees paid to RWC, as a result of the significant above benchmark performance of the European Focus Fund over the year. Underlying the headline figures, the fees paid on the Fund's main passive equity investments were slightly lower than in 2016/17, as a result of the fee reductions negotiated in Autumn 2016.

(e) The major variance on oversight and accounting was on expenditure on the Brunel Pension Partnership project. The original budget forecast was based on meeting 10% of the total estimated project costs of the year of setting up Brunel. However, it was subsequently agreed that the costs incurred on the project would be met by the Brunel company as development costs and not be charged directly to clients. This also included the recharge to Brunel of costs incurred in 2016/17, resulting in a credit position on this heading.

(f) The following table shows that the unallocated cash on deposit at the quarter end was **£52.2m**, plus **$12.6m** held in US Dollars. As at 31 May 2018, the unallocated cash stood at **£47.3m**, plus **$13.2m** in US Dollars. The cash held is being maintained at a lower level than in the past, with a target level of only 1% of the Fund, and it is therefore necessary to ensure its liquidity for cashflow purposes. The additional cash is being held to meet future cashflow requirements, including providing for the drawdown of investment commitments.

Cash on Deposit

Type of Deposit	Maturity period	Actual as at 31/03/18	Average Interest Rate	Current as at 31/05/18	Average Interest Rate
GBP Deposits		**£m**	**%**	**£m**	**%**
Call and Notice Accounts	Immediate	12.2	0.43	27.3	0.46
	6 Month Notice	10.0	0.97	10.0	0.97
Term Deposits	<30 Days	15.0	0.49	0.0	
	>30 Days	15.0	0.72	10.0	0.61
TOTAL GBP		**52.2**	**0.64**	**47.3**	**0.60**
USD Deposits		**$m**	**%**	**$m**	**%**
Call and Notice Accounts	Immediate	12.6	1.55	13.2	1.92

(g) The weighted average rate being earned on GBP cash deposits, as at 31 March 2018, was **0.64%** and as at 31 May 2018 was **0.60%.** This reflects the current low interest rate environment and the need to ensure liquidity as a result of the low level of cash being maintained. A higher rate is achievable on the US Dollars investment, but the return will also be impacted by changes in the exchange rate.

(h) Following the change of fund custodian from Northern Trust to State Street, it is proposed to make use of State Street's money market funds to sweep overnight cash. It is therefore proposed to add State Street to the treasury management approved counterparty list for the Pension Fund, and incorporate the cash held by the custodian into the treasury management reporting.

(i) The deposits in place during 2017/18 fully complied with the Fund's Treasury Management and Investment Strategy.

5) ENGAGEMENT ACTIVITY

(a) As a responsible investor, the Fund should report regularly on its engagement activity. Voting and engagement are largely delegated to the Fund's external investment managers. The voting records of the Fund's principal equity managers at company meetings held over the last quarter is summarised in the following table.

Votes Cast at Company Meetings in the quarter to 31 March 2018

Manager	Number of Meetings	Number of Resolutions	Votes against managemt recommnd'n
UBS	383	4009	355
State Street Global Advisors	290	3706	258
Aberdeen Asset Management	10	146	7
Specialist Funds (combined)	26	271	7

More detail on the resolutions that the managers have voted on is available in the managers' quarterly investment reports, distributed separately to the Committee.

(b) The Fund is also a member of the Local Authority Pension Fund Forum (LAPFF), who undertake engagement activity on behalf of their member funds. Where significant issues arise on the agendas of company meetings, for example on remuneration policies or shareholder resolutions on climate change related issues, LAPFF will issue a voting alert to its members, including a recommendation on how to vote.

(c) There was only one voting alert issued by LAPFF over the quarter to March, related to Tesla's proposed new 10-year performance award for the Chief Executive Officer and Chairman, Elon Musk. LAPFF's concerns included the size of the award proposed, with an estimated value of $55 billion, and the metrics used to assess success of the company and trigger the awards. SSgA and UBS both supported LAPFF's recommendation, while the Aberdeen mandate is not invested in Tesla. Nevertheless, the majority of shareholders supported the Board's view that the new award would: strengthen Mr Musk's incentive and further align his interest with those of Tesla shareholders; ensure Mr Musk's continued leadership of Tesla over the long-term; and serve as a catalyst for achievement of Tesla's strategic and financial objectives.

(d) The latest LAPFF quarterly engagement report is attached at Appendix 2 to this report.

Mary Davis

Local Government Act 1972
List of Background Papers Nil
Contact for Enquiries: Mark Gayler
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Appendix 1

Devon County Council Pension Fund Budget / Forecast 2017/18

	Actual 2016/17 £'000	Original Forecast 2017/18 £'000	Actual 2017/18 £'000	Variance from Original Forecast £'000	Forecast 2018/19 £'000
Contributions					
Employers	(123,163)	(127,000)	(131,149)	(4,149)	(134,000)
Members	(36,709)	(37,000)	(37,659)	(659)	(37,000)
Transfers in from other pension funds:	(8,205)	(6,000)	(6,481)	(481)	(6,000)
	(168,077)	(170,000)	(175,289)	(5,289)	(177,000)
Benefits					
Pensions	136,549	142,000	142,191	191	148,000
Commutation and lump sum retirement benefits	27,716	30,000	28,225	(1,775)	30,000
Lump sum death benefits	3,751	4,000	3,357	(643)	4,000
Payments to and on account of leavers	719	500	445	(55)	500
Payments for members joining state scheme	5,684	6,000	5,410	(590)	6,000
	174,419	182,500	179,628	(2,872)	188,500
Net Withdrawals from dealings with fund members	**6,342**	**12,500**	**4,339**	**(8,161)**	**11,500**
Investment Income					
Received as Cash	(23,276)	(24,000)	(28,141)	(4,141)	(29,000)
Reinvested by Fund Manager	(16,576)	(17,000)	(16,437)	563	(17,000)
	(39,852)	**(41,000)**	**(44,578)**	**(3,578)**	**(46,000)**
Administrative costs					
Peninsula Pensions	2,059	2,000	2,037	37	2,100
	2,059	**2,000**	**2,037**	**37**	**2,100**
Investment management expenses					
External investment management fees - invoiced	6,182	6,900	7,698	798	8,800
External investment management fees - not invoiced	4,343	4,400	6,242	1,842	5,500
Custody fees	107	115	160	45	160
Transaction costs	1,370	1,500	1,510	10	1,500
Reversal of accrual	(2,471)	0	0	0	0
Stock lending income & commission recapture	(109)	(100)	(77)	23	(100)
Other investment management expenses	50	50	30	(20)	50
	9,472	**12,865**	**15,563**	**2,698**	**15,910**
Oversight and governance costs					
Investment & Pension Fund Committee Support	92	95	93	(2)	100
Pension Board	26	27	29	2	31
Investment Oversight and Accounting	281	285	280	(5)	300
Brunel Pension Partnership	146	440	(94)	(534)	0
Legal Support	34	30	30	0	30
Actuarial Services	69	40	28	(12)	30
Investment Performance Measurement	38	0	60	60	60
Subscriptions	19	20	23	3	25
Internal Audit fees	22	14	13	(1)	24
External Audit fees	29	29	24	(5)	30
	755	**980**	**486**	**(494)**	**630**
Total Management Expenses	**12,286**	**15,845**	**18,086**	**2,241**	**18,640**

Appendix 2

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 72 public sector pension funds in the UK with combined assets of over £200 billion.

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2018

LAPFF focuses on assessing climate risk in the transport sector

Concerns over alleged companies on the UN 'blacklist'

The Forum publishes two reports, on Share Buybacks and on Precarious Work

Executive Summary

During the last quarter, LAPFF has engaged with 21 companies on issues ranging from climate change resilience to human rights and due diligence process implementation.

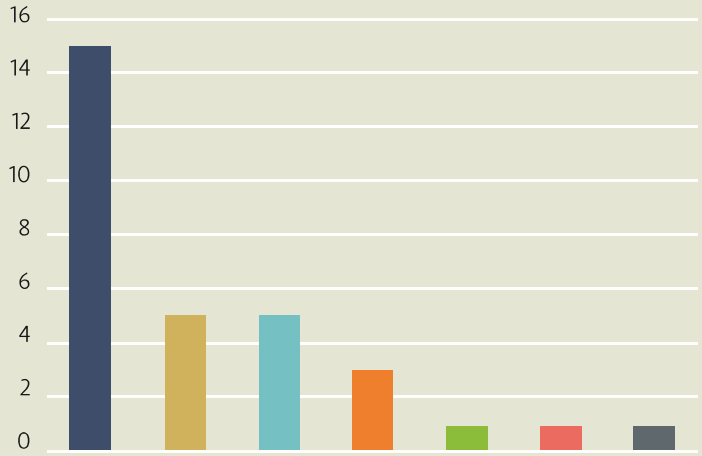
The Forum is currently focusing on climate risk engagements with transport companies as the sector rapidly shifts to a low carbon, electric future. LAPFF is interested to see how companies implement climate change resilience and reduce climate risks through cutting greenhouse gas emissions and increasing fuel efficiency.

Following speculation over the Human Rights Council's list of companies believed to be in violation of international human rights law due to their practices in West Bank and Gaza, the Forum requested meetings with some of these companies to follow up on these allegations. LAPFF is concerned that if an appropriate due diligence process is not in place, both the company and shareholders can face damaging reputational risks.

The Forum also published two reports at the beginning of the year. The first on ***Share Buybacks*** discusses the complexities and implications of share buybacks and questions whether they are the right method for distributing capital to shareholders. The second, on ***Precarious Work*** assesses the risk these employment practices pose for companies as well as investors. It also provides guidance to assist investors in engaging on the topic.

Company Engagement

ENGAGEMENT TOPICS



Climate change	15
Employment standards	5
Human rights	5
Governance (general)	3
Board composition	1
Reputational risk	1
Remuneration	1

GOVERNANCE RISK

Share buybacks have been a recent focus of regulatory attention including in the government's White Paper on Corporate Governance in August 2017. Supporters of buybacks argue they boost share prices and enhance shareholder value, whereas critics see them simply as a means of artificially hitting performance targets to boost executive pay at the expense of independent shareholders.

First issued for members in 2015, LAPFF has now formally published its *Share Buybacks: Solutions or Illusions* report to move the debate forward. The report sheds light on the complexities and implications of share buybacks, a practice that is now commonplace amongst listed companies. In 2014/15 97% of FTSE 100 companies sought authority to purchase shares and over a quarter (28%) actually bought shares. The report offers guidance and insights for members into the merits of share buybacks and questions whether they are the right method for distributing surplus capital. Deliberately taking a broader perspective of the issues than those in the White Paper, the report includes not just the effect on Earnings Per Share and diversion of productive investment, but also covers the implications of buybacks on the transparency of company performance, tax and the alignment of management and shareholder interests.

Voting Alert

The Forum issued a voting alert recommending opposition to a stock option grant to **Tesla** Chief Executive, Elon Musk. The Forum welcomed the proposal's incentivisation of Mr Musk's role as a catalyst for the process of decarbonisation of a large segment of the transport sector which has a valuable environmental and social impact. The Forum was also pleased to see that the performance period was set to a timeframe of ten years; a timeframe unique for public companies.


Elon Musk

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However, the Forum was of the opinion that the proposed performance award sets an unhealthy precedent for public company compensation. Upon successful achievement of all performance milestones, Mr Musk could own as much as 28.3%% of Tesla and be awarded $55.8 billion. The Forum believes that Chief Executives with an already high stake in the Company should not receive further stock as part of their remuneration package. LAPFF was also concerned that in an attempt to hit all operational milestones, ongoing employment and health and safety-related risks at Tesla have yet to be resolved. The Forum continues to engage with the company over these practices as they undermine the ability of Tesla to meet production targets.

Mergers and Acquistions

The Forum issued a briefing note to assist funds in identifying the best owners of **GKN's** assets following a hostile takeover bid from **Melrose**. The note encouraged funds to critically assess both GKN and Melrose, and analyses which of the two were proposing a better solution to GKN's performance problems. You can view the note here. The subsequent performance of the GKN assets under Melrose ownership will test our analysis and provide an *aide-memoire* to member funds over the coming months of integration.

People and Investment Value

At a meeting with **Provident Financial's** new Chief Executive Office, Malcolm Le May, LAPFF Vice Chair Ian Greenwood discussed problems facing the company's home credit division following a staffing reorganisation. The reorganisation involved a transition from a business staffed by 3,800 part-time, self-employed agents to one with a workforce of 2,500 full-time Customer Experience Managers. There were concerns that this had negatively impacted the close relationship between the agents and customers. The Forum also explored the causes of two past regulatory investigations of the controversial doorstep lender.

Cybersecurity
The Forum regularly engages with companies over cybersecurity management. To this end the Forum had correspondence with **Lloyds Banking Group** with regards to Lloyd's 2017 cyberattack which brought down its digital services for two days.

ENVIRONMENTAL AND CARBON RISK

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In conjunction with the Institutional Investor Group on Climate Change's (IIGCC) resolution working group, LAPFF participated in a collaborative meeting with the new Chair of **Rio Tinto**, Simon Thomas, to discuss a recent shareholder resolution filed for the upcoming annual meeting. The resolutions asks for a review of the company's oversight and processes related to public policy advocacy and how this maps with positions taken by relevant industry associations. The Chair was of the view that the main focus of the resolution should be the Company's response to climate change and the potential damage to shareholders. Rio has been engaging with the Minerals Council of Australia (MCA) on their public positioning and following this investor meeting, the MCA issued a new policy position on energy and climate change which now affirms positions on key aspects of climate change policy that Rio considers important.

A climate-related shareholder resolution was also discussed at a meeting with the chair of **Royal Dutch Shell**, Chad Holliday, also in conjunction with the IIGCC resolution working group. In November, Shell was the first oil & gas company to set out a strategy for aligning with Paris goals by setting the aim of cutting the net carbon footprint of its products in half by 2050, and around one-fifth by 2035. The objective of the meeting was to get the Company's perspective on the resolution filed by 'Follow-This', which asks Shell to set targets aligned with the 2-degree Paris goal. This would include most of scope 3 emissions which is customer use of fuel and natural gas products. Mr Holliday noted that the board was unlikely to support the resolution as it could well deter other companies from setting aspirations as Shell has done.

A further meeting with the **Southern Company** co-ordinated by the 50:50 initiative explored in more depth the governance measures put in place to ensure responsibility and consideration of climate change as a strategic matter. The meeting with Chief Legal Counsel James Kerr, was considered to have evidenced good progress.

The Forum liaised with several companies from the transport sector including **Bayerische Motoren Werke, Daimler, Rolls-Royce Holdings** and **Volkswagen** to understand the companies' approach to climate risk and their role in a tightening regulatory and tax environment. Of interest are also the companies' new technologies, including electric and hybrid powered cars and autonomous vehicles. The Forum also communicated with **Wizz Air** in relation to the Company's role in reducing climate risk. The Company provided detailed answers about fuel efficiency, fuel saving initiatives and elaborated on emissions monitoring and regulations.

Along with other investors, LAPFF signed a letter to **Ford Motor Company** to voice concern over the company's current and future fleet emissions not being consistent with the Paris Agreement's climate goals. Concerned about potential financial risks and decreased global competitiveness, signatories urged Ford to meet with them. The Forum also co-signed a letter to **Exxon Mobil** regarding the Company's governance and climate risk.

The Forum also approached **Hargreaves Lansdown** to discuss the Company's implementation of the Taskforce for Climate-related Financial Disclosure (TCFD) guidance. LAPFF regularly engages with companies about how to use and integrate the TCFD. A response is awaited.

With the aim to encourage palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land, the Forum co-signed a letter pressing the **Roundtable on Sustainable Palm Oil (RSPO)** to implement a more transparent and responsive complaints mechanism to properly uphold the credibility of the RSPO system.

SOCIAL RISK

Employment Standards

The Forum published a paper on the context, frequency and implications of precarious work for companies and those people performing work on their behalf. The report points to the growing consensus over what needs to change at a government and regulatory level, such as ending opportunities to abuse existing legal categories and greater transparency of terms, conditions and rights associated with employment contracts.

The paper assesses the risk for investors, gives some high-profile examples and provides investors with practical guidance to engaging companies on the issue, including asking boards how contracts fit with their approach to human capital management and whether they have undertaken cost-benefit analysis of precarious employment practices.

The Forum has been in communication with **Banco Santander** over reputational, financial and regulatory risks related to Santander Consumer USA (SCUSA), which is held by the Company through its wholly-owned subsidiary, Santander Holdings USA, Inc. Workforce standards at SCUSA are of concern to the Forum and further engagement is sought to discuss labour rights, alleged racial discrimination, human capital management and regulatory compliance.

LAPFF Vice Chair Denise Le Gal met with **National Express** Chairman Sir John Armitt to assess how the relationship with the unions had developed and to ensure good workplace practices at the Company's US subsidiary, Durham School Services, have improved. The meeting also covered safety concerns and board diversity.

Following LAPFF's attendance at **Sport Direct's** Annual Meeting and half-year financial review in December 2017, a meeting was sought with the Company to further discuss back-payments for agency workers. The Forum also suggested Sports Direct reach a joint agreement with Unite on the issue of backpayments. In his reply, the Chairman, Keith Hellawell, did not take up the offer to have a face-to-face meeting

Human Rights

Amid speculations about the content of the UN Human Rights Council's 'blacklist', the Forum communicated with **G4S, Caterpillar** and **Motorola Solutions**. All three are allegedly among the companies that do business with or are operating in the West Bank, East Jerusalem and Golan Heights. The Council believes that operating in this region violates international human rights law and urges companies to carry out human rights due diligence, as well as consider whether it is possible to engage in such an environment whilst respecting human rights.

At a meeting with **Motorola**, LAPFF Executive Jane Firth noted that the company's human rights policy was directed mainly at employees. She referred to the United Nations Guiding Principle on Business and Human Rights and asked whether the Company had an appropriate due diligence process in place. She also asked about Motorola's strategy to reduce reputational risk related to their business in the Israeli-occupied territories. An open channel of communication between LAPFF and Motorola was agreed.

Diversity

Together with other members of the 30% Club Investor Group, LAPFF continued to engage with companies from the real estate sector to determine companies' initiatives to increase female representation on corporate boards. Discussions focused on executive search firms, succession planning, women in leadership roles and sector-wide initiatives.

Helena Morrissey, founder of the 30% Club

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RELIABLE ACCOUNTS/ CONSULTATION RESPONSES

LAPFF's focus has been on Parliamentary Questions submitted by Baroness Sharon Bowles concerning the FRC and its governance and defective legal positions being taken, with linkage to the collapse of Carillion plc. To date, Baroness Bowles has tabled 51 questions. On the 28 February, LAPPF called for the FRC to be placed in special measures as part of the LAPFF response to the Corporate Governance Code.

On the 21 March, the Secretary of State for the Department of Business Enterprise and Industrial Strategy (BEIS) was asked at a joint Work and Pensions and BEIS Select Committees inquiry meeting about the effectiveness of the FRC. He announced to the Committee that there would be an independent enquiry into the operations of the FRC, and that enquiry would involve Parliamentary Committees.

When asked about the view of the Chief Executive of the FRC that the FRC needed more powers in the wake of it not taking more decisive and timely action on issues, the Secretary of State stated "I don't agree with Mr Haddrill that there is something that is preventing vigourous action being taken".

This is a positive response from the Secretary of State, and and vindicates the LAPFF position that the problem is not the legal framework, but the FRC itself.

MEDIA COVERAGE

Accounting standards

Carillion: Politicians press accounting watchdog over 'going concern' rules – IPE, 5 February 2018

UK public pensions call for accounting watchdog to be disbanded – IPE, 13 March 2018

FRC: Calling all pension funds – IPE, 16 March 2018

Local Authority Pension Fund Forum calls for accountancy watchdog to be scrapped – The Times, 19 March 2018

Investors need to tighten the screws on auditors – Financial Times, 19 March 2018

'Toothless' accountancy watchdog faces inquiry – The Times, 22 March 2018

U.K. governanance regulator defends its own governance – The Wall Street Journal, 29 March 2018

Gender Diversity

Big investors back push for 30% target for female executives – Financial Times, 2 February 2018

Employment Standards

Public pension funds turn spotlight on 'precarious work' – IPE, 16 March 2018

'Precarious' work could put council pension investments at risk – LocalGov, 19 March 2018

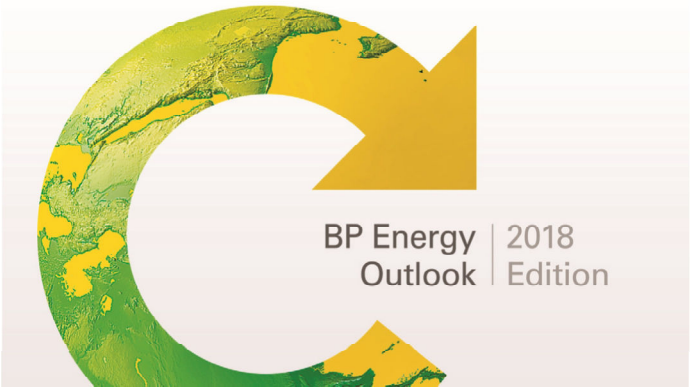
NETWORKS AND EVENTS

LAPFF co-chair, Ian Greenwood, spoke to the London CIV shareholder meeting about LAPFF Engagement approach and practices. Representatives also attended an East Sussex Pensions Board and Committee meeting and a Camden Pensions Committee meeting presenting on workplan concerns.

The Shadow Local Government Pensions Minister, Jim McMahon MP spoke at the January meeting of the All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, attendees, including LAPFF executive and other members, discussed investment risks, the Government's oversight of pension funds and the need to connect Councillors to the funds.

Climate Action 100+ IIGCC European Engagement Group call – Several of LAPFF's climate risk engagements are being continued through the global collaborative of Climate Action 100+. Two calls focused on engagement process and strategy across the range of companies that investors are engaging with in Europe and on selection of companies and procedures for engagement.

PRI Investor working group on sustainable palm oil webinar – the group presented key findings from their recently released report 'Sustainable Banking in ASEAN: Addressing ASEAN's FLAWS'. The report reviews the sustainable finance regulatory landscape in the ASEAN region to explore the ESG integration progress of banks and their alignment to sustainable development.



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At the BP Energy Outlook, Bob Dudley, the chief executive discussed BP's views on the speed of transition; intensifying competition; and the importance of carbon emissions reduction. BP recognises that the company has to plan for the transition being faster than previously identified. Spencer Dale, the Chief Economist, explained the greater range of scenarios now used by the company including a new 'evolving transition' scenario, as well as those exploring the impact of electric vehicles and 'new mobility'.

Teamster meeting – The Forum met with a representative from Teamsters regarding National Express operations in America and the treatment of the union and workers. These are ongoing issues that LAPFF has engaged with both Teamsters and National Express over.

COMPANY PROGRESS REPORT

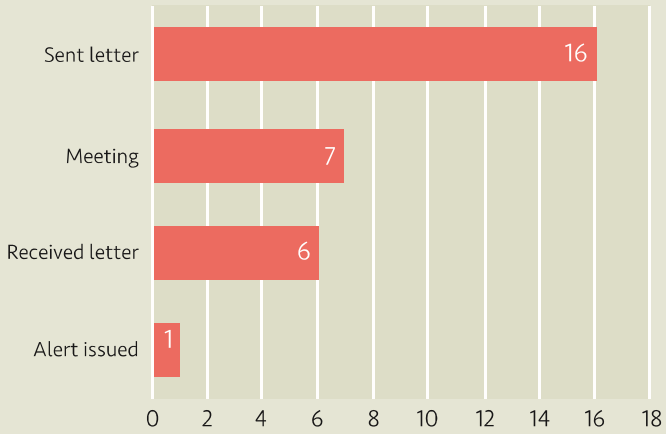
21 companies engaged over the quarter

Q1 2018 ENGAGEMENT DATA

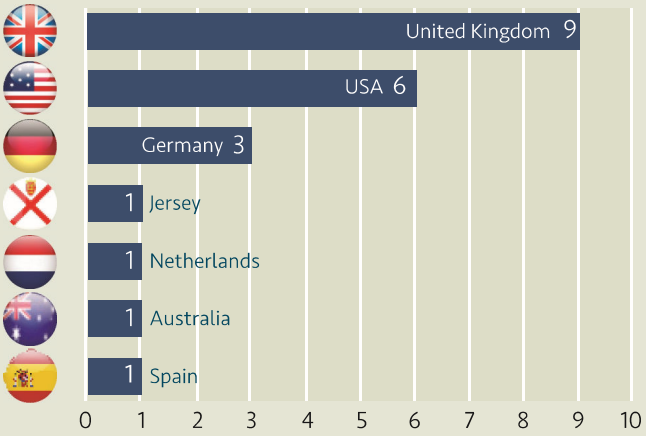
Company	Topics	Activity	Outcome
Banco Santander SA	Employment Standards	Letter	Dialogue
Bayerische Motoren Werke AG	Climate Change	Letter	Dialogue
Caterpillar Inc	Human Rights	Letter	Awaiting Response
Daimler AG	Climate Change	Letter	Dialogue
ExxonMobil	Climate Change	Letter	Awaiting Response
Ford Motor Company	Climate Change	Letter	Awaiting Response
G4S plc	Human Rights	Letter	Dialogue
Hargreaves Lansdown plc	Climate Change	Letter	Awaiting Response
Lloyds Banking Group plc	Governance/Cybersecurity	Letter	Dialogue
Motorola Solutions Inc	Human Rights	Letter/Meeting	Dialogue
National Express plc	Employment Standards	Meeting	Change in Process
Pearson plc	Governance	Letter	Awaiting Response
Provident Financial plc	Governance/Reputational Risk	Meeting	Small Improvement
Rio Tinto Group (AUS)	Climate Change	Meeting	Dialogue
Rolls-Royce Holdings plc	Climate Change	Letter	Dialogue
Royal Dutch Shell plc	Climate Change	Meeting	Dialogue
Sports Direct International plc	Employment Standards	Letter	No Improvement
Tesla Inc	Remuneration	Alert Issued	Awaiting Response
Volkswagen AG	Climate Change	Letter	Awaiting Response
Wizz Air Holdings plc	Climate Change	Letter	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

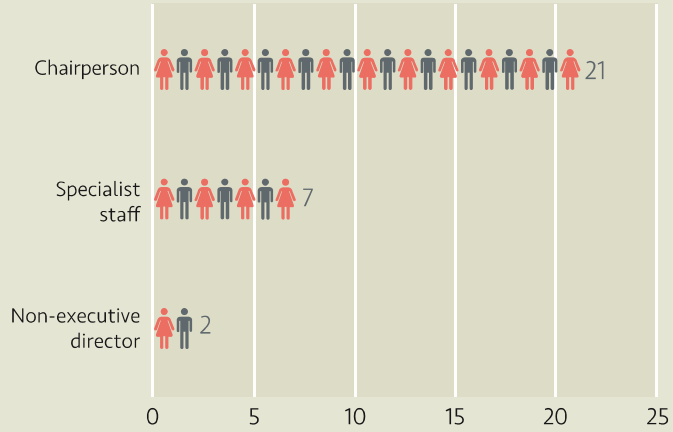
Company engagement activities



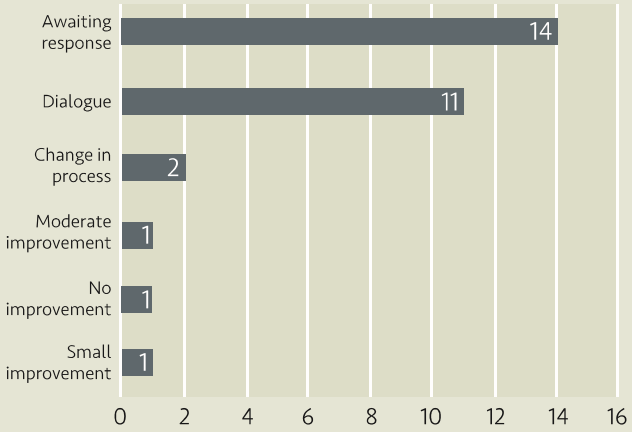
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC